S. HRG. 105–367

ISTEA: REAUTHORIZING TRANSPORTATION PROGRAMS FOR SIX MONTHS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

OF THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

ON

THE INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT OF 1991 (ISTEA): A PROPOSAL TO EXTEND AUTHORITY FOR SIX MONTHS IN THE ABSENCE OF A PERMANENT MULTI-YEAR REAUTHORIZATION

NOVEMBER 4, 1997

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ISTEA: REAUTHORIZING TRANSPORTATION PROGRAMS FOR SIX MONTHS

TUESDAY, NOVEMBER 4, 1997,

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
SUBCOMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC

The subcommittee met, pursuant to notice, at 9:32 a.m. in room 406, Senate Dirksen Building, Hon. John W. Warner (chairman of the subcommittee) presiding.

Present: Senators Warner, Chafee, Kempthorne, Bond, Sessions, Thomas, Smith, Baucus, Reid, Lautenberg, Boxer, and Graham.

OPENING STATEMENT OF HON. JOHN W. WARNER, U.S. SENATOR FROM THE COMMONWEALTH OF VIRGINIA

Senator WARNER. Good morning, everyone.

First, I wish to express my appreciation to our distinguished chairman. I approached him a week or so ago after the fourth cloture vote we failed to get up what I regarded—past tense—and still regard and always will regard as a landmark piece of opposed legislation developed within this committee, beginning with the subcommittee of which I'm privileged to be the chairman, and then, under the leadership of our distinguished chairman, a markup where it was unanimous, together with Mr. Baucus of Montana, ranking member.

Nevertheless, that chapter is history, and the chairman and I and other members of the committee believed, as did Mr. Baucus, that we should listen in a very pragmatic way to an assessment of those representing a diverse group in the transportation business to determine exactly, as best we can, exactly what is the status of the several States, all 50, not only with respect to their funding, but their individual capabilities to do contract work.

We're fully aware here on the committee that southern States have a greater period of time within which to do their highway and surface transportation work as compared to States like the distinguished ranking member in Montana. The chairman will have further words, as will the ranking member, but I just want to thank all who worked so hard on the original bill. Bear in mind that this is really, next to the Department of Defense bill, the largest jobs bill that goes through the Congress.

In this time, where there still remain some economic uncertainties in this country, I felt strongly that having this jobs bill in place would add stability to our overall economic situation, given that we authorized $145 billion over a 6-year period for the repair, construction, new construction, maintenance of our roads and bridges.

Nevertheless, we are here today to learn from the experts exactly what is the situation among our several States.

Mr. Chairman, would you kindly add your words of wisdom?

OPENING STATEMENT OF HON. JOHN H. CHAFEE, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator CHAFEE. Thank you very much, Mr. Chairman.

Like you, I shared a great enthusiasm and pride in the bill which we reported out from this committee about 6 weeks ago. As you mentioned, we reported out unanimously, and I'm proud of the efforts that we had to come to an agreement on a very difficult piece of legislation.

A number of events, as you mentioned, outside the control of this committee prevented us from completing work on a 6-year ISTEA reauthorization.

Now, during today's hearing we will focus on the status of the Federal transportation programs in absence of a multi-year and in absence of a 6-year bill, and we'll examine what we can do to resolve the situation before us. Some members of the Senate would like to adopt a 6-month extension that was approved by the House earlier this month. I think members should be aware of some consequences of action if we did that.

There are two potential pitfalls, as I see it. First of all, for most of the States the House bill provides money for a year's worth of instruction. The trouble with including funds that will run out a year from now is that there will be no pressure to enact a permanent ISTEA legislation until right before the 1998 elections. And, as we all know, it is tough to accomplish anything during an election year, and nearly impossible to enact a reauthorization bill so close to the House and Senate elections in 1998. That's the first problem.

The second problem is that the House 6-month extension provides a smaller share of funding than the Senate 6-year bill for 34 out of the 50 States. In other words, the formula is not a favorable one for 34 out of 50 States. For that reason, the House formula clearly would be unacceptable to a majority of the members of the Senate.

Despite the differences of opinion over the House 6-month extension, there are several things on which we can agree, I believe. First, there are a number of States that will be hard-pressed to survive under existing obligated highway funds through the spring. That's the first point.

Second, Federal truck safety programs, such as a motor carrier safety assistance program, which are outside the jurisdiction of this committee have to be reauthorized.

Third, the budget of the Federal Highway Administration—this is an important point—which relies on contract authority from the highway trust fund—in other words, the budget for the whole department and people that work in our States and obviously those that work here—will be depleted before the spring of 1998.

Failing to provide additional funds for the transit program—this is another point—which is not in this committee's jurisdiction could possibly have some negative results.

So we're going to hear from some good witnesses, Mr. Chairman, today, and I'm delighted that the Governor of Kentucky will be here, as well as the other representatives, and I look forward to hearing the testimony.

Thank you.

Senator WARNER. Thank you, Mr. Chairman.

Mr. Baucus?

OPENING STATEMENT OF HON. MAX BAUCUS, U.S. SENATOR FROM THE STATE OF MONTANA

Senator BAUCUS. Thank you very much, Mr. Chairman, and thanks also to the chairman of the full committee.

How we deal with the funding issue over the next several months will have immense consequences, obviously, for our States, for our contractors, tens of thousands of workers, and, indeed, all of our citizens. And the committee, under your leadership, has put a lot of work into a 6-year reauthorization bill of ISTEA, and I think all of us very much appreciate that. After all, it passed the committee unanimously with a bipartisan vote of 18 to zero.

With the campaign finance issue now resolved, I think most of us look forward to acting on that bill early next year, hopefully as the first order of business.

But we must now decide what to do in the interim, and here is where we face some conflicting pressures.

First, we can assure continuity in the highway program. There are a lot of workers whose livelihoods depend on highway construction. And, furthermore, several Federal programs, including safety programs, will be out of money at the end of this year.

But, on the other hand, too much continuity could reduce the incentive to pass a full 6-year reauthorization bill early next year, and that would not be in our interest, either.

It seems we have several options. One is do nothing this year and let the pressure build to pass a 6-year bill next year. I think that is a dangerous course. We—or, more correctly, the States—would be operating without any kind of financial safety net. And, while the Senate might act responsibly and pass a bill early next year, one cannot predict what the other body may do or how long it may take to reach agreement in conference. It also effectively shuts down several Federal programs, so this approach has some problems.

Another alternative is the 6-month bill, which the House has passed. This option provides more certainty for States, but it involves the issue of formulas, as a chairman has suggested. So my guess is that this approach would involve some extended debate on the Floor. I'm not sure we have the time to do that.

There is also the suggestion that States be given the authority to spend their unobligated balances. This would provide States with some degree of certainty over the next few months, but, since States could not continue indefinitely this way, there still would be interest in passing a 6-year bill. It also sidesteps the issue of formulas.

I hope each of our witnesses will level with us about what they think of these options or any other suggestions they might have to address the situation.

Again, I thank you, Mr. Chairman, for holding this hearing, and look forward to ideas to help us form a solution that best helps the States.

Senator WARNER. Thank you, Mr. Baucus. I thought it was very important to allow our members to express their views, because they've worked very hard on both sides of the aisle. We have excellent attendance this morning. I'm anxious to hear from all of our members who have that desire. But bear in mind we wish to get on with the hearing.

Senator Kempthorne?

OPENING STATEMENT OF HON. DIRK KEMPTHORNE, U.S. SENATOR FROM THE STATE OF IDAHO

Senator KEMPTHORNE. Mr. Chairman, let me commend you for your leadership. We do have an outstanding bill, bipartisan, and what a shame that that bill was not acted upon on the Floor of the Senate. I think that you, Senator Chafee, Senator Baucus, have very well laid out the predicament and options. There is great risk to going with a short-term. So I will refrain from any further statements. I look forward to hearing from our panel this morning, but continuing our efforts as a committee working together to find the right solution.

Senator WARNER. I thank the Senator from Idaho.

Senator from New Jersey, do you have a comment or two?

Senator LAUTENBERG. I thank you very much, Mr. Chairman. I would be more than willing to wait my turn, because I'm an invited guest here.

Senator WARNER. Thank you, sir.

Senator Bond?

OPENING STATEMENT OF HON. CHRISTOPHER S. BOND, U.S. SENATOR FROM THE STATE OF MISSOURI

Senator BOND. Thank you very much, Mr. Chairman. We certainly appropriate your calling this hearing, and we look forward to hearing from the important witnesses. But, following on the very insightful statement and analysis of Chairman Chafee and the comments of you, Mr. Chairman, and ranking member and others, I want to take a moment just to throw out an idea that we are drafting and putting in final form.

As has been stated, there are some Senators who are pushing for a quick fix by saying we should pass the 6-month extension. As has already been said, the 6-month extension passed by the House has real problems. Others are saying that we should pass a 6-month extension with the Senate formula.

I'm a strong supporter of what we passed out of this committee. I think it is ultimately the best compromise. But I don't think we can solve the formula issue for a 6-month extension in the limited time period we have available. If I recall, when the Senate bill was brought up, several Senators went to the Floor to complain about the Senate formula, and it was not unanimously endorsed or welcomed.

Second, I know that I cannot and will not agree to the House formula, which is a continuation of the current formula, which is horrible for my State of Missouri and many other States. If we conference the House formula versus the Senate formula for a 6-month extension, my prediction is we leave here with nothing.

There are some who say we should hold fast and refuse to pass anything to put the pressure on to pass a 6-year reauthorization. With all due respect, I'm not about to tell the folks in my State or other States, "Tough luck if you run out of money."

Mr. Chairman, I throw out an idea that, as I say, we are drafting for a 6-month extension that has one major key distinction: no formula fight. The proposal would, first, be a real 6-month extension, not 3 months of money to be spread over 6 months, and not 12 months of funding crammed into 6 months.

Second, it would provide flexibility to the States on the use of their unobligated balances. I know there are some groups who might have a concern with the States borrowing money from the CMAQ program or the enhancements program. My proposal would contain a payback provision upon enactment of a 6-year reauthorization bill.

Third, the proposal provides 6 months of funding for the safety programs, including the motor carrier safety program, the national driver register. In addition, 6 months of funding for transit and Department of Transportation operating costs.

Finally, one of the big concerns with the unobligated balances is how they are distributed across the country. Many States, including my State of Missouri, tend to obligate the majority of their funds in the first 6 months of the fiscal year, so they are in need of funding now. Others tend to obligate the majority of their funds after the first 6 months, so they are not feeling the pinch. My proposal would provide what I guess I'll call a "hold harmless" provision. This provision would allow States to obligate up to either the first 6 months of its obligation in the fiscal year 1996 or 1997, whichever is greater. For States who would need this, it would be a down payment on their fiscal year 1998 dollars that would come from the 6-year bill.

Now, if that sounds complicated, it's not really. It's just saying that this will allow them to go forward and they will debit the amount of money provided against the full year's obligation, based on the formula that is ultimately passed and signed into law. I think it's the only way, at least that I can see, to keep the money flowing, the construction going, the doors open, and treat all States fairly.

Mr. Chairman, we've handed out a simple analysis of it for my colleagues. We'd be happy to—and look forward to working with this committee, but—and we'll be happy to hear the witnesses' views on it. But I think it is important that we get something in the hopper, and I would be—I would hope to be able to introduce this measure within hours, or at least certainly within the next day or so.

[The prepared statement of Senator Bond follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER BOND, U.S. SENATOR FROM THE STATE OF MISSOURI

Mr. Chairman, thank you for calling this hearing. It is important that we hear from our witnesses. However, I want to take a moment to "throw" out my idea to get us around the "roadblock" we are in.

Mr. Chairman, as you are aware, there are some Senators pushing a quick fix to the situation we now find ourselves in by saying we should pass the 6-month extension passed by the House. Others are saying that we pass a 6-month extension with the Senate formula.

I don't think we can solve the formula issues for a 6-month extension in the limited time period we have. First, if I recall, when the Senate bill was brought up several Senators went to the floor to complain about the Senate formula reported from this committee. Second, I know that I cannot agree to the House formula which is a continuation of the current formula which is horrible for my State of Missouri. If we conference the House formula versus the Senate formula for a 6-month extension, we will leave here with nothing.

Still others are saying that we should hold fast and refuse to pass anything to put the pressure on to pass a 6-year reauthorization. With all due respect, I am not about to tell my Missouri "tough luck" if they run out of money.

Therefore Mr. Chairman, I "throw out" my idea for a 6 month extension that has one major "key" distinction—no formula fight!

My proposal is as follows:

First, it is a "real" 6 month extension. Not 3 months of money to be spread over 6 months and not 12 months of funding crammed into 6 months.

Second, it provides the flexibility to the States on the use of their unobligated balances. I know that there are some groups who might have a concern with the States "borrowing" money from the CMAQ program or the Enhancements program, etc. My proposal will contain a "payback provision" upon the enactment of a 6-year reauthorization bill.

Third, my proposal provides the 6 months of funding for the Safety Programs, including the Motor Carrier Safety Program and the National Driver Register. In addition, 6 months of funding for transit and Department of Transportation operating costs.

Finally, one of the big concerns with the unobligated balances is how they are distributed across the country. Many States, including my State of Missouri, tend to obligate the majority of their funds in the first 6 months of the fiscal year so they are in need of funding now. Others tend to obligate the majority of their funds after the first 6 months so they are not feeling the "pinch". My proposal would provide what I guess I will call a "hold harmless" provision. This provision would allow States to obligate up to either the first 6 months of its obligation in fiscal year 1996 or 1997, whichever is greater. For States who would need this—this would be a "down payment" on their fiscal year 1998 dollars that would come from the 6-year bill.

This might sound a little complicated—but it is not really. This is the only way I see to keep the money flowing, the construction going, the doors open, and treat "all" States fairly.

Senator WARNER. Mr. Reid?

OPENING STATEMENT OF HON. HARRY REID, U.S. SENATOR FROM THE STATE OF NEVADA

Senator REID. Mr. Chairman, I appreciate your convening this meeting. I think it is instructive that we have someone representing the National Governors Association. I appreciate that very much.

For a State like Nevada, that is growing so rapidly, we have some problems, and we do need a bill. I, of course, was a very strong supporter of what came out of this committee. I think we did an excellent job and I think, had we been able to get the matter to the Floor, it would have been resolved very quickly. It was a bill I think that we could have passed with relative ease.

I'm concerned, having reviewed the testimony of the Department of Transportation witness here today—I mean, they have painted a pretty dire picture, at least the way that I read this. FHWA wouldn't be able to process requests from a number of States for Federal aid projects. That's very important to Nevada. Federal Highway Administration wouldn't be able to authorize Federal aid highway projects or obligate balances of Federal aid highway funds for design and right-of-way acquisition, construction projects. States couldn't begin right-of-way acquisition, final design activities on projects ready for their approval. And there's a long list that goes on for 3 pages.

The impacts on Nevada suggest that the State would be OK for a little while, a matter of really weeks. We have in April a very large bond payment that is due in Nevada, which would have to be paid out of State funds in the absence of reauthorization.

The key impacts to Nevada would be no public land discretionary money, and, as you know, the State of Nevada is 87 percent Federal land. There would be no liability for damages. We couldn't pursue right-of-way, pay our right-of-way balances in a timely fashion.

And then we have another concern all over the western part of the United States, and there would be no emergency release money. And with the possibility of El Nino causing more harm than it already has, we have some problems.

So I look forward to working with the committee. I really think we need to come up with something. I'm not sure that Senator Bond's compromise is exactly right, but I compliment him for trying to work our way out of this morass we're in and I look forward to looking at his legislation and working with you, Mr. Chairman and ranking member of the subcommittee, who is also the ranking member of the full committee.

Senator WARNER. Thank you very much, Mr. Reid.

Mr. Thomas?

OPENING STATEMENT OF HON. CRAIG THOMAS, U.S. SENATOR FROM THE STATE OF WYOMING

Senator THOMAS. Thank you, Mr. Chairman. I think the problem has been pretty well defined, and I will move quickly.

I think it is unfortunate we are having to have this hearing, of course, and that a minority of people on the Floor were able to hold off this important bill.

I certainly don't support anything that will allow this procrastination to continue after we come back in January. I think we ought to do something that will alleviate what appears to be some real problems, but not allow us to go on by giving 6 months, which will really be a year. I don't think that's what we ought to do.

I must say also, frankly, I'm a little critical. The Department of Transportation comes up now with all this great crisis, but they didn't have much to say when it was being held up on the Floor, and the Administration could have helped move that, had they been inclined to do so.

So I think we ought to find a solution. I don't support the House's proposition at all. Whatever we do ought to bring us back to getting this 6-year bill considered and passed immediately after our return, Mr. Chairman.

[The prepared statement of Senator Thomas follows:]

PREPARED STATEMENT OF HON. CRAIG THOMAS, U.S. SENATOR FROM THE STATE OF WYOMING

Mr. Chairman, I must say that I am disappointed that this hearing needs to be held today. The members of this subcommittee worked very hard to craft a good 6 year bill to reauthorize the Intermodal Surface Transportation Efficiency Act (ISTEA), S. 1173 "ISTEA II." It is unfortunate that the product of these efforts was blocked from consideration by a minority of senators.

I am sensitive to the concerns of State transportation officials, the construction industry and others about the lack of a reauthorization of ISTEA. However, the answer to this problem is not extending the unfair formulas found in current law, as the House bill, H.R. 2516, does. Further, passing a 6-month extension will merely give some Members of Congress more opportunities to delay consideration of a long-term reauthorization of the law. ISTEA legislation has already become a political football and formula fights on a 6-month bill merely exacerbate the problem.

However, this subcommittee can and should explore some legislative options that would keep the program running while also maintaining the pressure on Congress to enact the bill that passed this committee unanimously, 18–0. We can act quickly on important funding, safety, highway, transit and flexibility concerns while avoiding divisive and protracted debate that a 6-month extension would create.

I look forward to exploring these options with today's witnesses.

Senator WARNER. Thank you very much.

Mr. Sessions?

OPENING STATEMENT OF HON. JEFF SESSIONS, U.S. SENATOR FROM THE STATE OF ALABAMA

Senator SESSIONS. Mr. Chairman, thank you.

I was just looking at an Associated Press article in Alabama, "Congress' failure to pass a new highway bill has State officials scrambling." It starts off saying that, "When the Department of Transportation awards interstate maintenance contracts it is now preparing for November and December, there will just be $7.10 left to spend on the rest of the work." In other words, they will exhaust the contracting authority at that time.

Governor James has written that he would like to see us tackle some sort of authorization plan.

I commend you and I commend Senator Bond for the work that you're trying to do to have some sort of interim relief, because I do not think we need to allow to roll the dice on some sort of bluff on this deal.

Thank you for your leadership.

Senator WARNER. Thank you, Mr. Sessions.

Mr. Smith?

OPENING STATEMENT OF HON. ROBERT SMITH, U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator SMITH. Thank you very much, Mr. Chairman. I do have a statement for the record, but I just want to commend you and Senator Chafee for the job that you've done in trying your darndest to get the ISTEA legislation through this year, and I know it has been a frustrating experience and, regretfully, other politics got into the situation, which I don't believe should have happened. And I understand the concern among the State Agencies, especially the construction industry and the Federal Highway Administration about the lack of funds, but we have to look at alternatives, I think, to the 6-month extension. Otherwise, we're just going to get mired down into the same formula battles that we had over the 6-year bill.

So I hope that we can work something out, Mr. Chairman, and commend you for holding a hearing to make an attempt to do that.

Senator WARNER. Thank you, Mr. Smith.

[The prepared statement of Senator Smith follows:]

PREPARED STATEMENT BY HON. ROBERT SMITH, U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Thank you, Mr. Chairman. I want to commend you and Senator Chafee for your hard work and diligence in getting a responsible, 6-year ISTEA reauthorization bill to the Senate floor. S. 1173 is a good bill and should be passed by the Senate this year.

However, it now appears more and more likely that the Senate will be unable to take up 5.1173 during the remainder of this session, and, thus, the reason for today's hearing. In light of this unfortunate predicament, it cannot go unstated that we wouldn't be sitting here today listening to witnesses about the impacts of not passing a transportation bill if members on the other side of the aisle had acted responsibly and allowed the Senate to consider a bill that was reported unanimously out of this committee.

The Senate had an opportunity to take the high ground and pass a responsible, 6-year bill that would give our States the long-term funding certainty that they need, but a minority in the Senate was able to prevent that from happening this year. In lieu of passing a multi-year bill, several groups are calling for a short-term extension, which I believe is also fraught with problems.

While I certainly understand the concern among State agencies, the construction industry, and the Federal Highway Administration about the lack of new funds becoming available, I believe we need to look at alternatives to passing a 6-month extension, which could get mired in the same formula battles as a 6-year bill.

The pressure must remain on Congress to pass a long-term authorization bill. Many States have adequate funding through February or March if given additional flexibility on how they can spend their transportation dollars. Though I remain committed to moving a 6-year bill, I'm willing to take a look at various options to provide this additional flexibility, as well as funding for important safety programs, without getting us into a formula fight.

With that in mind, I look forward to hearing from our witnesses on the impacts of the current situation and their views on various proposals to provide interim funding. Thank you, Mr. Chairman.

Senator WARNER. Before we call our first witness, I——

Senator LAUTENBERG. Mr. Chairman, did you want to——

Senator WARNER. You wish to now——

OPENING STATEMENT OF HON. FRANK R. LAUTENBERG, U.S. SENATOR FROM THE STATE OF NEW JERSEY

Senator LAUTENBERG. If I may. I certainly wanted to step aside while the subcommittee members had their say, and I appreciate once again, Mr. Chairman, as you always want to do, your fairness in enabling me or permitting me to be with you today.

Senator WARNER. You have taken a lead in transportation matters on the Budget Committee, which is key to this. Thank you. Your modesty is overwhelming this morning.

[Laughter.]

Senator LAUTENBERG. Just keep on talking.

[Laughter.]

Senator LAUTENBERG. Thank you very much. Now I'm subdued totally. It's hard to be rude in the face of all that kindness.

Mr. Chairman, every State is going to be affected if there is no extension of authority for transportation funding. I do think the Senator from Missouri came up with a novel idea. Unfortunately, the amount of unobligated funds throughout the country is by no means equal, and some States have used their funds almost to the last dollar, and that's a problem for them.

But I think we've got to enact a stop gap measure that provides States with sufficient funding to meet their short-term transportation needs.

ISTEA expired over a month ago, and some States, again, had the carry-over funding, but not all. And the safety programs will have been hard hit. Mass transit programs, which have virtually no excess authority, will grind to a halt. It would be, I think, almost irresponsible to adjourn for the year without taking some action.

Now, I first called for a temporary extension of current law because it was clear even then that Congress would not pass a multi-year authorization bill before we adjourned. A 6-month extension of current law is the easiest and the fastest way to proceed. It is without political controversy because it doesn't involve a battle over formulas. It provides the States with certainty.

The House bill, which extends current law, is pending on the Senate calendar, and I'd like to see us move it by unanimous consent today, send it to the President for his signature.

In contrast to some of my colleagues' statements about procrastination, I don't see it quite that way. It's the other side of the coin, as we know, and I see it as a chance to evolve a structure that will satisfy, if not all the States, many of the States that now feel left out of the thing. We are particularly focused on some of the urban areas—the States like New Jersey, mine, and Illinois, Massachusetts, other States.

This isn't, in my view, an opportunity to get even. This is an opportunity to move ahead and make adjustments that are required and do something that has the support of almost all the States, if not all.

I think we are looking at some problems ahead of us that will become very serious in short order, and without some form of reauthorization transit agencies, MPOs, local governments, safety programs, State planning and bidding activities would immediately be affected by Federal funding shortages.

The situation is even more bleak for other programs authorized under ISTEA: the safety programs, intelligent research transportation systems programs, research, and, something very important to my State and many others, Federal transit program.

While transit is not under the jurisdiction of this committee, everybody here should know that, unlike the highway program, nearly all of the excess contract authority for transit was rescinded earlier this year in the Emergency Supplemental Appropriations Act. So if there is no extension, transit agencies will have to defer purchases of buses, rail cars, other equipment, and transit project construction which is going on in many places will be delayed, increasing overall costs. States will not be able to spend the $400 million provided in the fiscal year 1998 Transportation Appropriations Act to purchase buses and contract construction of facilities necessary to house those buses.

States cannot touch the $800 million provided for a fixed guideway modernization program. The States can't take advantage of the $2.3 billion for the programs which provide capital funding for rural and urban areas for the elderly and for the elderly and handicapped.

And perhaps the most frightening risk posed by our failure to act is the safety of constituents—drunk driving prevention programs, truck and bus safety requirements, bridge inspections, highway rail crossing projects. They'll all come to a halt, and we could be endangering lives if we fail to simply enact the short-term extension of ISTEA. I hope that we'll do it, relieve us of this crisis.

