Approved: 2-15-08
Date

MINUTES OF THE JOINT COMMITTEE OF HOUSE TAXATION AND TRANSPORTATION COMMITTEES

The Joint meeting of the House and Senate Transportation and House Taxation and Senate Assessment and Taxation was called to order by Chairman Kenny Wilk at 9:00 A.M., Room 313-S on January 28, 2008 in Room 519-S of the Capitol.

All Taxation members were present.

Taxation Committee staff present:
Chris Courtwright, Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Ryan Hoffman, Legislative Research Department
Scott Wells, Office of Revisor of Statutes
Betty Boaz, House Transportation Committee Assistant

Conferees appearing before the committee:
Michael D. Meyer, P.E., Georgia Institute of Technology
Janet F. Kavinoky, Director of Transportation Infrastructure at the U.S. Chamber of Commerce & Executive Director of the Americans for Transportation Mobility Coalition
Deb Miller, Secretary of Transportation

Others attending:
See attached list.

Representative Kenny Wilk, Chairman of Taxation Committee, said the idea of this meeting started last fall when he approached Secretary Miller regarding how fuel taxes were being collected and the amount collected. He introduced Senator Donovan.

Senator Donovan, Chairman of Senate Transportation Committee, stated that the laws just passed in congress require more fuel economy for vehicles producing fuel tax revenues. He said it was no secret that federal funds for building roads and bridges is basically broke. He stated the requirement of better fuel economy will result in less tax collected. Alternative ways to fund our programs need to be addressed.

Representative Hayzlett, Chairman of House Transportation Committee, said in 2007 he, along with Vice-Chairman Peck, and Representative Long, went to Washington, D.C. and met with the U.S. Secretary of Transportation. Their discussions were on declining revenues and the impact of that lost revenue.

Representative Wilk introduced Secretary of Transportation, Deb Miller. She introduced Michael D. Meyer, P.E., from the Georgia Institute of Technology. Dr. Meyer presented a power-point presentation on the "*Long Term Viability of the Petroleum-based Motor Fuel Tax*" (Attachment 1).

Topics discussed by Dr. Meyer included: highway and street construction costs from 1997 - 2007; dependence on transport fuels in North America; taxes supporting the Highway Trust Fund; competition of world demand on oil; petroleum production, imports; and consumption in the U.S. from 1949 - 2006; vehicle and fuel technologies, and the potential impacts of higher oil prices and fuel economy standards on gross motor fuel tax revenues.

Dr. Meyer stated that fuel consumption per mile could decline 20 percent by 2025. He said the present finance system can remain viable for at least another 15 years. He also stated that, while there is a growing consensus that alternatives to the fuel tax may be necessary in about 20 years, the fuel tax should remain an important component of surface transportation finance until viable alternatives are found.

Upon conclusion of Dr. Meyer's presentation, Secretary Miller introduced Janet F. Kavinoky, Director of Transportation Infrastructure at the U.S. Chamber of Commerce and Executive Director of the Americans for Transportation Mobility Coalition.

Ms. Kavinoky stated that over the past several months, the nation has seen abundant evidence that America's infrastructure is not only showing its age, but showing that it lacks capacity to handle the volume of people and goods moving today. She said the infrastructure cannot be treated like other problems or programs where you can wait until the very last minute and then write a big check. Infrastructure projects require foresight and years of careful planning.

Ms. Kavinoky's testimony covered three topics: 1) The role of transportation in our economy; 2) What is at stake from the business community's perspective and, 3) What should be done. According to Ms. Kavinoky, the Chamber believes the next era in surface transportation requires a multi-modal and inter-modal vision that supports competition in the global economy and emphasizes the important role of the federal government (Attachment 2).

Ms. Kavinoky said we need a national plan and quoted House Committee on Transportation and Infrastructure Member John Mica, "The federal government must take a lead role in developing a national strategic transportation plan for the next 50 years that makes the most efficient use of every transportation mode and incorporates the expertise and resources of both private and public sectors." Ms. Kavinoky went on to say a Highway Trust Fund shortfall is expected in fiscal year 2009. It is forecasted that revenues for the Highway Account will fall short of meeting the $223 billion commitment by between $4.3 and $5.0 billion during FY 2009. In conclusion Mr. Kavinoky provided four key goals: 1) Document the problem with solid, indisputable research; 2) Educate Americans about the benefits of infrastructure and the cost of failure; 3) Spur private investment in infrastructure, and 4) Foster an honest dialogue on public financing.

Upon completion of Ms. Kavinoky's testimony, Deb Miller spoke to the Committees. Secretary Miller testified about the sources of funding, the motor fuel tax receipts (the original forecast compared to actual receipts), motor fuels tax - how Kansas compares to the national average and regional average, the projected revenues that don't keep up with inflation and the impact of inflation on revenues (Attachment 3).

Chairman Wilk thanked Dr. Meyer, Ms. Kavinoky and Secretary Miller for appearing before the Joint Committee. Secretary Miller will return tomorrow to the House Taxation Committee for a continuation of this discussion.

The meeting adjourned at 10: 55 a.m. The next meeting is January 29, 2008.

HOUSE TAXATION COMMITTEE

DATE: January 28, 2008

NAME	REPRESENTING
E.R. Moses	KAPA
Curt Kitson	Monarch Cement
Wendy M Harms	KAPA- KRMCA
Patrick J Hurley	Economic Lifelines
Matthew W Rau	ACPA
[illegible]	KS public Transit Assn
David Inskeep	Highway Advisory Comm.
Lawrence Blake	Highway Advisory Comm.
Jan Huston	Highway Advisory Commission
Nate Michel	Hein Law Firm
Michelle Peterson	Capitol Strategies
Deb Miller	KDOT
Dennis Slimmer	KDOT
Mike Crow	KDOT
Jerry W. Younger	KDOT
Narci Ferrill	KDOT
Marlee Carpenter	KS Chamber
Bob Alderson	Casey's

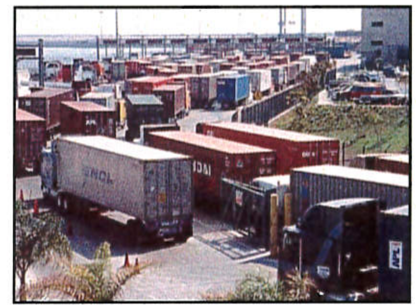
HOUSE TAXATION COMMITTEE

DATE: January 28, 2008

NAME	REPRESENTING
Shahira Stafford	KS Grain & Feed Assn.

HS Taxation
1-28-08
Attachment 1

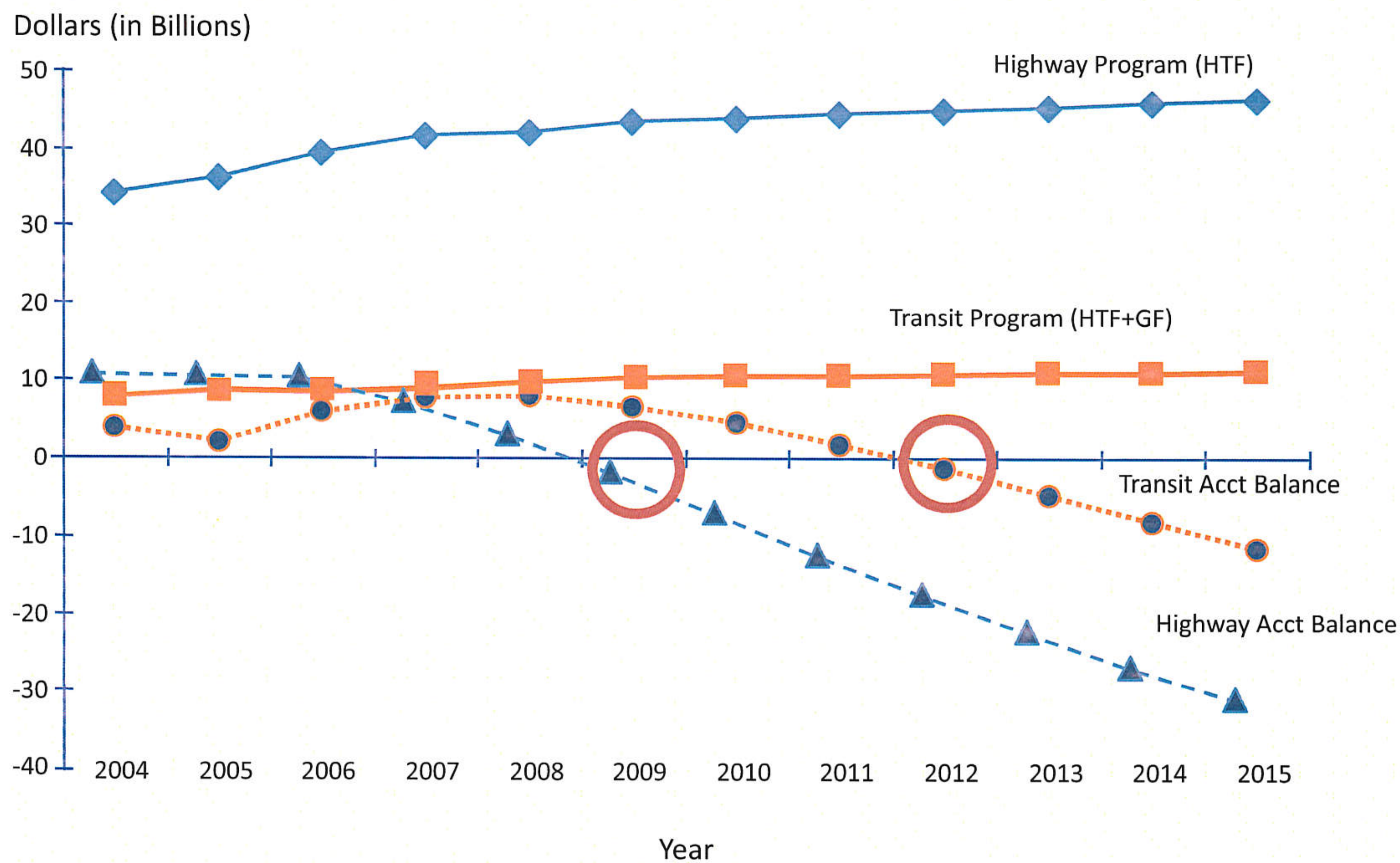
Long Term Viability of the Petroleum-based Motor Fuel Tax



Michael D. Meyer, P.E.
Georgia Institute of Technology

Estimated Highway and Transit Program Levels and HTF Account Balances Through 2015*

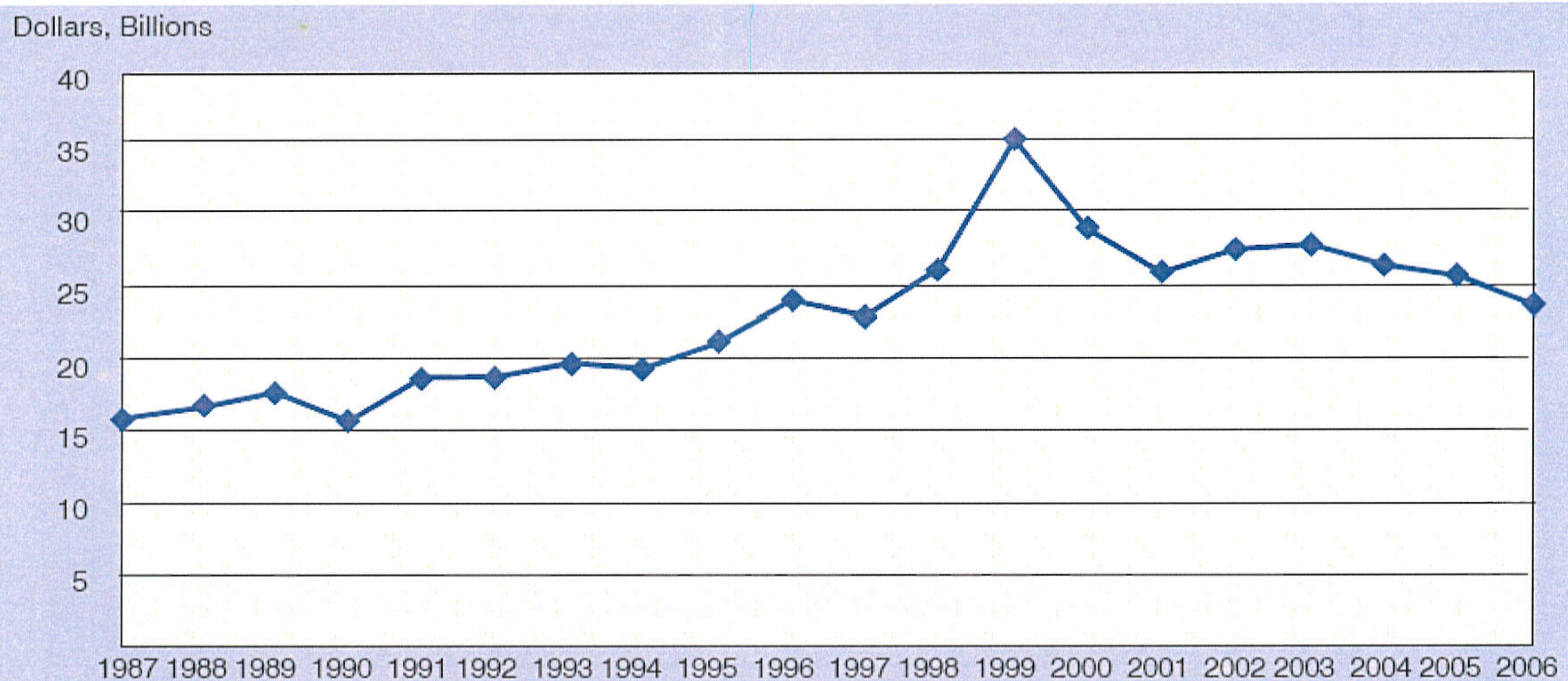
1-2



- Based on 2007 Treasury Mid Session Review revenue estimates; spending assumption 2010-2015 based on current services baseline for discretionary outlays at 1.15% growth per year.

