Statement of the Transportation Departments of

Montana, Idaho, North Dakota, South Dakota, and Wyoming

before the

National Surface Transportation Infrastructure Financing Commission

February 12, 2008

Members of the Commission:

Good morning. I am Jim Lynch. I am the Director and Chief Executive Officer of the Montana Department of Transportation. I appear today to present a joint statement on behalf of my own department and four additional state transportation departments -- those of Idaho, North Dakota, South Dakota, and Wyoming. We (the five departments) appreciate this opportunity and we hope the Commission will find our comments helpful as it formulates its recommendations.

This Commission, in making recommendations for funding and financing investments in U.S. surface transportation, should base those recommendations on, among other considerations, recognition that strong Federal investment in surface transportation in rural states is important to the national interest. To assist the Commission in appreciating why this is a sound approach, our prepared statement discusses important Federal interests that are served by Federal investment to improve surface transportation in and across rural states like ours. After providing that important context, we comment on several funding and financing issues.

Overview

At the outset we commend this Commission for the perceptive observations about transportation investment in rural America made on page 8 of your just-released interim report, “The Path Forward.”

There, you correctly note that --

- rural transportation infrastructure “enables the movement of people and goods between large metropolitan areas and across the country”;
- rural transportation infrastructure “can place a significant burden” on rural state and local governments;
- “improving safety on rural roads continues to be a major challenge”;
- “funding of transportation in rural areas is particularly challenging”; and
- “low population density and low traffic volumes in rural areas appear to make some forms of direct charges problematic.”

We believe our statement today will reinforce those excellent points. We ask that you carry them and similar points forward into your final report and recommendations.

To summarize at the outset, our statement makes the following principal points.

The nation benefits from Federal transportation investment in and across rural states for a number of reasons. The full system of Federal-aid highways in our states, including routes classified below the National Highway System --

- serves as a bridge for truck and personal traffic between other states, advancing interstate commerce and mobility;
- provides access to scenic wonders like Yellowstone National Park and Mount Rushmore;
- enables agricultural exports and serves the nation's growing ethanol production industry and energy extraction industries, which are located largely in rural areas;
- has become increasingly important to rural America, with the abandonment of many rail branch lines;
- is a lifeline for remotely located and economically challenged citizens, such as those living on tribal reservations;
- enables people and business to traverse the vast tracts of Federally owned land that are a major characteristic of the western United States; and
- facilitates military readiness.

We will also note that –

- Federal investment in highways in rural America provides additional benefits, such as enhanced ability to address the safety needs of rural routes; and
- There are benefits from Federal investment in rural transit, including benefits for senior citizens.

<u>Funding and Financing Issues</u>

We explain that our states face severe transportation infrastructure funding challenges because we –

- are geographically large;
- have large tracts of Federal lands within our borders;
- have extensive highway networks; and
- have low population densities.

This means that we have very few people to support each lane mile of Federal-aid highway.

- We explain that because of these characteristics our states should receive significant Federal transportation assistance.
- We explain that because of low population and traffic densities tolls are not an answer to funding transportation needs in rural areas.

- We offer some comments about the large investment needs we face and our view that the Federal role requires continued support for the full Federal-aid highway system.
- We support continuation of the Highway Trust Fund, with some modest adjustments to income and expenditures that would strengthen its financial position and improve its ability to respond to needs.
- We express our support for a pending tax credit bond proposal, S. 2021.

Before closing, we also comment on several program structure issues, including –

- our support for a strong state role;
- our concern that calls for "performance measures" must not turn into unneeded Federal regulation; and
- our concern that proposals to distribute funds on a "cost to complete" basis are inconsistent with the need to pursue efficient use of Federal funds.

We now turn to a more detailed presentation of these points.

The Nation Benefits from Federal Transportation Investment In and Across Rural States

There are a number of reasons why it is essential to the nation to maintain and improve a strong highway and surface transportation system in large rural states like ours.