Mr. Chairman, in as much a good intention as we can supply or as I can supply, I know that there are adjustments that are going to be made. The question is, How do we phase in these adjustments so that the pain, the difficulty of getting on with smaller allocations is absorbable, instead of saying, "OK, here we are. We are at the end of this line. Now we're going to change these things."

And I would hope, Mr. Chairman, that we have a chance over these next months and, once again, pledging as much as I can do to resolve some of the sticky issues, give us a chance to talk about it and get something new on the table.

[The prepared statement of Senator Lautenberg follows:]

PREPARED STATEMENT OF HON. FRANK R. LAUTENBERG, U.S. SENATOR FROM THE STATE OF NEW JERSEY

Thank you, Mr. Chairman. I appreciate your leadership in bringing this important issue before the committee. Every State will be affected if there is no extension of authority for transportation funding.

We must enact a stopgap measure to provide the States with sufficient funding to meet their short-term transportation needs. ISTEA expired over a month ago, and although some States have carryover funding, other States are already struggling. Highway safety programs have been particularly hard hit. Mass transit programs, which have no excess authority, will grind to a halt. It would be irresponsible to adjourn for the year without taking action.

I first called for a temporary extension of current law, because it was clear even then, that Congress would not pass a multi-year authorization before we adjourned. A 6-month extension of current law is the easiest and fastest way to proceed, and is without political controversy because it will not involve a battle over radical restructuring of formulas. It provides the States with certainty. The House bill, which extends current law, is pending on the Senate calendar. I urge that we move it by unanimous consent today and send it to the President for his signature.

Failure to temporarily extend IS TEA will immediately cause all State transportation plans for new construction, maintenance, and repair activities and projects to cease. Without some form of reauthorization, transit agencies, metropolitan planning organizations, and local governments, safety programs, and, State planning and bidding activities would be immediately affected by the Federal funding shortages.

The situation is even more bleak for all the other programs authorized under ISTEA—the safety programs, Intelligent Transportation Systems program, all research programs, and, something very important to my State—the Federal transit program. There are no left over, unobligated funds for these programs.

While transit is not under the jurisdiction of this committee, everybody here should know that, unlike the highway program, nearly all the excess contract authority for transit was rescinded earlier this year in the Emergency Supplemental Appropriations Act.

If there is no extension, transit agencies will have to defer new purchases of buses, rail cars, and other equipment, and transit project construction will be delayed, increasing overall costs. States will not be able to spend the $400 million provided in the fiscal year 98 Transportation Appropriations Act to purchase buses and construct bus facilities. States cannot touch the $800 million provided for the fixed guideway modernization program. The States also cannot take advantage of the $2.3 billion for the programs which provide capital funding for rural and urban areas, and for the elderly and handicapped.

Perhaps the most frightening risk posed by our failure to act is the safety of our constituents, as drunk driving prevention programs, truck and bus safety requirements, bridge inspections, and highway/rail crossing projects come to a halt. We could be endangering peoples' lives if we fail to simply enact a short-term extension of ISTEA. We must enact an extension, and relieve us of this crisis.

Senator WARNER. Thank you.

Senator BOND. Mr. Chairman?

Senator WARNER. Yes.

Senator BOND. I'd like 30 seconds to respond to the Senator from New Jersey.

Under the proposal that we have sent around in the summary form, the hold harmless provision would allow the obligation of the higher amount obligating the first 6 months of fiscal year 1996 or 1997. That means for New Jersey the obligation contracted would be $352 million, as opposed to your existing unobligated balance of $275 million. So the option was put in there to account for States who may be in different circumstances in 1997 or 1996.

Senator LAUTENBERG. I appreciate the Senator's comment. New Jersey is not terribly off, but there are States that are almost clear out of money, and that would be a disaster.

Senator WARNER. Well, we've got to get underway.

Senator REID. Mr. Chairman, I'd like to ask that a full copy of my statement be made part of the record.

Senator WARNER. Without objection.

[The prepared statement of Senator Reid follows:]

PREPARED STATEMENT OF HON. HARRY REID, U.S. SENATOR FROM THE STATE OF NEVADA

At the beginning of this Congress, Chairman Chafee said that one of the things he likes the most about the Committee on Environment and Public Works is that it is quite possibly the least partisan one in the Senate. I agree with him.

Over the years, this committee has successfully addressed some of the stickiest, most controversial issues facing our nation: Clean Air, Safe Drinking Water, Superfund. We have also produced one of the most innovative pieces of legislation ever when we wrote ISTEA in 1991.

Our stated goal was to turn over more spending power and authority to the States and localities while maintaining a strong national transportation system. In the last 6 years we have made great progress and, when we are finally able to pass a bill, feel confident that ISTEA 11 will carry us further in the same direction.

Until we get to that point, I fear that we might be getting ready do something unnecessary and unfair to the States: We might go home without passing a short-term measure that ensures that the State programs remain stable while we are finishing work on the reauthorization.

ISTEA made the States partners with the Federal Government in building and maintaining a strong transportation system. Leaving them in the lurch now is no way to treat a partner.

I understand that we will have witnesses this morning that will suggest that the average State will be able to make do and cobble together a program between now and next March without Congress doing anything other than funding the safety programs.

Senator WARNER. Before our first witness, I want to express appreciation—I'm sure my chairman and others join—for the leadership given by Senator Lott. Throughout the deliberation of this bill, he made it very clear to Chairman Chafee, myself, and others that the Senate would act independently of differences in the House and move ahead with a 6-year bill. No better corroboration of that strong leadership and support can be found than four times we went to a cloture vote.

Last night we met with Leader Lott, and again he said, "If there is some reasonable and acceptable solution, then show the to me." So we are here today to see whether or not we can assess the facts and, as a committee, present to our distinguished leader an option.

Governor, would you kindly lead off?

Senator CHAFEE. Mr. Chairman, while the Governor is coming up, I want to add to what you said about the majority leader. He has been very helpful to us. He has really stood firm on a 6-year bill that we think is so important.

Senator WARNER. Absolutely.

Governor, lead us out.

STATEMENT OF HON. PAUL PATTON, GOVERNOR, COMMONWEALTH OF KENTUCKY, NATIONAL GOVERNOR'S ASSOCIATION

Governor Patton. Chairman Warner, Chairman Chafee, Senator Baucus, and other members of the Senate present, I am Paul Patton. I'm co-chairman of the National Governor's Association Task Force on Transportation, and I appear this morning representing the National Governor's Association. With me is Ray Scheppach, the executive director of the National Governor's Association.

I have submitted a detailed testimony for the record, but, for the sake of brevity, I will try as best I can to summarize our position.

Senator WARNER. Your entire statement, of course, will be placed in the record.

Governor Patton. Thank you, sir.

Our position is that the Nation should pass a comprehensive, long-term, 6-year highway spending bill or transportation spending bill that spends the total trust fund on transportation issues. And our position is that it should be passed this session of Congress before the adjournment. It appears that that will be very difficult to do, but I would like to take a moment to emphasize to you why we take that position.

Senator WARNER. Governor, if I could interrupt, we have been handed, of course, the correspondence from the National Governor's Association, which is signed by 39 Governors.

Governor Patton. Yes.

Senator WARNER. You might wish to refer to that, and we'll incorporate it in the record at the conclusion of your statement.

Governor Patton. Yes, please.

As to our overall contention that the entire trust fund should be spend on transportation issues, I think the record will show that in the last 35 or 40 years we were spending about .5 percent of the total gross domestic product on transportation, and that is now reduced to less than .3 percent, while the use of the transportation facility has been dramatically growing.

As individuals, I don't have an exact figure, but we spend a tremendous amount of our very limited time in the transportation facilities of this Nation, perhaps certainly well in excess of 10 percent of our waking time, and time is something that is very valuable to all of us and it is something that is limited for all of us. And, to the extent that that time is wasted, where we could be with our kids at a soccer game or we could be working harder and producing more for our family, or we could be at home with our family or doing other things, it is vital that we have an efficient transportation system for that reason, alone, in this Nation.

As business, fully 10 percent of our productive capacity is tied up with our transportation portion of industry. And, as many businesses made plain to the Governors this summer in testimony, they are concentrating very hard on efficiency, on cash-flow, on just-in-time delivery, and they are in command of a lot of their facilities, their factory buildings, their machinery, their labor. They, through good management, can effect efficiency, but they can't change the efficiency of that part of their production system that is dependent upon the public transportation infrastructure. They are totally dependent upon us in government. They pay the money through the user fee, and they desperately need a more efficient system.

For those reasons, we continue to support the position that all of the highway trust fund money be spent on transportation infrastructure and operation.

But in appearing that that will not be possible to get a 6-year program during this current session before adjournment, then our position in the interim is the continuation of a funding mechanism in the range of what it has been for a reasonable period of time to allow the Congress to act immediately after it returns in January.

Without endorsing a specific plan, we're not even endorsing a specific timeframe, although it appears that 6 months would be about the amount of time that would be necessary for prudent action.

And let me give you just a little bit of our reasoning which is contained in the statement. And, as you know, this position is endorsed in the letter that has been or will be delivered to all the members of the Senate today, signed by 39 Governors, and I believe that at least four other Governors will be transmitting or have transmitted similar letters on their own, and so we think that the vast majority of the Governors support the basic fundamental position that we need to have continued funding authorization for a temporary amount of time in the magnitude of 6 months.

Let me take my own State as an example. I understand that we have about 30 percent of our money unobligated. But the problem is it takes us a period of time, after we've authorized and spent the money, to get it obligated. We have to advertise for bids, we have to prepare specifications, we have to wait, we have to have time. We take the position that this money should be invested as rapidly as possible to produce a product which our people can use to get a return on their investment, and that is a finished product.

And, to the extent that in Kentucky, at least, that we are delayed much beyond today, we are beginning to delay the delivery of a finished product to the citizens of Kentucky, and we think that is not a prudent action for this country to take.

So we believe that a continued funding authorization is vital, and we believe that it should be to give the Congress reasonably accurate time after their return to address this situation.

That's a general, brief summary of our position. I'll be glad to address any questions that the members of the committee would have.

[The prepared statement of Governor Patton and letter from National Governor's Association follow:]

NATIONAL GOVERNORS' ASSOCIATION

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Chairman

Thomas R. Carper
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Vice Chairman

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November 4, 1997

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Thomas A. Daschle
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Senator Lott and Senator Daschle:

Given the very limited time remaining in this legislative session, it is imperative for the Senate to consider and pass short-term legislation providing funding for highway, transit, and safety programs and to complete a conference on that legislation with the House of Representatives. Such legislation would minimize the interruption in funding to state and local governments. It would also avoid the disastrous effects that a several-month lapse in authorization would have on many states' transportation programs.

Sincerely,

George V. Voinovich

Governor George V. Voinovich

Tom Carper

Governor Thomas R. Carper

Edward T. Schafer

Governor Edward T. Schafer
Co-Chair
Transportation Task Force

Paul E. Patton

Governor Paul E. Patton
Co-Chair
Transportation Task Force

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Governor Jane Dee Hull

Governor Mike Huckabee

Governor Pete Wilson

Governor Roy Romer

Governor John G. Rowland

Governor Lawton Chiles

Governor Zell Miller

Governor Philip E. Batt

Governor Frank O'Bannon

Governor Terry E. Branstad

Governor Bill Graves

Governor Mike Foster

Governor Angus S. King Jr.

Governor Parris N. Glendening

Governor John Engler

Governor Arne H. Carlson

Governor Mel Carnahan

Governor Marc Racicot

Governor Bob Miller

Governor Jeanne Shaheen

Governor Christine T. Whitman

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Governor James B. Hunt Jr.

Governor John A. Kitzhaber

Governor David M. Beasley

Governor William J. Janklow

Governor Don Sundquist

Governor Michael O. Leavitt

Governor Howard Dean, M.D.

Governor Roy Lester Schneider, M.D.

Governor Gary Locke

Governor Cecil H. Underwood

Governor Tommy G. Thompson

Governor E. Benjamin Nelson

Governor Benjamin J. Cayetano

Governor Pedro Rosselló

C: All U.S. Senators

National Association of Governors' Highway Safety Representatives

IMPACT OF FEDERAL HIGHWAY SAFETY GRANT FUNDING LAPSE ON STATE HIGHWAY SAFETY PROGRAMS

Alabama.—The State Highway Safety Office (SHSO) has halted all safety programs. If funding lapse continues, then the office would be closed in approximately 45 days.

Alaska.—The SHSO has had to prioritize funding for all planned projects. All but priority highway safety projects will be put on hold. Law enforcement training, equipment purchases and other non-essential activities will be delayed. If the lapse continues, there will be only minimal activity even in the priority areas.

Arizona.—The State has enough carryover funding to last 3–4 months. The SHSO hasn't executed any contracts for new projects with any State or local agency because of the funding uncertainty. If the funding lapse lasts until spring, then funding for projects which continue current safety activities will be delayed or halted altogether. Training, travel, and equipment purchases (for law enforcement in particular) will be curtailed.

Arkansas.—The SHSO has delayed funding for new grant activities. If the lapse continues, the State may suspend overtime enforcement and try to limit funding to those projects that involve personnel.

California.—150 highway safety projects have been put on hold. Equipment purchases (including speed radar guns and breath testing equipment), sobriety checkpoints, safety belt checks, and highway safety public information campaigns have been put on hold. Only existing projects which continue previously funded safety activity are being funded.

Colorado.—Only about 20% of contracts are being funded because of their essential, high-priority nature. There are only enough funds to pay personnel for 60 days. After that, State personnel will be reassigned to other State employment. All travel and most training has been suspended.

Connecticut.—As a result of the funding lapse, the SHSO has halted all public information campaigns, purchase of new equipment (including speed radar guns and breath testing equipment), and staff travel and training. All new fiscal year 98 project proposals are on hold. No 402 funds are available for programming of law enforcement activities, such as sobriety checkpoints, speed control, and safety belt checks. Safe Community coordinators will cease operations by late November 1997. The impact on the SHSO staff after March 1 is uncertain.

Delaware.—The SHSO is only funding salaries for staff and CTSP coordinators, as well as essential administrative costs. All programs have been put on hold and no equipment purchases are being made. Carryover funding would last until March. After that, the impact on the staff is uncertain.

District of Columbia.—No enforcement or public information programs are being funded at this time. Funding problems have been compounded by DC budget problems.

Florida.—Since Florida had only $64,000 in 402 carryover funds, only one project with continuing salaries could be funded. For the subgrantees with whom no contract has been entered, matching funds are being used where available. However, the vast majority of subgrantees have no matching funds and are therefore either working without pay, working on non-safety related projects, or are not working at all. Of the 114 subgrant contracts approved for funding in Florida, only 29 could be funded (28 projects with 410 funds and 1 with 402 funds).

Georgia.—The SHSO has about 2–3 months worth of carryover funding. All programs would be shut down in mid to late January. Not long after that, the SHSO would have to evaluate staff situation and make necessary layoffs.

Idaho.—The SHSO has about 3–4 months worth of carryover funding. High priority projects will be funded. Others would be funded on a limited basis or not at all. Travel and equipment purchases are being limited or delayed. At this point, the impact on the staff is uncertain.

Illinois.—The highway safety program is not adversely by the funding lapse. The State has already apportioned funding for the fiscal year 98 program and will be reimbursed when the Federal highway safety grant program is reauthorized and funds allocated to the state.

Indiana.—The SHSO has a sizable amount of carryover funding, so the safety program is not affected at present. If the lapse continues, the SHSO will delay some projects.

Iowa.—If the lapse continues, all contracts will be put on hold except those which involve the funding of personnel. All funding for travel, training, equipment purchases will be deferred. No funding will be provided for new initiatives.

Kansas.—The SHSO may have enough carryover funding for several months. Presently, only projects which continue current activities are being funded. No new safety activities have been funded. All funding for travel, training, purchases has been stopped. In the longer term, funding for most projects will be suspended.

Kentucky.—Every new project is on hold. There is no funding for travel, training, and equipment purchases. There is no funding for overtime enforcement of impaired driving, occupant protection, speed and other safety laws. Carryover funding is being used to some enforcement activities and Safe Community activities.

Louisiana.—If there is no extension, all projects will be suspended. Carryover funding will be utilized for salaries. However, such funding will be depleted by February.

Maine.—The SHSO has enough carryover funding to last for nearly 12 months. Not in any immediate danger of having to eliminate programs or staff.

Maryland.—The State has only enough carryover funding to continue funding some grant activities through December. After December, there will only be enough funding to support staff and provide severely limited, if any, services. No funding will be available to inform the public about the state's new primary belt law. Among other things, Maryland has ordered child passenger safety educational materials for all of the states in Region in (Maryland, Pennsylvania, Virginia, West Virginia, Delaware and the District of Columbia.) There will be no funds with which to make the purchase.

Massachusetts.—The funding lapse has had no impact on State highway safety activities yet. However, if it continues, all program operations will be suspended, starting next month.

Michigan.—If there is no extension, Michigan would immediately suspend all new grants and maintain personnel only. The SHSO has enough carryover funding to last until early January. After that, all current programs and equipment purchases (including speed radar guns and breath testing equipment) will be suspended. Staff situation would be reevaluated with possible layoffs.

Minnesota.—The SHSO has enough carryover funding to continue operations for approximately 3 months. At this point travel, training, and equipment purchases have been severely cut. Funding will only be used for staff salaries for next 3 months.

Mississippi.—Travel and training has been curtailed and some projects are being delayed. The State has been forced to continue normal safety activities by relying on other Federal grants it has received (such as the 410 impaired driving incentive grant program.) If program authority is not extended and funding is not made available, then most safety grant activities would be put on hold.

Missouri.—SHSO has enough carryover funding to continue operations for approximately 4 months. In the mean time, staff travel and training has been severely restricted. Funding for new equipment (such as speed radar guns and breath testing equipment) has been eliminated. Educational materials will be distributed until supply is exhausted, but no reorders will be placed. Expenditures by subgrantees have been frozen until further notice, with the exception of personnel costs.

Montana.—The SHSO has halted all new highway safety projects, including several planned public education campaigns. The SHSO has enough carryover funding to maintain operations until approximately February 1. Soon after that, all funding will run out and the office will be faced with staff layoffs and the prospect of closing the doors.

Nebraska.—The SHSO has enough carryover funding to continue operations for approximately 2–3 months. The State staff is "slowing down," warning grantees about funding problem. After carryover funding runs out, public information and enforcement programs would cease.

Nevada.—The SHSO has halted all new highway safety programs. Projects funded with carryover funding will continue until January 1. After that, it is unknown what level and for how long the State will fund State staff positions and office operating expenses.

New Hampshire.—State funding will cover State personnel costs in the short term. Equipment purchases, overtime enforcement, seat belt initiatives, judicial and prosecutorial training, school-based education programs and highway safety public information campaigns have all been put on hold. Very limited carryover funding has been applied to existing contracts. By January, all funding will run out and the office will be faced with staff layoffs or the prospects of closing the doors.

New Jersey.—In the short term, the State can fund some impaired driving activities (enforcement, public information campaigns) with its fiscal year 97 Section 410 impaired driving incentive grant funding. But that funding cannot be used for occupant protection purposes, so little can be done to implement DOT's Buckle Up America program. New projects and some continuation projects are not being funded. Travel and equipment purchases have been halted.

New Mexico.—In the short term, essential projects (such as safety belt enforcement, Safe Communities) are being funded, but most new activities or expansion of existing safety activities are not. In the long term, funding for most projects (except State crash data collection) would be put on hold. The SHSO would ask the State for assistance if necessary.

New York.—Impact uncertain.

North Carolina.—Projects which continue current safety activities are being funded while all new projects are being put on hold. In the longer term, the State could run out of Planning and Administration (P&A) funding and be forced to lay off staff.

North Dakota.—Existing contracts are being restricted to 25% of their fiscal year 98 budget and funded with carryover money. No new major expenditures are allowed, which affects enforcement of highway safety laws and community-level safety activities. Funding for Emergency Medical Services (EMS) training, for local roadway safety projects, for occupant protection programs have all been put on hold.

Ohio.—Ohio has enough P&A funding to fund State staff for the rest of the year. However, if the lapse continues, then grant activities will be limited to priority projects and funding for new projects will be halted. (The State is currently reprioritizing grants, grant amounts and cost categories in order to limit funding to the most important grants. Low priorities such as travel, training, equipment purchases will be limited if the lapse continues.) Travel is currently being reviewed and limited on a case-by-case basis.

Oklahoma.—Presently, the SHSO is limiting subcontracts to a portion budgeted funding. New projects will not be funded if there is no new Federal funding. Travel, training, equipment purchases are being curtailed. Subcontracts involving salaried personnel would be canceled if the lapse continues.

Pennsylvania.—The State safety program is not feeling the impact yet but will use up all its carryover funding by mid-December. All new projects will be put on hold. The funding will be used to continue current activities only. If the lapse continues, the SHSO will send notices to local subgrantees that they will not be paid.

Rhode Island.—SHSO has enough carryover funding to continue operations for approximately 2–3 months. After that all highway safety projects would cease with potential of personnel cuts.

South Carolina.—The SHSO has warned all grantees of funding problems. Staff and grantee travel has been eliminated and no new equipment (such as speed radar guns and breath testing equipment) is being purchased. Carryover funding would last until approximately March.

South Dakota.—The highway patrol has had to reduce its drunk driving enforcement efforts.. 1500 child safety seats which were ordered have been put on hold because there are no funds with which to make the purchase. EMS training and local roadway safety projects have been given only limited funding for the short term. All grants for law enforcement equipment (breath testing equipment, speed radar guns, etc.) has been put on hold, as has funding for major EMS equipment. No new highway safety projects have been allowed to start.

Texas.—SHSO staff are State funded, and the State has a sizable amount of carryover funding, so there is no immediate impact. However, full-time subcontractors could be affected in the long term. Under the worse case scenario (a lapse of 6 months or more), up to 230 projects as well as 17 local and 31 State subcontractors could be affected.

Utah.—No new projects have been staked. By using all the State matching funding, the office could operate until mid-January but with no grant activity at all. Safe Community coordinators and other subgrantees wouldn't be funded. Many are already looking for other work because of the funding uncertainty. It would take a long time for the State to find and train new coordinators.

Vermont.—For the shorn term, the State is continuing 402-funded law enforcement activities. All other current and new projects have been suspended. All training, community-level grants, DUI grants, education programs, safety belt and child restraint grant-funded programs have been halted. Carryover funding will only last until January 1.

Virginia.—The SHSOis forced to delay payments to State agencies. The office has approximately 3 months of carryover funding remaining. After carryover funding expires, they would not be able to honor funding requests until Federal funding is allocated.

Washington.—2/3 of the fiscal year 98 planned safety projects have been delayed. The remaining 1/3 of the projects have been put on notice that funding will be available only through the end of October. If there are funkier funding lapses, the State Highway Safety Office will be able to operate only until January 1, 1998. After that, the office will be forced to shut down.

West Virginia.—SHSO has very little carryover funding available. All programs will be halted and of rice will be closed in December 1997.

Wisconsin.—The SHSO has delayed funding for all new grant activities. Funding being dedicated to personnel costs. If funding lapse continues, of rice would be closed and staff positions eliminated.

Wyoming.—The SHSO has carryover funding that will last approximately 3–4 months. All safety programs have been either curtailed or put on hold so as to protect subgrantee staff from layoffs for as long as possible. The SHSO of lice staff are funded through State funds so they are protected from layoffs for the time being.

Senator WARNER. I'll just proceed. Your words are very carefully selected.

Governor Patton. I hope.

Senator WARNER. Let's see if we can get a little more definitive.

There are the unobligated accounts, and if we were to give the States a greater degree of flexibility as to how to expend those, do you think that would meet the request of the 39 Governors?

Governor Patton. Certainly would not in Kentucky, and I can't—I think it would not the majority of the States, although there evidently are States that do have large unobligated balances that they perhaps could get by. But, again, let me repeat that, in the average, it is going to take Kentucky 3 months to spend money once it is authorized to obligate the money, so that would be 25 percent of an annual balance, and I understand we have a 30 percent balance. So it would appear that we in Kentucky are doing what it is our philosophy to do, which is to get this money to work for the people of Kentucky as quickly as is reasonably and prudently possible.

And it just takes time. Once you authorize us to obligate the money, it just takes time to do that, about 3 months.

Senator WARNER. Just speaking for myself, I get the message that the unobligated avenue is not sufficient. Is that it, in short?

Governor Patton. We do not believe it addresses the problem.

Senator WARNER. And that means that you're going to have to open the barn door and get some more money? Is that about it?

Governor Patton. For Kentucky to not interfere with the delivery of the services to the people, that's necessary. And I think the majority of the States that would be the case.

Senator WARNER. How do we open the barn door to get some more money without opening up all the formula disputes, all the other disputes? That seems to me to be the issue.

Governor Patton. That is the issue. And let me note that the National Governors Association has not taken the position on the formula issue and on the distribution of the money.

Senator WARNER. I understand that. You've sidestepped that. But I just, for the moment, don't quite really understand how we can—seems to me we can do some technical amendments and we can deal with the unobligated, give more flexibility. But once we move toward additional money, that seems to me to open up a whole realm of issues. Therein is where I have my problem.