1-3

Change in HTF Revenues in Constant 1993 Dollars

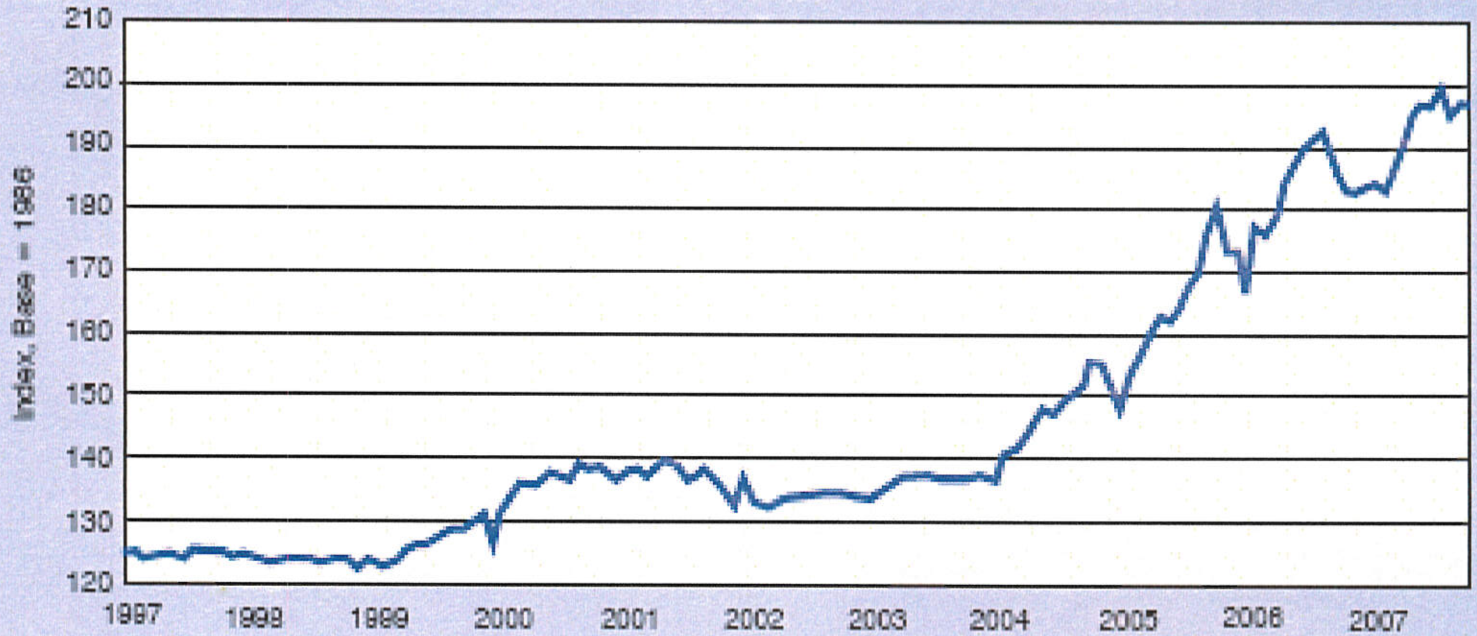


This exhibit shows the change in Highway Trust Fund revenues in constant 1993 dollars between 1987 and 2006.

Source: Commission Staff analysis.

4-1

Highway and Street Construction Costs, 1997-2007



This exhibit shows trends in highway and street construction since 1997.

Source: Bureau of Labor Statistics.

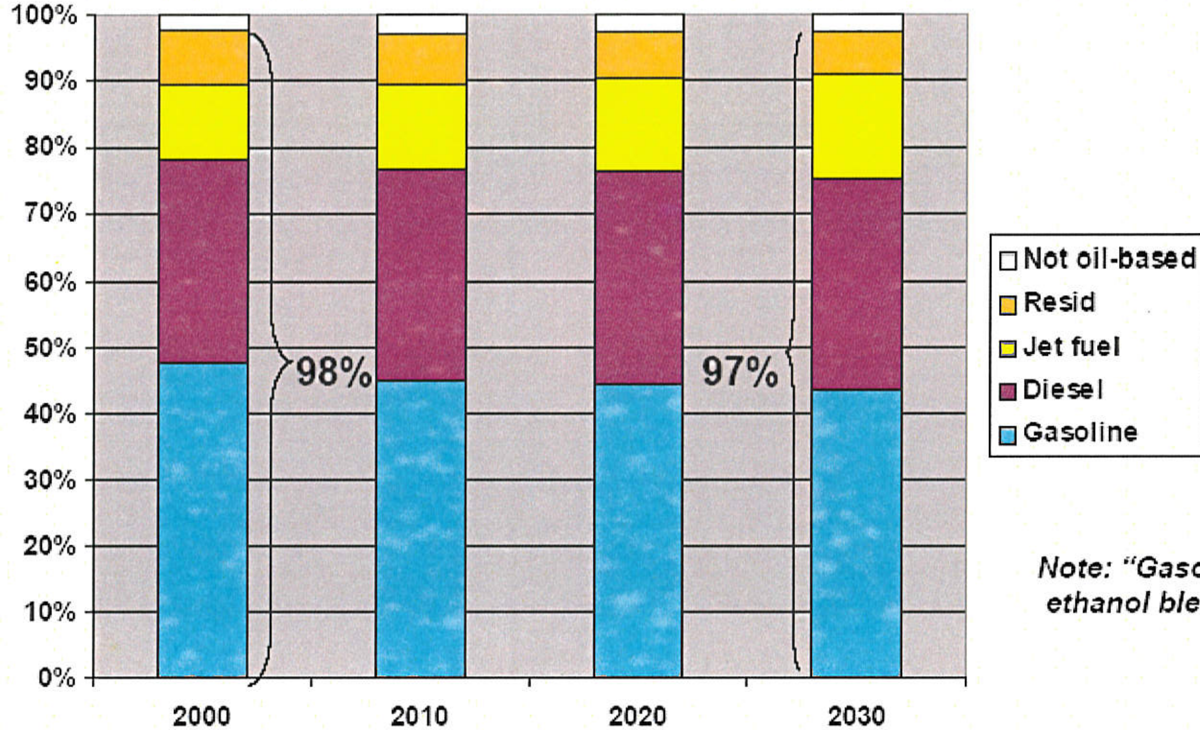
In the long term (>25 years), why would the motor fuel tax as a source of revenue be vulnerable?

Dependence

7-1

Presently, nearly all transport fuels are oil-based

Worldwide sources of transport fuel (% of total)



North America = 99.1%

North America = 98.6%

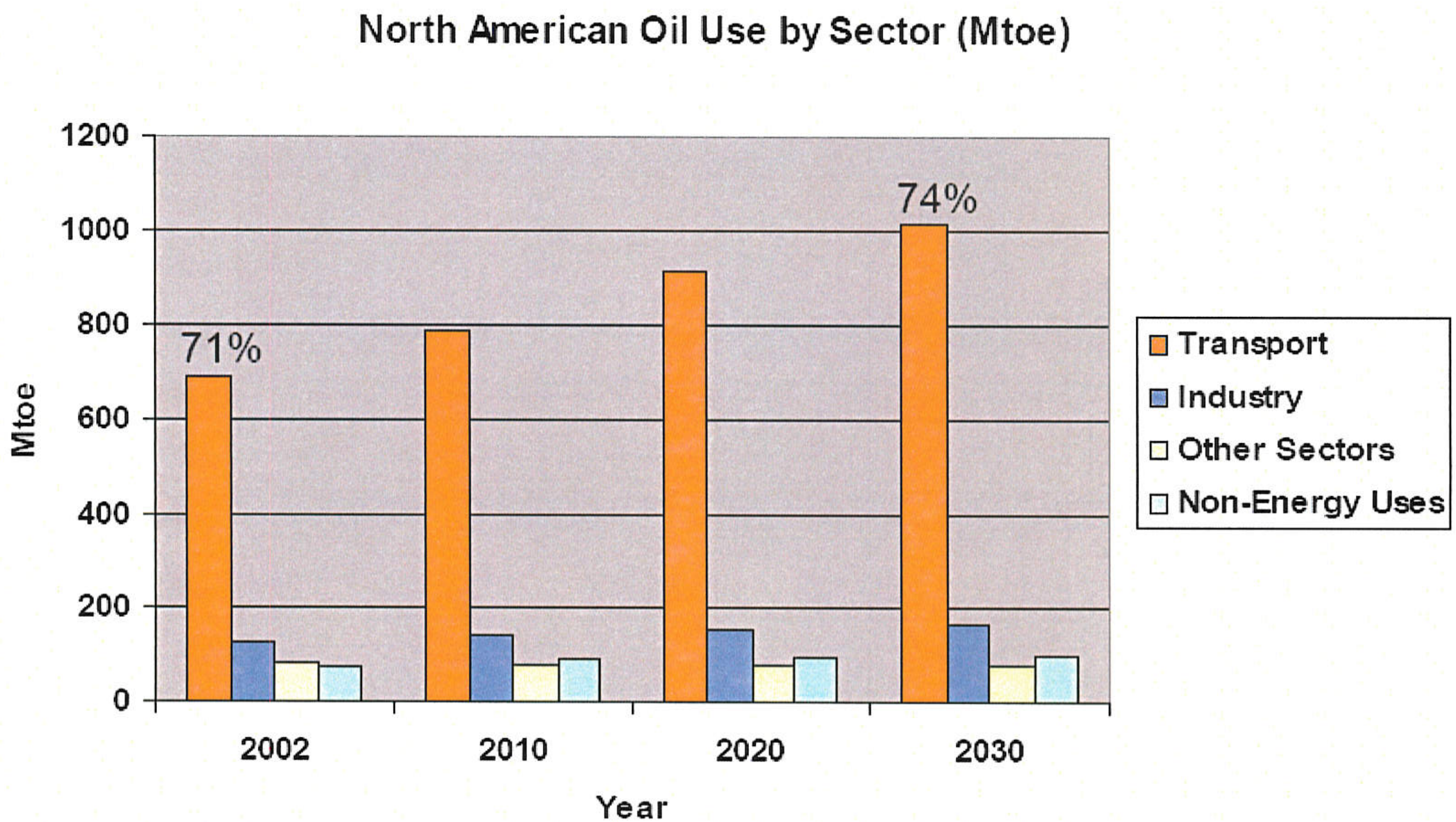
Note: "Gasoline" includes ethanol blends