Bridge States Serve a National Connectivity Interest For People and Business

Highway transportation between the East and Midwest on the one hand and the West on the other is simply not possible without excellent roads that bridge those vast distances. This connectivity benefits the citizens of our nation's large metro areas because air or rail frequently will not be the best option for moving people or goods across the country from, for example, Chicago to Seattle, or San Francisco to New York. The many commercial trucks on rural Interstate highways in states like Idaho, Montana, North Dakota, South Dakota and Wyoming demonstrate every day that people and businesses in the major metropolitan areas benefit from the nation's investment in arterial highways in rural states.

Confirming that highways in states like ours serve as a "bridge" for traffic that benefits citizens of other states, we looked at the most recent FHWA data on tonnage origins and destinations and found that the percentage of truck traffic using highways in our respective states that does not either originate or terminate within the state is well above the national average. For Wyoming the percentage was 77.1, South Dakota, 68.2, Montana, 62, North Dakota, 59.4, and Idaho, 53.2. The national median for states is approximately 45 percent. Clearly, trucking in our states is largely "long haul" and serving a national interest. Moreover, in Wyoming trucks account for 60 per cent of current traffic on I-80.

So, there is a NATIONAL interest in facilitating interstate commerce and mobility that requires good highways in and connecting across rural areas.

Many of our roads that service this national traffic need now, or soon will need, expensive reconstruction. So, significant Federal investment is needed to meet that national interest.

As discussed more fully below, this bridge state and connectivity interest is not limited to the Interstate System, but encompasses the entire network of Federal-aid highways. This is in accord with the recently released report of the National Surface Transportation Policy and Revenue Study Commission, which recommended a continued commitment to the entire network of Federal-aid highways (see e.g., pages 7 and 17 of that report).

Tourism Access

Without a strong road network in the rural West, access to many of the Nation's great National Parks and other scenic wonders would be limited. The resident of a major metropolitan area may not need the roads approaching Yellowstone National Park or the Mount Rushmore National Monument as often as he or she needs roads used in the daily commute. But those citizens want high quality highway access to these national treasures for those special trips that are part of what makes America great. Millions of those special trips are made even though the roads leading to the parks are fairly distant from the Interstate System. For example, in 2006 visitors to Yellowstone, Glacier, and Grand Teton National Parks totaled 9,661,000. The entire population of Wyoming and Montana combined is less than 1.5 million. Moreover, investment in such highways also helps ensure that American and international tourism dollars are spent in America. Clearly, providing quality highway access to such attractions warrants Federal funding support.

Essential Service to Agriculture, Natural Resources, Energy

A significant portion of the economy in our region is based on agriculture, energy production, and natural resource extraction. Agriculture is one sector of the economy where the United States has consistently run an international trade surplus, not a deficit. Over the last two decades roughly 30 percent of all U.S. agricultural crops were exported.

There is a strong national interest in ensuring that agricultural and resource products have the road network that is needed to deliver product to markets, particularly export markets. A key part of that road network is the roads below the National Highway System, where export crops begin their journey from point of production to destination.

In addition, the growing ethanol and alternative fuel industry, as well as oil, natural gas, and coal reserves, are located in significant part in rural America and not on Interstate highways. These industries are an important part of the national effort to reduce dependence on foreign oil.

Our road network needs to be adequate to serve agriculture, resource and energy industries.

The Federal Highway Program Should Continue to Provide Funding for Interstates, the NHS, other Arterials, and Major Collector Routes.

Under this long-standing approach, approximately 24 percent of the Nation's over 4 million miles of public roads are Federal-aid eligible. This strikes a good balance, focusing the Federal program on the more important roads, but not on so few roads that connectivity and rural access are ignored. While we believe that the importance of investment in the Interstate and other National Highway System (NHS) routes is beyond doubt, we emphasize that non-NHS Federal-aid roads are also an important part of the network of Federal-aid routes. These roads make up approximately 20 percent of total road miles in the nation and carry over 40 percent of the traffic nationwide. These routes provide an important link between the NHS and local roads and streets. Moreover, these routes represent efficient investments by ensuring that regions can connect to the NHS system without a disproportionate number of expensive Interstate or NHS lane miles.

Attached at the back of our prepared statement is a chart that shows the huge gaps between NHS routes in our states. This illustrates the importance of the current Federal-aid network, including routes in addition to the NHS, to ensuring connectivity and access in vast states like ours.