Governor Patton. We understand the difficulty of that issue. That is an issue that the Congress must address, and I'm confident you will eventually address it. I'm here to say that in our State and in I believe the majority of the States, further delay without new funding authorization will affect delivery of the services.

As to the flexibility with existing funding, that doesn't address issues. For instance, some of the transportation money goes directly to local entities. They don't have additional sources from which to draw funding to make up that. In Kentucky's case, we're already, 1 month into this lapse, probably any delay beyond the next week or two——

Senator WARNER. Let me just go to a second question to pursue my line. Many States have indicated, in the absence of additional Federal funds, States can use advance construction options and other State funds to proceed with these projects. How widely used is advanced construction among the States? And so many States have the ability to supplement the delay in Federal funds with available State funds?

Governor Patton. I'm going to have to ask the staff to talk to other States, but let me talk for Kentucky. We try to spend our State funds as prudently and as rapidly and get them working for the people as quickly as possible, so we have the same problem with—we would not be able to supplement Federal highway funds with State highway funds, and our State highway funds are dedicated. I do not have the authority to take surplus general fund moneys and spend it in the highway fund. So for Kentucky that is not a viable option. And I don't know how many other States that would be the case.

Senator WARNER. It has been made known to the Chair here that a survey by AASHTO's State transportation officials indicated that many States would use advance construction to continue operations.

Governor Patton. To the extent that funds are available.

Senator WARNER. My concern is, if we go beyond the unobligated funds and we deal with some sort of allocation, not only have you opened up all of the debate and the question about whether the Congress is going to remain in session long enough to accommodate a proper debate on those subjects, but, more seriously, I think you start piecemealing funds out, you're going to further delay and delay and delay the absolute duty of the Congress to come to grips with the 6-year funding bill. That's my view.

Mr. Chairman?

Senator CHAFEE. Thank you, Mr. Chairman.

Here's the situation, Governor. There is about $12 billion out there amongst the States, which is more than 6 months. In other words, it is more than half the year's amount of money that goes out to the States normally. The problem, of course, is that it's not—each State doesn't have the same amount proportionate to its normal amounts, and also it is locked up in different accounts. Could be a CMAQ account, could be an enhancement account, whatever.

Senator Bond has proposed in his second point flexibility to the States on the use of their unobligated balances. In other words, what Senator Bond would say, if Kentucky has got a stack of money in the CMAQ account, they would be able to borrow from that and put it in their highway construction account, and subsequently, obviously, when they got their moneys would pay it back.

Now, that's the first thing. And, after all, we're talking substantial sums of money. As I say, there's $12 billion out there.

In the first 6 months of each of the last 2 years, the total amounts that the States has obligated has been around $9 or $10 billion, so we can see that when we talk to $12 billion we're talking very substantial amounts of money compared to what they have normally had.

What do you say to Senator Bond's point on that one? Are you saying that wouldn't help you in Kentucky?

Governor Patton. Well, I'm saying that it takes some time to get this money obligated once we're authorized to obligate it, and so I would put that in the magnitude of 3 months. So take the first 3 months of the 6-months that you're talking about, on average, I think that may give you nationwide a 3-month window, but that doesn't apply to Kentucky because we're already down to 30 percent, I understand.

So the first thing you have to do is understand it's going to take 3 months of money in the pipeline for us to get it obligated. And so if there are 3 more months out there on average, you may be correct. I would assume those States are trying to invest their money as rapidly as is prudent to get the service available to the people. That I would think would be every State's objective. It is certainly our objective. And so I would assume, if there are States that aren't able to invest their money within 3 months, as Kentucky is, there is probably a reason that they can't get it. I don't think it is that people don't need the transportation facilities.

Senator CHAFEE. The other point Senator Bond has in his suggestions is a hold harmless provision, which would allow the States that were in a situation where they weren't helped by this flexibility to borrow money from the Federal Government in anticipation of the passage of ISTEA in next year, next calendar year—it could be in February or early March if we get right to it. The majority leader has indicated that this is going to be the first piece of business when we come back. We come back in the latter part of January. Certainly that gives us all of February and the early part of March. So this bill is going to be passed. Now, what happens in the House we don't know, but I'm talking about the Senate.

Senator Bond, in the interim, would say to have this so-called "hold harmless" provision, which the States that weren't able to use the flexibility provision to their benefit, there wasn't enough in the CMAQ account or the enhancement account, or whatever it is, that didn't help them, because perhaps they had spent that money in CMAQ or enhancement programs.

So, under Senator Bond's proposal, he'd let the States borrow some in anticipation. Now, what do you say to that?

Governor Patton. Well, I'd like to see the fine print of it. Let me say personally that has some appeal. It would appear on the surface to address the problems that I talk about, if I understand correctly the Senator's proposal.

Senator CHAFEE. But he would have this—this would be immediately. In other words, we would try and pass legislation incorporating this this week or, if we're going to be here next week, next week—in other words, before we go out.

Mr. SCHEPPACH. Mr. Chairman, I might indicate that, on the borrowing authority, there are some States that have State laws or even constitutional restrictions, and so some States would not be able to access that money, regardless of the legislation. So there would still be some problems.

Senator CHAFEE. I mean, obviously you are more familiar with these things than I am, but I would be surprised if they couldn't have an advance from the Federal Government on what is going to be their funds ultimately. I'd be surprised if they couldn't handle that.

Governor Patton. I would think that we should research that subject and provide the committee with a more definite opinion later on today.

Senator WARNER. I think that would be very helpful, Mr. Chairman, because the Bond proposal is worthy of very serious consideration.

Governor Patton. Yes, it is.

Senator WARNER. Now, Mr. Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Governor, you're basically saying doing nothing and hoping that that puts more pressure on the Congress to pass the full 6-year bill early next year is not a gamble that you want to take.

Governor Patton. Well, I am saying that the people of Kentucky will suffer the delivery of timely delivery of services if that is the option. It will affect the timely delivery of transportation facilities in Kentucky.

Senator BAUCUS. So you're saying, regardless of taking the gamble, the point is the people of Kentucky will lose anyway, regardless——

Governor Patton. Yes.

Senator BAUCUS.—because you have only 30 percent left and it takes 3 months, once you obligate, to get the dollars out on the project.

Governor Patton. Yes.

Senator BAUCUS. Is it also true that delaying has the effect of delaying larger projects? That is, that highway commissions and States, in an uncertain period where there are fits and starts and not a lot of certainty over a long period of time, tend to put off and delay the longer-term projects for the benefit of the shorter-term projects? Does that tend to happen?

Governor Patton. Yes. And let me say that, in certain cases, a 2-month delay could make a major delay in the project, particularly in the States which have construction seasons. A 2-month delay could cause the project to go into two construction seasons, increasing the cost of the project, or it could delay it into a total new construction season, which would delay the project for a year. So there are many nuances to just a 2-month delay in the ability to have a program that is planned and logical and sequential and in the efficient obligation of this money.

Senator BAUCUS. Could you just explain that in a little more detail so that this committee has a better feeling for that?

Governor Patton. Say you are in a State that is in the northern half of the country that has got maybe a 7-month construction period, so you've got to——

Senator BAUCUS. In my State that's sometimes shorter.

Governor Patton. In Kentucky it is sometimes 7 months. You've got your project designed to be built in 7 months, and you don't get it started until 2 or 3 months into the season. If you have to hold that project over during the winter, do half of it this summer and half of it the next summer, it is more expensive to do. The option might be to delay it to the next construction season. That's just a nuance of the business.

Senator BAUCUS. I appreciate that, Governor. I want to take more time just to say that I very much hope we can pass some kind of interim provision here. I agree with the Senator from Missouri that extension of the House bill is just not an option, but he has come up with an approach which I think is on the right track. It probably needs a little fine tuning. And it's an approach, frankly, that others have talked about.

Governor Patton. We would like to study the details and see, as Ray indicated, if there would be any legal inhibition on some of the States' parts. I don't even know in my State whether or not there would be a legal inhibition. As Senator Chafee said, I suspect that we will be authorized to accept advances from the Federal Government, but I would want our legal counsel to check on that.

Senator BAUCUS. Back on advance construction, are you saying that Kentucky has no ability to transfer State funds to the Federal highway program?

Governor Patton. I'm not sure we have the State funds available. No. We could—I believe that we would have the authority to go ahead and build a project all with State money with the understanding that we could replenish that money from a Federal authorization. I'm not sure we've got the money to do that. We try as best we can to get our money over a construction season actually to work. And, assuming that we are as low on State money as we are on Federal money—and I don't have those figures—we wouldn't have the money to advance the Federal side.

Senator BAUCUS. So you're saying you may have the authority, but those other State funds are already committed to or obligated.

Governor Patton. They very may well be. I don't happen to have that particular figure for Kentucky.

Mr. SCHEPPACH. Senator, I might indicate, too, that some of this surplus that States have is in rainy day funds that cannot be accessed just by the Governor. A lot of times it takes a State legislature vote to release those funds in those surplus rainy day funds.

Senator BAUCUS. Thank you.

Thank you, Mr. Chairman.

Senator WARNER. Thank you very much.

Mr. Smith, we're just going to go in order here. Do you want to go here? We didn't keep an early bird roster because everybody showed up at one time, but you were a little tardy. I don't think Mr. Kempthorne would mind.

Senator SMITH. If you want to use the early bird rule, I've been the victim of it before, Mr. Chairman.

[Laughter.]

Voice. Not if the record notes he was tardy.

[Laughter.]

Senator SMITH. Golly, you guys are tough. My side of the aisle, too.

Senator CHAFEE. The chairman said, "I'm sure Senator Kempthorne won't mind," without asking Senator Kempthorne.

Senator SMITH. Let me just echo the comments made by my colleagues regarding Senator Bond's attempted compromise here. I think it is reasonable, and, considering the circumstances we're in, it's something we ought to seriously consider.

I might also say, Governor, picking up on what Senator Thomas had to say—I don't want to get into his turf, as I'm sure he wants to ask some questions on this, but it would have been nice if we'd had this letter 4 or 5 weeks ago when a totally unrelated matter was holding up the entire highway bill by some of our colleagues. It is a day late and a dollar short, maybe literally. This is dated November 4th. When many of us were saying it was not the right thing to do to take campaign finance reform and tie it to an ISTEA authorization, that's what happened, and that's why we're sitting here in this mess. I wish we had gotten this letter. Perhaps it might have been more effective.

Let me just ask one question, and then I'll yield. In terms of a straight 6-month extension, which you talked about, it is pretty difficult, isn't it, for the planners to lay out the long-term plans that they want to use, the programs, the projects that they want to do with that 6-month extension, isn't it? I mean, just using your own State as an example, if you get a 6-month extension, even with some of the flexibility that's in the bond compromise, some decisions are not going to be able to be made in terms of long-term project starts; isn't that correct?

Governor Patton. Well, I know we would assume that the Congress is going to pass a bill, and we—Kentucky, and I think other States—assumed and hoped that it would be in this session, and so we have continued our planning process and our obligation process as if there would have been no interruption, and so we're asking that we be able to continue to do that for 6 months. That would give the Congress about 2 months after they return to actually pass a bill.

We certainly strongly support the passage of a bill. We've written several letters over the past year urging our position on the passage of a bill. We think the Governors have been very, very strong with both the Administration and the Congress in support of a passage of a long-term commitment bill.

And if there is a 6-month extension, I think most States will assume that there's going to be a permanent bill after that and they're going to continue as if there would be, but if there doesn't then we'll have to stop at that point. But I don't think we're going to assume that a 6-month extension is the end and plan for an end. We're going to plan for the Congress having passed a bill by that time.

Senator SMITH. OK. That's important to understand, from your perspective, then. You're saying that these programs—nothing would be interrupted in a 6-month extension; you would just simply project as if it were a 6-year authorization and you would just go ahead and continue to do what you're doing, project-by-project, without any change, just assuming that the thing would be extended 6 months again from now?

Governor Patton. That's what we did in Kentucky. Up till this past deadline, we continued to obligate as if there was going to be a bill October 1st.

Senator SMITH. Thank you, Mr. Chairman.

Senator WARNER. Thank you, Mr. Smith.

The Senator FROM NEW JERSEY.

Senator LAUTENBERG. Very briefly, Mr. Chairman, as I looked at your letter—and I appreciate your testimony and your urging us to get on with putting a bill into place for 6 months. That extension I think is very, very important, also.

If I understood correctly, you said earlier you were avoiding any formula discussion.

Governor Patton. Yes. The NGA does not have a position on formula.

Senator LAUTENBERG. Right. So I just want to be clear. Are you advocating a 6-month extension, even based on current structure, just to keep the flow going?

Governor Patton. No, sir. We're advocating approximately a 6-month extension of some kind of a right to obligate, but in the magnitude of what we could expect would be in a new bill. In the magnitude——

Senator LAUTENBERG. So then you do present a point of view about the reformulation of the distribution?

Governor Patton. No, because I don't think any formula is not going to dramatically wipe anybody out or enhance anybody's position.

Senator LAUTENBERG. We have a formula in place, Governor, and, if you said just a 6-month extension, I draw the implication that it would be based on current distribution. Whatever money

New Jersey got, Kentucky got, Wyoming, just continue that for 6 months and make sure you don't interrupt the cash-flow.

Governor Patton. We are not taking that position. We're saying some kind of continuing authorization to obligate on the magnitude of what we could expect. To me, Senator Bond's proposal could fit into that category, as could the House formula. And we're really just saying some kind of a continuation authority in the magnitude of what we could reasonably expect will be the final product.

Senator LAUTENBERG. OK. I guess it's not real clear to me, when you say the Governors Association is not going to be involved in any formula discussion, when, in fact, as we discuss it now, it is clearly based on a new formulation that has yet passed the final test, and that is to get turned into law.

So would you be, therefore, willing to obligate your State's funds to programs for which you may not be compensated? I don't think so.

Governor Patton. We wouldn't expect any outrageous difference in funding that Kentucky has received or would receive under a continuation of ISTEA or some other variation, perhaps as passed by this committee. It wouldn't be just a tremendous difference in what we're going to get. We're going to get about the same amount of money in relative terms, within 10 percent, no matter which formula is passed.

Senator LAUTENBERG. Well, I thank you very much, Mr. Chairman. Thank you, Governor.

Senator WARNER. Mr. Kempthorne.

Senator KEMPTHORNE. Mr. Chairman, thank you very much.

Governor, I appreciate your testimony and your representation of the Governors.

If I may, I'd like to quote from the letter which the National Governor's Association has provided us, signed by 39 Governors. It says it is "imperative for the Senate to consider and pass short-term legislation providing funding for highway, transit, and safety programs, and to complete a conference on that legislation with the House of Representatives."

Imperative? Is it so imperative that the NGA would support the Senate agreeing to the House 6-month extension?

Governor Patton. Again, the NGA does not wish to get involved in that controversy. If you are saying if the only choices were no extension or the House extension, then I think that, in that case, we would support the House extension. But are you saying, "Would the NGA support Senator Bond's proposal a proposed to the House bill," I think we would say that either would be acceptable.

Senator KEMPTHORNE. No. I think the first question is a very pertinent question, and that is no extension versus the House, because it would be interesting, among the 39 Governors here, I don't know how many of them are from the 34 States that will do worse by the House legislation than they would by the formula that the Senate has come up with. So it puts our States in a real dilemma.

Governor Patton. It does.

Senator KEMPTHORNE. And I don't know that any deal is better than a bad deal, because that's where I think we may be headed.

Governor Patton. Well, let me say I'm one of those 34 States that would do better under the Senate bill than the House bill, but I still believe that at this point in the game, when it is obvious that—it appears obvious that Congress won't enact a formula before adjournment, before recess, then to me, if there is not an extension, the people of Kentucky are going to suffer substantial loss of the use of this investigation, and I don't think that they should do that. And hopefully, when the Congress gets back, it will address this subject within a couple of months and do it diligently, without regard to whether or not we've had to use the tool of depriving our citizens of services, prompt delivery of services, just to force us to act.

Senator KEMPTHORNE. And, Governor, I appreciate that.

Mr. Chairman, I think we have to be sensitive to States such as Kentucky that are in a real dilemma, and yet my concern is that if we now, because of this imperative need, go in and change the formula, I think then, when we come back after the first of the year, whatever formula we used as an interim measure becomes the starting point, and I think we are all in terrible shape if that's the situation.

So, again, I hope that we can be creative and innovative in finding a solution, but the House 6-month extension to me is no solution.

Senator WARNER. I certainly concur with the Senator from Idaho, and I'm listening very carefully as you speak about the Governor and his role now.

Senator KEMPTHORNE. May I have one final question?

Senator WARNER. Yes, go ahead.

Senator KEMPTHORNE. Governor, how do you like being Governor?

[Laughter.]

Governor Patton. It's great. Good. I recommend it.

Senator WARNER. Before turning to Mr. Graham, I'm going to pose a question to Mr. Bond. Think about it a little bit. As your proposal is being given very serious consideration, is the downside risk to the—24 States, according to my calculation, would be eligible under your formula. Is there a disadvantage to the other 26 that are not eligible, and could it be written in so that they could borrow if they so desire? We'll come back to you in a moment.

Mr. Graham?

Senator GRAHAM. Thank you, Mr. Chairman.

If I could take that same prerogative and ask a question, and as one who arrived somewhat tardy, Senator Bond's proposal starts with the phrase "real 6-month extension to March 31, 1998." What does the word "real" mean?

Senator BOND. The House, Senator Graham, has a jacked-up approach that tries to incorporate the entire year funding formula. This proposal we have on the table is, I think, responsive. And I want to follow this up with the Governor. It's responsive to the Governor's need to say you can spend money either up to your current unobligated balance, without regard to the categories it's in, or, if your funding—if your obligations in previous years for the first 6 months has been greater than the total amount of your unobligated balances, then you will get an advance allotment against whatever it is that you're going to get under the finally passed bill.

So all States would get the flexibility. About probably a little less than half of them would not have enough unobligated balances, so it would not be borrowing. Missouri can't borrow. Most States can't borrow without a vote of the people. But there isn't anything that says that we can't give an advance on funds to be allocated to the State subsequently and then simply debit the amount that we have forwarded funded from their further allocation. It has nothing to do with the credit of the State. It does not obligate the citizens of the State to pay back the money. It's their money, anyhow, because they paid it in, but it's how we get it back to them.

Senator GRAHAM. Mr. Chairman, if I could ask a followup question. Would that indicate that—let's assume that we do pass a new 6-year bill in March 1998.

Senator BOND. Let's hope we do.

Senator GRAHAM. Then whatever that bill provided in terms of distribution to the States would be retroactive to the 1st of October 1997, and all of those benefits that your proposal would provide would be debited against what the State would receive retroactive to October 1, 1997, based on a formula passed in March 1998. Is that——

Senator BOND. To be specific, Florida, according to October 1, 1997, statistics has $225 million available in unobligated funds. No. 1, Florida, under the proposal that I have put forward, would be able to move that from category to category to whatever category it's needed. In addition, since in 1997 Florida obligated $239 million in the first 6 months, then the Federal Government would advance roughly $14.5 million to Florida so that Florida would be able to obligate, through March 31, 1998, a full almost $240 million, which is what it obligated last year.

When we cut the deal and get it signed into law, we hope, early in 1998, then whatever amount is coming to Florida subsequently will be debited by the $14,489,000 that had already been advanced to Florida, and then Florida would pick up and fill in the programs to the extent authorized under the bill as passed and signed into law. But they would be able to go ahead with contracting, the critical period being through March 31.

Senator WARNER. Wouldn't the short answer to the question be yes?

[Laughter.]

Senator WARNER. The Senator from Florida posed it, you answered it, but it is yes.

Senator BOND. Mr. Chairman, you cut through it.

Senator WARNER. Mr. Thomas? We've got to keep moving along.

Senator THOMAS. Let the Senator from Missouri go. I'm interested in more of his information than—if that's OK.

Senator WARNER. Yes. Do you wish to——

Senator BOND. Thank you, Mr. Chairman. Just to followup—and I commend the Governor and my old friend, Ray Scheppach, for getting 39 Governors on to any kind of letter. Back in years past I used to work with Ray doing that. It was like trying to load frogs in wheelbarrows.

[Laughter.]

Senator BOND. And, Governor, if you think this is a fractious bunch, wait till you join the National Governor's Association. We do appreciate the viewpoint.

As I look at the figures before us, Governor, Kentucky has unobligated balances of $314 million as of October 1 this past year. That's more than you have obligated through the first 6 months in either of the past 2 years. So the measure that I'm proposing—and I think you've gotten a copy. I think we've given you a copy of it—would allow your transportation highway transportation entity to obligate, to let contracts up to that $134 million. You've got about $95 million in the surface transportation program. You can move funds back and forth so you can make the optimal use of that money.

You are not a State which would need to have the advance funding formula that we described that would be debited against your account in the rest of the year, so you would get full flexibility to utilize that unobligated balance, which should give you more than you've utilized in the last 2 years.

And, to be quite clear, in answer to Senator Lautenberg's question, no formula is grandfathered in for 1998. This is formula neutral, which is, I believe, the only way we're going to get anything done, because if you try to cram a bad formula down our throats—and every formula is bad to somebody—there is going to be a real cat fight that is probably going to keep us from enacting it into law.

So Mr. Scheppach's question, there is no borrowing; it is an advance allocation. There is no problem in my State, and I'm confident that no other State is going to have a problem borrowing because they don't have to sign an obligation to repay that. We're just going to debit whatever is advanced. And it's only about $1.3 billion that would have to be debited, according to the figures from the Federal Highway Administration.

Senator WARNER. And we thank you, Senator.

Senator THOMAS. Would the Senator yield just for one quick question?

Senator WARNER. We want to hear from the Senator from California, I think in fairness. Yes, Senator?

OPENING STATEMENT OF HON. BARBARA BOXER, U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator BOXER. Thank you so much. I will go quickly.

Senator Smith of course raises the question of the fact that this was delayed due to the fact that many of us teamed up on both sides of the aisle and said we wanted to make a point about campaign finance reform. I don't think it does much use to go back and talk about that. The fact is we are where we are now and we have time to deal with this now. We've got time to deal with this. And, regardless of that whole issue, the House only did a 6-month extension, which is anathema to many of us. We would have been in a difficult position we wouldn't have been able to move.

I want to compliment Senator Bond for, I think, coming up with an idea that could lead us to some light here. I'm very impressed with it. And also to Senator Warner for pressing forward, regardless of the fact that he's tormented by the choices that we have.

And I would join with you, Senator. In my case the House formula is very bad for our State, and we need to do something different.

I would offer an idea, if Senator Bond's idea doesn't move forward. Maybe what we would think about doing—and this is just something to think about—take the formula that this committee decided on, take the formula the House has done, meet somewhere in the middle in the 6-month extension, and then just say that's just a starting place and we'll continue this fight later. It's just a thought.

I would ask unanimous consent to place several letters into the record from California.

Senator WARNER. Without objection.

Senator BOXER. Thank you very much.

[The information to be supplied follows:]

METROPOLITAN TRANSIT COMMISSION,
Oakland, CA, October 29, 1997.

SENATOR BARBARA BOXER,
United States Senate,
Washington, DC 20510.

DEAR SENATOR BOXER: On behalf of the Metropolitan Transportation Commission I am writing to express our desire to see the passage of a short-term extension of ISTEA in the absence of a multi-year ISTEA reauthorization bill in this session of Congress. The short-term extension should maintain the structure and integrity of the landmark ISTEA legislation that has a balanced and efficient transportation system

As you know, ISTEA II (S. 1173) failed to achieve cloture after four attempts and it appears that debate of the bill will be delayed until the next session of the 105th Congress. While a short-term. extension does not address the long-term planning needs of the San Francisco Bay area, simply allowing the program to expire would be much more harmful. The transit program would be traumatized without funding for capital improvement projects that are underway and the highway program would eventually shut down. The delays in construction would impede economic development and compromise the safety of our roads and bridges.

We thank you for your consideration of this issue. MTC is deeply appreciative of your efforts on ISTEA reauthorization during the past year. California's interests have been well-served by your involvement in this legislation. We look forward to the next session of Congress.

If you require additional input concerning continuation of the Federal highway and transit programs, please contact Tom Bulger, our Washington Representative, at (202) 775–0074.

Sincerely,

LAWRENCE D. DAHMS,
Executive Director.

ASSOCIATION OF MONTEREY BAY AREA GOVERNMENTS
Marina, CA, November 3, 1997.

The HONORABLE BARBARA BOXER,
United States Senate,
Washington DC, 20510.

DEAR SENATOR BOXER: We understand that the U.S. Senate is debating whether to simply let ISTEA expire instead of extending it 6 months as the House has already approved. If ISTEA expires, this would translate to no Federal transportation funds until a new multi-year law is enacted.