Source: IEA/SMP Spreadsheet Model Reference Case

INTERNATIONAL

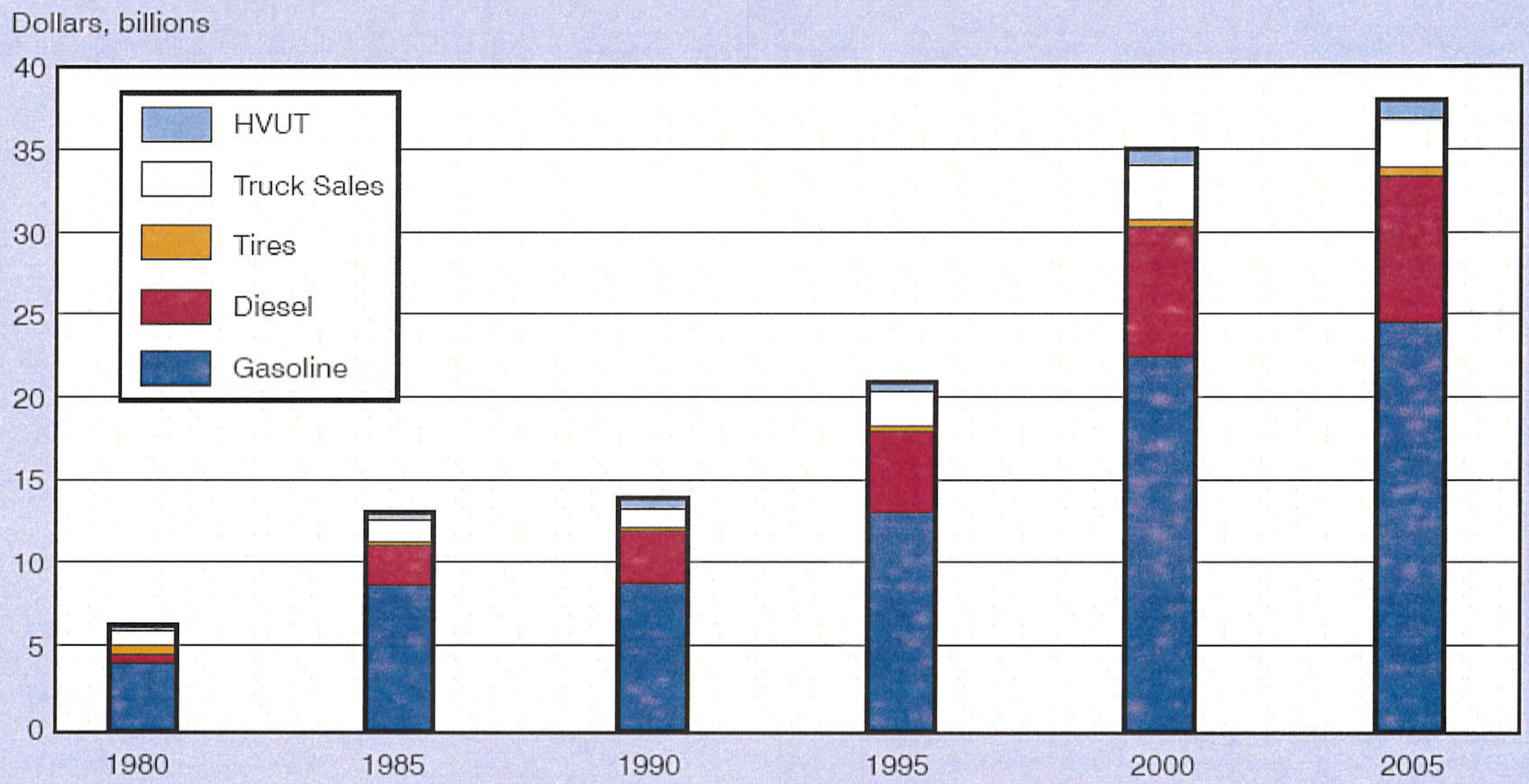
1-8

Transport dominates oil use even more in North America



1-9

Exhibit 5-3. Taxes supporting the Highway Trust Fund



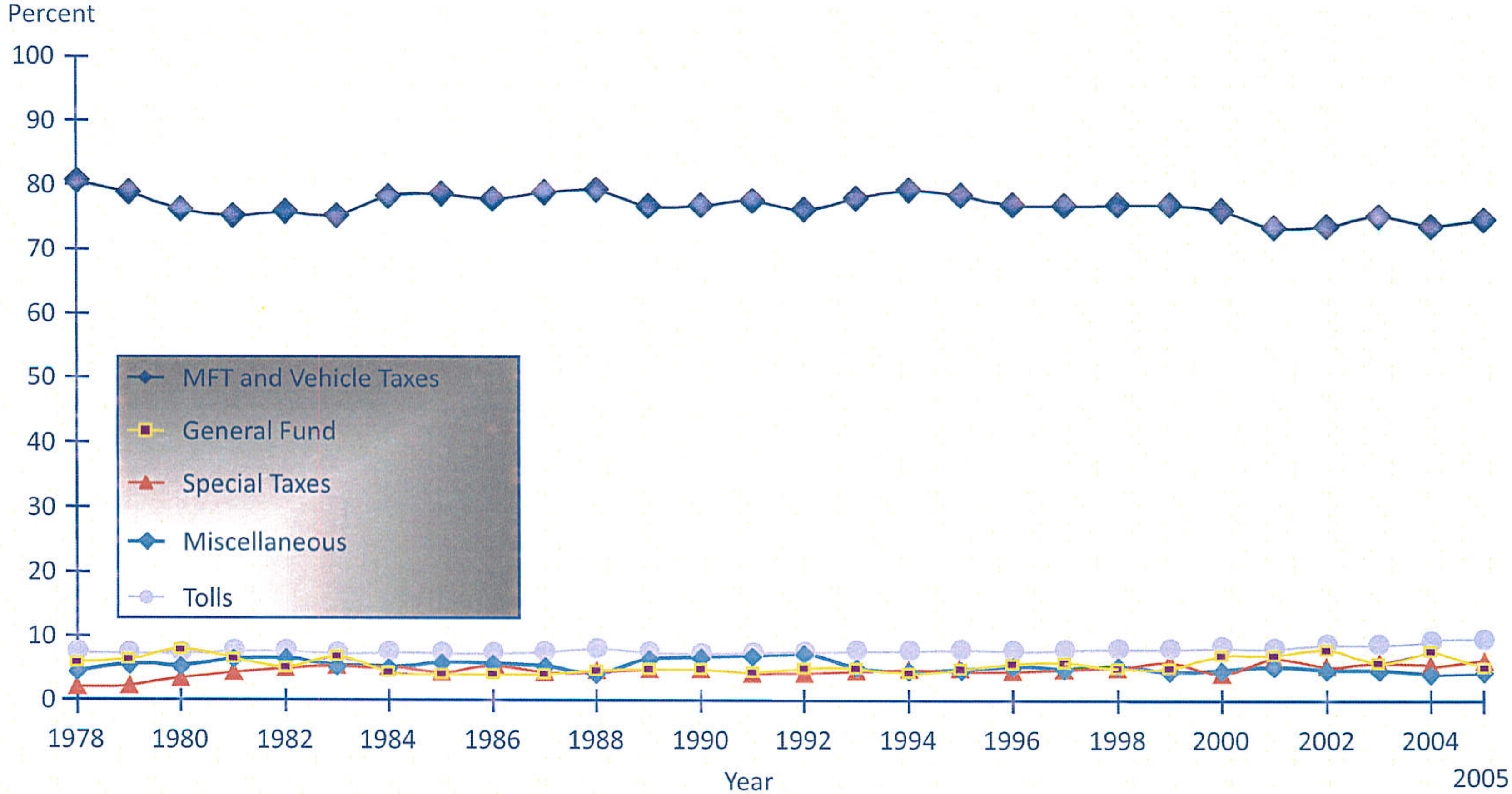
This exhibit shows increases in Highway Trust Fund revenues in current dollars between 1980 and 2005.

Source: *2005 Highway Statistics*, Table FE-210.

1-10

States Also Rely on Fuel and Vehicle Taxes as Mainstay of their Highway Programs

Fiscal Years 1978-2005

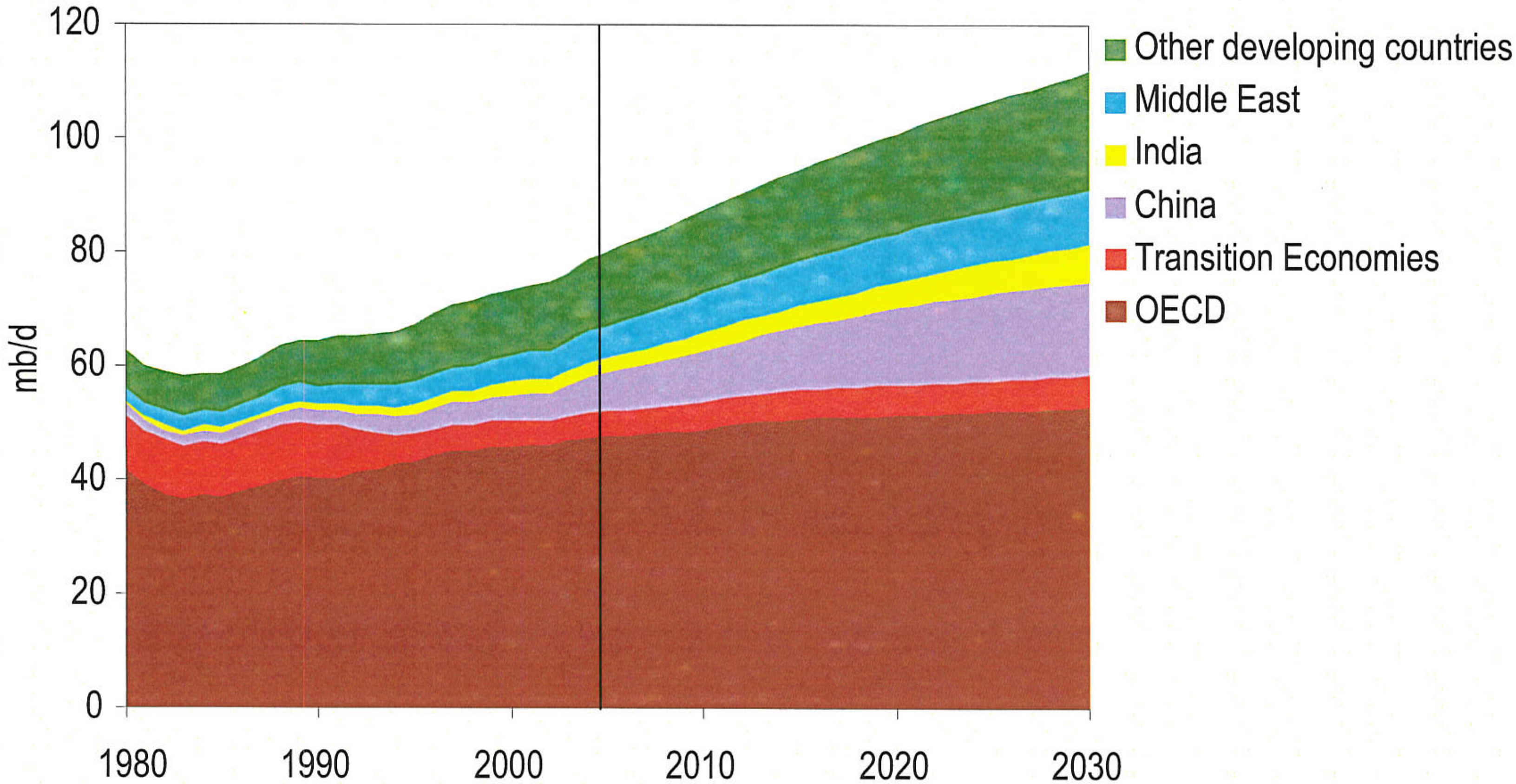


Source: Highway Statistics, Table HF-10.

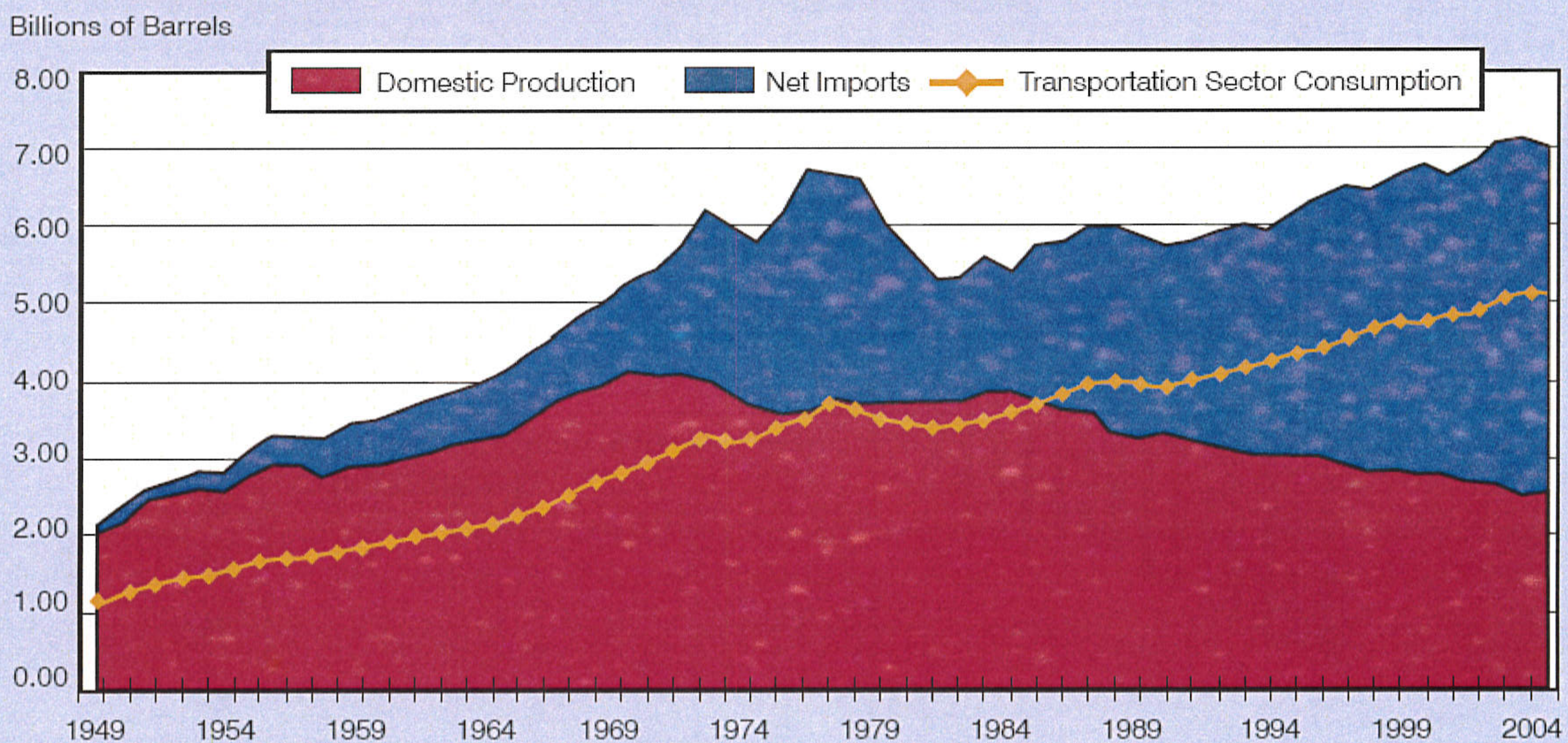
Competition

1-12

IEA WEO 2007 Reference Scenario:
World Oil Demand



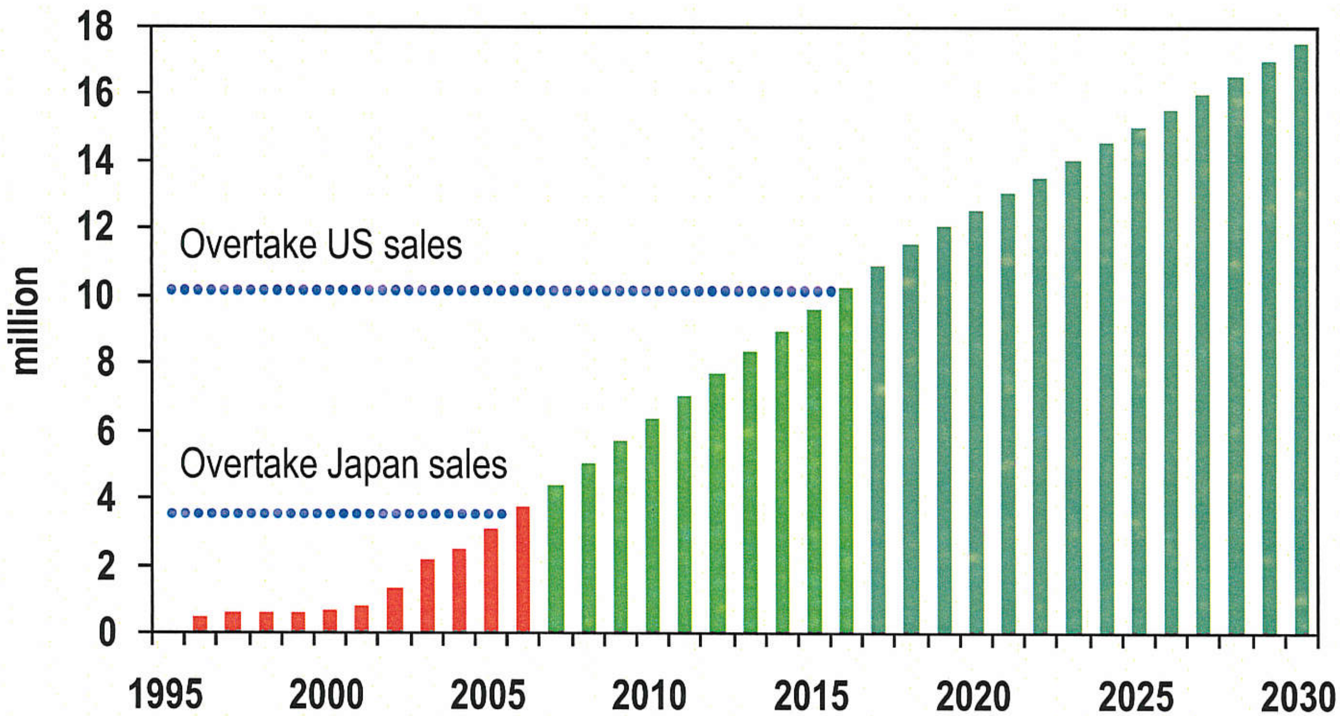
Annual petroleum production, imports, and consumption in the United States, 1949–2006



The chart shows that U.S. petroleum imports have increased rapidly over the last 25 years, as domestic production has declined and consumption has increased, led by the transportation sector.