In addition, in many parts of rural America air service and passenger rail service are hundreds of miles away and not a viable option. For those parts of our country the road network is a lifeline, making it essential to preserve the Federal-aid network in good condition. Some of the citizens most in need of a lifeline of Federal-aid highways are some of our nation's poorest and most remotely located citizens, including some living on Indian reservations.

Further, over the last two or three decades tens of thousands of rural rail branch lines have been abandoned. Over that time Class I railroads have shed over 100,000 route miles. While some of those former Class I miles are still operated by smaller railroads, the reduced reach of the rail network means that many areas, particularly rural areas, must rely more heavily on trucks for important commerce needs. In turn, that means the road network has become even more important in meeting those needs, such as delivering crops to grain elevators or moving raw products to or finished products from ethanol production facilities.

In addition, we have seen data from the U.S. Bureau of Economic Analysis indicating that manufacturing and retail trade grew relatively faster in non-metro areas than in metro areas during the 1990s. Given the high cost of doing business in large metro areas, this is not surprising. Economic growth in metro areas is more heavily weighted to services. This reinforces that the broader network remains important to supporting non-services investments that occur outside of metro areas.

For these and other reasons, now is not a time to reduce the extent of the road network eligible for Federal funding.

Safety Needs

In addition, there has been increased attention in recent years, including in SAFETEA-LU, to the national interest in improving safety on rural roads. More than two-thirds of all roads in the U.S. are located in or near areas with populations of less than 5,000. Approximately 70 percent of Federal-aid highway lane miles are in rural areas. In 2002, 60 percent of highway fatalities occurred on rural roads and, of those fatalities, 41 percent occurred on two-lane roads. Similarly, a 2001 GAO Report found that, on rural major collectors, the fatality rate per 100 million vehicle miles traveled (VMT) was over three times the comparable fatality rate on urban freeways. The most important of these rural roads are eligible for Federal funding. It is important to continue to provide Federal funding to improve and address deficiencies on these routes.

Large Parcels of Federal Land Warrant Federal Investment

There are huge parcels of Federally owned land in the West. Idaho, for example, is over 60 percent Federal and tribal lands; Wyoming, over 50 percent. Development or use of such lands is either prohibited or limited, and state and local governments can't tax them. Yet, the nation's citizens and businesses want a reasonable opportunity to be able to cross those lands and have access to them. This is an expensive transportation proposition for sparsely populated states. Significant investment of transportation dollars by the Federal government has been and remains a proper response, both in terms of apportionments to low population density states and in terms of direct Federal programs generally referred to as the "Federal Lands Programs."

Distinct from apportionments to states, the Federal highway program has long included separate funding for Indian Reservation Roads and highways on Federal lands and in national parks. These are lands with no private ownership (except perhaps small inholdings) and states have limited if any ability to tax them or benefit from economic development of them. While there are national parks, other public lands, and tribal territories throughout the country, it is fair to say that the Federal public lands highway programs probably never would have been developed but for the large Federal and tribal land areas in the West. The need for these Federal Lands highway programs continues. We were pleased that the Policy and Revenue Commission's report recommends continuation of Federal Lands highway programs. This Commission's funding and financing recommendations should be based on an assumption that Federal lands highway programs should be continued and that their underlying needs should be met.

Additional Benefits

This national road network provides other benefits that may be hard to quantify. For example, without the option of using Interstate and arterial roads across the rural West and Midwest, rates for some air and rail transportation movements could well be higher.

One of the original reasons for the Interstate System was to support prompt movements of military personnel and supplies. Some military facilities are well outside of metro areas, and the strategic highway corridor network includes more than Interstate highways. Accordingly, a strong system of arterial roads in rural areas, as well as metropolitan areas, continues to support efficient military movement.

Public Transportation. Public transportation also plays a role in the surface transportation network in rural states. Public transportation is not only for large metropolitan areas. For example, the northern tier Amtrak service, the "Empire Builder," provides an important option for long distance travel to some of our nation's isolated communities.

The Federal transit program includes a program of apportionments for rural transit. Transit service is an important, sometimes vital link for citizens in small towns to get to the hospital or clinic as well as to work or other destinations. Sometimes these clinics and hospitals are quite a distance away. A means of access is necessary. In some rural areas we are experiencing an increase in the age of the population and public transit is important to aging populations, enabling them to meet essential needs without moving out of their homes. In short, Federal public transportation programs must continue to include funding for rural states and not focus entirely on metropolitan areas.