For the Monterey Ray region, this would have a drastic impact. As the Metropolitan Planning Organization for the Central Coast encompassing Monterey, San Benito and Santa Cruz Counties, the Association of Monterey Bay Area Governments (TRIBAL) transportation planning program would be virtually unfunded as the small amount of local funding we have budgeted is primarily in-kind from other agencies with whom we supplement with pass-through Federal planning funds. Any further delay (regardless of three, Six or nine mouths) in extending ISTEA in lieu of passage of new reauthorizing legislation would mean a hiatus of our metropolitan planning program, and the products thereof (e.g., long range plans, transportation improvement program, travel demand model development, air quality conformity determinations, population forecasts disaggregation, Geographic Information Systems development, etc.), and the need to put our transportation planning staff on unpaid leave of absence.

In addition to AMBAG, the public transit operators in the region (Monterey-Salinas Transit, San Benito Transit, and the Santa Cruz Metropolitan Transit District) would be adversely impacted cash-flow-wise as Federal capital and operating funds provide a reasonably large portion of their budgets and there are no temporary replacement sources.

We urge your support in extending ISTEA now! I am available for your staffs questions.

Sincerely,

NICHOLAS PAPADAKIS,
Executive Director.

KINGS COUNTY ASSOCIATION OF GOVERNMENTS
Hanford, CA, November 3, 1997.

SENATOR BARBARA BOXER,
Senate Office Building,
Washington, DC 20510.

Subject: Extension of ISTEA

DEAR SENATOR BOXER: Kings County has been monitoring legislation to reauthorize the Intermodal Surface Transportation Efficiency Act (ISTEA). Since ISTEA expired on September 30, 1997, and Congress is scheduled to adjourn soon, it appears that a new multi-year transportation funding package will not be enacted. An extension of ISTEA has been proposed and should be enacted.

By not approving an extension to existing law, it could have a direct impact on Kings County's ability to fund local transportation projects. Kings County and its focal jurisdictions depend on Federal transportation funds to continue the improvement and maintenance of the local transportation system. Transit agencies also depend an Federal funds to continue operating local transit systems that are essential in less populated areas. Without transit operating funds, elderly, disabled, low income, and other transit dependent persons can not get to necessary services like medical care and employment.

Local agencies have prepared their budgets with the assumption that new Federal reauthorization of ISTEA would be enacted prior to its expiration, thereby continuing Federal funding for transportation purposes. Local budgets of rural counties like Kings are already severely impacted by the lack of funding to meet identified needs.

We urge Congress to act expeditiously to approve an extension of ISTEA so that local jurisdictions can continue to fund needed local transportation improvements and operate local transit systems.

I hope you find this information useful as you consider the impacts of the Senates action on the reauthorization of ISTEA.

Sincerely,

WILLIAM R. ZUMWALT,
Executive Secretary.

SAN LUIS OBISPO COUNCIL OF GOVERNMENTS
San Luis Obispo, CA, October 31, 1997.

The HONORABLE BARBARA BOXER,
United States Senate,
Washington, DC 20510.

Extension of ISTEA

DEAR SENATOR BOXER: On Tuesday November 4, your committee, the Senate Environmental and Public Works Committee, has scheduled a hearing to consider the extension of the Intermodal Surface Transportation Efficiency Act (ISTEA). Our agency is the Metropolitan Planning Organization for San Luis Obispo County, responsible for planning and programming all State and Federal transportation funds in the region. We would urge you to approve a six month extension of the existing law. consistent with action taken recently by the House of Representatives.

Expiration of the existing law would result in the cessation of all Federal transportation funds until a new multi-year law is enacted. This would have a devastating impact to our agency, our region, and our residents. One third of our agency funding comes from Federal funds. Should Federal funds cease our staffing would have to be reduced by 40 to 50%. This would result in an inability for our region to comply with State and Federal requirements.

At risk would be the FTIP, our Federal Transportation Improvement Program, which controls the flow of $76.2 million of federally-funded programs just in FY97/98, as well as important local projects, some of which are currently under construction. With half the staff, all projects would suffer. Moreover, most local and State transportation projects are largely funded with Federal funding. Expiration of ISTEA would delete all Federal funding creating significant financial hardships for those projects under construction and would certainly delay most others. The effects of such drastic funding cuts would create undue local hardships not easily reconcilable.

We strongly urge you to approve a six month extension of ISTEA. Thank you for your previous support and assistance. We look forward to hearing from you on this urgent matter.

Sincerely,

RONALD L. DE CARLI,
Executive Director.

SAN DIEGO ASSOCIATION OF GOVERNMENTS,
October 31, 1997.

SENATOR BARBARA BOXER,
United States Senate,
WASHINGTON, DC 20510.

DEAR SENATOR BOXER: Rusty Selix of CALCOG requested that we provide you an assessment of the possible impacts to the San Diego region resulting from a three, six, or nine-month delay in the ISTEA Reauthorization/ISTEA Extension.

Caltrans District 11 staff have heard that a 3-5 month extension would probably have a minimal effect on the State highway program. During this shorter timeframe the use of Advance Construction combined with the current large State Highway Account cash balance would be able to fund most programs and projects scheduled in this period.

If the ISTEA Reauthorization/Extension were to be delayed beyond a six-month period some project delays could occur. SANDAG/Calrans have a joint funded SR125 freeway project scheduled for construction in mid-1998. This $23 million project could be delayed due to its need for Federal Surface Transportation Program (STP) funding. Delays in Federal funding beyond 6 months would begin to affect the Regional STP and Congestion Mitigation and Air Qualifier (CMAQ) programs although we do not have my major project delays identified at this time. Also Federal funding delays beyond 6 months could begin to affect Federal transportation planning activities in the region.

We have asked the San Diego Metropolitan Transit Development Board staff for an assessment of the impacts any delay would have on their programs. We will provide you any information at we receive from MTDB.

If you have further information needs please call me or Stuart Shaffer at 619–595–5331.

Sincerely,

BILL TUOMI.

Senator BOXER. I certainly will not read from them, other than to say they're all very concerned and upset. One of our planning groups says they'll have to lay people off if we don't do something. So I think it is very important.

Another point I wanted to raise to everyone here, including, Mr. Chairman, you and Senator Bond, if I could catch his eye for 1 second. It has been brought to my attention that the Federal emergency aid part of ISTEA would be in deep trouble. In other words, if we have a problem with El Nino or any kind of flooding anywhere in the country—we've all been involved with it—the Administration says FHWA would not be able to approve and allocate available Federal aid emergency relief funds, ER funds, to the States for necessary repairs to damaged highways and bridges. So I would hope whatever we do we would certainly include that extension, because we're apt to face this December, January, and February.

So, wrapping it up, I just want to compliment my colleagues from both sides for their work. I am ready to do whatever it takes, the hard work, to stay here till we get something done.

Senator WARNER. I thank you, Senator. I think we're having a good bipartisan discussion here. We're beginning to isolate the options, as I see them. I'll return to the Senator from New Jersey in a moment.

Senator BOXER. Senator Warner, could we just hear if Senator Bond included that emergency relief?

Senator WARNER. Let me explain.

Senator BOXER. OK.

Senator WARNER. In the first place, anything that moves with regard to highways in the next whatever days of this session will have technical fixes, and that will be one.

Senator BOXER. OK.

Senator WARNER. We're really faced with the following situation. The leadership has the ability to put into legislative form technical fixes such as yours and to give flexibility with the unobligated balances. The sheer line here is whether we try to go a step forward and do something in the nature of a freestanding type piece of legislation, as advocated by the distinguished Senator from Missouri. That, to me, is the balance before us.

And I would once again offer you the opportunity. What do you tell the 26 Governors who do not have borrowing authority? As you know, having been a Governor, the State next to you, the highway folks say, "You've got some money next door. We didn't?" How do we answer that?

Senator BOND. Very simply, Mr. Chairman. You're going to be able to spend as much as you spent last year or the year before in the first 6 months, and if you do get an advance, if you're one of the States that gets an advance, it's coming out of your next year's allocation, whatever the formula is.

Senator WARNER. I understand that, but if you can't——

Senator BOND. For example, Virginia has $212 million unobligated balance as of October 1.

Senator WARNER. That's because of very prudent and careful planning.

Senator BOND. In the last 2 years, the most you've ever spent in the first 6 months is $183 million.

Senator WARNER. I've made my point. But in the real world when half get and half don't get, you've got——

Senator BOND. Let me ask the Governor to comment on that. I mean, you can spend as much as you spent in the past, and you can even gear it up. Governor, does that make sense?

Senator WARNER. I think we've framed the question, and I'm not so sure Governor Patton hadn't——

Governor Patton. I would like the opportunity to clarify, if I may, because the Senator's explanation of his proposal means that I didn't understand it as well as I thought I did and I'm not quite as enamored with it as I was because——

[Laughter.]

Governor Patton.—it takes about 3 months to spend the money, to obligate the money, after I know I have it, and that is the problem.

Senator BOND. That's why we want to give it to you now, so you can have—so I hope before we go home, before November is over, you're going to know how much money you can spend through March 31.

Governor Patton. But let's say that we do all that. What about in the next quarter? I can't begin to advertise expenditure in the next quarter. I can't begin to do that. So let's say that we go ahead and do that and we spend that money and obligate it and sign contracts for it in the first 6 months. I'm going to be another 3 months that I don't obligate anything because—say you pass a law, and let's say you pass the law by the end of March that gives me more authority. The fact is I've got about 3 months that I can't do anything because I can't—I have to prepare, I have to advertise. I have to prepare all this stuff. It takes about 3 months, and that is, the way I now understand your proposal, what would happen in Kentucky.

Senator WARNER. We've got to move along. Governor, we thank you very much.

Senator BAUCUS. If I could make just one very quick point or two. There are some States delay huge balances because they have big projects, a lot bigger than average, coming down the line, too, and some of those States might be in that situation.

Senator WARNER. There is a real diversity among the several States here.

Thank you very much, Governor.

Governor Patton. Thank you, Mr. Chairman.

Senator WARNER. Senator Thomas?

Senator THOMAS. I guess I was going to ask the Governor, before you get away, it seems to me that you all ought to be supportive of—we're going to end up here in March with the same thing again unless we do something that is an interim thing. I mean, you tend to sound like you want to go ahead and make the permanent arrangement. We'll be right back here in March unless we do something that gives you a real tie over the time, but that we're still forced to come up with a decision.

I presume you want a long-term decision?

Governor Patton. Yes.

Senator THOMAS. So I hope that you give some thought to that so that this interim one will be one that drives us to do something in March and that you don't insist on doing something that's so permanent that in March we'll be right where we are again and have to go through this whole damn formula business again.

Governor Patton. And that's the reason the concept of the Senator's proposal of getting an advance against whatever it is that we would get under a formula is attractive. My problem is, as I understand it, there's that delay that will affect. I say, as I understand it.

Senator THOMAS. And I understand that. And we need to do something. But I guess all I'm saying is I hope that we're willing—there's going to be a little pain here. We are where we are, regardless of Senator Boxer's notion that we shouldn't talk about it. We're where we are, and it is a tough situation, and we need to solve it, and there may be some pain for all of us to do that. I hope we don't look for a totally painless operation so that it goes on forever and we're back right where we were again.

I appreciate your being here.

Senator WARNER. Senator Thomas, those are very wise words of wisdom to conclude this first witness.

Senator THOMAS. Thank you, sir.

Senator WARNER. Thank you very much. Aren't you glad you came, Governor?

Governor Patton. Thank you, Senators.

Senator WARNER. Now we have Mr. Basso, acting Assistant Secretary for budget and programs, U.S. Department of Transportation.

Mr. Basso, you've been through many years of experience here. I had the privilege of discussing this issue at great length yesterday in my office.

We'd like to also introduce Ms. Scheinberg, Associate Director of the General Accounting Office; and Steve Massie, Transportation Construction Coalition. Give us a viewpoint of those that are out there right on the front lines of this issue trying to improve our surface transportation.

We'll lead off with you, Mr. Basso. And we'll ask each witness to limit their testimony to 5 minutes, and I'll ask the clerk to use the light for that purpose.

Thank you very much.

STATEMENT OF PETER J. BASSO, ACTING ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS, U.S. DEPARTMENT OF TRANSPORTATION

Mr. BASSO. Thank you very much, Mr. Chairman. I will be brief and summarize my statement.

Mr. Chairman and members of the committee, I do appreciate the opportunity to appear before you to discuss the potential consequences if surface transportation programs under the Intermodal Surface Transportation Efficiency Act are not reauthorized.

I have submitted my prepared statement in great detail for the record, but let me hit the high points of that. I think I can summarize that into three major issues.

First of all——

Senator WARNER. I want to make clear in our discussion, you've consulted with the Secretary of Transportation, and the statement which you're about to make is one that reflects the Secretary's views?

Mr. BASSO. It reflects the Secretary's views, Mr. Chairman, and the Administration's position.

First and foremost, the question of safety. The highway safety programs, including the State and community highway safety program, the motor carrier safety assistance program, and the outlaw programs administered by the Traffic Safety Administration have, in fact, no unobligated balances and are running at the State levels on what little carry-over funds there were from fiscal year 1997.

In the case of the motor carriers safety assistance program, there's approximately 3,600 State employees that are paid from these funds, and we've been told that, in fact, many of those States will run out of money during this first 2- to 3-month period, and just a couple of examples. States have pointed out to us that they will have to lay off personnel or furlough personnel as early as the end of November. Rhode Island, Mr. Chairman, is one area that I picked up, and there are three others that have told us that, and there are probably many others that will follow suit.

On the State and community highway safety program, important programs that provide for safety, provide for alcohol countermeasures, provide for seat belt measures, and other areas, clearly will be strapped. Again, from my own experience, I know personnel in those programs are often financed out of these funds, and States, again, have indicated to us after the first quarter they're going to have to make substantial decisions about not only cutting back in programs, but the personnel that administer them.

Let me turn my attention, if you would, to the internal problems of the Department of Transportation. The administrative funds that run the Federal Highway Administration, and also the Bureau of Transportation Statistics, and the Traffic Safety Administration's grant programs depends on in fact will run out, and we estimate in early January that we will have to basically furlough or shut down the operations of the Federal Highway Administration, the BTS, and about 100 employees that administer grant programs in the Traffic Safety Administration.

These are real concerns, not only because there are personnel, but, more to the immediate point, these are the people who will authorize the $12.3 billion and approve those programs and make payments to the States, who will not be on board, Mr. Chairman, to do those functions. And there are virtually no reasonable alternatives to that.

The last point on the question of States which is, I think, paramount in this discussion, in addition to the other issues, clearly the Administration is for a multi-year authorization bill. It has become clear to the Secretary and certainly to myself that that's not possible at this juncture, so the question becomes what steps need to be taken.

And one of the things that I can say with virtual certainty is that the Administration clearly supports, first and foremost, dealing with the safety issues and what's necessary to keep those programs running, the matters that are necessary to keep these agencies running so they can both deal with the questions of what the States need out of them and also, candidly, what the Congress needs in terms of technical support, which we provide substantial amounts. And, finally, to assure that infrastructure programs are moving forward as best they can, because it does mean jobs. More importantly, it is critical to the economy.

Thank you, Mr. Chairman. I'd be happy to answer questions.

Senator WARNER. They're all here. All of those problems, which I place in what we call the technical category of fixes, are in this statement. Yes, sir. Thank you very much.

Senator WARNER. Ms. Scheinberg?

STATEMENT OF PHYLLIS SCHEINBERG, ASSOCIATE DIRECTOR, GENERAL ACCOUNTING OFFICE

Ms. SCHEINBERG. Thank you, Mr. Chairman and members of the subcommittee.

I'd like to introduce my colleague, Yvonne Pufahl. We appreciate the opportunity to appear this morning to discuss the status of Federal surface transportation programs in the absence of funding from a new highway reauthorization act.

In order to respond to your request for information, we compared unobligated Federal highway fund balances at the beginning of this fiscal year with the highway funds that States obligated during the first part of last fiscal year.

Our comparison is based on Federal Highway Administration data on total obligations for Federal highway projects for all 50 States. In addition, we contacted nine States to obtain their views on how they would operate without new Federal highway funds in the short term.

Because of our focus, we did not address other important areas that Mr. Basso raised, such as the potential effects on the operations of the agencies within the U.S. Department of Transportation or the effects on particular programs such as safety. In addition, we did not look at the impact on transit.

We found that the total unobligated balance of over $12 billion available to the States at the beginning of this fiscal year exceeds the total actual obligations of over $8 billion that all States combined made during the first 6 months of fiscal year 1997. However, a comparison of individual State unobligated balances with their actual fiscal year 1997 obligations reveals that some State highway programs may experience financial difficulties by the middle of the fiscal year if their obligations are compared to last year.

The analysis indicates that, while most States have unobligated balances that are greater than their actual Federal highway obligations in the first 6 months of fiscal year 1997, 14 States have an unobligated balance that is lower than their actual obligations during the 6-month period.

Tables comparing the States' unobligated balances and their 1997 obligation levels for all 50 States for 4 months, 5 months, 6 months, and 7 months are attached to my written statement.

It is important to note, when making these types of comparisons, that the level of obligations that States incurred in fiscal year 1997 may not correspond to their plans for obligating Federal highway funds in this fiscal year. Further, some States may be limited in their ability to use available unobligated balances because of the restrictions on the specific type of highway programs that the funds can be used for.

Nonetheless, the comparisons do indicate that, while many States may be able to continue financing highway projects for some time, some States may have difficulty with even a short-term absence of new Federal highway funds.

There are a number of strategies that could help the States respond to the absence of new Federal highway funds in the short term. For example, the Congress could provide States with the flexibility to use their unobligated balances across the range of Federal highway programs, rather than keeping the balances tied to specific highway funding categories and demonstration projects. As a result, some States would be better positioned to more fully use their unobligated balance funds.

The individual States could also consider a number of strategies, such as temporarily substituting State funds for Federal highway funds. The States could also begin highway projects by using advance construction, under which a State obtains capital from a variety of sources, including its own funds and private capital, and later receives reimbursement from Federal highway obligations. However, many of these strategies may delay other planned projects within the individual States.

Furthermore, these strategies may not be feasible for some States or for an extended period of time. Clearly, all States are likely to be impacted to some degree by the absence of a highway reauthorization. The level of the impact will differ in the various States, based on their individual circumstances, resources, and the spending priorities. But those States with relatively small unobligated balances compared to their past obligation levels may face particularly acute problems.

This concludes my statement. I'd be happy to answer any questions.

Senator WARNER. Are you sure you were able to include it all, irrespective of the light?

Ms. SCHEINBERG. Yes.

Senator WARNER. This is exceedingly valuable testimony that you're contributing here.

Ms. SCHEINBERG. Thank you.

Senator WARNER. Now, does your colleague have any supplementary comments?

Ms. SCHEINBERG. Not at this time, but she can answer questions.

Senator WARNER. Fine.

Mr. Massie, from down in the trenches and the front, how is it going to affect contracting?

STATEMENT OF STEVE MASSIE, TRANSPORTATION CONSTRUCTION COALITION

Mr. MASSIE. Mr. Chairman and fellow members of the subcommittee, thank you for this opportunity to appear before you all.

My name is Steve Massie. I'm a highway contractor from Williamsburg, Virginia. Today I am testifying on behalf of the 26 member organizations of the Transportation Construction Coalition, which is known as TCC. I appreciate the opportunity to testify before you concerning the importance of the Federal aid highway program. I will keep my comments brief, but I would like to have my entire statement and attachments made a part of the record.

Senator WARNER. Without objection.

Mr. MASSIE. The TCC supports a multi-year reauthorization of the Federal surface transportation program funded at the highest level that can be supported by the highway trust fund. Because this is not possible before Congress adjourns this year, it is essential that the programs in ISTEA be temporarily extended until a new multi-year authorization can be passed.

It is imperative that the program not be allowed to lapse any longer. State DOTs are largely dependent on the Federal aid highway program for capital funding. On average, Federal funds account for 44 percent of highway capital investment. I have heard some in Washington, D.C., claim that a short-term extension of the ISTEA legislation is not necessary because all States have unobligated balances that they can use until a multi-year bill is completed next year. This is not true.

The TCC estimated earlier this year that by March 1998, 26 States will expend all unobligated balances. By the end of February, 11 States, including Florida, Alabama, Arkansas, Missouri, New York, and Oregon are expected to run out of budget authority. In March, California, Connecticut, Idaho, Maine, Nevada, Virginia, and Wyoming will also run out of funds.

It should be noted that this is the brightest scenario, and it assumes that the States will be granted full flexibility in manipulating their accounts.

Also critical in our eyes is what the available funding can be used for. In Virginia, for example, we have less than $3 million in the national highway system account, $4 million in the interstate maintenance account, and $50 million in the bridge account, totaling $57 million in usable highway construction funds.

Due to Virginia's use of advanced construction funding, my State will not have another complete letting with federally funded projects until a reauthorization bill or extension is enacted, thereby potentially crippling our State's construction industry.

In Virginia, the failure to temporarily extend ISTEA will impact 281 projects valued at $255.7 million in the first two quarters of fiscal year 1998.

DOT has estimated that for every $1 billion invested in highway construction, 42,100 jobs are created. So, using AASHTO's survey estimates, Congress is jeopardizing over 300,000 jobs in the first 3 months of fiscal year 1998.

If no bill is enacted by July 1 of 1998, the total amount of projects delayed is estimated at $11 billion, which would impact over 470,000 jobs.

If there is no bill through the month of January, we will lose the entire spring construction season. In the likely event there is no bill until June 1998, we will lose the entire spring and summer construction seasons. This would be absolutely devastating to the construction industry. At the very least, it would result in massive layoffs, and, in worst-case scenarios, many small family owned companies would go out of business.

Without an extension of the Federal aid highway program, I will begin laying off my employees in January 1998. I will not be able to rehire them until a bill is enacted, and I won't use them again until 45 or 60 days after the bill is signed.

A delay in reauthorizing the Federal aid highway program will also put lives at risk. According to FHWA, poor road design and conditions were factors in 30 percent of the 42,000 fatalities on the Nation's highways last year. The temporary extension of ISTEA will enable the States to continue to improve our highway system and, in turn, will reduce fatalities on our roadways.

Due to this winter's looming budget battle and several controversial amendments to the reauthorization bill, it is unlikely that a multi-year reauthorization bill will be passed until the second quarter of fiscal year 1998. Since 26 States will be out of funding by March, it is imperative that Congress pass a bill that provides funding for the highway program until a new multi-year bill is enacted.

Hundreds of thousands of American jobs and the safety of our Nation's roads are in Congress' hands. This program is too important to our Nation's productivity and our economic well-being to leave it unfunded for the coming months. Please do not go home without passing an extension to the Federal highway program.

Thank you, again, for the opportunity, Senator. I would be happy to answer any questions you have.

Senator WARNER. I'm going to first ask of all witnesses to take a look at the Bond proposal and supplement your testimony today with regard to your comments on the Bond proposal. That seems to be one that has, on both side of the aisle, engendered a good deal of interest here, and certainly the Chair is quite interested in it, but I have so many unanswered questions that I'm not ready to take a position at the moment.

You've assured the Chair that this statement by the Administration covers all the technical fixes. I categorize them as "technical" because I'm confident the joint leadership of the Senate will see that those can be put in place legislatively.

My great concern is to whether or not any freestanding proposal of the magnitude of $1 to $2 billion, as espoused by Mr. Bond, can get through. My immediate concern is what do I say to those Governors of 26 States, assuming that the 24 calculation is about the number eligible under the Bond proposal, how they would react to this and transmit that reaction back to their Senators. We'll have to view this.

Do you have any initial reaction to that proposal, Mr. Basso?

Mr. BASSO. Mr. Chairman, let me say I haven't had the opportunity to review the proposal, but let me make this observation.

Senator WARNER. And I hope that you can do it in a very short turn-around time.

Mr. BASSO. I will do that, sir. I'll do it as soon as we leave here.

But let me mention one thing that I think I should point out to the committee, on the question of flexibility, I was doing a little calculation. There is, as we mentioned, about $12 billion out there to be obligated. Of that, in excess of $9 billion is that which falls in the obligation limitation, about $2 billion in demonstration projects and a little bit in minimum allocations, $600 million.

The point I'd like to make very briefly, Mr. Chairman, is that there is substantial flexibility in a number of those categories. For example, the largest——

Senator WARNER. Existing under law today?

Mr. BASSO. Yes, sir. The most substantial component of the unobligated balances subject to the limitation is the surface transportation program, as there are much smaller balances in interstate maintenance, in the national highway system program.

There's about a billion in the area of congestion mitigation air quality. There's close to a billion in other transportation enhancement areas which are, in fact, restricted. And the Administration feels, I think, very strongly about the environmental programs and preserving them.

So my point briefly, Mr. Chairman, is that there is considerable flexibility in parts of the money that is there now.

Senator WARNER. Yes, but I want to make sure. Does the Administration take the position that there is in place in law today sufficient flexibility regarding the $12 billion, and therefore you would not support Congress giving additional flexibility to the several States?