Source: Energy Information Administration

WEO Projections:
Light-Duty Vehicle Sales in China

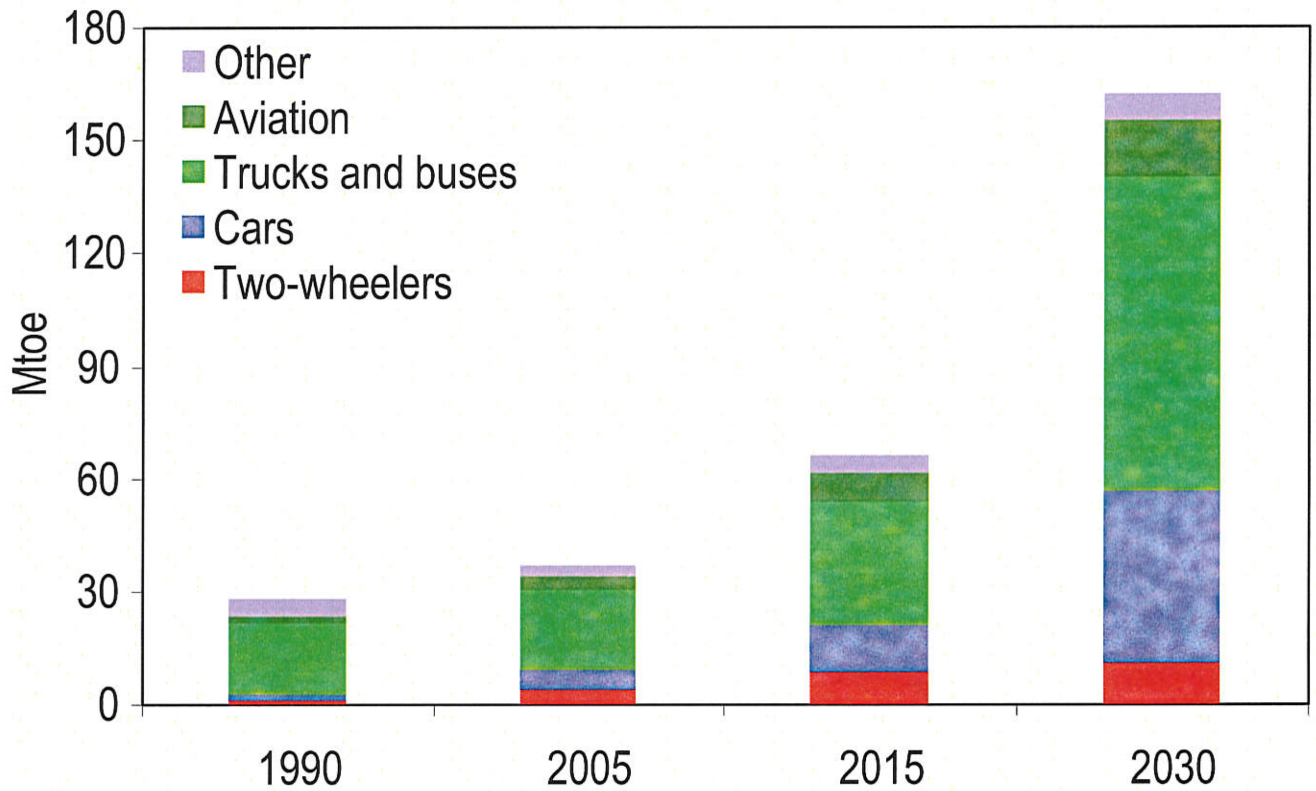


China's oil imports reach 13 mb/d in 2030 as car ownership jumps to 140 per 1 000 people from 20 today

1-15

Reference Scenario:

India's Transport Energy Demand



Transport demand – mostly oil – grows rapidly as car ownership increases in line with rising incomes

Vehicle and Fuel Technologies

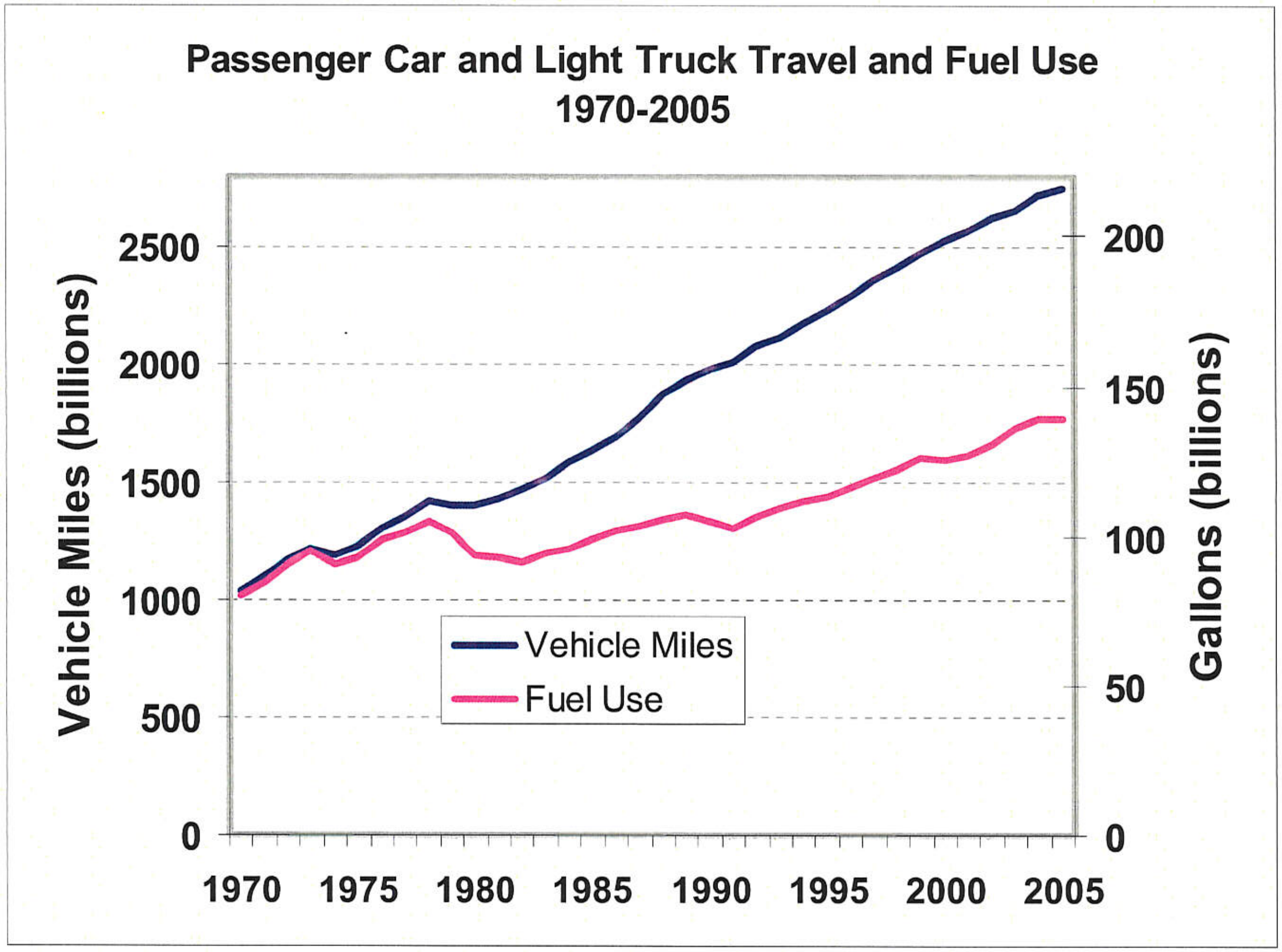
Which are....?

- Fuel economy standards
- Hybrids
- Electric/hydrogen vehicles
- Lighter, yet stronger vehicles

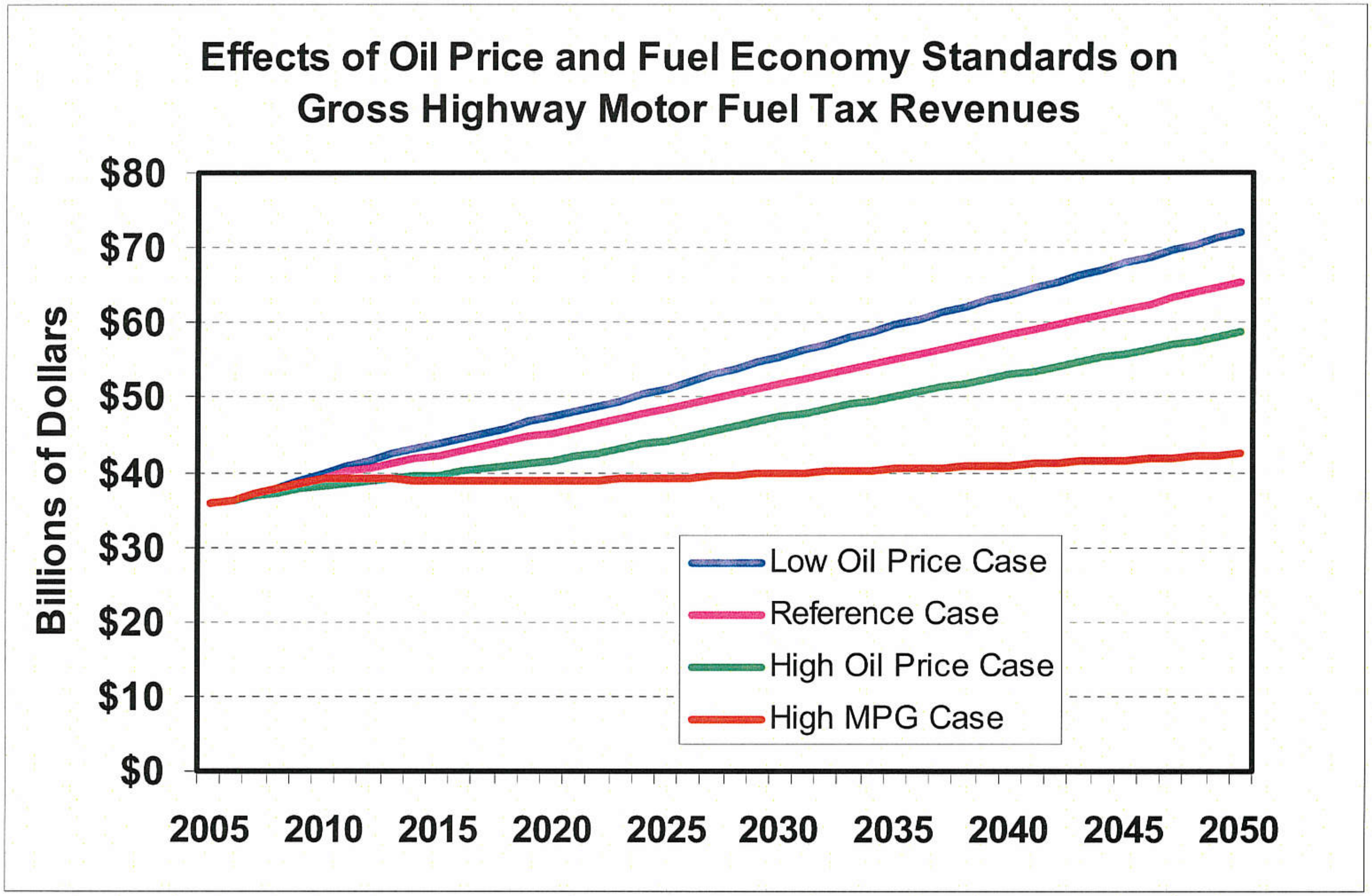
1-18

Fuel Economy Increases Decoupled Vehicle Travel and Fuel Use

Source: U.S. DOT/FHWA (2006, table VM-1)



Potential Impacts of Higher Oil Prices and Fuel Economy Standards on Gross Motor Fuel Tax Revenues.



D. Greene, POTENTIAL IMPACTS OF HIGHER FUEL PRICES AND FUEL ECONOMY STANDARDS ON TRANSPORTATION DEMAND AND SURFACE TRANSPORTATION REVENUES, Jan 2008

1-20

Transportation Research Board Study on *The Fuel Tax and Alternatives for Transportation Funding*

"Fuel consumption per mile could decline 20 percent by 2025."

1-21

Non-partisan National Commission on Energy Policy….

- From 35 mpg in 2017 to 43 mpg for light duty vehicles (+75% increase)
- Displace gasoline with biofuel
- Increase heavy truck fuel economy by 15%

Conclusions from National Studies

"Present finance system can remain viable for at least another 15 years (although unlikely to provide enough revenue to reduce congestion)."

--- TRB

"While there is a growing consensus that alternatives to the fuel tax may be necessary in about 20 years, the fuel tax should remain an important component of surface transportation finance until viable alternatives are found."