For reasons such as outlined above, the entire nation, including the citizens of large metropolitan areas, benefits from transportation investment in rural states in our region. Consistent with such benefits, in crafting SAFETEA-LU Congress gave stronger funding recognition to states with large land areas and low population densities. The Commission's report and recommendations to Congress should expressly recognize these important reasons for Federal investment in rural surface transportation assets. Most importantly, this Commission's funding and financing recommendations should be based on an assumption that these needs for strong Federal investment in highways and surface transportation in rural states should be met.

<u>Funding and Financing Considerations</u>

We turn now to a discussion of several points related to funding and financing that we wanted to highlight to the Commission.

<u>Rural States Face Serious Obstacles in Preserving and Improving the National Highway and Surface Transportation Network</u>

Our rural states face a number of serious obstacles in preserving and improving the Federal-aid highway system within our borders. Our states:

- are very rural,
- are large,
- contain large tracts of Federal lands,
- have low population densities, and
- have extensive highway networks.

Taken together, this means that our large road networks have <u>very few people per lane mile</u> to support them. In South Dakota, for example, there are about 19 people per lane mile of Federal-aid highway, in Idaho 60, in North Dakota 16, in Montana 29, and in Wyoming 29. The national average is approximately 128 people per lane mile. This alone indicates that our citizens have limited ability to pay for the national network connectivity that benefits the entire nation.

And there are additional obstacles:

- The per capita contribution to the Highway Trust Fund attributable to our states exceeds the national average.
- Rural states generally have per capita incomes below the national average.

More specifically, the per capita contribution to the Highway Account of the Federal Highway Trust Fund attributed to Idaho is \$119, Montana \$156, North Dakota \$161, South Dakota \$150, and Wyoming \$312. The national average is \$109 per person.

These factors make it very challenging for rural states to provide, maintain, and preserve a modern transportation system that connects to the rest of the nation and to global markets and economic opportunities -- even with the support of Federal funding at today's levels.

So, in the rural states there are long stretches of highway, fewer people to support each lane mile, and generally lower incomes to support transportation investment. And our citizens must contribute not just towards capital investment, which is partially funded by the Federal program, but also to maintaining Federal-aid highways, which is solely a state expense.

For reasons such as these, we think that there is no question that, to achieve the important benefits of a truly national, interconnected highway and surface transportation system, the Federal highway program must provide substantial funding for the Federal-aid road network in rural states.

Tolls Are Not an Answer to Funding Transportation Needs in Rural States

We have observed a lively debate about the role of public private partnerships and tolling in meeting the nation's transportation needs.

We say "observed" because, while public private partnerships and tolling may have a modest role in meeting transportation needs in some areas of the country, our states do not have the traffic densities (with a few possible exceptions, such as a few miles in Boise) to make tolling a viable option. We can't raise much money through tolling given our traffic densities. Furthermore, the collection costs per user would be much, much higher than in the case of toll facilities in densely populated states. Nor would it be theoretically sound (and we emphasize that this is all theory in states like ours) to try to raise money through tolls despite low traffic densities by attempting to set tolls at a high rate. That approach would simply divert traffic from high end roads to lower classification routes, especially given, as noted, that rural populations generally have below national average incomes. So, for many reasons, tolling in rural areas would not be efficient or an effective means of raising revenue for roads.

Thus, we share the concern expressed by Chairman Oberstar, as well as others, that public private partnerships and tolling will not maintain or produce an interconnected, integrated or strong national surface transportation system.

We believe that strong Federal funding leadership is essential to maintaining and improving a national highway and surface transportation network that meets the needs of people and business, particularly in states like ours.

So, tolls should not be a component of recommendations for Federal funding and financing policies intended to provide direct help in meeting surface transportation needs in rural states.

Our Needs Are Large and Inflation Has Made it Much Harder to Meet Our Needs

All of us have seen various recent estimates of surface transportation investment needs for the United States, and there appears to be a broad consensus that needs for investment in surface transportation far, far outstrip current funding. We will not attempt, today, to suggest a specific estimate of national highway and transit capital investment needs. We do, however, offer some comments on needs that are particular to us.