Mr. BASSO. Mr. Chairman, I don't think I could go that far. I think I can say that we would like to examine, obviously, the Bond proposal or any other proposal this committee has. But I did want to point out certainly in part——

Senator WARNER. What you're pointing out is, in your professional judgment, there's a good deal of flexibility, but that you decline at this time to say whether or not the Administration would oppose Congress giving additional flexibility with regard to the unobligated balance?

Mr. BASSO. That's correct, Mr. Chairman. I'll need to consult.

Senator WARNER. Fine. Thank you.

Ms. Scheinberg, what's your view of the Bond proposal? And, specifically, my concern is to how the Governors of 26 States would react hearing that they are not going to be a beneficiary because they have presumably some sufficient funds.

Ms. SCHEINBERG. Senator, I'd like to take some time and get back to you after the hearing on that, but I would just say, in general, that the Bond proposal provides more flexibility and——

Senator WARNER. Wait a minute. Let's isolate. More flexibility with regard to the $12 billion?

Ms. SCHEINBERG. Well, also, even beyond my understanding of it, unless I'm missing it, is that it gives the States an option to use more than the $12 billion by getting the advance.

Senator WARNER. That's correct.

Ms. SCHEINBERG. And so the States would have even more flexibility than they would certainly currently and if the Congress were to give the States the flexibility to spend their $12 billion across programs.

Senator WARNER. Yes.

Ms. SCHEINBERG. And our view is that, to get through the short-term period without reauthorization, as much flexibility as possible would be best.

Senator WARNER. Yes?

Ms. PUFAHL. If I may interject, the flexibility to use the unobligated balances, a number of States told us that there is a problem now because of the way those balances are aligned. Missouri was one of the States that we talked to, and they said that they would be able to use less than a third of their unobligated balances because of the categorization of the funds.

We also looked at where these unobligated balances lie as far as program categories. For the national highway system, it is less than 3 percent of the $12.1 billion. Mr. Basso is right in saying that there is a certain degree of flexibility, such as with STP funds, but even within that broad category there are set-asides such as enhancements.

If you look at the enhancements set-aside, which is for activities such as bikeways and pedestrian walkways and landscaping, there's about $1 billion. And you look at the NHS, and it's less than half that amount.

So that is obviously why States are complaining and asking for more flexibility.

Even if you gave them flexibility, though, it would be limited if you didn't advance some States money. When we just compared what they had obligated in the past to the 6-months in 1997, what we found was that 14 States would come up with a shortfall. But, if I understand his proposal correctly, then by providing for an advance you'd be loaning money to those 14 States.

Also, we were concerned that perhaps fiscal year 1997 would not be typical, so if you looked at what is the greater of fiscal year 1996 or 1997, you circumvent that problem.

Thank you.

Senator WARNER. Mr. Massie, I presume that the bond proposal would go a long way to meet the concerns that you very clearly expressed on behalf of the professionals that have to do the work.

Mr. MASSIE. It would, and the flexibility is the biggest deal in there. To allow the States to manipulate the accounts, that would be absolutely critical. Just like you just finished saying, the unobligated funds in the CMAQ and the enhancements are sitting there. States cannot get to them. And I guess, realizing that those funds are so large, maybe that would put into question the idea of really having to repay them even.

Senator WARNER. Thank you.

Mr. Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Ms. Scheinberg, I'd like to refer to page 3 of the testimony that you handed out. It seems to me that what you're saying there—and, by the way, I think your testimony is excellent, and I want to commend everybody who has testified. It has been very helpful here.

What you say is in the middle of page 3 in your testimony, some States may be limited in their ability to use available unobligated balances because of restrictions. In other words, you're addressing that. And then you get on to say, "The comparisons indicate, while many States may be able to continue financing, some States may have difficulty dealing even with short-term."

So you address two problems. First, you address the flexibility problem in the bottom of the page. "Congress could provide the States with flexibility to use their unobligated balances across the range of Federal highway programs—" exactly what Senator Bond is suggesting in his point two, flexibility to States on use of their unobligated balances. That's the first thing.

I think it's clear that after reauthorization Congress could reimburse the appropriate funded categories. In other words, presumably there would be a provision in there you can't strip CMAQ and then use it all on highways. You can under the flexibility, but then you've got to repay the CMAQ account, and that's fair enough. I'm for that.

And then you get into—at the top of that page you talk about those who have unobligated balances lower than their actual obligations during the same period. In other words, you take 1996, and that's where you come up with your 14 States. And I don't know where people are getting these 26 States, but I—does that figure arise from the amount, if you take not 1997 but you take 1996 and try to have them to have as much as they had in either of those years?

Ms. SCHEINBERG. No. We looked at 1997, the first 6 months of 1997, but the 14 States assumes that they would have flexibility we assume that Congress would provide the States.

Senator CHAFEE. And even with that flexibility they don't still have enough to compare with what they did in the first 6 months of 1997. Is that what you're saying?

Ms. SCHEINBERG. Yes.

Senator CHAFEE. OK. And Senator Bond deals with that. He has a hold harmless provision, which allows States to obligate up to either the first 6 months of its obligation in fiscal year 1996 or 1997, whichever is greater. So I see a lot of merit in the Bond proposal. Obviously, it has got to pass both branches, clearly, but it seems to me we take care—that Senator Bond has taken care of the problems that could arise. Do you see some gap he's left?

Now, let's assume that we've taken care of what Mr. Basso addressed, namely, the safety and the way of paying the Department of Transportation employees and so forth—which, by the way, Mr. Basso, I think each quarter of the Department of Transportation employees is about $70 million. Am I right?

Mr. BASSO. Yes, sir.

Senator CHAFEE. So, therefore, it would be $140 million to carry them from October 1 through the end of March?

Mr. BASSO. Yes, sir.

Senator CHAFEE. The first two quarters.

What do you say to all of this, Ms. Scheinberg?

Ms. SCHEINBERG. Well, we would need to do the analysis against the 1996, the first 6 months actual obligations against 1996, to see how that compared with the 14 States which showed up comparing to the 1997. So I'd like to do some analysis and get back to you, Senator.

Senator CHAFEE. Because you just used 1997?

Ms. SCHEINBERG. Exactly.

Senator CHAFEE. Yes. OK. There's a vote on. I can't tell. Are they in the second part?

Senator LAUTENBERG. They're down to about 4 minutes.

Senator CHAFEE. All right. Do you want to ask some questions now or do you want to go vote?

Senator LAUTENBERG. I don't want to speak that fast.

Senator CHAFEE. Take all the time you want.

Senator LAUTENBERG. I have some rather complicated questions.

Senator CHAFEE. I would suggest, as John Warner suggested, that we take a little recess and come back.

[Recess.]

Senator WARNER. The hearing will resume.

Chairman Chafee, you were questioning at the time we adjourned for the vote. Had you completed?

Senator CHAFEE. I had, and Senator Lautenberg was next up at bat.

Senator WARNER. He is to return.

Mr. Baucus, you go ahead.

Senator BAUCUS. Thank you, Mr. Chairman.

I'd like to ask Mr. Massie if it isn't true—actually, I'll get back to you in a minute. Ms. Scheinberg, the chairman asked whether there are any holes or any problems with the Bond proposal, do you see any at least questions that might be addressed, and we were discussing your statement, and in some respect isn't the answer to that question the middle paragraph of the statement, beginning with the first sentence, "It is important to note, when making these types of comparisons—" that is, comparing 1997 and 1996 and 1998, etc.—"that the rates at which States obligate funds in fiscal year 1997 may not correspondence to their plans for obligating Federal highway funds in fiscal year 1998."

Ms. SCHEINBERG. Right. That was a big assumption that we had to make, that 1997 was a typical year or typical of this year, in fact. I mean, it seems like the Bond proposal is trying to even that out a little bit by using 1996. In the best of all worlds, you know, you might look at a longer period of time and get the average over many years.

But I think from the State's perspective every year is a little different because of weather, because of projects, the mix of the program.

This is the best—in the sense of fortune telling, this is the best that we can do, but you're absolutely right that every year is different and it's very hard to predict.

Senator BAUCUS. So some States have higher unobligated balances now because they have big projects in mind; is that right?

Ms. SCHEINBERG. That's possible. Yes.

Senator BAUCUS. Is it also true that the Bond proposal tend to favor the donor States because the minimum allocation comes off the top and is a separate limitation compared with the limitation that otherwise would apply to obligated balances?

Senator WARNER. Feel free to take that important question for the record before you launch out on it, because that's a key, key question.

Ms. SCHEINBERG. Yes. Maybe we'll take that one for the record.

Senator BAUCUS. That's fine.

Ms. SCHEINBERG. I'd like to think about it a little.

Senator BAUCUS. Yes.

Senator WARNER. Can we have the question again?

Senator BAUCUS. Yes. The basic question is: without getting into the degree as to how much, doesn't the Bond proposal tend to favor donor States that receive a minimum allocation amount, that that limitation, off the top of the program and also separately from the limitation that States receive, generally receive on their obligated authority.

That is, the way the program is written, minimum allocation is a separate limitation from the regular limitation, and that's——

Senator WARNER. It's a key question.

Senator BAUCUS. It's my understanding that, without getting to the degree to which it tends to favor those States, there would be that tendency.

Ms. SCHEINBERG. We can provide more details for the record.

What we did look at was where the unobligated balance is coming from, and, of the $12.1 billion, $652 million is coming from minimum allocation, and minimum allocation, as you know, can be used for a wide range of programs, whether it's the NHS or STP or whatever.

Senator BAUCUS. But that's separate. That's a separate account, minimum allocation.

Ms. SCHEINBERG. That is correct, but there's a lot of flexibility in there for using the funds.

Senator BAUCUS. OK. It's my understanding that when ISTEA is under-funded, obligated balances grow, and under-funding affects non-donor States, but it does not to the same degree affect donor States. That is when ISTEA is under-funded. Is that correct?

Ms. SCHEINBERG. You're talking about obligation limitations?

Senator BAUCUS. Yes.

Ms. PUFAHL. There would be a difference, but there is a fairly large chunk of the unobligated balance that's just coming from demonstration projects, nearly $2 billion, and that's exempt from any obligation limits.

Senator BAUCUS. But still, the point I make is true.

Ms. PUFAHL. Still, yes.

Senator BAUCUS. It's true. Mr. Massie, one of the key fundamental questions we're facing here is how far to go in a short-term bill. We want to go far enough to maintain a continued continuity in the program. We don't want to go too far to take pressure off of a 6-year bill. And I'm just curious of your general feeling, representing contractors. Would you advise us to err more going to short-term to put more pressure on 6-year bill, or would you urge us to go longer, which tends to put less immediate pressure on passing the 6-year bill.

Mr. MASSIE. As a contractor, I think you should err on having too long of an extension. The continuity of the program is absolutely critical. When you get it down to the contractor level, the majority of the contractors that build these highways are small businesses. We do long-term planning. We do our financing long-term. And the interruption in the program would kill some of the companies.

The way we do our business, we all operate in a season. We have a working season. In Virginia we generally lose January and February, but we can plan our work around that and do some things in the ground for those 2 months. We're not as fortunate as Florida, who work year-round, but we're definitely better off than your State.

And so we plan around everything. We plan our work around Mother Nature. It is very difficult to plan our work around Congress.

[Laughter.]

Senator BAUCUS. It's difficult for us to plan our work around Congress.

Ms. Scheinberg, as you understand the Bond proposal, roughly how long will that allow States to maintain the continuity without turning and twisting and contorting into all sorts of different gyrations?

Ms. SCHEINBERG. My understanding is that it is to allow the States to feel comfortable for the 6-months to have a full 6-month program. Of course, what happens at the end of that 6 months is an unknown, and how they project at the end of that 6-month period for the future could be an issue. But it seems like it would give the States a full 6-month program.

Senator BAUCUS. And it tends to avoid the formula fight.

Ms. SCHEINBERG. Exactly.

Senator BAUCUS. Which I think is very helpful and very important.

Thank you, Mr. Chairman.

Senator WARNER. I've just been advised by Senator Bond's senior staff person that the bill will be completed this afternoon and available for some distribution. That will help various expert witnesses, like yourself, to give your independent professional judgment to Members of Congress.

Now, our distinguished colleague from New Jersey.

Senator LAUTENBERG. Thank you kindly, Mr. Chairman. Once again, I appreciate the opportunity to participate.

I wonder whether anybody here, based on what we've heard about Senator Bond's proposal, can tell us whether—where would the funds come from that—the authorization for the funds to obligate them for the States that need financing in less than 6 months? Does it have to be drawn from other accounts? We would have to be talking about a specific sum, wouldn't we, to carry the obligation authority for a 6-month period?

Ms. PUFAHL. I would assume that the advance that he's talking about would just be tapped through the highway trust fund.

Senator LAUTENBERG. Well——

Senator WARNER. In a sense it would be new money under from that fund.

Senator LAUTENBERG. Well, I mean, that does have some effects. I mean, it's not without some consequence. That money has got to be appropriated and would have to be——

Senator BAUCUS. It has all been appropriated.

Senator WARNER. That's correct.

Senator BAUCUS. Per year. That's right. There's no appropriation necessary.

Senator WARNER. But authorization would be.

Senator BAUCUS. Right.

Senator LAUTENBERG. OK. Now, the various States would have different dates at which time they would need further funding, and so we'd have to have an open-ended thing that would say that there would have to be some understanding of what could be drawn down from the fund.

Senator WARNER. You mean in terms of amount?

Senator LAUTENBERG. Right. Because those States that would be—we have an example or two of States that are very short-term, have very little in their unobligated balances. They technically would be getting an advantage that other States do not have.

If State "A" had sufficient unobligated balances to carry them for 4 or 5 months, State "B" has only enough to carry them a month into the year, then State "B" would have gotten, technically, a bonus because they would have gone beyond their original formula calculations. Is that correct?

Ms. PUFAHL. I agree with your observation about technically it seems like they would be getting an advantage, but what they would essentially be doing is borrowing on their future their own money that would be forthcoming to them.

In some respects I see all States benefiting because it is giving them flexibility to more fully use the unobligated balances.

Senator LAUTENBERG. Yes. And if we fail to pass a bill before the fiscal year has expired, we would be then proceeding under the allocation of funds that was put through the Appropriations Committee, and that might or might not be enough, depending on what we do with the formula, that there would be certainly questions for each State.

Would you think that an extension would have to be reviewed in the context of changed formulas or operating at the same level that we currently do to see where we'd be?

I mean, if we took a 6-month extension—and I don't want to drag any of you into this. Mr. Massie, you might be drawn in, but you don't work for the same company that we all work for. I'm not going to ask you whether you prefer old formula or new formula. I don't think it's fair to you.

But I think there is some information, as we heard from the chairman, that Senator Bond will be delivering a more-complete explanation. We'll take a look then. Meanwhile, I want to ask Mr. Basso a question.

You testified States will be able to use their full obligation authority; that under a more-flexible program that $12 billion roughly would be available for highways; is that correct?

Mr. BASSO. That's correct.

Senator LAUTENBERG. OK. What happens with transit, Mr. Basso? Is there any unobligated authority for transit? It has been wiped out, as we understand it, by previous legislation, right?

Mr. BASSO. That's correct, Senator. Transit, unlike highways, really only has carry-over unobligated balances that are already committed to the States. It's about $1.4 billion. All of the excess, a similar situation to what we would have in highways, was wiped out in the rescissions.

Senator LAUTENBERG. So we don't have the same opportunity to extend any funding there?

Mr. BASSO. I would say this: we don't have the same ability to use flexibility.

Senator LAUTENBERG. One of the things that you mentioned that I think needs a little focus is the shut-down of some of the facility that would be necessary to take care of the implementation and enforcement of programs, etc.

Mr. BASSO. Yes, sir.

Senator LAUTENBERG. That's a pretty serious situation, and we'd have to guard against any of that. We tried shutting down parts of government once, and we didn't like it. The public didn't like it, either. So what would we do? How would we carry on if we didn't provide the funding?

Mr. BASSO. Senator, if we don't provide the funding, there's absolutely no choices left to us to carry on. Basically, the personnel who deal with these programs, both the Federal aid authorizations and all that goes with that and the safety programs that I mentioned, would have to be laid off and those programs would have to be shut down. It's a matter of law. Anything else would be a violation of the Anti-Deficiency Act.

Senator LAUTENBERG. If we——

Senator WARNER. If I could just intervene, I'm sure that we have the assurance of Republican leaders and Democrat leaders that these technical things will be cared for. I would hate to have this hearing have a word out of it that people are going to get laid off and fired. I just feel we have that responsibility. It's important to bring it up and I want to speak to that. Certainly our leader has assured me that somehow this can be fixed.

Senator LAUTENBERG. I think that's an important point, Mr. Chairman, but I wanted to make sure that, even though Mr. Basso said it earlier, I want to make sure that it's clearly understood the consequences are serious.

Mr. Basso, how might we carry out the basic tenets of ISTEA, because if there is money shifted around to just provide for highway construction—and I'm for continuing that, Mr. Massie. Let me at least make sure that record is clear. How do we know that programs for the environment, interstate maintenance, MPOs—how do we know that those programs are going to be carried on?

Mr. BASSO. Senator, I would say that I think the question really resides on where the balances that are there are applied and whether flexibilities are applied to them. To be more specific, congestion mitigation air quality program has about a billion dollars in it. It's about one-twelfth of the total $12 billion that we're talking about.

Senator LAUTENBERG. Right. But if it could be used elsewhere, this State may want to continue using the funds for congestion mitigation, whereas this State might not want to use it.

Mr. BASSO. That's correct.

Senator LAUTENBERG. That's a problem.

Mr. BASSO. The Administration clearly is concerned about anything that would degrade the environmental programs.

Senator LAUTENBERG. I just want to ask Mr. Massie a question. You recognize that there is some tension here among those who want to continue the formula as it is or have their concerns about a change in mid-stream here, and it is a change in mid-stream, and my State is one of those affected by it. And I'm aware enough that changes may be made, but a sudden change like that which is proposed would be quite unsatisfactory in our case. Maybe if it was in the transition phase over the next 6 years so that we wouldn't just drop off the cliff, we might feel differently about it.

But, in your opinion, Mr. Massie, what is the fastest, easiest way to keep the program going? I mean, do you have a concern about whether or not we extend on present formula or new formula as an organization?

Mr. MASSIE. In the short time that's left, if anybody starts talking about formula it's dead. And that's just——

Senator LAUTENBERG. Yes.

Mr. MASSIE. You cut it to the chase, sir. If anybody talks about it, it's over. It will not happen. Everybody will go home. We will lay people off.

And another thing, you know, when we talk about the construction industry laying people off, we already have a shortage of people in the industry, and if we lay people off and we do not hire them back in the spring, they will go find work elsewhere.

Senator LAUTENBERG. Absolutely.

Mr. MASSIE. Then we are in the process of training all over again, finding a new work force and training them and bringing them up to speed. That hasn't been mentioned here at all, and that is a huge, huge problem.

And if you're going to have an extension of the program, the simplest way to do it, in the eyes of a dirt mover, is you just take a current program and you extend it for 6 months. We've lived with it for 6 years. We will live with it for 6 years and 6 months. We'll give you all the opportunity to work through all the nuances of a new program.

Senator LAUTENBERG. That's a frank response, and I'm frank, and I would say that it would be my earnest desire to work with those who advocate change to try and get it done in that 6-month period.

I think, if the 6-month extension is done in such a rigid manner that there is not automatic extensions, then perhaps that's the kind of size pebble we need in the shoe to get this thing done.

Thank you very much. Thanks, Mr. Chairman.

Mr. MASSIE. Thank you.

Senator WARNER. Unless there are further questions——

Senator CHAFEE. Let me just ask a quick question here. I'm just not sure I see all these problems. And I'm going back to the Bond proposal.

First, the flexibility on the unobligated balances. Mr. Basso, you indicated some concern that the CMAQ fund might be raided, and you're concerned about the environment, which I share, but the arrangements would be that when this flexibility went into effect that they have to pay it back. So the CMAQ might have, in one State, $50 million account in it. They want to use that for highways. When they get their money, they're going to get money next year, that would be repaid. So I set that worry aside.

Second, when you compare what the State spent or obligated in the first 6 months of 1996 and the first 6 months of 1997 and you take the highest amount, and if they don't have that money, then there would be an account under the Secretary that they could borrow from. Are we on the same wavelength, Ms. Scheinberg?

Ms. SCHEINBERG. They would get an advance against——

Senator CHAFEE. That's right. We shouldn't use the term "borrow." They'd get an advance because the money is obviously going to be there when we finish this program. And so I think that's the so-called "hold harmless" provision which Senator Bond talks about in his provision.

As for the safety in the Department of Transportation and the transit programs, just go ahead and give them whatever they spent in the first 6 months, what it cost them for the first 6 months. You indicated $70 million per quarter for the DOT payroll, so that's $140 million that they would get that would be out there to be approved for the payment of the employees.

I'm not sure I see all the problems here. Are you and I in sync here, Ms. Scheinberg?

Ms. SCHEINBERG. Yes, Senator. I think——

Senator CHAFEE. Is there something I'm missing?

Ms. SCHEINBERG. My quick analysis of this, based on what we've talked about this morning, is that the Bond compromise seems, just from what we've said, to address the problems that I identified in my statement. It talks about flexibility, it provides flexibility. The advance would help the States that have a shortfall or potentially have a shortfall in the next 6 months. And if last year was not a good comparison, it gives them the comparison of the 1996 alternative.

So I think the issues that we have raised seem to be addressed from as much as we know right now.

Senator CHAFEE. And when he talks, his first point, a real 6-month extension to March 31, I take it that, as of that date, you can't do any more drawing down getting advances, and that's where the payments that have gone to the Department of Transportation for safety, truck inspections, and all that, it ends then.

And therefore the virtue of this proposal, which obviously I think there's a lot of merit to, is that when we—we're coming back here, I believe, on January 26th. The leader has said this is the first program on the Floor. We go on the Floor. We've got a little time in January. We've certainly got all of February and we've got all of March to not only pass it but to go to conference and get that ironed out.

Senator WARNER. That's assuming the House——

Senator CHAFEE. All right. But if the House doesn't want to act, that's always a problem. We face that no matter what we do. But I can't believe that the House is going to say, when the Senate passes a bill and it's ready to go to conference, the House is going to say, "No, we don't want the go to conference. We'll let Mr. Massie and his people suffer through without contracts and without jobs." I can't believe the House is going to do that.

Senator WARNER. I share your views.

I think we've pretty well exhausted the witnesses on this, and what I would urge each of you to do—and we will facilitate transmitting to you a copy—is to reply to the chairman's request that your comments are forthcoming as quickly as possible.

I think you have, in a very splendid way, given us your strong professional opinions, and I believe it provides us with enough factual guidance to determine the policy considerations that have to be done to put in place something to avoid the really catastrophic consequences as outlined by Mr. Massie. Of course, that only relates to the contractors, and there are many other facets of the transportation industry that will suffer irreparable damage, not the least of which is the people, themselves, of this country who look to the Congress to accept the responsibility to keep in place an adequate funding stream to provide for the modernization of our transportation system.

Speaking for myself, and I'm sure my good friend and lifelong friend the chairman here, we're going to do our very best, and we have the support of the Republican leaders to do something on this.

Thank you.

[Whereupon, at 12:07 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[Additional statements submitted for the record follow:]

STATEMENT OF HON. PAUL E. PATTON, GOVERNOR OF THE COMMONWEALTH OF KENTUCKY, ON BEHALF OF THE NATIONAL GOVERNORS' ASSOCIATION

Good morning. I am Paul Patton, Governor of Kentucky, and I am here today to present the views of the National Governors' Association on the critical issue of transportation funding. With me is Raymond Scheppach, Executive Director of the National Governors' Association. I would like to thank the chairman, the ranking member, and the other Senators of this subcommittee for inviting me to testify on the potential impact of the current lapse in the authorization of the Federal highway, transit and highway safety programs. I would especially like to thank the many Senators who have worked hard to increase Federal transportation investment. Governors stand ready to work with you next year to ensure that transportation is fully funded.

Transportation is Critical to the Economy

Before I describe the impact on States of a continued lapse in highway, transit, and highway safety programs, I would like to take a moment to outline the Governors' position on transportation funding. Transportation is critical to the productivity of the U.S. economy and the competitiveness of our businesses. Governors have heard a clear, consistent message from all types of businesses—large and small, manufacturers, retailers, and farmers. These businesses are investing billions of dollars in just-in-time production and distribution to speed their products to market. They fully understand that time is money. They can, through good management, control the cost of capital and the productivity of labor.

The public transportation systems are just as much a part of the system of production as labor and capital, yet businesses are powerless to remove congestion caused by a transportation facility whose use has exceeded its capacity. Businesses and individual citizens are paying the user fees necessary to build a much improved system but the system is not being improved. In fact, we are falling behind.

These businesses and individuals are relying on us in government to make sure the roads, ports, and airports are in good condition and free of congestion. We cannot let them down, not this year, not next year, and not in the years ahead. We must fully fund our transportation programs. Today's levels of transportation funding are inadequate to maintain current conditions. There is an $18 billion annual gap between current transportation spending by all levels of government and that required simply to maintain the current performance of our nation's highways, bridges and public transit systems.