National Surface Transportation Policy and Revenue Study Commission, Jan 2008

Revenue Potential of Federal HTF Measures

HTF Sources	Avg. annual revenue	Cumulative rev. 2007-2017
Retroactive Index to 1993 (10 cents)	$25 Billion	$202 Billion
Index fuel tax forward only	$4	$32
Sales tax on fuel (3%)	$12	$98
Sales tax on new vehicles (3%)	$17	$140
HVUT indexing	$3	$21
Exemptions	$1	$12
Interest	$0.5	$5

1-25

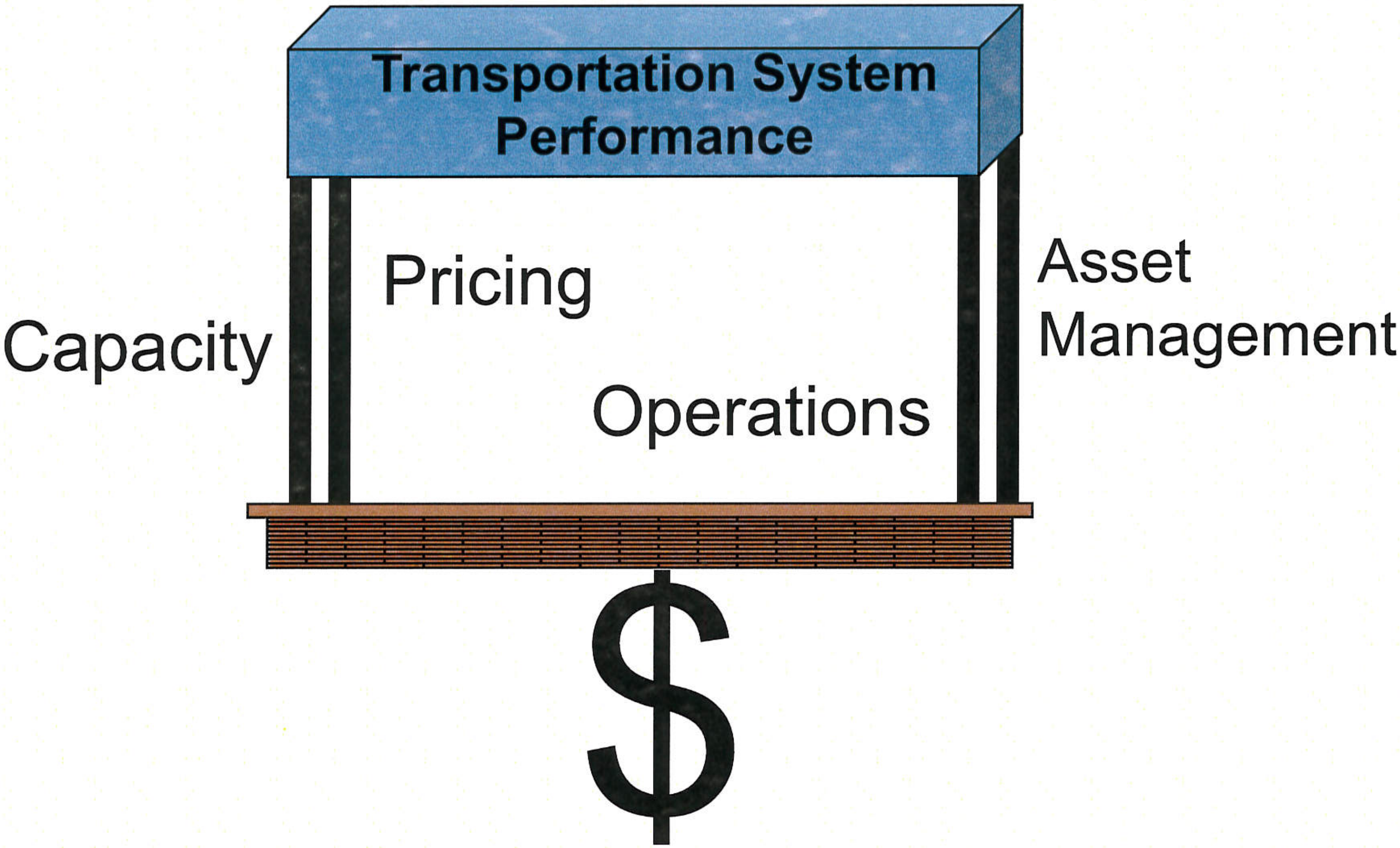
Revenue Potential of State/Local Measures

Sources	Avg. annual revenue	Cumulative rev. 2007-2017
Increase motor fuel taxes for inflation (5 cents)	$8 Billion	$70 Billion
Index state fuel taxes forward	$4	$32
Sales tax on motor fuel (3%)	$10	$94
Dedicate portion of state sales tax for transportation(1/2%)	$10	$108
Additional tolling (above current 5% annual increase)	$1	$10

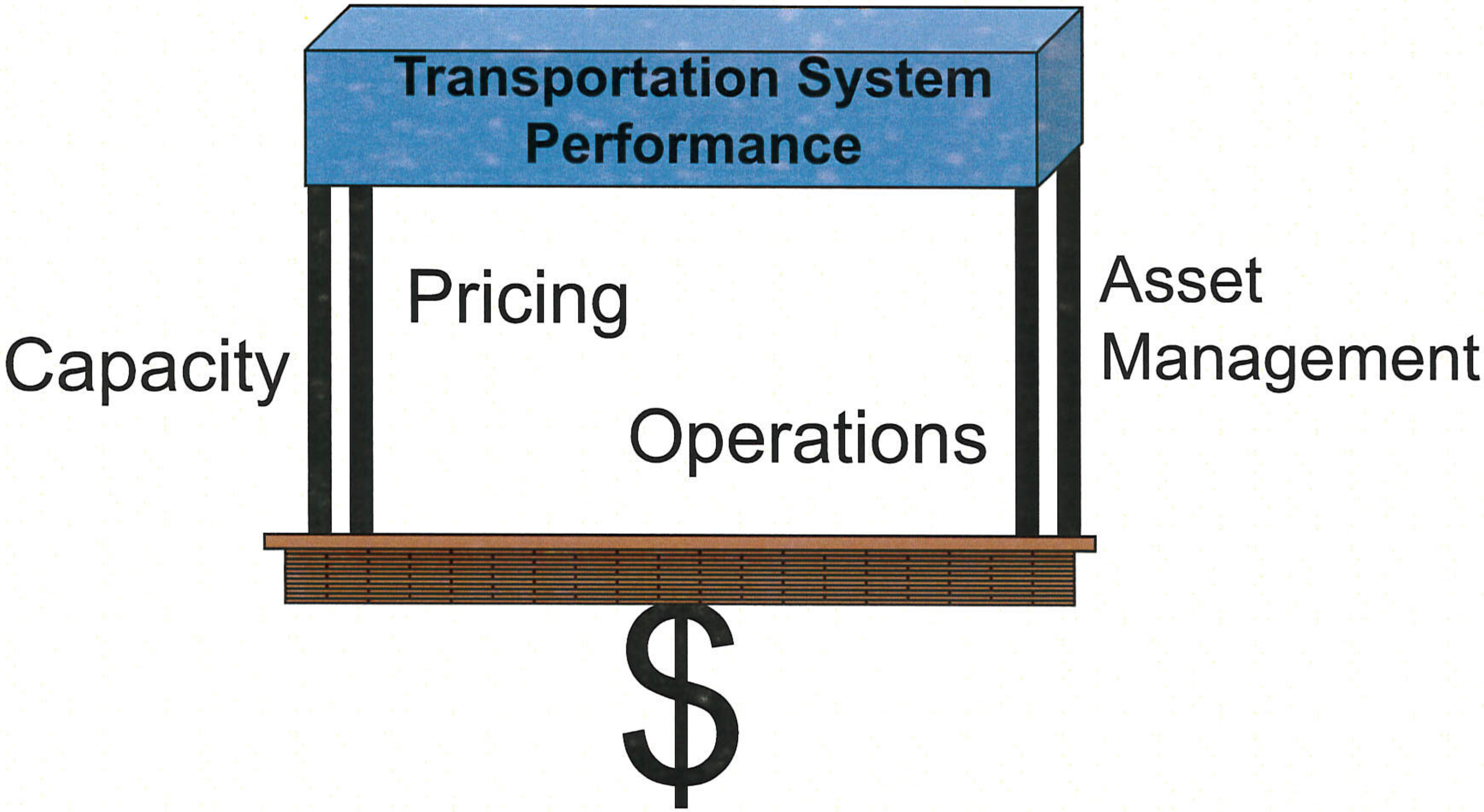
International Examples

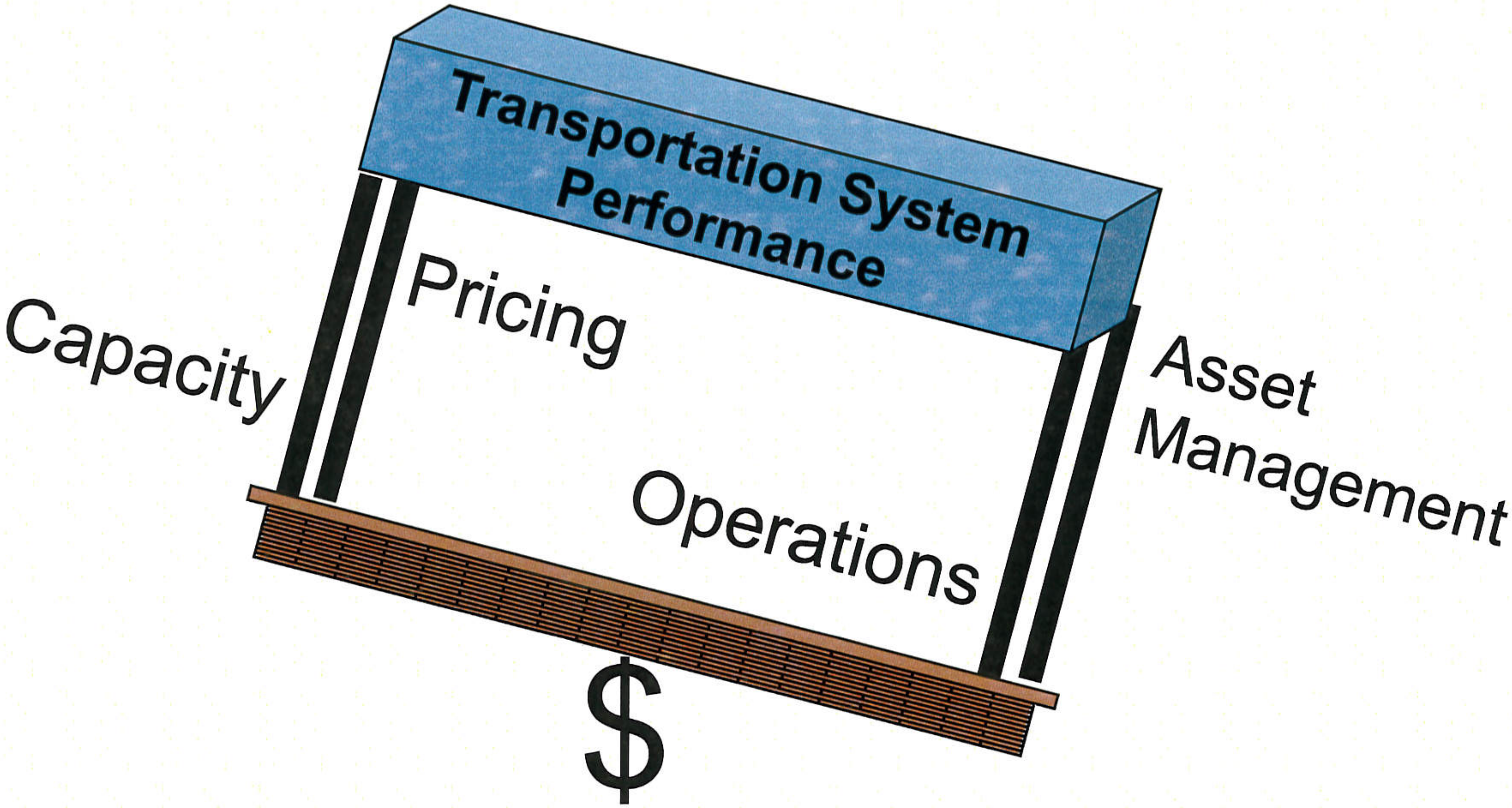
- United Kingdom
- Germany, Austria and The Czech Republic