First, due to our sparse populations, our needs per lane mile are significant, not just for capital investment that is eligible under today's Federal-aid highway program, but also for maintenance items that are not Federally assisted, such as road striping, mowing, snow removal and other costs.

In addition, while we are proud of the work our departments do and believe we are highly efficient, we can assure the Commission that rural states' needs for highway investment and maintenance exceed available combined Federal, state and local resources by a wide margin. Further, this investment gap has grown in recent years due to inflation in transportation construction that has far exceeded increases in the consumer price index.

Let us offer some background facts on inflation trends in our region.

In my state of Montana, we experienced an increase in costs for awarded bids of 22 percent from mid 2005 to late 2006. In Wyoming, overall construction cost increases were 62 percent for 2005 and 41 percent for 2006.

In Idaho the cost of aggregate for base increased from $7.07 per ton in 2003 to $14.32 per ton in 2005, more than doubling in two years. Also in Idaho, bridge deck concrete increased from $298 per cubic yard in 2003 to $784 per cubic yard in 2005, an average increase rate of 81.5 percent annually. In North Dakota the state's index of construction materials costs rose 45 percent from 2001 to 2007. In South Dakota gravel cushion increased 43 percent from 2005 to 2007.

Moreover, we all recognize that the price of oil has gone up dramatically in the last year and that will put upward pressure on the cost of asphalt that is not yet reflected in this data.

These increases have caused state transportation departments to push projects out into the future, as their budgets could not cover as many projects as originally estimated. When states do that the dollar level of future unmet needs grows.

In addition, as more and more of the Interstate System and other roads in our states approach the end of their design lives, resurfacing will not be enough to maintain (much less improve) road condition and the ability of the network to serve national and regional commerce and mobility. Increasingly, the Interstate System and other Federal-aid highways will need to be reconstructed – a very expensive proposition that could well prove to be more expensive than we currently believe.

Program levels have not risen with inflation and, even with our efforts to be efficient, future needs are building up.

<u>Direct Pricing Should Not Be a Variable in Estimating Rural States Needs</u>

It is our understanding that a reason the Policy and Revenue Commission report set forth needs in a "range" of estimates is that the Policy and Revenue Commission considered that if there was some type of direct pricing of some highway and other transportation assets that might drive down capital needs.

As noted above, tolling is not a practical option in rural areas. Further, to the extent that Commission or this Commission was or is examining congestion pricing as opposed to tolls for long stretches of road, the answer as to our circumstances is the same, pretty much inapplicable.

Accordingly, even assuming for discussion purposes that increased use of tolling or direct pricing of roads may reduce surface transportation investment needs levels in large metro areas, we don't think that variable is properly applied to estimating needs in very rural states like ours.

Cost of Preserving Non-NHS Federal-aid Routes Must be Included in Needs

As noted earlier, the Policy and Revenue Commission's report contemplates continued support for the entire Federal-aid highway network. We want to emphasize that we believe that means the full Federal-aid network must be considered in estimating needs.

We also note that the Policy and Revenue Commission apparently supports a requirement for cost beneficial investment. Yet we do not know what would be entailed in determining whether an investment in a surface transportation asset is more beneficial than its costs. That is not defined and could be very difficult and contentious to define and apply.

Let us be clear. We operate in an environment where, as state transportation departments, we are highly accountable to many important entities, including Governors, state legislatures, and state Commissions or Boards – as well as the traveling public and various stakeholders. We have to pursue effective and beneficial use of scarce funds all the time. We are already working hard for maximum effectiveness within the program contours. We are concerned that this suggestion could become an additional Federal regulatory requirement that could handicap investment in rural areas.

As it relates to a needs discussion, our point here is simple. We believe that investments that states choose to make to preserve or improve the current Federal-aid system will be beneficial, including investments to preserve or improve non-NHS routes in rural areas. We would be concerned that any attempt, even if well intentioned, to define permissible investments through cost benefit calculations could underestimate the national benefits of roads in and across rural areas. The kinds of connectivity and system benefits we have described here today would be inappropriately underweighted if future program administrators adopt an approach to determining benefits that focuses unduly on traffic counts.