As a percentage of Gross Domestic Product (GDP), Federal transportation investment has declined from nearly 0.5 percent in 1977 to less than 0.3 percent today. This decline would continue through 2002 under the spending assumptions in the 1998 congressional budget resolution. At the same time that Federal investment is declining, revenues from the Federal gas tax have been rising. These dedicated transportation revenues will grow rapidly over the next several years, and are sufficient to support significant increases in Federal transportation spending. If current revenue and spending projections hold true, the unspent balance in the Highway Trust Fund, which today stands at $24 billion, would increase to $90 billion by 2003.

Disinvesting in our national transportation system while the user-tax revenues are dramatically increasing will undermine the moral and legal commitment on which these taxes are based.

If we do not increase our Federal investment in transportation the result will be deteriorating roads, increased congestion, lower economic productivity and profitability of U.S. firms, loss of employment for U.S. workers, and ultimately lower tax revenues to Federal, State, and local governments.

Congress must pass a short-term funding mechanism prior to adjournment The importance of transportation to our growing economy is the reason the National

Governors' Association has made it a priority to urge the Congress to significantly increase the Federal investment in our nation's transportation infrastructure. To that end, Governors would like Congress to pass a multi-year highway, transit and highway safety authorization bill where contract authority is set equal to the revenues coming into the trust fund.

It does not appear that Congress has sufficient time remaining in this legislative session to accomplish this goal. Therefore, Governors respectfully request that Congress pass short-term legislation which continues funding for highway, transit and safety programs. If the current lapse in authorization continues into 1998 the impacts on State transportation programs could be severe. This is a serious concern for Governors from all regions of the country, regardless of party affiliation.

In the past week many Governors have written to Congress in support of short term funding for transportation programs. This morning NGA delivered the following letter, signed by 39 of my fellow Governors, to Senate Majority Leader Trent Lott and Minority Leader Thomas Daschle. I would like to share copies of the letter with members of this subcommittee. The text of the letter reads, in its entirety: "It is imperative for the Senate to consider and pass short-term legislation providing funding for highway, transit, and safety programs and to complete a conference on that legislation with the House of Representatives before adjourning for the year. Such legislation will minimize the interruption in funding to State and local governments, and would avoid the disastrous effects that a several-month lapse in authorization would have on many States' transportation programs."

The Potential Impact of a Continued Lapse in Transportation Funding

Let me now turn to the impact on State transportation programs of a continued lapse in authorization of these Federal programs. The impact of any lapse will vary among States and will greatly depend on the length of time without a reauthorization. While a few larger States would not be significantly affected by a delay in authorization well into 1998, such an extended lapse would have a severe impact on most States' transportation programs, resulting in:

- Delays in thousands of highway and transit construction projects valued in the billions of dollars;
- Increased project costs as delayed projects are extended into two construction seasons;
- Layoffs among truck and bus safety inspectors, and reduced enforcement of impaired driving laws; and
- Potential increased accident losses.

The American Association of State Highway and Transportation Officials (AASHTO) conducted a recent survey to determine the impact on State transportation programs of a lapse in authorization of the Federal highway program. AASHTO found that in the first quarter of the Federal fiscal year nearly 2,000 projects nationwide, valued at over $3 billion, could be affected. If the lapse continued through the second quarter of the year an additional 2,926 projects, valued at $4.4 billion could be affected. If the lapse in authorization continued through the third quarter of the fiscal year an additional 2,729 projects valued at $3.8 billion could be affected. Finally, if the lapse continued for the entire fiscal year yet another 2,130 projects valued at over $4 billion could be affected.

Based on the U.S. Department of Transportation's estimate that $1 billion of highway spending supports 42,000 jobs, more than 126,000 jobs could be lost during the first quarter of the year alone. More job losses would result from a lapse beyond December 31 of this year.

Highway and Truck Safety

Highway and truck safety programs have already been affected by the current lapse in authorization, as States have begun to curtail truck and bus inspections and impaired driving enforcement. Truck and bus safety and hazardous material inspection programs will come to a complete halt in most States by the end of this calendar year. A lapse in authorization through the end of March 1998 would result in 500,000 fewer roadside truck inspections nationwide. If highway safety programs are not reauthorized soon States will begin to lay off personnel, and drunk driving and speed enforcement will be jeopardized during a critical time of the year, Thanksgiving to New Year's Eve.

Individual examples of the impact of a lapse on State safety programs include:

- In my own State of Kentucky, all new highway safety projects are currently on hold. There is no funding for overtime enforcement of impaired driving, occupant protection, speed and other safety laws.

• The Nevada State Highway Safety Office has halted all highway safety programs as a result of the funding lapse, and will have to close down in early 1998 if no additional funds are provided.

• In Florida forty highway safety contractors have not been paid, none of the planned projects for fiscal 1998 are funded, and staffs of several highway safety contractors have been working the past month without pay.

Public Transit

Nearly $4.3 billion of Federal transit funding for fiscal 1998 will be unavailable to transit agencies unless an authorization is enacted. A continued lapse in authorization would force transit agencies to defer new construction, the purchase of new equipment, and maintenance of existing equipment, and most transit agencies would not be able to fund new capital projects. Rural and smaller transit agencies will be especially hard hit, as they may not have adequate funding to operate their systems beyond December of this year, forcing reductions in service.

• In Kentucky, our rural transit agencies are already cutting back service. Particularly vulnerable are the new welfare-to-work services provided by our rural transit operators.

• New York City is already experiencing a detrimental impact on its Elderly and Persons with Disabilities transit program.

• In St. Louis, Missouri, funding for the expansion of that city's light rail system will be jeopardized by a continued lapse in the transit authorization.

Highway Construction

Many States will experience minimal impacts on their highway construction programs through the end of 1997. However, if no authorization is provided by early 1998, State transportation agencies will be forced to delay planning and bidding activities. Some Northern States could face the loss of an entire construction season if bid advertising is delayed beyond December of this year. Here are a few examples of the impact on individual States.

• Kentucky's unobligated balance of $134 million is equal to much less than half of our fiscal 1998 Federal highway funding. If the current lapse in the highway program continues several months into 1998 many Federal-aid highway projects will be postponed, including a $169 million modernization and safety improvement to US 119 in Pike County, as well as widening and safety improvements to Interstate 75 south of Cincinnati and the widening of the Paris Pike between Lexington and Paris.

• Connecticut has already suspended advertising of all new highway projects, and eight previously advertised projects totaling $52 million cannot be awarded until authorizing legislation is passed.

• Reconstruction of the Stevenson Expressway (I–15) in Chicago, Illinois may have to be delayed a full year if a reauthorization bill is not enacted by December.

• In Iowa, failure to reauthorize the Federal aid highway program has already caused that State's transportation director to postpone by 30 days his decision to proceed with the February contract letting, while the decision to proceed with the March letting has been postponed indefinitely.

• In Nevada the planned widening of Interstate 15 in Las Vegas to provide congestion relief, and maintenance of Interstate 80 could be delayed or postponed if the current lapse continues well into 1998.

• A lapse in authorization into 1998 may force Oklahoma to delay or postpone reconstruction of several regionally significant congestion relief projects including: US–281 from Interstate 40 North, US–283 North of Altus, and State Highway 99 from State Highway 9 North.

• Oregon's unobligated balance of $91 million is $26 million short of the Federal funding needed to carry out the highway projects scheduled through March 1998. More immediate will be the postponement of eight local bridge projects totaling $3.4 million.

Conclusion

In closing, I urge you again to enact short-term legislation providing funding for highway, transit, and safety programs. While I admire the dedication and commitment of the members of this committee to pass a full ISTEA reauthorization in early 1998, I must caution you that the effectiveness of State highway, transit and safety programs must not rest on that commitment alone. As Governors of the States we understand the difficulty and unavoidable delays of the legislative process, but as the executives responsible for the nation's roads, we are very concerned about the failure of the Congress to act, and the impact this inaction would have on such a vital government service.

We ask for a long term commitment to full funding for the national transportation program as quickly as possible, but until that program can be enacted we ask for short-term legislation providing funding for highway, transit, and safety programs. This interim program will not prejudice the outcome of the debate over funding formulas or program structure. But failure to enact a short-term funding mechanism will jeopardize program efficiency, hinder timely project development, unnecessarily increase the cost of repairing our roads, bridges and transit systems, and perhaps cost the economy tens of thousands of jobs.

Mr. Chairman, we cannot now afford these costs. I will be happy to answer any questions.

STATEMENT OF PETER J. BASSO, ACTING ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS, U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman and members of the committee. I appreciate the opportunity to appear before you today to discuss the potential consequences for our surface transportation programs if the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) is not reauthorized by the end of this session of Congress.

There will be adverse impacts on safety programs, potential construction delays with associated job losses, and adverse impacts on transit operations if the Federal highway, traffic safety, and transit programs are put on hold. The Administration continues to support enactment of multi-year ISTEA reauthorization legislation as soon as possible and believes its NEXTEA proposal forwarded last March provides a sound basis for action. While some construction activity will be able to continue with carryover highway and transit grant funds, we will see increasing impacts in States and local communities as these carryover balances—unevenly distributed across the country and across programs—are drawn down. The need is even greater, though, in the case of safety grants and operating funds to keep the Federal Highway Administration and the Bureau of Transportation Statistics in business.

Let me summarize some of the most significant problems that will result from continued lapse in this important legislation.

Safety Programs

Several critical highway safety programs are completely without funding this fiscal year. This means that Federal support has ceased for major safety initiatives such as safety belt use, child seat use, and drunk driving countermeasures. The net effect would be a reduction in lives saved and injuries avoided. Highway safety grant programs have no unobligated balances available from prior years' authorizations. These include Section 402 (State and community safety grants), Section 410 (impaired driving incentive grants program), and the National Driver Register (NDR). With no contract authority for the Section 402 program for fiscal year 1998, new funding has not been available since October 1 for the States to initiate highway safety and Safe Communities projects. States are operating with funds obligated in fiscal year 1997, and most States have sufficient funding to last only an estimated 2-3 months. Once these balances are exhausted, many State highway safety offices may have to close. Some States are already making adjustments by delaying or curtailing projects.

Kentucky, California, Louisiana, Florida and North Carolina, for example, have placed some or all of their highway safety programs on hold pending new authorizations. Special alcohol and seat belt enforcement programs by dedicated State police are being particularly hard hit and could result in police officers being laid off if new funding is not forthcoming in the near future.

The Section 410 (impaired driving) program has also been operating with funding obligated in fiscal year 1997, and that will run out in the early spring, forcing the program to be shut down. This means that NHTSA would be unable to carry out statutory requirements to provide incentive grants to encourage States to deal more effectively in reducing drunk driving.

Also, the National Driver Register (NDR) would have to be shut down. The NDR is operating on funds obligated in fiscal year 1997. Since funding for the NDR contract runs out in March, the program will have to be shut down and staff dismissed. This means that State motor vehicle agencies will not be able to query the NDR to avoid licensing problem drivers. In addition, the shutdown will be felt by other transportation-related organizations, such as the Federal Aviation Administration, Federal Railroad Administration, United States Coast Guard, air carriers and employers, who are authorized to use the NDR in determining whether to hire or certify operators of motor vehicles or other transportation conveyances.

In addition, there is no Federal funding for the approximately 3,200 State enforcement personnel funded exclusively by the Motor Carrier Safety Assistance Program (MCSAP). States may be limited severely in their ability to perform driver or vehicle inspections or compliance reviews, thereby permitting potentially unsafe commercial motor vehicles and unqualified drivers to operate undetected on our Nation's highways. The safety impact of the lack of reauthorization legislation is beginning to be felt now. For example, South Carolina is already out of MCSAP funds, and Rhode Island will have to lay off inspectors at the end of November. Without Federal funds, we are advised that the New Mexico, Ohio, and Nebraska motor carrier safety enforcement programs will shut down on November 15. Several other States have reduced roadside safety inspections just as pre-holiday freight movements are peaking. Many States are using State funds to support motor carrier programs, but national safety objectives may not be met. By January 1, most motor carrier safety programs could come to a complete halt without additional authorizations.

Because 80 percent of MCSAP pays the salaries of State safety investigators, States will likely have to lay off these employees. Highway safety could be severely jeopardized without the important enforcement activities conducted by safety investigators, including: reviews of truck and bus companies to ensure they are complying with safety regulations and have an effective safety management program, roadside inspections of vehicles and drivers, hazardous materials enforcement, special safety investigations, traffic enforcement, drug interdiction, and truck size and weight enforcement.

DOT OPERATIONS

Federal Highway Administration

The Federal Highway Administration (FHWA) has only enough funds to continue to pay salaries to its full staff during the first quarter of fiscal year 1998. Without some relief, FHWA will be forced to shut down in early January when all carryover funds are estimated to be depleted. This could result in 3,600 employees being furloughed, including over 2,600 employees who work in FHWA division and regional offices across the country in every State.

When FHWA shuts down, even though the States will still have Federal-aid highway funds to use, the Federal-aid program will essentially stop since there will be no FHWA personnel to carry on the legally required steps related to authorizing Federal projects. This means that:

- The FHWA would not be able to process requests and reimburse States for Federal-aid projects already under construction, or participate in the operating cost of traffic management centers. Since reimbursements are made electronically—with some States being reimbursed daily and many others being reimbursed weekly—a cut-off in reimbursements would immediately affect States' cash flow and their ability to pay contractors (with potential layoffs resulting), purchase equipment, materials, and supplies, and meet State payrolls or other commitments.
- The FHWA would not be able to authorize Federal-aid highway projects or obligate balances of Federal-aid highway funds for design, right-of-way acquisition, or construction projects. States also use Federal-aid highway funds for inspections of major bridges, and obligations for those inspections could not be approved.
- States could not begin right-of-way acquisition or final design activities on projects that are ready for this approval. States also rely on the FHWA for coordination with other Federal agencies in advancing projects through the NEPA process and obtaining other reviews and clearances. Last year about 50-75 major projects were advanced with an environmental impact statement (EIS), and 500 intermediate scale projects were advanced with a finding of no significant impact (FONSI). If this trend continues in fiscal year 1998, a shutdown would have proportionate impacts on projects that would otherwise be advanced this year.
- In the event that new natural disasters or catastrophic failures occurred, FHWA would not be able to approve and allocate available Federal-aid Emergency Relief (ER) funds to the States for necessary repairs to damaged highways and bridges. Furthermore, staff would not be available to process reimbursements to States for repairs from previous disasters already completed.

There would be no funds for the Federal motor carrier safety program. No Federal staff will be available to review State grants or to conduct safety inspections, compliance reviews, and other enforcement activities performed by the approximately 230 Federal motor carrier safety investigators.

FHWA's research and technology activities will be severely curtailed. Since there cannot be an administrative takedown from new authorizations until after a reauthorization bill is enacted, new funding for research and technology activities, such as Intelligent Transportation System operational tests and technical assistance to communities throughout the Nation, financed through FHWA's General Operating Expenses, cannot be made available.

National Highway Traffic Safety Administration

By early February 1998, NHTSA's regional and Headquarters State and Community Services staff, who administer the Section 402 program, will have to be furloughed since the largest portion of their salaries is funded from the Section 402 program.

Bureau of Transportation Statistics

There is no new funding for the Department's Bureau of Transportation Statistics (BTS), since it is financed from contract authorizations from the Highway Trust Fund. By deferring staff increases, delaying programs, and rescheduling some repayments, BTS has enough carryover to last through the first quarter of fiscal year 1998, at which point, without new spending authority, it will have to shut down. In addition to furloughs of more than 40 BTS employees, 60 contractor staff will have to be let go. There will be long-term impacts from such short-term effects as contractor employees seek work elsewhere. There will be interruptions in data collection, which will seriously impact the overall quality of data.

Federal Transit Administration

Administrative funds for FTA are provided in the DOT Appropriations Act and therefore we do not face the same problem that we do with FHWA and NHTSA grant program administrative costs.

Federal-aid Highway Program

States will be able to continue their infrastructure programs by using the $12.25 billion in unobligated balances from prior year apportionments and allocations of Federal-aid highway funds. This total will permit the States, in aggregate, to operate at the 1997 levels for more than half the year and at the 1998 level for approximately one-half of the year. However, these balances vary greatly among States and program categories.

Transit Programs

Both FTA's discretionary and formula grant programs are affected by the lack of legislation. These programs will have available about 14 percent of the funding that they could otherwise expect in fiscal year 1998, including $240 million in general funds provided in the fiscal year 1998 DOT Appropriations Act and $392 million for New Starts discretionary grants carried over from previous years because of obligation limitations. This $392 million would be distributed based on the fiscal year 1998 Appropriations Act. Other unobligated balances already apportioned or allocated to grantees will be available pre current law, but the availability of these funds is uneven across the country and across programs.

SUMMARY

Failure of Congress to take some action to address safety funding needs and FHWA, NHTSA and BTS administrative costs before it recesses will have significant impacts on both critical programs and DOT personnel. The Administration continues to support enactment of multi-year ISTEA reauthorization legislation as soon as possible. However, time is running out on this session of Congress. Under these circumstances, we believe that Congress must take action before adjourning for the year, to temporarily provide sufficient funds and authority to address the critical safety and other urgent programmatic needs set forth in this testimony.

That completes my prepared statement. I would be pleased to answer any questions you may have.

STATEMENT OF PHYLLIS SCHEINBERG, ASSOCIATE DIRECTOR FOR TRANSPORTATION ISSUES, DIVISION OF RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT, GENERAL ACCOUNTING OFFICE

Mr. Chairman and members of the subcommittee: We appreciate the opportunity to provide information on the status of Federal surface transportation programs in the absence of funding from a new Federal highway reauthorization act. As you know, in 1991, the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) authorized over $122 billion in Federal funds for highway programs for fiscal years 1992 through 1997. This authorization expired on September 30, 1997, and no new Federal highway funds have been authorized for fiscal year 1998. The States can, however, use their unobligated balances that remain from the ISTEA authorization period. For all 50 States, these Federal-aid highway balances totaled $12.1 billion at the beginning of fiscal year 1998.

Specifically, you asked that we compare unobligated Federal highway fund balances at the beginning of fiscal year 1998 with the highway funds that the States obligated during the first part of fiscal year 1997. We performed this analysis using actual obligation data for Federal-aid highway projects during the first 4 through 7 months of fiscal year 1997. For illustrative purposes, however, this testimony will focus on the 6-month period. (Details for the 4- through 7-month periods are presented in apps. I and II.) At your request, our testimony will also address strategies that could temporarily help the States continue to fund highway programs in the absence of a Federal highway authorization act.

Our work is based on the Federal Highway Administration's (FHWA) obligation data for all 50 States. In addition, we contacted 9 States to obtain their views on how they would operate without new Federal highway funds in the short term. When we analyzed FHWA's obligation data for the 50 States, the analysis was limited to total obligation levels for Federal highway projects. We did not address other important areas, such as the potential effects on the operations of agencies within the U. S. Department of Transportation or the effects on particular programs, such as transportation safety programs. In addition, we did not look at the impact on transit programs.

In summary, we compared the level of unobligated highway fund balances available at the beginning of fiscal year 1998 with the actual obligations that the States made during the first part of fiscal year 1997. The total unobligated balance of $12.1 billion exceeds the total actual obligations of $8.1 billion that all States combined made during the first 6 months of fiscal year 1997. However, a comparison of the unobligated balances of individual States with their actual fiscal year 1997 obligations reveals that some State highway programs may experience financial difficulties by the middle of fiscal year 1998 if their obligation rates for this year are comparable to those for fiscal year 1997. The analysis indicates that while most States have unobligated balances that are greater than their actual Federal highway obligations in the first 6 months of fiscal year 1997, 14 States have an unobligated balance that is lower than their actual obligations during that same period. The nine States that we contacted identified various strategies that they would use to try to continue their highway operations, such as relying more extensively on State funds. However, some of these States also noted that they would soon be postponing highway projects if new Federal funds are not available within the next few months.

It is important to note when making these types of comparisons that the rates at which States obligated funds in fiscal year 1997 may not correspond to their plans for obligating Federal highway funds in fiscal year 1998. Furthermore, some States may be limited in their ability to use available unobligated balances because of restrictions on the specific types of highway programs that the funds can be used for. Nonetheless, the comparisons do indicate that while many States may be able to continue financing highway projects for some time, some States may have difficulty dealing even in the short term with the absence of new Federal highway funds.

A number of strategies could help the States respond to the absence of new Federal highway funds in the short term. For example, the Congress could provide the States with the flexibility to use their unobligated balances across the range of Federal highway programs, rather than keeping the balances tied to specific highway funding categories and demonstration projects. Then, after reauthorization, the Congress could "reimburse" the appropriate funding categories. The individual States could also consider a number of strategies, such as temporarily substituting State funds for Federal highway funds. The States could also begin highway projects by using advance construction, which enables a State to access capital from a variety of sources, including its own funds and private capital, and later receive reimbursement through Federal highway obligations. However, such strategies may delay other planned projects within individual States. Furthermore, these strategies may not be feasible for some States or for an extended period of time.

BACKGROUND

ISTEA authorized over $122 billion for highway programs for fiscal years 1992 through 1997. The authorization was funded primarily through Federal highway user taxes such as those on motor fuels (gasoline, gasohol, and diesel), tires, and trucks. Funds from these sources are collected from users and credited to the Highway Trust Fund for highway and mass transit projects or related activities. The fund is divided into a highway account and a mass transit account.

Except for a few minor deductions, such as those for Federal administrative expenses, Federal highway funds are provided to the States through FHWA, which is part of the U. S. Department of Transportation. The money is generally distributed to the States through various formula calculations. The current formula, established by ISTEA, determines the distribution of funds for 13 funding categories, such as the Interstate Maintenance, the National Highway System, and the Congestion Mitigation and Air Quality (CMAQ) programs.

During the ISTEA authorization period, FHWA annually apportioned to the States authority to obligate funds. And, if the Congress took no further action, the States could proceed to obligate all the authority apportioned to them by FHWA. However, the Congress also imposed an annual obligation limitation as part of the appropriation process on most elements of the Federal highway program. These limits did not take back spending authority that was already apportioned to the States; rather, the obligation limits acted to control the obligation rate.

The congressionally imposed obligation limits acted to control total obligations but left the States with some discretion to decide how they would use their obligation authority across the range of Federal-aid programs. For example, in a particular year, a State could obligate all its Interstate Maintenance and National Highway System funds. But the State would then have to compensate by obligating a smaller part of its Federal highway funds from other categories. In addition, a few categories of highway funding are exempt from obligation limitations—the two largest are minimum allocation and demonstration projects.

Once FHWA approves a project that a State proposes, the Federal share of the project's cost is considered "obligated" against the State's apportionment. The State then proceeds—doing detailed design engineering, advertising for bids, and selecting a contractor for the construction work. The State incurs costs, pays the bills, and then seeks reimbursement of the Federal share from FHWA. Federal outlays—that is, actual expenditures—do not occur until the State is reimbursed. Furthermore, the funds are outlayed over a number of years.

COMPARING UNOBLIGATED HIGHWAY BALANCES WITH PREVIOUS OBLIGATIONS

At the beginning of fiscal year 1998, the total unobligated Federal highway fund balance for all States was $12.1 billion. This unobligated balance came from two sources. First, $9.6 billion in unobligated balances exists because the Congress annually imposed an obligation limit during the ISTEA period to control spending for most Federal highway funding categories. Second, another $2.5 billion in unobligated authority remains for a few highway funding categories that were exempt from the obligation limitation. The two largest exempted programs were minimum allocation ($0.65 billion) and demonstration projects ($1.85 billion).

From a national perspective, the total unobligated highway balance of $12.1 billion at the beginning of fiscal year 1998 (including program funds exempt from obligation limits) is nearly 1.5 times the $8.1 billion that all States obligated during the first 6 months of fiscal year 1997. This does not mean, however, that each State's unobligated balance is greater than its obligations during the first 6 months of fiscal year 1997. FHWA's data show that the unobligated balances for each of 14 States fall short by 1 percent to 30 percent or by $1 million to almost $82 million of its actual obligations during the first 6 months of fiscal year 1997. Several States were in the 20 to 30 percent range. For example, Indiana's total unobligated balance is over $80 million less than its total highway obligations during the first 6 months of fiscal year 1997. This represents about a 28-percent difference. Similarly, North Carolina's total unobligated balance is about $94 million less than the amount it obligated during this same period in fiscal year 1997—a difference of about 26 percent. (App. I provides a State-by-State comparison of the fiscal year 1998 unobligated balance of $9.6 billion (from highway programs subject to the obligation limit) to actual State obligations during the first 4 through 7 months of fiscal year 1997. App. II provides a similar comparison based on the combined total unobligated balance of $12.1 billion.)