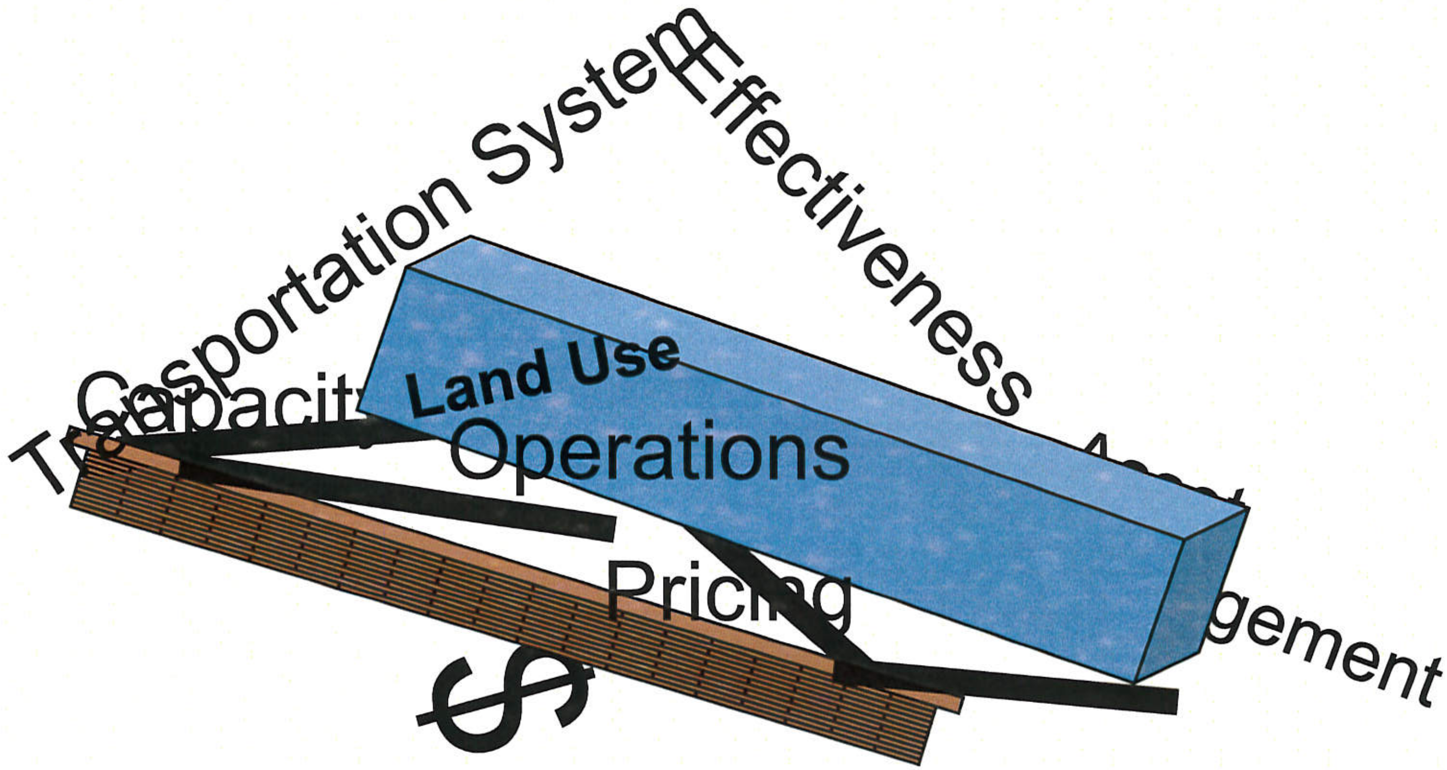
1-27

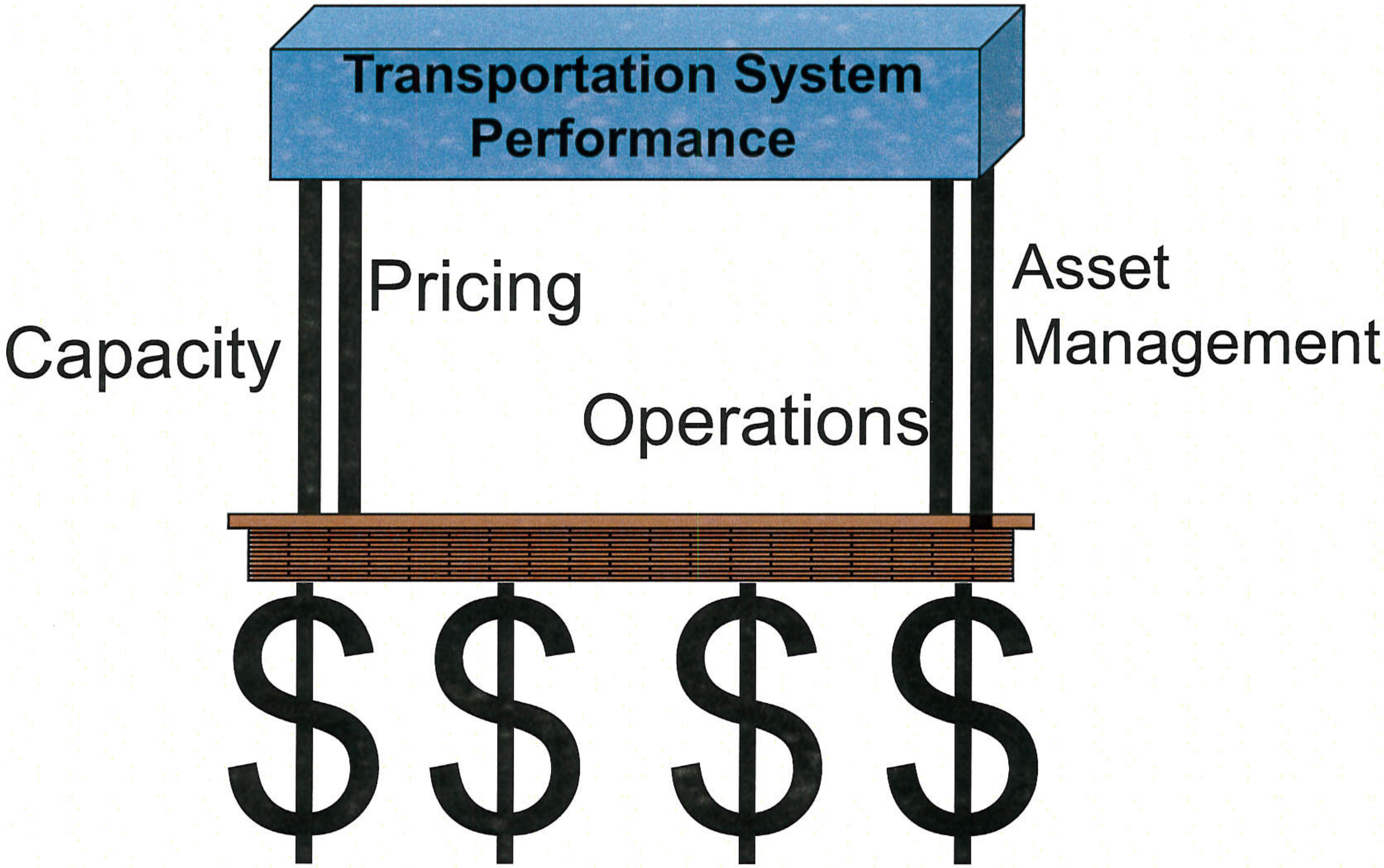

Transportation System Performance
Capacity
Pricing
Operations
Asset Management
$

1-28


Transportation System Performance
Capacity
Pricing
Operations
Asset Management
$


Transportation System Performance
Pricing
Capacity
Asset Management
Operations
$


Transportation System Effectiveness
Capacity
Land Use
Operations
Pricing
$
Asset Management



Menu of transportation financing options

I predict that, in the future, the states with the most stable and reliable financing of their transportation system will have a "menu" of funding sources

"Traditional" Sources

- Motor Fuel Tax
- Regional Motor Fuel Tax
- Sales Tax for Transportation
- CPI-Adjusted Motor Fuel Tax
- Local Option Motor Fuel Tax
- Bonds
- General Funds

More "Innovative" Sources

- State infrastructure bank
- Managed lanes (HOT lanes)
- Tax increment financing
- Benefit assessment districts
- Impact fees
- Developer contributions

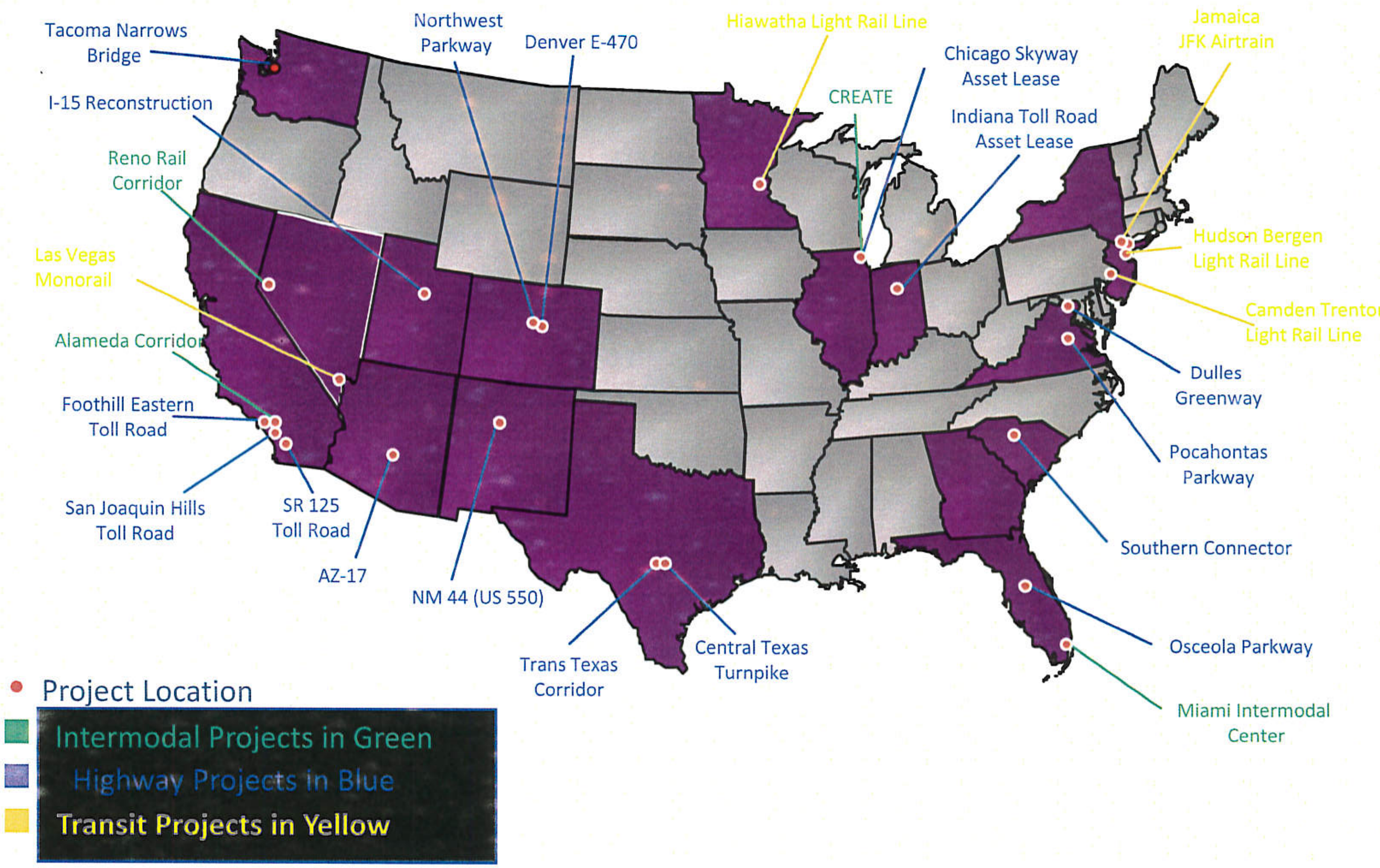
1-35

Public/Private Funding Strategies

- Increased private sector investment
- Public-private partnerships
- Tolling
- Private toll concessions
- Congestion pricing

Recent Public Private Partnerships

States Using PPPs to Help Address Transportation Capital Needs



Partial List of Financed Projects; Source: Public Works Financing.

Mileage-based Fees (or VMT Fee)

THE OREGON MILEAGE FEE CONCEPT

Options in Georgia

- Private investment. Yes, but....
- Public financing options
  - Raise state fuel taxes
  - Allow additional taxes by county or region
  - Impose 1% general sales tax dedicated to transportation
  - Replace $0.075/3% with some % sales tax on fuel
  - Allow two or more counties to pass 1% SPLOST for transportation
  - VMT–based user fee

Conclusions

- Long term → Distance-based fee revenue stream
- Shorter term → Gas tax, with broadening of revenue base
- What should you be doing?

Statement of the U.S. Chamber of Commerce

ON: SURFACE TRANSPORTATION NEEDS AND FUNDING

TO: JOINT MEETING OF HOUSE AND SENATE TAXATION AND TRANSPORTATION COMMITTEES

BY: JANET F. KAVINOKY
U.S. CHAMBER OF COMMERCE

DATE: JANUARY 28, 2008

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96% of the Chamber's members are small businesses with 100 or fewer employees; 70% have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business— manufacturing, retailing, services, construction, wholesaling, and finance—is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. The Chamber believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 96 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Testimony of Janet F. Kavinoky

Director of Transportation Infrastructure, U.S. Chamber of Commerce and Executive Director, Americans for Transportation Mobility Coalition

January 28, 2008

Before the Joint Meeting of House and Senate Taxation and Transportation Committees

Introduction

Distinguished members of the Taxation Committee and Transportation Committee, thank you very much for the opportunity to testify from the perspective of the business community on the investments required to meet the needs of our nation's transportation system and specifically, highway, and public transportation infrastructure.

My name is Janet Kavinoky, and I am the Director of Transportation Infrastructure at the U.S. Chamber of Commerce and the Executive Director of the Americans for Transportation Mobility Coalition. The U.S. Chamber is the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region.

Over the past several months the nation has seen abundant evidence that America's infrastructure is not only showing its age, but showing that it lacks capacity to handle the volume of people and goods moving today. From exploding steam pipes under New York streets, to record level flight delays in the skies across the country, it is evident that now is the time to move on a robust, thoughtful, and comprehensive plan to build, maintain, and fund a world-class 21^{st} century infrastructure. There can be no more delay.

We—Congress, state and local governments, and the private sector—cannot treat infrastructure like other problems or programs where you can wait until the very last minute and then write a big check. Infrastructure projects require foresight and years of careful planning.

The Chamber appreciates the opportunity to provide the "user's perspective" and will emphasize just how critical America's transportation infrastructure is to the businesses that rely on fast, cost effective, and reliable transportation of goods and people.

This testimony covers three topics:

1. The role of transportation in our economy;
2. What is at stake from the business community's perspective; and
3. What should be done.

The Role of Transportation in our Economy

Freight and Goods Movement

Manufactured goods and cargo move through the United States on a system primarily consisting of ports, roads, rail, and inland waterways. On a typical day about 43 million tons of goods valued at $29 billion, moved nearly 12 billion ton-miles on the nation's interconnected transportation network. Bridges serve as critical links in the system. The supply chain is viewed from initial point of origin to the final destination, with frequent junctures in between. To keep competitive domestically and internationally, many U.S. businesses have developed complex logistics systems to minimize inventory and ensure maximum efficiency of their supply chains. However, as congestion increases throughout the U.S. transportation system, these supply chains and cargo shipments are frequently disrupted and the cost of doing business increases.

The growth in international trade is overwhelming U.S. intermodal freight capacity. Over the next 30 years, domestic freight volume is forecast to double and international freight volume entering U.S. ports may quadruple, according to the American Association of State Highway and Transportation Officials (AASHTO).

According to the Federal Highway Administration's (FHWA) recent report, *An Initial Assessment of Freight Bottlenecks on Highways,* "If the U.S. economy grows at a conservative annual rate of 2.5 to 3% over the next 20 years, domestic freight tonnage will almost double and the volume of freight moving through the largest international gateways may triple or quadruple.... Without new strategies to increase capacity, congestion...may impose an unacceptably high cost on the nation's economy and productivity."

Labor shortages and increased security requirements born from 9/11 are compounding these capacity constraints and increasing congestion at key entry, exit, and throughput points throughout the country.

In Memphis, TN, at a hearing of the National Surface Transportation Policy and Revenue Study Commission, on November 15, 2006, Doug Duncan, CEO of FedEx Freight and a Chamber member, summed up the freight community's acute interest in infrastructure: "I'm afraid if things don't turn around soon, we'll begin turning the clock back on many of the improvements that these supply chains have made and begin to restrain commerce instead of support commerce."

Passenger Transportation and Personal Mobility

Employers rely on transportation systems to connect them to their workforce, and to connect that workforce with suppliers and customers around the country and the world. Unfortunately, increasing congestion is disrupting these important connections and imposing additional costs on the workforce and employers alike.