So, as you consider describing national surface transportation investment needs as part of your process of reaching recommendations on funding and financing, the cost of preserving and improving the entire Federal aid network must be part of the needs base. We see those investments as unquestionably beneficial, for various connectivity and access considerations, even if traffic counts on those roads are not high.

In short, we have significant and growing unmet needs just to maintain and preserve the system – and we, like other states, want to improve it as well. Public private partnerships and tolling are not really available to help us meet our needs. Our states are already making greater than national average contributions to the Highway Trust Fund – generally with lower than national average per capita incomes.

So, without us even venturing an opinion as to whether the estimates of needs forwarded by the Policy and Revenue Commission are absolutely correct, we know that our needs are high and far exceed what is available from current Federal, state and other funding.

For all these reasons, the Commission should recommend actions that will result in the Federal government providing strong, significantly increased funding for highways and other surface transportation investment, particularly including highways in rural states. We see that as essential to meeting the national interest requirement that our nation preserve and maintain, as well as improve, an interconnected national highway and surface transportation system.

Continue the Highway Trust Fund

In considering approaches to meeting the nation's surface transportation investment needs, we see continuing the Highway Trust Fund (HTF) and the current sources of revenue into the HTF as a baseline. Those revenue streams should be continued and not diminished.

We also support some adjustments to the current HTF system that would increase the HTF balance. For example, current exemptions from the payment of taxes into the HTF should be supported financially by the General Fund of the Treasury, not by funds out of the Highway Trust Fund. In addition, the HTF should be credited with interest on its balances, as are other Federal trust funds – and we could support that change retroactive to 1998, when the HTF first lost credit for interest on its balances. The proceeds of the tax assessed on "gas guzzler" vehicles could be placed in the HTF. The Highway Account could be credited with General Funds equal to amounts drawn down from that Account for highway emergency relief after passage of TEA-21 but before passage of SAFETEA-LU. Basically, we are comfortable with these and similar proposals to improve the HTF, such as are included in the provisions of S. 2345. These changes may not involve large sums, but they add up.

Further, at least some of them should be enacted promptly, for the very necessary and important purpose of promptly closing the projected FY 2009 shortfall in funds in the Highway Account, so that we can be certain that SAFETEA-LU is fully funded. We believe that the problem of inadequate funding in the Highway Account to support SAFETEA-LU funding levels should be solved in a way other than by reducing authorized SAFETEA-LU investment levels for highways or transit.

But these kinds of modest adjustments to the current Highway Trust Fund regime are also essential as part of the effort to meet post-SAFETEA-LU highway and transit needs. Again, these kinds of changes add up and should be recommended by this Commission.

Preserve Highway Trust Fund Dollars for Transportation Investment

As we all know, since September 11, 2001, there has been an increased focus in this country on transportation security, including funding to improve transportation security. Fortunately, such funding has been from the General Fund of the Treasury, not the HTF. This approach to transportation security funding should continue.

In addition, to help ensure that HTF dollars produce as much direct transportation benefit as possible, we would explore shifting the financial support for some activities, such as FHWA and FTA administrative costs, to the General Fund of the Treasury, so that more of the currently scarce funds in the HTF would be available for investment in surface transportation assets.

The current firewall for general fund monies for the transit program also suggests a way of helping the HTF do more for surface transportation capital investment. We believe that the so-called budget firewalls for HTF expenditures and for transit General Fund expenditures are appropriate and should continue. Perhaps there could be increased interest in funding some additional programs out of the General Fund, rather than from the HTF, if those monies were protected by a firewall. The result of implementing such an approach would be to allow more of the funds in the HTF to be applied towards core surface transportation capital investment needs, such as on roads and bridges. Moreover, we see transportation as providing many benefits to the economy and to our nation's citizens. So, we see General Fund support as perfectly justifiable, as a means of trying to achieve the benefits of transportation investment.

Build America Bonds

We are very supportive of the "Build America Bonds" proposal, S. 2021, introduced by Senators Wyden and Thune and five other Senators. This Federal tax credit bond proposal represents an attractive new way to increase Federal surface transportation investment – by $50 billion over a 6-7 year period. It would also increase state investment, as states contribute the non-Federal match that the bill would require as a condition for accessing the funds.