It is important to note that these comparisons imply that the State's obligation rates for fiscal year 1997 correspond to those for fiscal year 1998, which may or may not be the case for individual States. Furthermore, the total unobligated balance of $12.1 billion includes balances from programs that were not subject to the obligation limitation. As of October 1, 1997, seven States had little or no unobligated balances in these program categories.

STRATEGIES THAT COULD HELP THE STATES IN THE SHORT-TERM

A number of strategies could help the States get through a short period without a new highway funding authorization. At the Federal level, the Congress could provide the States with the flexibility to use their unobligated balances across the range of Federal highway programs, rather than keeping the balances generally tied to specific highway programs and demonstration projects. At the State level, some States may be able to obtain State, local, or private resources to begin projects and later seek Federal reimbursement for these costs through advance construction authority.

Flexibility Needed if Unobligated Balances Are to Be Fully Used in the Short Term

The unobligated balance of $9.6 billion (from programs subject to the obligation limit) represents the sum of the unobligated balances remaining from specific programs, such as the Interstate Maintenance, National Highway System, Surface Transportation, and CMAQ programs. These balances may now generally be obligated in accordance with the individual program categories.

Throughout the ISTEA period, the obligation limits acted to control "total" obligations, thus leaving the States discretion to decide how they would use their obligation authority across the range of specific Federal-aid highway programs. For example, in a particular year, a State could have opted to obligate all of its available National Highway System funds, but it would have had to make up for its full use of these funds by obligating less in another funding category, such as the CMAQ program.

Differences in the priorities that the States assigned to different highway programs are now reflected in significant variances in the unobligated balances that remain from ISTEA authorizations for these programs. For example, the National Highway System had a total unobligated balance of over $426 million at the beginning of fiscal year 1998, which represents only about 13 percent of the total fiscal year 1997 apportionment for this program. In comparison, the Surface Transportation program started fiscal year 1998 with an unobligated balance of $4.2 billion, or nearly half of the fiscal year 1997 apportionment for this program. Furthermore, the CMAQ program had an unobligated balance of $1 billion, or 108 percent of the fiscal year 1997 apportionment for this program. Because of the variances in the unobligated balances remaining across Federal highway programs, these balances may not be consistent with State funding priorities or projects that the States planned for this year.

To identify any problems that the States might have in using their unobligated balances and to identify strategies that the States may use to help them respond to the absence of new Federal highway funds in the short term, we contacted nine States—Arkansas, Connecticut, Indiana, Iowa, Missouri, New York, North Carolina, North Dakota, and South Dakota. These differed in the extent to which they expected that their unobligated Federal highway balances would help them respond to any short-term absence of new Federal highway funds. Several of the States did note that the usefulness of these unobligated balances will be somewhat limited because they are tied to specific programs. For instance, a Missouri transportation finance and budget manager estimated that in early fiscal year 1998, the State will be able to use only $50 million of its total of $169 million in unobligated funds because the balance of the money is for categories such as CMAQ or transportation enhancements in which the State does not have projects ready to go. Similarly, the Transportation Director of Program Management for New York commented that it is very difficult to say exactly when the State will use its unobligated balance because some of this money is limited to programs that (1) are not a State priority or (2) do not have projects that are ready to go.

If the Congress were to enact legislation that would give the States the flexibility to use unobligated balances interchangeably among Federal highway programs, then some States would be better positioned to more fully use their unobligated Federal highway funds. In addition, while minimum allocation funding can be used for numerous Federal highway programs, demonstration project funds must be used only for the specific projects for which the funds were authorized under current law. These demonstration project funds, which generally were not subject to the obligation limits, ended fiscal year 1997 with a total unobligated balance of about $1.9 billion. If the Congress were to provide the States with the flexibility to use program as well as demonstration project funds to meet other highway program needs, a later reauthorization could provide for reimbursement to the borrowed fund account.

States May Have to Rely More on State Funding for Highways

Federal highway funding represents one of the many financial sources used to support the nation's highways. The Department of Transportation's statistics indicate that the revenue available for highways totaled $92.5 billion in 1995, the latest year for which data are available. About $59.6 billion of this revenue came from highway user taxes—$18.3 billion from Federal highway user taxes, $39.3 from

State highway user taxes, and $2 billion from local highway user taxes. The balance came from a variety of sources, such as $5.1 billion from property taxes and assessments and $7.6 billion from bond receipts.

To compensate for the lack of new Federal highway funds being available for part of fiscal year 1998, some States may be able to fund a proportionately larger share of their planned highway projects in early fiscal year 1998 with State funds. Later in fiscal year 1998, these States could use the Federal funds made available to them. This assumes that at some unspecified time in fiscal year 1998, new Federal highway funds will be available; however, this uncertainty poses problems for some States. A few of the nine States we contacted noted that they would be postponing highway projects if new Federal funds are not available within the next few months.

The States also differ in their ability to provide greater funding in fiscal year 1998. For instance, the Commissioner of North Dakota's Department of Transportation stated that the disastrous flood this year left North Dakota without any additional State funds to pay for highway projects. In contrast, Indiana's Deputy Commissioner for Finance stated that the State does not face a financial crisis in early fiscal year 1998. He noted that Indiana's Department of Transportation has, if necessary, the ability to use $600 million in bonding authority to begin projects in fiscal year 1998. However, if the States draw on their own resources, they may have to delay other planned projects. Also, this short-term solution could have a defined payback period. For instance, a Missouri transportation official noted that the State expects to award highway contracts through December 1997, using $100 million of State funds. He noted that this State money will be borrowed from other State programs and must be returned to the other accounts by June 30, 1998, the end of the State's fiscal year.

One financial tool that may help some States is advance construction. Under advance construction, a State can begin a highway project by obtaining capital from a variety of sources, including its own funds and private capital, and later receive reimbursement through Federal highway obligations. Indiana's Deputy Commissioner for Finance stated that without new Federal funds, Indiana will begin its highway program using advance construction with State funding. New York also indicated that it would turn to advance construction to help with its highway financing. The New York Transportation Director of Program Management remarked that he expects to keep the State's planned highway projects on schedule in early fiscal year 1998 through the use of advance construction. He stated that New York will use State money to keep the projects on schedule and then backfill with Federal funds once a new authorization is passed.

In July 1997, the American Association of State Highway and Transportation Officials (AASHTO) conducted a survey to determine the possible effects of a delay in the reauthorization of the Federal surface transportation program on State transportation programs. Many States reported to AASHTO that they would use advance construction to continue operations and project schedules. However, AASHTO noted that advance construction will not help some States that have already heavily relied on this technique.

Mr. Chairman, this concludes my testimony. I would be pleased to respond to any questions that you or other members of the subcommittee may have.

UNOBILIGATED FEDERAL HIGHWAY BALANCES (SUBJECT TO THE OBLIGATION LIMITATION) AT THE BEGINNING OF FISCAL YEAR 1998 COMPARED WITH OBLIGATIONS FOR THE FIRST 4 TO 7 MONTHS OF FISCAL YEAR 1997

Dollars in thousands

State	Unobligated balance subject to obligation limit as of 10/01/97	Difference between unobligated balance and fiscal year 1997 4-month obligation total		Difference between unobligated balance and fiscal year 1997 5-month obligation total		Difference between unobligated balance and fiscal year 1997 6-month obligation total		Difference between unobligated balance and fiscal year 1997 7-month obligation total	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Alabama	$142,290	$70,523	98	$54,933	63	$18,011	14	−$13,762	−9
Alaska	94,192	59,601	172	12,980	16	−5,331	−5	−19,351	−17
Arizona	144,747	61,638	74	48,153	50	35,920	33	27,297	23
Arkansas	87,129	−11,524	−12	−28,961	−25	−32,323	−27	−40,468	−32
California	816,665	535,661	191	494,274	153	406,101	99	215,761	36
Colorado	117, 689	73,357	165	14,684	14	−1,177	−1	−28,065	−19
Connecticut	166,353	11,568	7	−12,887	−7	−32,651	−16	−117,730	−41
Delaware	54,052	48,091	807	46,936	660	40,646	303	20,332	60
Florida	225,197	136,682	154	75,480	50	−14,489	−6	−258,506	−53
Georgia	293,339	184,098	169	158,972	118	118,093	67	83,185	40
Hawaii	139,085	a	a	a	a	a	a	a	a
Idaho	50,407	22,596	81	5,743	13	5,457	12	39	0
Illinois	255,153	146,891	136	82,100	47	−14,927	−6	−236,031	−48
Indiana	182,028	47,488	35	−50,888	−22	−102,013	−36	−124,776	−41
Iowa	115,924	13,004	13	415	0	−25,943	−18	−27,335	−19
Kansas	128,419	57,528	81	51,050	66	45,803	55	35,262	38
Kentucky	134,226	92,030	218	60,001	81	11,759	10	−12,999	−9
Louisiana	270,665	211,548	358	196,015	263	192,316	245	176,085	186
Maine	48,887	16,706	52	57	0	−10,845	−18	−10,548	−18
Maryland	158,942	116,473	274	41,191	35	20,355	15	−29,096	−15
Massachusetts	793,225	614,708	344	374,672	90	298,761	60	256,679	48
Michigan	217,146	93,236	75	52,661	32	11,239	5	−15,783	−7
Minnesota	178,687	141,349	379	38,120	27	28,273	19	16,178	10
Mississippi	102,719	46,798	84	38,873	61	7,882	8	−6,233	−6
Missouri	168,587	26,114	18	−67,796	−29	−100,490	−37	−111,528	−40
Montana	88,072	73,364	499	41,622	90	33,642	62	13,022	17
Nebraska	77,809	47,919	160	39,276	102	−5,837	−7	−7,870	−9
Nevada	55,011	46,620	556	11,803	27	−1,210	−2	−3,184	−5
New Hampshire	59,340	43,848	283	34,426	138	11,932	25	3,535	6
New Jersey	274,799	85,692	45	41,416	18	28,863	12	−28,507	−9
New Mexico	69,402	44,746	181	42,160	155	38,298	123	24,543	55

New York	477,584	123,935	35	−57,004	−11	−121,836	−20	−154,403	−24
North Carolina	214,972	−15,865	−7	−90,838	−30	−143,299	−40	−178,181	−45
North Dakota	50,447	5,887	13	−2,979	−6	−24,791	−33	−32,363	−39
Ohio	356,246	231,419	185	200,963	129	158,654	80	79,029	29
Oklahoma	159,309	74,298	87	57,668	57	47,037	42	15,515	11
Oregon	92,166	42,543	86	24,747	37	15,926	21	−397	−0
Pennsylvania	456,826	325,819	249	298,829	189	213,084	87	84,355	23
Rhode Island	65,379	51,918	386	36,309	125	30,320	86	20,101	44
South Carolina	179,141	101,532	131	27,858	18	16,615	10	8,401	5
South Dakota	69,729	12,996	23	−8,395	−11	−22,791	−25	−33,301	−32
Tennessee	196,644	67,328	52	20,013	11	−22,553	−10	−81,974	−29
Texas	619,695	193,004	45	136,984	28	58,399	10	−25,147	−4
Utah	89,670	66,048	280	35,048	64	27,477	44	18,313	26
Vermont	71,618	58,166	432	50,025	232	36,629	105	26,728	60
Virginia	212,321	99,361	88	68,801	48	28,694	16	2,329	1
Washington	204,873	167,859	454	87,103	74	68,522	50	−493	−0
West Virginia	120,166	84,653	238	37,892	46	12,857	12	−13,368	−10
Wisconsin	163,333	−10,469	−6	−63,820	−28	−74,008	−31	−82,887	−34
Wyoming	53,579	7,042	15	−6,478	−11	−15,180	−22	−23,071	−30
Total	$9,563,884	$4,987,272	109	$2,893,616	43	$1,295,871	16	−$590,668	−6

Note 1: Bold type indicates that previous obligations exceed the unobligated balance.
Note 2: The comparison represents data for the States only and does not include data for the District of Columbia, American Samoa, Puerto Rico, the Virgin Islands, Guam, and the North Marianas.
a. Not available.
Source: GAO's analysis based on FHWA's data.

UNOBILIGATED FEDERAL HIGHWAY BALANCES (SUBJECT TO THE OBLIGATION LIMITATION) AT THE BEGINNING OF FISCAL YEAR 1998 COMPARED WITH OBLIGATIONS FOR THE FIRST 4 TO 7 MONTHS OF FISCAL YEAR 1997

Dollars in thousands

State	Unobligated balance subject to obligation limit as of 10/01/97	Difference between unobligated balance and fiscal year 1997 4-month obligation total		Difference between unobligated balance and fiscal year 1997 5-month obligation total		Difference between unobligated balance and fiscal year 1997 6-month obligation total		Difference between unobligated balance and fiscal year 1997 7-month obligation total	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Alabama	$198,888	$127,121	177	$111,531	128	$74,609	60	$42,836	27
Alaska	94,192	59,601	172	12,980	16	−5,331	−5	−19,351	−17
Arizona	184,093	100,984	122	87,499	91	75,266	69	66,643	57
Arkansas	153,005	54,352	55	36,915	32	33,553	28	25,408	20
California	1,091,527	810,523	288	769,136	239	680,963	166	490,623	82
Colorado	117,689	73,357	165	14,684	14	−1,177	−1	−28,065	−19

UNOBILIGATED FEDERAL HIGHWAY BALANCES (SUBJECT TO THE OBLIGATION LIMITATION) AT THE BEGINNING OF FISCAL YEAR 1998 COMPARED WITH OBLIGATIONS FOR THE FIRST 4 TO 7 MONTHS OF FISCAL YEAR 1997—Continued

Dollars in thousands

State	Unobligated balance subject to obligation limit as of 10/01/97	Difference between unobligated balance and fiscal year 1997 4-month obligation total		Difference between unobligated balance and fiscal year 1997 5-month obligation total		Difference between unobligated balance and fiscal year 1997 6-month obligation total		Difference between unobligated balance and fiscal year 1997 7-month obligation total	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Connecticut	167,954	13,169	9	−11,286	−6	−31,050	−16	−116,129	−41
Delaware	54,052	48,091	807	46,936	660	40,646	303	20,332	60
Florida	298,813	210,298	238	149,096	100	59,127	25	−184,890	−38
Georgia	487,021	377,780	346	352,654	262	311,775	178	276,867	132
Hawaii	148,605	a	a	a	a	a	a	a	a
Idaho	82,813	55,002	198	38,149	85	37,863	84	32,445	64
Illinois	284,971	176,709	163	111,918	65	14,891	6	−206,213	−42
Indiana	203,799	69,259	51	−29,117	−13	−80,242	−28	−103,005	−34
Iowa	136,787	33,867	33	21,278	18	−5,080	−4	−6,472	−5
Kansas	147,075	76,184	107	69,706	90	64,459	78	53,918	58
Kentucky	157,586	115,390	273	83,361	112	35,119	29	10,361	7
Louisiana	339,687	280,570	475	265,037	355	261,338	334	245,107	259
Maine	57,472	25,291	79	8,642	18	−2,260	−4	−1,963	−3
Maryland	166,683	124,214	292	48,932	42	28,096	20	−21,355	−11
Massachusetts	799,910	621,393	348	381,357	91	305,446	62	263,364	49
Michigan	250,289	126,379	102	85,804	52	44,382	22	17,360	7
Minnesota	238,211	200,873	538	97,644	69	87,797	58	75,702	47
Mississippi	116,125	60,204	108	52,279	82	21,288	22	7,173	7
Missouri	187,257	44,784	31	−49,126	−21	−81,820	−30	−92,858	−33
Montana	88,072	73,364	499	41,622	90	33,642	62	13,022	17
Nebraska	84,959	55,069	184	46,426	120	1,313	2	−720	−1
Nevada	55,012	46,621	556	11,804	27	−1,209	−2	−3,183	−5
New Hampshire	63,770	48,278	312	38,856	156	16,362	35	7,965	14
New Jersey	331,142	142,035	75	97,759	42	85,206	35	27,836	9
New Mexico	71,431	46,775	190	44,189	162	40,327	130	26,572	59
New York	529,008	175,359	50	−5,580	−1	−70,412	−12	−102,979	−16
North Carolina	264,629	33,792	15	−41,181	−13	−93,642	−26	−128,524	−33
North Dakota	58,999	14,439	32	5,573	10	−16,239	−22	−23,811	−29
Ohio	495,754	370,927	297	340,471	219	298,162	151	218,537	79
Oklahoma	173,644	88,633	104	72,003	71	61,372	55	29,850	21
Oregon	98,712	49,089	99	31,293	46	22,472	29	6,149	7

Pennsylvania	968,126	837,119	639	810,129	513	724,384	297	595,655	160
Rhode Island	85,502	72,041	535	56,432	194	50,443	144	40,224	89
South Carolina	201,518	123,909	160	50,235	33	38,992	24	30,778	18
South Dakota	74,690	17,957	32	−3,434	−4	−17,830	−19	−28,340	−28
Tennessee	225,294	95,978	74	48,663	28	6,097	3	−53,324	−19
Texas	770,416	343,725	81	287,705	60	209,120	37	125,574	19
Utah	92,600	68,978	292	37,978	70	30,407	49	21,243	30
Vermont	88,085	74,633	555	66,492	308	53,096	152	43,195	96
Virginia	333,797	220,837	196	190,277	133	150,170	82	123,805	59
Washington	204,887	167,873	454	87,117	74	68,536	50	−479	−0
West Virginia	307,110	271,597	765	224,836	273	199,801	186	173,576	130
Wisconsin	181,199	7,397	4	−45,954	−20	−56,142	−24	−65,021	−26
Wyoming	53,579	7,042	15	−6,478	−11	−15,180	−22	−23,071	−30
Total	$12,066,439	$7,489,827	164	$5,396,171	81	$3,942,319	49	$2,055,720	21

Note 1: Bold type indicates that previous obligations exceed the unobligated balance.
Note 2: The comparison represents data for the States only and does not include data for the District of Columbia, American Samoa, Puerto Rico, the Virgin Islands, Guam, and the North Marianas.
a. Not available.
Source: GAO's analysis based on FHWA's data.

STATEMENT OF STEVE MASSIE, WILLIAMSBURG, VA, ON BEHALF OF THE TRANSPORTATION CONSTRUCTION COALITION

Good morning. My name is Steve Massie. I am a highway contractor from Williamsburg, Virginia. Today, I am testifying on behalf of the 26 member organizations of the Transportation Construction Coalition (TCC). A list of the coalition's membership is attached. I appreciate the opportunity to testify before you today concerning the importance of the Federal-aid Highway program to my company, its 80 employees and their families, and thousands of construction companies, construction supply companies, engineering and design companies, and the skilled construction labor that really implement this program where the rubber meets the road. I will keep my comments brief, but would like to have my entire statement made part of the record.

The Transportation Construction Coalition supports a multi-year reauthorization of the Federal surface transportation program funded at the highest level that can be supported through the Highway Trust Fund. If this is not possible before Congress adjourns this year, however, it is essential that the programs in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) be temporarily extended until a new multi-year authorization can be passed.

Construction is a major force in the national economy. The last Census of the Construction Industry tallied 572,851 construction companies with a total employment of 4.6 million persons, annual estimated payroll of $118 billion and value of work put in place of about $528 billion annually in the United States. Because the construction industry puts in place the infrastructure that keeps America's economy on track, derailing the construction industry is tantamount to derailing the nation's economy.

More specifically, for this hearing, I want to discuss the disastrous impact an extended delay of highway reauthorization legislation will have on the highway construction industry and the American economy, and why we believe a short-term extension of the program is crucial.

As you know, on September 30, the authorization for the nation's highway and transit programs expired. Until Congress approves a new highway bill, or at least extends the expired bill, the U.S. Department of Transportation (DOT) cannot release new highway funds to the States. It is imperative that the program not be allowed to lapse any longer. The highway construction industry is largely dependent on the Federal-aid highway program for capital funding. On average, Federal funds account for 44 percent of highway capital investment.

While it appears that a multi-year reauthorization bill is not possible this year, I want to impress upon you why an extension of the program is essential. I would like to use an example from Saturday's Washington Post. The article, "Delay of Wilson Bridge Funding Criticized" quotes Virginia DOT Secretary Robert Martinez saying, "if everything goes right, we are right at the brink of a major, regional transportation crisis." AAA President, Robert L. Darbelnet seems to agree saying, "With each passing day 172,000 vehicles pass over the bridge, making it a little less structurally sound and bringing it closer to the day when traffic restrictions will have to be imposed."

I know what you are thinking—a short term bill would not fix the Woodrow Wilson Bridge. I understand that. The Wilson Bridge is a popular and proximate example for the infrastructure problems facing our country. Nearly ⅓ of the nearly 600,000 bridges on our nation's Federal-aid eligible highways are rated deficient. While a short term bill would not fix the Woodrow Wilson Bridge, the problems that smaller structures face are similarly exacerbated by delays.

I have heard some in Washington, D.C. claim that a short-term extension of the ISTEA legislation is not necessary because all States have unobligated balances they can use until a multi-year bill is completed next year. This is absolutely not true. The Transportation Construction Coalition estimated earlier this year that by March 1998, assuming the States could flex all unobligated balances into needed accounts, 26 States will expend all unobligated balances. By the end of February, 11 States are expected to run out of budget authority including Florida, Alabama, Arkansas, Missouri, New York and Oregon. In March, California, Connecticut, Idaho, Maine, Nevada, Virginia and Wyoming will run out of funds. It should be noted that this is the brightest scenario, if States are granted complete flexibility.

Also critical in our eyes is what the available funding can be used for. While it is true that the Federal Highway Administration (FHWA) estimates that as of September 30 States had $10 billion in unobligated highway account balances, only $2.6 billion of that funding is available in the core highway construction accounts of Interstate Maintenance, National Highway System, and Bridge. In fact, 17 States had less than $1 million in funding for the National Highway System. In my State of Virginia, for example, we have only $2,967,000 in the National Highway System account, $3,851,000 in the Interstate Maintenance account, and $50,873,000 in the Bridge account—totaling $57,691,000 in useable highway construction funds. Virginia will not have another letting with Federal funds until a reauthorization bill is enacted, thereby crippling our State's construction industry.

To illustrate what the actual impact of not passing any reauthorization legislation will be to the States, the American Association of State Highway and Transportation Officials (AASHTO) conducted a survey and found that 1,982 transportation construction projects valued at $3.07 billion will be affected in the first quarter of fiscal 1998 (Oct.-Dec. 1997). During the second quarter of the fiscal year, an additional 2,926 projects valued at $4.4 billion will be affected by the delayed authorization. In Virginia, this will impact 281 projects, valued at $255.7 million, in the first two quarters of fiscal 1998.

DOT has estimated that every $1 billion invested in highway construction creates 42,100 jobs. So, using the AASHTO estimates, Congress is jeopardizing over 300,000 jobs in the first 6 months of fiscal 1998 (Oct. 1997—March 1998). If no bill is enacted by July 1, 1998, the total amount of projects delayed is estimated at $11 billion, which would impact over 470,000 jobs. A short-term extension of the program would alleviate much of this unnecessary pain because Federal funds would flow to the States, the Federal-aid highway program would continue, and hundreds of thousands of jobs would not be lost.

The reauthorization legislation is vital to States because States will delay the planning and bidding of highway construction projects until legislation authorizes new money to flow to the States. The delays directly impact the American economy because States do not make progress on needed construction work, which, in turn, puts construction contractors and suppliers out of business. Without work, construction companies will not be able to provide jobs and will have difficulty making payments on machinery and facilities. In Virginia, without an extension of the Federal-aid highway program, I will begin to lay off my employees beginning in January, 1998, and I will not be able to rehire them, until a bill is enacted. Furthermore, I will stop using my concrete, pipe, steel, cement, asphalt and guardrail suppliers beginning in March 1998, and I wont use them again until 45–60 days after the bill is signed.

If there is no bill through January, we will lose the entire spring construction season. In the likely event that there is no bill until June 1998, we will lose the entire spring and summer construction seasons, which would put many construction companies out of business. Construction does not operate like an assembly line that we can just shut down. The design and construction of highway projects are carefully planned months in advance. Projects to be constructed in April or May, must be planned and funded by January or February. Virginia has the following lettings of Federal-aid highway funds scheduled for December, 1997 through August, 1998 that will be canceled without an extension of the highway program.

Letting Date Value of Work

December, 1997	$ 31,250,000
January, 1998	15,790,000
February, 1998	25,225,000
March, 1998	61,260,000
April, 1998	12,420,000
May, 1998	9,880,000
June, 1998	17,260,000
July, 1998	107,510,000
August, 1998	49,185,000
Total	$329,780,000

Without an extension of the highway program, the FHWA, which oversees the Federal-aid highway program, the motor carrier safety program, and research programs, will be shut down at the end of December. The 3,700 FHWA employees that approve projects and actually keep the Federal-aid highway program going, including the State's ability to obligate funds in a timely manner, will be laid off.