Public transportation, such as buses, rapid transit, and commuter rail systems, are important solutions to the growing congestion crisis in the United States, but chronic underinvestment is leaving these systems strained under increasing use. Americans took 10.1 billion trips on local public transportation in 2006. From 1995 through 2006, public transportation ridership increased by 30%, a growth rate higher than the 12% increase in U.S. population and higher than the 24% growth in use of the nation's highways over the same period. The Federal Transit Administration (FTA) estimates $14.8 billion is needed annually to maintain current conditions, while $20.6 billion is needed to improve to "good" conditions.

What is at Stake

What's at stake is simple and stark:

As Caterpillar Group President, and former Chamber Chairman, Gerry Shaheen, stated at the New York field hearing of the National Surface Transportation Policy and Revenue Study Commission on November 15, 2006: "Transportation in this country is breaking down."

If we fail to address our transportation infrastructure challenges, we will lose jobs and industries to other nations. Our global competitors are building and rebuilding while America is standing still. China, India, and the developing world are building at a staggering pace. China spends 9% of its GDP on infrastructure; India, 5% and rising. While they started well behind us, they are catching up fast. The United States has spent less than 2% on average as a percentage of GDP since 1980. We cannot expect to remain competitive with that level of investment.

If we fail to act, we will pollute our air and destroy the free, mobile way of life we cherish. Thirty-six percent of America's major urban highways are congested. Congestion costs drivers $78 billion a year in wasted time and fuel costs. Americans spend 4.2 billion hours a year stuck in traffic. And while their car engines are idling, they are pumping thousands of tons of pollution into the air every day.

If we fail to increase investment, we *will* see more senseless deaths on our bridges and roads, not to mention on our rails and waterways. Americans need to know that 33% of our major roads are in poor or mediocre condition. Shoddy road conditions result in $67 billion in extra vehicle repairs and operating costs per year. More important, poorly maintained roads contribute to a third of all highway fatalities. That's more than 14,000 deaths every year—a national disgrace.

It is all likely to get much worse. We have a system that is overworked, under-funded, increasingly unsafe, and without a strategic vision.

According to Transportation Research Board's (TRB) National Cooperative Highway Research Program's (NCHRP) study *Future Financing Options to Meet Highway and Transit Needs*, there is an average annual gap of over $50 billion in capital, operations and maintenance funding to maintain the nation's highway and transit systems from 2007 to 2017, and an average annual gap of over $100 billion to "improve" these systems.

The cost of materials used to fix pavements has increased 33% in the past three years. Steel, oil, and concrete are all more expensive.

Yet despite these growing needs and costs, the Highway Trust Fund will be $4 billion in the hole in just two years, and the user fees on fuels that are the primary source of resources at the federal level have not been increased since 1993.

These figures do not even address other critical elements of our transportation infrastructure, freight and passenger rail, inland waterways, ports and other maritime needs, and, of course, aviation. The American Society of Civil Engineers says that our civil infrastructure needs add up to some $1.6 trillion over the next five years including transportation systems, clean water and wastewater facilities, schools and recreational facilities.

How did we arrive at the situation we face today?

Decades ago we built the best infrastructure system the world has ever known and then proceeded to take it for granted. As a nation, we've allowed governments at all levels to pile on complex and overlapping regulations. It takes years, even decades, to bring projects on line. Red tape and lawsuits can bring the most common sense improvements to a grinding halt.

Decision-makers have refused to make tough choices or set common sense priorities. We have failed to plan, failed to innovate, and failed to invest. We've allowed money to be wasted and have permitted federal and state lawmakers to divert infrastructure dollars to other purposes. We've seen construction and land costs go up while letting revenue sources stagnate and decline.

Where We Go From Here

This country's current approach to delivering transportation infrastructure is not set up for today's robust economy or the economy of the future.

In spite of the multi-modal and intermodal needs of transportation system users, the planning, construction, and financing of infrastructure has been separated by public and private entities and has focused on individual locations and modal stovepipes. It is time to address these issues and create a new era in transportation.

The Chamber believes that this next era in surface transportation requires a multi-modal and intermodal vision that supports competition in the global economy and emphasizes the important role of the federal government.

We need a national plan. As House Committee on Transportation and Infrastructure Ranking Republican Member John Mica (R-FL-07) aptly articulated in an Op-Ed in *The Hill* earlier this year, "[T]he federal government must take a lead role in developing a national strategic transportation plan for the next 50 years that makes the most efficient use of every transportation mode and incorporates the expertise and resources of both private and public sectors."

Every level of government must step up to the plate and make commitments to expand capacity through better utilization of existing infrastructure and creation of additional infrastructure. The federal government, however, bears a significant part of the responsibility when ensuring that:

- National needs are met;
- Legacy assets, including the Interstate Highway System, are maintained and improved to guarantee continued nationwide connectivity;
- Utilization of existing networks is maximized; and
- Infrastructure investment is aligned with the needs that arise from the global economy, trade policies, and the flow of interstate commerce. There is a federal role in prioritizing investment in new capacity and operational improvements in global gateways and trade corridors.

The federal government must perform a critical role:

- Working through difficult intergovernmental relationships;
- Providing resources for complex, multi-state or multi-jurisdictional projects; and
- Encouraging the public and private sectors to pursue innovations that improve infrastructure performance, financing, or development.

Need for a Comprehensive Approach

The I-35W bridge collapse last August shone a spotlight on the state of the nation's bridges, which are critical components of the nation's transportation network. For example, South Carolina alone has a $2.9 billion bridge-repair backlog. It is important to recognize that the nation has a much larger infrastructure problem. The poor condition of the nation's infrastructure is not confined to bridges alone. As I outlined earlier, the business community looks holistically at transportation infrastructure. So, in addition to bridges we must address:

- *Road Congestion*
  Traffic has already shot up 40% between 1990 and 2005 and is expected to skyrocket in coming years while capacity has increased just 2%.
- *Overburdened Transit System*
  Our transit systems earned a D+ rating from the American Society of Civil Engineers. Transit investment is falling even as transit use increased faster than any other mode of transportation—up 21%—between 1993 and 2002. According to the U.S. Department of Transportation's (USDOT) *2006 Conditions and Performance Report*, the percentage of elevated transit structures in adequate or better condition decreased from 91% in 2002 to 84% in 2004, and the percentage in substandard or worse

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condition increased from 9 to 16%.

AASHTO has estimated that intercity passenger rail corridors will require $60 billion in capital investment over the next 20 years to maintain existing infrastructure and to expand capacity.

- *Antiquated Air Traffic Control System*
  The current air traffic control system is a contributing factor to a third of all U.S. flights being cancelled or delayed in July 2007. U.S. airlines could have one billion customers by 2015 and more passengers mean more planes. The use of smaller regional jets and the growth in business and general aviation are also factors in congestion. The costs of inaction are steep—aviation delays cost $9 billion in 2000 and are on target to hit more than $30 billion by 2015. There is also the cost no one likes to talk about—the potential for significant loss of life in midair or on overcrowded runways.

- *Crowded Ports*
  Ports are straining under the weight of cargo volumes that are doubling or tripling. By 2020, every major U.S. container port is projected to at least double the volume of cargo it was designed to handle. Select East Coast ports will triple in volume, and some West Coast ports will quadruple.

- *Increasing amount of freight*
  Rail infrastructure requires nearly $200 billion over the next 20 years to maintain existing infrastructure and to accommodate freight growth.

- *Crumbling Inland Waterways*
  Our inland waterways need serious attention—removing obstructions, widening channels, and replacing locks. The number of dams deemed unsafe by our civil engineers has risen 33% to more than 3,500 since 1998.

In order to improve the free flow of goods every level of government should work to:

- Improve road connections between ports and intermodal freight facilities and the national highway system;
- Improve connectivity and capacity so that railroads can efficiently and reliably move cargo between ports and inland points;
- Develop a national intermodal transportation network so that cargo can flow at speed among multiple alternative routes; and
- Help prioritize infrastructure improvements of long-term network plans and projects of national significance and then reserve funding for such projects.

Funding and Financing

At the federal level, user fees on fuel, truck sales, and heavy vehicle use are the principal sources of revenue for the Highway Trust Fund. Public transportation is funded on a pay-as-you-

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go basis with a combination of user fees and general funds. At the state and local levels, a myriad of funding sources are used, and sometimes those revenue streams are leveraged through financing structures that include both public and private debt and equity investment. The National Cooperative Highway Research Program's (NCHRP) report *Future Financing Options to Meet Highway and Transit Needs* effectively summarizes revenue sources used across the country and is a good resource for the Committees. When it comes to funding and financing our national transportation system, the Chamber believes that every option must be considered to address the enormous problems of the aging transportation infrastructure.

The Chamber is pleased with the overall analysis of our nation's transportation infrastructure system in the National Surface Transportation Policy and Revenue Study Commission report released on January 15, 2008. "We wholeheartedly agree that continued underinvestment and business-as-usual transportation policies and programs will have a detrimental impact on the ability of the United States to compete in the world economy and on the everyday lives of Americans," said Chamber President and CEO Thomas J. Donohue. In the coming weeks, the Chamber will examine the recommendations closely and evaluate whether these changes will enable the U.S. transportation system to adapt and meet the needs of an evolving global economy.

In addition, we believe that the forthcoming findings of the National Transportation Infrastructure Financing Commission could also add to the debate on the federal role in the future of surface transportation program and project delivery in this country. Even without the findings of this Commission, the Chamber is confident in the case for increasing the systemic funding available for capital investment in infrastructure. In 2005, a National Chamber Foundation report titled *Future Highway and Public Transportation Financing Study* concluded as much, and several subsequent studies including USDOT's own *Conditions and Performance Report* quantify the significant gap between needs and available resources.

It is clear that chronic underinvestment is a major contributing factor to the problems across all modes of transportation; however, misuse of funding, a lack of resource prioritization, and poor comprehensive planning must also be addressed. As the U.S. Congress prepares for SAFETEA-LU reauthorization, the Chamber will continue to encourage Congress to spend infrastructure dollars more wisely, invest in new technologies, attract more private investment for projects, encourage public-private partnerships at the state and local levels, ensure that states do not divert their transportation funding away from its intended use in the name of "flexibility."

Highway Trust Fund Shortfall

As I briefly mentioned earlier, a Highway Trust Fund shortfall is expected in fiscal year 2009. SAFETEA-LU guaranteed at least $223 billion for federal highway program investments through FY2009. This investment level was predicated on a forecast of anticipated revenues collected for the Highway Trust Fund's Highway Account over the life of SAFETEA-LU.

The Bush Administration and the Congressional Budget Office now forecast that revenues for the Highway Account will fall short of meeting these commitments by between $4.3 and $5.0 billion during FY2009, the last year of SAFETEA-LU authorizations. As a result of the multi-year outlay pattern of the Highway Trust Fund, the resulting cut in the 2009 Federal-

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aid Highway Program would be much larger than this shortfall—approximately four times larger.

The nation's highway system has significant capital, operating, and maintenance needs and state departments of transportation and metropolitan planning organizations have developed long term transportation investment plans based on anticipated SAFETEA-LU guaranteed funding levels. As such a reduction in funds would disrupt projects already underway.

Therefore, as a result, we have strongly encouraged Congress to ensure that Highway Trust Fund revenues are sufficient to support the guaranteed funding levels in SAFETEA-LU. Congress should not ensure the solvency of the Highway Trust Fund by cutting obligation limitation for the Federal-aid Highway Program.

The Chamber's Commitment: Let's Rebuild America

Permit me to address briefly what the nation must do to meet the enormous and urgent challenge that I have just outlined and tell you what the Chamber intends to do.

Those of us who have worked on infrastructure for many years have learned that on this issue, public attention spans are short. Government decision making is slow and diffuse. Politicians rarely look beyond the needs of their own states and districts. The news media mostly yawn unless there is a tragedy.

If we really want to move this country off the dime and build a modern and safe infrastructure, then the business community must step up to the plate and lead.

The Chamber is organizing, funding, and leading this critical effort. We have already launched a major, multimillion dollar initiative called "Let's Rebuild America."

We are putting money, people, research, programs, and strong political action around a sustained, long-term campaign to rebuild the economic platform of our nation. We are employing every resource at our disposal—our policy expertise, our lobbying clout, our grassroots capabilities, and our communications channels. We are appealing to all Americans who are sick of pollution, tired of congestion, fed up with rising costs, and concerned about their own safety.

To succeed, we need all transportation and infrastructure stakeholders at the table—all modes, all industries, builders, carriers, users, and shippers alike. It is time for us all to roll up our sleeves and go to work. The business community will lead this effort, but to do so all of the infrastructure providers, passenger and freight carriers, and the traveling public and shippers must be united. We must put an end to the intramural squabbles that have divided stakeholders—mode versus mode, shipper versus carrier, urban versus rural, and region versus region. We will all lose unless we rally and unite around an urgent and compelling mission—to rebuild America.

Four key goals will define the mission and underpin the work of our Let's Rebuild America initiative.

Documenting the Problem with Solid, Indisputable Research

First, the Chamber will document in a factual and comprehensive way the totality of America's infrastructure needs—not just what is required to patch things up, but what we must do to move our country and economy forward in a competitive world.

Our experience tells us that putting a credible body of facts on the table and gaining widespread agreement on those facts are critical first steps to forging consensus and forcing action.

We have joined with others in asking the RAND Corporation to prepare a definitive report that documents the current state of our infrastructure and outlines the future needs of a $13 trillion economy that will grow to $20 trillion by 2020, given a 3% average annual growth rate. Researchers will also break out their findings state-by-state so that we can put an infrastructure report card in front of every governor and state legislature in the country. Perhaps, then, they *will* see the light—and feel the heat!

Educating Americans about the Benefits of Infrastructure and the Cost of Failure

Second, the Chamber will educate the public, the business community, policymakers, and government at all levels about the benefits of investing in infrastructure and the cost of failure.

Using the RAND study and other research—and backed by an aggressive communications program—we will widely disseminate a series of compelling messages to build grassroots support for infrastructure.

The people of our country must know, and be reminded again and again, that we can create good American jobs, clean the air, succeed in a global economy, preserve a good quality of life, and save innocent lives by investing in our infrastructure.

Spurring Private Investment in Infrastructure

Third, the Chamber will unleash and unlock the potentially hundreds of billions of dollars in private investment just waiting to be spent on critically needed power plants, pipelines, refineries, transmission lines, broadband lines, port facilities, railroads, airports, and privately constructed roadways.

The money is there—ready, willing, and able—*if* government and regulators would just get out of the way.