Of note, this bill represents a way of dedicating some funding to surface transportation without raising taxes. Sometimes, in discussions of Federal funding approaches that, in one way or another, rely on the General Fund of the Treasury, concern is expressed that funding intended for transportation would get lost in the larger appropriations process and not end up being invested in capital surface transportation assets. The Build America Bonds proposal shows that one can establish a dedicated funding stream (in this case proceeds from the sale of tax credit bonds), outside the appropriations process, and thereby protected from earmarks. The proceeds would be used to invest in capital transportation projects selected by the states. The program is structured so that all states would receive transportation funding. We prefer this to bonding proposals not focused on transportation (bond proceeds could be used for housing, wastewater treatment, drinking water, transportation, etc.).

Many have said the nation needs a combination of funding tools to meet its large transportation needs. S. 2021 is an extremely attractive approach that deserves to be part of the solution. When this legislation was introduced in September of 2007, it immediately attracted support from the National Association of Manufacturers, the U.S. Chamber of Commerce, ARTBA, AGC, AASHTO, the National Construction Alliance (a coalition of the Laborers, Carpenters and Operating Engineers Unions), and the American Highway Users Alliance.

Any Federal Program of VMT Based Direct Charges and Federal Funding Distribution Must Recognize the Federal Interest in National Connectivity

We understand that this Commission is interested in forms of direct charges to raise funds for surface transportation investment that may not be ready for implementation in the near term but could be ready in the future, such as a charge per vehicle mile traveled (VMT).

Today we do not take a position for or against such a future approach, but we do offer some perspectives as rural state transportation departments. Preliminarily, we note that many have raised privacy concerns about certain approaches to implementing a VMT fee and we believe that is an important issue. Our comments below address additional issues relating to any such VMT charges.

We have explained that citizens in states like ours pay more per capita to support the Highway Trust Fund than the national average. This is not surprising given that per capita VMT in each of our five states exceeds the national average. So, we would be concerned about the impact of such a fee on our citizens. Given higher than average per capita VMT in our states, such a fee, particularly if set high, could hit our citizens quite hard.

In addition, we believe any proposal for a future system that would be funded in significant part from VMT charges must be structured in combination with a funding distribution system so that citizens of states like ours are not asked to pay at a rate that would have them cover the full cost of the Federal-aid roads within the borders of their state. The national connectivity and access benefits of the Federal aid highway system in rural states like ours must be paid for by the Federal Government through the funding distribution side of the overall program. In that sense, it would be an updated version of today's system, where the Federal government does invest in connectivity in rural states even as our citizens pay into the HTF, currently at per capita levels above the national average. As we explained, we have few people per lane mile of Federal-aid highway within our respective state borders and our highways provide important national benefits. Any system of charges and Federal funding distribution must respect that.

We also note that some may contemplate the prospect of additional direct Federal charges, whether time of day or other, to address congestion. Our view is that no such charges should be assessable with respect to vehicles while operating in non-congested states like ours.

Some Comments on the Structure of the Federal Program

We are not certain that this Commission will concern itself with many details of the structure of a future Federal surface transportation program but, before closing, we offer a few perspectives on program structure.

The Highway Program Should Continue to Be a Federally Assisted State Program and Should Direct an Increased Percentage of Program Funds to the States.

The future Federal highway program should continue to distribute the vast majority of funds to the states. States should continue to deliver the program and select projects within their respective borders based on their superior knowledge of needs within their borders. This is a partnership that has worked well. In the future, the percentage of overall Federal highway program funds apportioned to the states should be increased, and the percentage of overall program funding directed to Federal "off the top" programs or projects should be reduced.

Cost to Complete Concept is Highly Problematic

We are concerned about the prospect of distributing funds on a "cost to complete" basis, something suggested by the Policy and Revenue Commission report. The Big Dig in Boston was originally a cost to complete project. The Federal Government came to recognize that it needed to cap its financial exposure to that project. The cost to complete approach could well encourage the inclusion of expensive features in already expensive urban projects, thereby proportionally deemphasizing the investment in the highway network across and in rural areas. Certainly, if one wants to encourage completion of projects in an efficient and cost effective way, cost to complete is inherently counter to that goal. It calls for the Federal Government to provide the Federal share of whatever amount of money it takes to complete a project. This highly problematic concept should not be advanced any further.