No one objects to timely environmental reviews, and we all support strong health and safety protections. But the red tape, lawsuits, and mind-numbing regulations we have imposed on our infrastructure systems and transportation modes defy common sense.

The Chamber's Let's Rebuild America initiative will identify and seek to reform those rules and policies that threaten the efficiency of our logistics system and obstruct positive investments in our nation's future.

Fostering an Honest Dialogue on Public Financing

Yet even with these approaches, there is no question that as a nation, we are going to have to find and invest more public dollars in our infrastructure.

As its fourth goal, the Chamber will foster an honest national dialogue on how and where we are going to find the public money to meet critical infrastructure needs. There is no single answer to that question—and that's good. It means we have options, but *all* the options must be on the table.

First, we must do more to ensure that public dollars are spent wisely. That means ending waste and targeting the highest priority projects. It means a sensible mix of projects based on actual needs and not on politics or ideologies—for example, more road construction in some communities, more investment in mass transit in others.

It also means ending the practice of diverting money intended for infrastructure to other programs. Politicians should start paying a price when they skim money from dedicated transportation funds to pay for projects of their own choosing. It breaks trust with the taxpayers who expect their user fees to go toward their intended purposes.

Both the federal and state governments are guilty of this practice. U.S. Secretary of Transportation Mary Peters says that only 60% of federal highway funds actually are spent on "core" needs—highways and bridges. In Texas, the legislature's budget for the next two fiscal years will divert $1.6 billion in infrastructure funding to other needs. That amount is up 15% from the previous budget cycle and a major step in the wrong direction. And Texas is hardly alone among the states.

The Federal Aviation Administration is even poaching its capital budget to pay for operations. That's shortsighted, dangerous, and wrong.

In addition to cutting waste and ensuring that infrastructure dollars are spent as promised, we can also stretch public dollars by tapping the growing interest in public-private partnerships and other innovative financing arrangements.

Then, we are going to have to face this fundamental fact—we are a growing people and a growing country with aging infrastructure. We have to fix what we have, and then, if we want a new road, a new runway, or a new transit system, we've got to buy it. No one is giving them away for free.

Therefore, along with other options, we are going to have to consider an increase in the federal gasoline user fee. This could take the form of a straightforward increase in a fee that hasn't been raised in 15 years—as long as the proceeds are dedicated to transportation.

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Conclusion

The Chamber will tell a compelling story so that policy makers spur private investment by removing regulatory roadblocks, embracing innovation and technology, and supporting increases of public investment in infrastructure along with measures to ensure that the money is spent wisely and efficiently.

The question facing America is this: Are we still a nation of builders? Are we still a can-do society? Are we still the kind of people who can rally to a great cause with a shared sense of mission and national purpose?

It's worth recalling that after the great wars of the last century, the challenge facing America was to rebuild *other* countries, countries that were in ruins—even our former enemies. And we did it. Our challenge today is to rebuild our *own* country—a country that is hardly in ruins, but which has serious unmet needs.

Surely we ought to be able to create the vision, forge the consensus, secure the resources, and find the political courage to make this happen.

I believe that we can, and I believe that we will. And business must lead the way.

Members of the Committees, thank you very much for the opportunity to be here today. I'll be happy to answer any questions you may have.

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HS Taxation
1-28-08
Attachment 3

Long Term Viability of the Motor Fuels Tax

Joint Meeting of the House and Senate Tax and Transportation Committees

Deb Miller, Secretary
Kansas Department of Transportation
January 28, 2008

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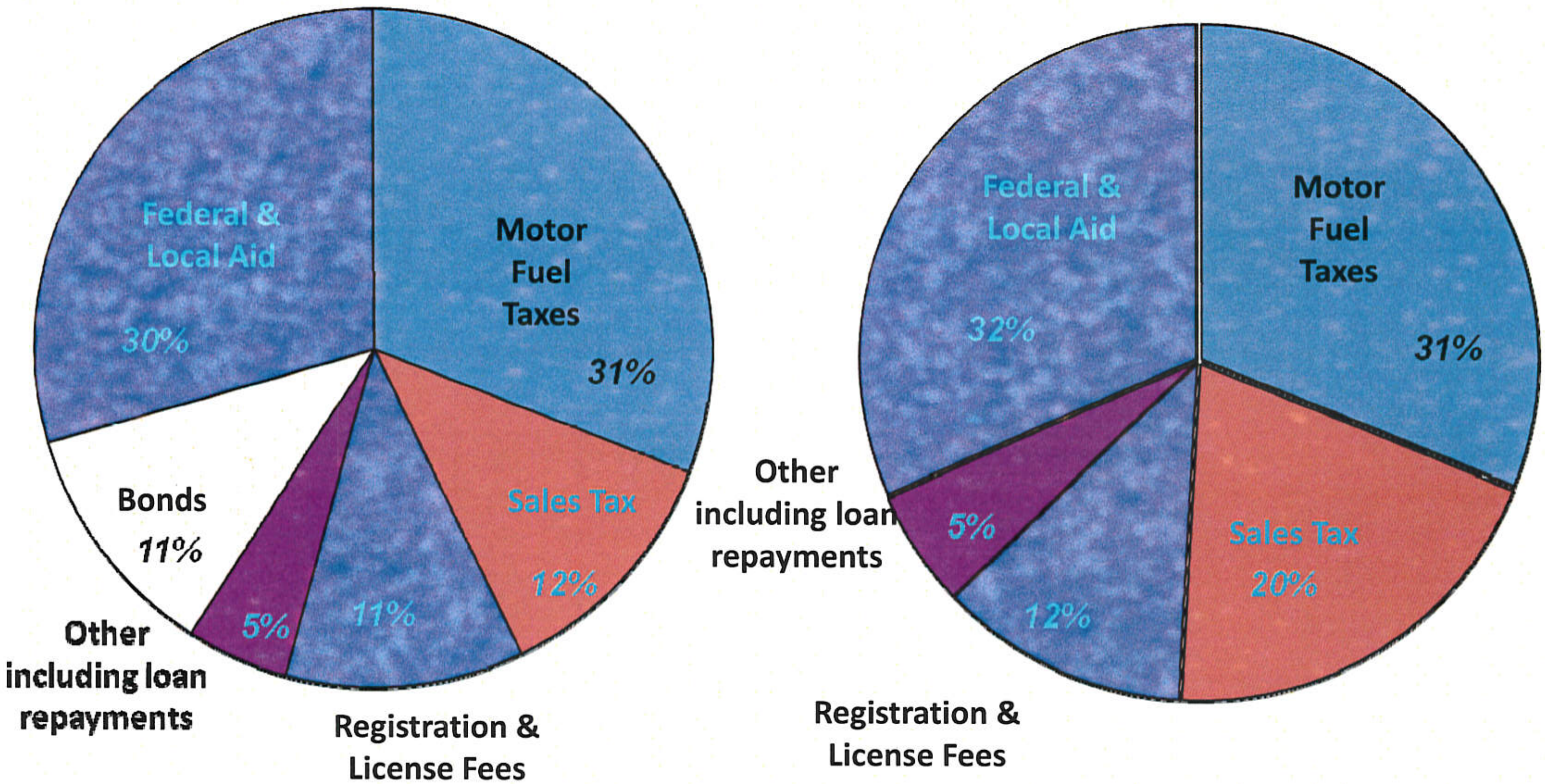
Sources of Kansas Department of Transportation Funding



CTP 2000-2009

FY 2009

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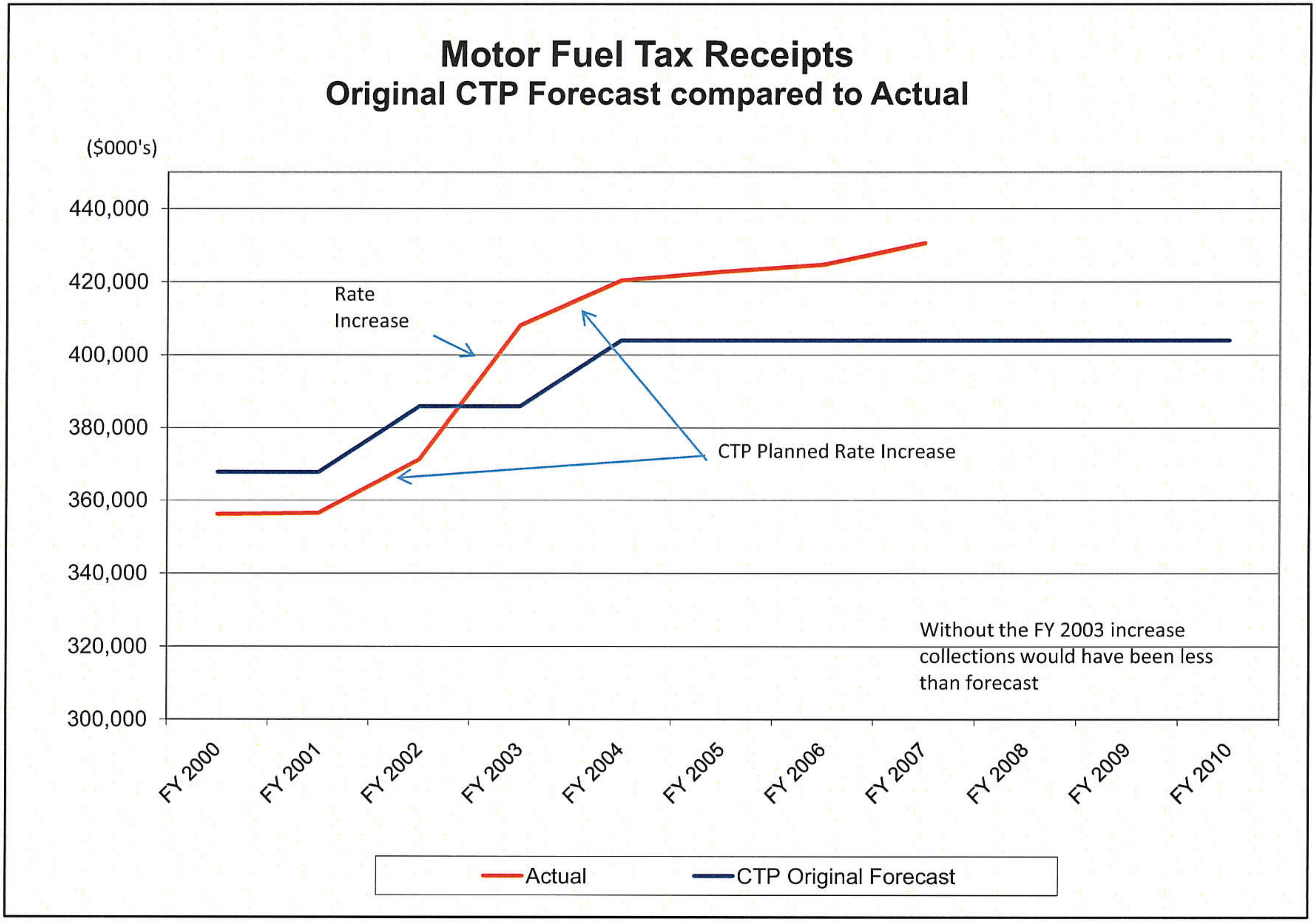

Motor Fuel Tax Receipts
Original CTP Forecast compared to Actual
($000's)
440,000
420,000
400,000
380,000
360,000
340,000
320,000
300,000
Rate Increase
CTP Planned Rate Increase
Without the FY 2003 increase collections would have been less than forecast
FY 2000
FY 2001
FY 2002
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
Actual
CTP Original Forecast

Motor Fuels Tax – Comparisons

	Gasoline & Special Fuels	Diesel
Kansas Rate	24.0/gal	26.0/gal
National Average	28.5/gal	28.5/gal
Regional Average	27.5/gal	28.0/gal

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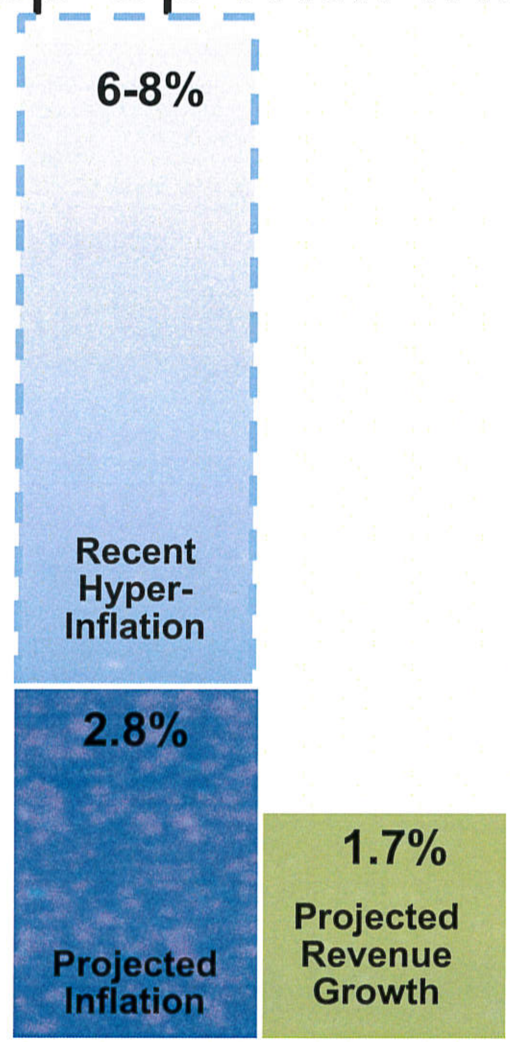
Projected Revenues Don't Keep Up with Inflation



Impact of Inflation (2.8%) on Revenues

(figures in millions of 2006 dollars)

	Projected Annual Revenues		
Funding Mechanism	**2010**	**2030**	**Difference**
Federal Funding	$386	$276	$110
State Motor Fuels Taxes	**$408**	**$297**	**$111**
State License and Registration Fees	$161	$138	$23
State Sales Tax Revenues	$275	$339	$64
Net Local Revenues	$337	$238	$99
Total	**$1,567**	**$1,288**	**$279**

Transportation – Critical to Economy

"….We have learned that every successful economic development proposal in Kansas includes transportation. Our ability to move people and goods throughout our state and to market is an essential component of future growth."

Governor Kathleen Sebelius

2008 State of the State Address

January 14, 2008