While Maintaining Eligibility for Arterials and Major Collectors, We Would Increase the Percentage of Overall Program Funding Dedicated to the Interstate System.

With the high costs of reconstructing Interstate routes looming, and given the importance of these routes to interstate commerce, we are comfortable with the notion that a higher percentage of apportioned funds should be for these highways, provided that the overall percentage of the program apportioned to states increases, as we recommend, or at least does not decline. We also would increase the base Federal share of non-Interstate NHS projects to 85 percent, to reinforce the importance of the NHS. Further, any increase in the proportion of funds dedicated to the Interstates should not be at the expense of other traditional programs with broad eligibility, such as NHS, bridge, or STP. We see providing added funding emphasis to the Interstate System as the right way to respond to calls by some for more emphasis on roads that are important to freight. The Interstates are critically important to freight. Creating a new road system, with new rules, or pitting states against each other in a new competition to be part of some new freight or other Federal highway program does not strike us as constructive.

Similarly, we do not support the creation of additional program categories or new program requirements that would limit how a state can use funds within any category. Right now we suspect that any major type of transportation investment that a state wants to make is eligible for investment. At most, perhaps some program eligibilities could be expanded if that is really needed to achieve an important objective. A new special program is not required for states to be able to respond to needs for investment in corridors that are considered important. More Federal funding is needed, but not new program structures. Perhaps such corridors could receive tolling authority, or an increased Federal match could apply to projects on these corridors. Additional program flexibility could be helpful, such as increased ability to flex funds between categories. We would be delighted to curtail non-core program categories or provide states greater ability to transfer funds out of non-core categories. However, we don't see that solid, important reform requires change in program structure to the extent suggested by the Policy and Revenue Commission.

Reduce Regulatory and Program Burdens

The Federal highway and transit programs are not simple. An enormous amount of planning is required to deliver actual projects and programs. We are confident that the overall program can be made more flexible and that project delivery time can be reduced. We suggest that the Commission support reasonable suggestions that it receives to expedite project delivery processes and reduce program overhead. For example, "fiscal constraint," an aspect of the required USDOT planning process, is unduly burdensome. The original concept of fiscal constraint as an element in the development of transportation improvement plans was a straightforward one - that states and metropolitan planning organizations should not plan to build a list of projects when there is not enough money available to support those projects. A fiscal constraint concept could have been implemented by requiring a simple certification by a state or MPO. Instead, ensuring that a STIP or TIP is fiscally constrained has evolved into a complex and sometimes frustrating system that involves USDOT approval of requests to update transportation improvement plans to reflect modestly changed circumstances. It is not needed. We can't spend what we don't have. We don't need extensive regulations to confirm that. In addition, our taxpayers want us to focus as hard as we can on delivering real service. We could do that more effectively if we provided fewer, not more, data and reports and plans to Federal agencies. Restraining fiscal constraint processes is one small example of a way the program could be simplified.

It is also important to avoid any new program complications. We note with interest that the Policy and Revenue Commission report made reference to new Federal "performance" standards or measures. We all want to perform well and, frankly, we have to. But we are concerned that "performance measures" could, in practice, become Federal regulations that would restrict state choice and efficiency in implementing the program.

Conclusion

For all of the reasons presented, we consider it essential that the Commission expressly recognize in its recommendations and report to Congress that significantly increased Federal investment in highways and surface transportation in rural states is and will remain important to the national interest. The financing and funding recommendations of this Commission should be consistent with that underlying position.

The transportation departments of Montana, Idaho, North Dakota, South Dakota, and Wyoming thank the Commission for providing us the opportunity to appear before you today.

At this point, I'll be pleased to respond to questions though, to the extent that the discussion goes beyond the positions we have addressed in writing, I don't want to suggest that I can speak for other than my own department. Thanks again for your consideration.

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One page chart attached

Interstate and National Highway Systems – in MT,ID, SD, ND and WY
Federal-aid System is Critical for Connectivity