Furthermore, since the program expired, States have already begun to lay off truck safety enforcement officers because funding is no longer available in the Motor Carrier Safety Assistance Program (MCSAP) in many States. There are virtually no unobligated balances of grant funds or new Federal funds available to the States for motor carrier safety activities. According to the Commercial Vehicle Safety Alliance (CVSA), by the end of December, up to 8,000 inspectors nationwide funded by MCSAP will be in jeopardy. Nearly 170,000 inspections per month, training, hazardous materials, and other enforcement activities supported by the Federal program would be cut back or cease altogether.

A delay in reauthorizing the Federal-aid highway program will also put lives at risk. According to the FHWA, poor road design and conditions were factors in thirty percent of the 42,000 fatalities on the nation's highways last year. The inability of States to make improvements to our nation's highways will likely result in increased fatalities.

Mr. Chairman, one of the major problems with letting the Federal highway program lapse is the uncertainty it is causing for all of us in the industry. It is easy for Congressional leaders in Washington to say "wait until next year" and use the highway program as a political football. But that is like telling us and our employees to wait until next March, or so, for our paychecks. We can't survive like that.

Except for a few large highway contractors, most of us are small firms and we are going to be badly hurt by a shutdown of the program. This uncertainty is already having a psychological effect on our outlook for the future. Contractors are putting off hiring and purchasing decisions until we have a better idea of where the highway program is going. This is going to have a strong ripple effect throughout the economy. If highway contractors aren't hiring or buying, some other firm isn't selling, and that is going to cause production and jobs to decline.

It is not just highway contractors and their workers who will be hurt if Congress does not extend the highway program. The highway program also affects a lot of other industries. There are engineering firms that help design and manage highway projects. There are suppliers of concrete, aggregates and other highway materials. There are manufacturing firms that build highway construction equipment. Shutting down the highway program will be like taking a knife to the heart of these industries.

Research conducted recently by a TCC member took a look at how the Federal highway program affects two important industries—the aggregates industry and the construction equipment manufacturing industry—and I would like to submit the results of those studies for the hearing record. Concerning the construction machinery industry, the research found that each $1 billion of government highway construction spending generates about $300 million of equipment sales. Important companies like Caterpillar, JI Case, Cummins Engine and a lot of others are going to take a real pounding if there is no highway program. Without the $23 billion in highway money enacted for 1998, sales of construction machinery could go down as much as $6 to $7 billion from the current level, and that means a hundred thousand people or more could be temporarily laid off in this industry until Congress acts.

Since the multi-year reauthorization bill is likely to be entangled in the looming budget battle this winter, it is unlikely that a multi-year reauthorization bill will be passed until after the second quarter of fiscal year 1998. I am sure Senator Domenici and members of the Budget Committee will want to discuss the overall ISTEA authorization levels in the context of the budget resolution next year. Additionally, many controversial amendments to the reauthorization bill will still need to be debated. From what I understand, they will not proceed in the House until after the budget resolution is completed. Noting that 26 States will be out of funding by March, it is imperative that Congress pass a bill that provides funding for the Federal-aid highway program until the multi-year bill is enacted. This expected, extended delay to reauthorizing the highway program is what makes this a true crisis to the construction industry.

I am disappointed that the 6-year reauthorization bill was sacrificed by the insistence that it be the vehicle for campaign finance reform. Thousands of American jobs and the safety of our nation's roads are in Congress' hands. This program is too important to leave unfunded for the months ahead. Please do not leave for the year without passing an extension of the Federal-aid highway program.

I would like to ask that in addition to our statement the record include two letters in support of a short-term extension from the Laborers and Operating Engineers unions; a TCC letter to senators that describes some of the issues we have discussed in more detail; a FHWA chart indicating unobligated balances as of September 30, 1997; an analysis of when States will run out of Federal highway funding; a Washington Post article entitled, "Delay of Wilson Bridge Funding Criticized"; news release from the Iowa Department of Transportation; and copies of the economic studies I have referenced.

Thank you again for the opportunity to testify. I would be happy to answer any questions you may have.

ADDITIONAL STATEMENT FROM TRANSPORTATION CONSTRUCTION COALITION CONCERNING SENATOR BOND'S PROPOSAL

On behalf of the TCC, I would like to express our gratitude to Senator Bond for his work in crafting a proposal to extend the Federal-aid highway program for 6 months. Within one week of unveiling the proposal, the Senate passed a modified version of the Bond proposal. Most importantly, the legislation allows States to continue to let contracts through the spring construction season, thereby saving hundreds of thousands of jobs.

The TCC strongly supports the flexibility that the legislation grants to the States to transfer funds from one account to another. As I mention in my statement, only a limited amount of the unobligated balances as of October 1, 1997 are available in the core highway construction accounts of Interstate Maintenance, National Highway System, and Bridge. Significant balances, however, remain in the smaller Congestion and Mitigation and Air Quality (CMAQ) and Enhancement accounts. The CMAQ account has over $1 million in unobligated balances, while the Enhancement account, within the Surface Transportation Program (STP) account, has over $900 million. Both the unobligated balance in the CMAQ and Enhancement accounts exceed what the accounts were apportioned for the entire fiscal year 1997. The ability to transfer funds to the needed accounts will enable States to maximize the use of the limited funds.

While the TCC supports the freedom to transfer funds within the various categories, we question the need to require States to repay the accounts from where money is transferred. The reason States will transfer money from the accounts with large unobligated balances, namely the CMAQ account and Enhancement account, is because States do not plan to use that money, as is evident from the large unobligated balances, and States have much more crucial needs improving their interstate and national highway system roads and bridges. This debate has certainly underscored the need to provide States the flexibility to use their Federal funds to meet their States unique needs and priorities. While this legislation temporarily provides States this needed flexibility, we believe next year's multi-year reauthorization should include permanent flexibility. As our highways and bridges are crumbling, CMAQ and Enhancement funds are set aside and used, or not used as is demonstrated by the large balances, for such non-highway purposes as pedestrian or bicycle facilities, landscaping and beautification, rehabilitation and operation of historic buildings, or other non-highway purposes.

Although we would make the aforementioned alteration to the "Bond proposal," the TCC commends Senator Bond for developing the six-month compromise legislation and ensuring the continuation of federal-aid highway program.

TRANSPORTATION CONSTRUCTION COALITION

MEMBER ORGANIZATIONS

American Road & Transportation Builders Association (co-chair)
Associated General Contractors of America (co-chair)
American Coal Ash Association
American Concrete Pavement Association
American Concrete Pipe Association
American Consulting Engineers Council
American Portland Cement Alliance
American Subcontractors Association
American Traffic Safety Services Association
Asphalt Emulsion Manufacturers Association
Asphalt Recycling & Reclaiming Association
Associated Equipment Distributors
Construction Industry Manufacturers Association
Equipment Manufacturers Institute
International Slurry Surfacing Association
International Union of Operating Engineers
Laborers-Employers Cooperation and Education Trust
Laborers' International Union of North America, AFL-CIO
National Asphalt Pavement Association
National Association of Surety Bond Producers
National Ready Mixed Concrete Association
National Aggregates Association
National Stone Association
National Utility Contractors Association

Precast/Prestressed Concrete Institute
The Road Information Program

SUPPLEMENTAL STATEMENT BY THE TRANSPORTATION CONSTRUCTION COALITION

HOW SOON WILL STATES RUN OUT OF FEDERAL HIGHWAY FUNDING IF THE HIGHWAY PROGRAM IS NOT REAUTHORIZED BY SEPTEMBER 30, 1997?

If Congress fails to reauthorize the Federal-aid highway program before the Intermodal Surface Transportation Efficiency Act expires on September 30, 1997, States will start running out of contract authority early in 1998, according to an analysis of Senate Appropriations Committee and Federal Highway Administration (FHWA) data conducted for the Transportation Construction Coalition (TCC) by the American Road & Transportation Builders Association's Economics and Research Division. This would bring to a halt Federal funding for new projects to repair or construct highways.

Florida is projected to be the first State to run out of regularly-apportioned Federal highway funds, exhausting its existing unobligated balance in January, 1998.

Another 10 States will exhaust their Federal highway funds in February, including Illinois, Michigan and New York.

The majority of States, including California and Texas, are projected to be out of money by March and almost all will be out of funds by May.

Without a timely reauthorization of the Federal-aid highway program, most States will run out of highway funds during the peak of the spring and summer repair and construction season, according to the TCC's analysis, causing further deterioration of our nation's highways and job loss for thousands of highway construction workers.

The TCC analysis is based on data from the Senate Appropriations Committee and the Federal Highway Administration, and the FHWA's recently-announced interim allocation of obligation limitation.

If Congress fails to reauthorize the Federal highway program by September 30, the FHWA plans to distribute an interim first-quarter Federal-aid obligation limitation among the States, according to Department of Transportation (DOT) Assistant Secretary for Governmental Affairs Steven Palmer. [1]

This plan would distribute the obligation limitation appropriated for FY 1998 (approximately $21.8 billion less administrative and other expenses) among the States based on each State's share of FY 1997 contract authority under current ISTEA distribution formulas States would be permitted to obligate one-fount, of the computed amount during the first quarter of FY 1998. After new authorizing legislation is enacted, the interim distribution would be adjusted to reflect any changes in the distribution formulas, so that the full-year distribution would be under the new formulas.

Although FHWA has not issued plans for distributing obligation authority past the first quarter of FY 1998 if new authorizing legislation is not enacted before December 31, 1997, the ARTBA team has used the interim first quarter formula to project the date at which each State would exhaust its existing unobligated balance and run out of authority to spend money on highways if reauthorization is delayed. The results are presented in the attached table

The first column shows each State's projected allocation for FY 1998 as computed by the Senate Committee on Appropriations, based on current law distribution formulas and the obligation limit included in the Senate-passed version of the DOT appropriations bill. These figures may change slightly when Congress passes the final DOT appropriations bill this fall.

The second column shows the expected unobligated balance for each State or. October 1, 1997, (the start of FY 1998) based on data from FHWA.

The third column shows how much each State would be permitted to obligate during the first quarter of FY 1998 under FHWA's interim plan.

The final column projects when each State would exhaust its unobligated balance—and thus run out of new highway funds—assuming the interim program formula is continued for the rest of the year. [2]

[1] As explained in a July 29, 1997, letter to Senators Bob Graham and Carl Levin.

[2] The projections assume States will fully obligate the reminder of their FY 1997 limitation and the interim obligation limitation for the first quarter of FY 1998. States that do not fully obligate up to their limit may be able to extend the date on which they exhaust their unobligated balances. Since the Federal-aid highway program consists of separate programs with separate allocations, States will exhaust the unobligated balance for some programs before the indi-

This does not mean States would have to shut down their highway program on the date in the fourth column. They would be able to continue work on existing projects to the extent they were funded out of earlier allocations or out of State money. But no new projects dependent on Federal funding could be started.

For most States, the exhaustion of contract authority will occur just at the peak of the highway repair and reconstruction season, causing serious disruptions in State programs. Without timely reauthorization, the delay will cause further deterioration in our nation's highways.

Questions on the analysis should be directed to Dr. William Buechner, ARTBA's director of economics and research, at 202-289-4434.

IOWA DEPARTMENT OF TRANSPORTATION LETTINGS WHICH WILL BE AFFECTED BY DELAYED CONGRESSIONAL ACTION

The following chart is a listing of major federal-aid projects and state-funded projects on the state priority primary, national highway system and interstate routes. (The list does not include federal-aid urban or maintenance-type projects. *)

JANUARY 1998 LETTING

US 18 - (Ave. of Saints) Cerro Gordo Co.— paving (four-lane)	$12.5 million
US 61 - Lee Co.— grading/bridges (four-lane)	$12.7 million
Iowa 163 - (DM to Burlington) Mahaska Co. — grading (four-lane)	$2.5 million
Iowa 163 - (DM to Burlington) Marion Co.— paving (four-lane Otley bypass)	$2.7 million
Interstate 35/80 - Polk Co.— Iowa 141 interchange, grade/pave	$2.1 million
US 6 - Polk Co. — bridge	$0.7 million
US 6 - Polk Co. — grade/pave (four-lane)	$3.2 million
US 30 - Story Co. — paving (four-lane)	$2.7 million
US 30 - Carroll Co. — paving	$4.9 million
US 30 - Crawford Co. — paving	$5.1 million
Iowa 163 - (DM to Burlington) Jasper Co. — paving (four-lane)	$15.2 million
Iowa 149 - Keokuk/Washington Co. — widen/resurface	$2.8 million *3.9
US 20 - Sac Co. — resurface	$1.4 million
Iowa 196 - Sac Co. — resurface	$1.6 million
*Total Estimated Letting Cost (all projects) $99.6 million	$70.1 million

FEBRUARY 1998 LETTING

US 30 - Benton Co. — grade/bridges (four-lane)	$2.3 million
US 18 - (Ave. of Saints) Floyd Co. — paving (four-lane)	$8.6 million
US 151 - Linn Co. — grade/bridges (four-lane)	$3.8 million
US 30 - Linn Co. — grade/bridges (four-lane)	$2.2 million
US 61 - Jackson Co. — paving (four-lane)	$3.0 million
Interstate35/80 - Polk Co. — Iowa 141 interchange, bridges	$0.7 million
Interstate 680 - Pottawattamie Co. — resurface	$5.9 million
Interstate 80 - Johnson Co. — grade/pave/bridge (six lane)	$4.6 million
US 6 - Scott Co. — grade/pave/bridge	$1.1 million
Iowa 276 - Dickinson Co. — resurface	$1.0 million
Iowa 86 - Dickinson Co. — resurface	$1.1 million
US 6 - Pottawattamie Co. — resurface	$2.4 million
US 169 - Union/Van Buren Co. — resurface	$3.9 million
* Total Estimated Letting Cost (all projects) $51.8 million	$40.6 million

Source: DOT October 1997 letting schedule

cated date and some after. To the extent that a State's unobligated balance is in low-priority program areas, the State will exhaust funds for high-priority projects sooner than shown.

IOWA DEPARTMENT OF TRANSPORTATION LETTING SCHEDULE CONTINUED

MARCH 1998 LETTING

US 71 - Audubon Co. — grading/culverts	$5.0 million
US 71 - Carroll/Audubon Co. — grading/bridge	$2.7 million
US 18 - (Ave. of Saints) Floyd/Cerro Gordo Co. — pave (four-lane)	$6.4 million
US 18 - (Ave. of Saints) Cerro Gordo Co. — pave (four-lane)	$5.3 million
US 71 - Dickinson Co. — grade/pave (three/four-lane)	$7.7 million
US 218 - (Ave. of Saints) Floyd Co. — (Charles City bypass) grade/bridges	$19.3 million
US 20 - Hamilton/Hardin Co. — pave/bridges (four-lane)	$8.6 million
I-35/80 - Polk Co. — Merle Hay Rd. interchange	$10.8 million
US 61 - Dubuque Co. — resurface	$3.0 million
US 75- Plymouth Co. — resurface	$1.1 million
US 75 - Sioux Co. — grade/pave/bridges	$3.3 million
US 20/75 - Woodbury Co. — resurface	$1.2 million
* Total Estimated Letting Cost (all projects) $82.9 million	$74.4 million

Source: DOT October 1997 letting schedule

April Letting - $24 million
June Letting $6,972 + $18,365 = $25 million

[From the Washington Post, November 1, 1997]

DELAY OF WILSON BRIDGE FUNDING CRITICIZED

SPAN 'S LIMITED LIFE PUTS REGION ON "BRINK" OF CRISIS, AREA LEADERS SAY

(By Richard Tapscott)

Washington area leaders said yesterday that Federal delays in providing money for a replacement Woodrow Wilson Bridge threaten to put the region on the "brink" of a transportation crisis.

With highway legislation bogged down on Capitol Hill, the leaders called on U.S. Transportation Secretary Rodney E. Slater to develop a comprehensive funding proposal that Congress can consider when it returns to work early next year. They asked Slater to name a commission that would draft a detailed plan within 90 days.

Frustrated that a year has elapsed since plans were unveiled for a near, 12 lane Wilson Bridge, local business, highway and consumer groups said it may be difficult to build a replacement in time to avoid banning trucks or imposing other weight restrictions on the aging span over the Potomac on the Capital Beltway.

Virginia Transportation Secretary Robert E. Martinez said the Wilson Bridge, which links Alexandria with Prince George's County, has seven to nine more years of "useful life." At a news conference yesterday, Martinez emphasized the time it would take to build a new bridge. Even if everything goes right," he said, we are right at the brink of a major, regional transportation crisis."

A spokesman for Slater's department said he could not say whether a commission will be appointed but added that Slater looks forward to working with local authorities to ensure the success of the project."

The Wilson Bridge, which is owned by the Federal Government and is the only drawbridge on the interstate highway system, carries 172,000 vehicles daily, more than twice its design capacity. Because it is six lanes wide, it is a continual traffic bottleneck for vehicles entering from the eight lane Beltway on either end. Critics also say the Wilson Bridge is among the reasons Washington has the second most-congested highways in the nation.

David L. Instead, Maryland's transportation secretary, said local officials have done their part in coming to an agreement on a $1.6 billion bridge plan as the replacement. We still don't have a critical Federal response.'' Winstead: said.

In a letter to Slater, AAA President Robert L. Darbelnet decried the fact that the project had come to a standstill. ''With each passing day 172,000 vehicles pass over the bridge, making it a little less structurally sound and bringing it closer to the day when traffic restrictions we have to be imposed.

Restrictions could force Interstate 95 truck traffic onto already congested alternate routes through the District or into Maryland via the American Legion Bridge.

A Senate highway construction measure, fashioned by Sen. John W. Warner (R-VA), would set aside $900 millon for a replacement bridge. The House counterpart bill contains no dollar figure for the bridge. Both bills have been stymied by unrelated issues and are not expected to be acted upon until next year. The Clinton administration had proposed only $400 million for the bridge, an amount that Martinez yesterday ceded ''ridiculous.''

If the money for building a replacement span were available now and construction went perfectly, Martinez said a new bridge might be built before weight restrictions had to be imposed.

John J. Collins, a senior vice president of the American Trucking Associations, said the bridge has the highest accident rate on the Beltway. His organization, Collins said, wants the Federal Government to pay for a bridge and opposes tolls for safety reasons.

Lon Anderson, a spokesman for AAA Potomac, said disaster is still preventable. However, he added, ''We have no money, and time is running out.''

[From the Iowa Department of Transportation, October 30, 1997]

Lack of Congressional Action Could Be Devastating to Iowa's Transportation Program and Economy

DOT SCHEDULES NEWS CONFERENCE

Ames, IA.—The failure of Congress to pass a Federal highway financing bill may prove devastating to Iowa's sound economy, public safety, and future highway improvements.

Tuesday, October 28, 1997, the Senate apparently abandoned its efforts to authorize a new highway and transit bill denying Iowa and other States essential funds for construction of highways and bridges, highway safety programs, and for mass transit programs. According to reports, Senate Majority Leader Trent Lott of Mississippi pronounced the highway measure ''apparently dead for the year.''

To reveal the potentially disastrous impact on Iowa's transportation program and the construction industry the DOT will be holding a special news conference Friday, October 31. DOT Director Darrel Rensink will speak about how a lack of Federal funding will affect bid lettings scheduled for January through March 1998.

Representatives from the Associated General Contractors of Iowa, Iowa Concrete Paving Association, Asphalt Paving Association of Iowa, and the Iowa Limestone Producers Association, Inc. will share their organization's reaction to the news.The news conference will be held at the State Capitol, Room 118, in Des Moines, beginning at 10:30 am.

Ames, IA.—Tuesday, October 28, 1997, the Senate apparently abandoned its efforts to authorize a new highway and transit bill denying Iowa and other States essential funds for construction of highways and bridges, highway safety programs, and for mass transit programs. According to reports, Senate Majority Leader Trent Lott of Mississippi pronounced the highway measure ''apparently dead for the year.''

Iowa receives over $200 million in Federal funds for highway and bridge construction each year. Without Federal funding, the DOT will be unable to proceed with the planned contract lettings for next year. Additionally, contracts planned by counties and Sties will also be impacted.

According to Darrel Rensink, director of the Iowa Department of Transportation, ''Iowa has enough money in the pipeline to last through the month of January 1998. However, I'm going to postpone my decision about whether to proceed with the February letting for 30 days. The decision about whether to hold the March letting, and those beyond, is being postponed indefinitely.),

Delaying contracting of projects could postpone the completion of many projects for another year. The DOT's current schedule shows over $233 million in highway and bridge construction projects being let in January through March of 1998.

A lack of Federal funds will directly affect the continued development of Iowa's six mayor highway corridors included in the DOT's Transportation Improvement Program. The six corridors are Avenue of the Saints, Des Moines to Burlington, Iowa 5 in Polk and Warren Counties, Iowa 60 from Sioux City to the Minnesota State line, Iowa 330 from Des Moines to Marshalltown, and U.S. 151 from Cedar Rapids to Dubuque.

Since the Federal highway program expired September 30, Iowa has been using unobligated Federal funds to keep as many programs going as possible. However, the DOT is running out of Federal money and a fiscal impasse is expected early next year.

TRANSPORTATION CONSTRUCTION COALITION,
Washington, DC, October 30, 1997.

THE HONORABLE JOHN W. WARNER, *Chairman*
Subcommittee on Transportation and Infrastructure
Senate Office Building
Washington, DC. 20510

DEAR SENATOR WARNER: The 26 member organizations of the Transportation Construction Coalition support a multi-year reauthorization of the Federal surface transportation program funded at the highest level that can be supported through the Highway Trust Fund.

If this is not possible before Congress adjourns this year, however, it is essential that the programs in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) be temporarily extended until a new multi-year authorization can be passed. To minimize disruption to the program, which would compromise highway safety and cause economic hardships to our industry, we suggest that such a temporary extension by Congress include the following provisions:

The duration of the extension should be a minimum of 6 months, preferably at least 8 months. State departments of transportation must make funding and contracting plans well in advance of the typical March-October peak construction and maintenance period. That requires an assured source of timely Federal support. If Congress adjourns without either enacting new multi-year authorizing legislation or extending the current program at least 6 months, most States will lose much or all of the 1998 construction season.

The Federal Highway Administration must remain operational. Failure to provide additional spending authority for the highway program could result in a virtual shutdown of the Federal Highway Administration in the near future. The agency's administrative operations are largely financed by set-asides from funds authorized for individual highway construction programs. Just as there are some unobligated funds available for State construction activities, the agency has a limited amount of carry-over funds for operations. These funds are likely to be exhausted by the end of 1997 and FHWA could be forced to shut down. Such a situation would end the agency's oversight of program activities and would prohibit the payment of salaries to FHWA employees. A short-term extension of ISTEA would prevent a shutdown of the Federal Highway Administration.

If Congress does not pass a multi-year reauthorization bill this year, an extension of the existing ISTEA legislation should temporarily allow States to flex money among the various categorical programs to meet their most pressing transportation needs. Since an extension will provide new budget authority for only a short period of time, States should be allowed to use the money where it is most needed by temporarily transferring spending authority from lower-priority programs. When a new multi-year program is passed, the States that made use of this flexibility could be required to restore the categorical balances.

Any extension of the current program should allocate apportioned funds to the States according to a timetable designed to support their construction needs. The six-month extension passed by the House of Representatives (H.R. 2516) instructs the Secretary of Transportation to distribute half of the obligation limitation for FY 1998 on October 1, 1997, and half on July 1, 1998. July 1, however, comes too late for the 46 States which have fiscal years that begin on July 1 and end on June 30. Many of these States would have only half of their FY 1998 distribution in time to accomplish their FY 1998 construction programs. We urge that the second distribution be made on April 1, 1998, giving the States the funds they need in a timely manner and without interruption.

The attached correspondence is offered for your background. We hope these suggestions are helpful.

Sincerely,

THE TRANSPORTATION CONSTRUCTION COALITION

10/28/97 U. S. DEPARTMENT OF TRANSPORTATION
9:47 AM FEDERAL HIGHWAY ADMINISTRATION HFS-31
FEDERAL-AID HIGHWAY PROGRAM FUNDS - U. S. SUMMARY
AS OF SEPTEMBER 30, 1997 LF07M92A

(THOUSANDS OF DOLLARS)

FUND	FY 1997 APPOR/ALLOC 1/	FY 1997 OBLIGATIONS TO DATE	FY 1997 UNOBLIGATED BALANCE
APPORTIONMENTS:			
I CONSTRUCTION		142,248	728,536
I - 4R		8,145CR	54
I MAINTENANCE	2,549,035	2,487,662	819,849
I TRANSFER		3,432	40,315
PRIMARY		14,295CR	
SECONDARY		1,228CR	
URBAN		13,310CR	
BRIDGE REP & REHAB	2,212,568	1,890,803	1,408,060
STP	8,670,248	7,692,068	4,173,077
HAZARD ELIMINATION		275CR	1
NHS	3,222,706	3,208,493	426,216
RAIL/HWY CROSSINGS		6,407CR	206
PLANNING FUNDS *	478,527	414,027	176,129
CONGESTION AIR QUALITY	955,907	807,225	1,031,595
85% MINIMUM ALLOCATION		109CR	109
90% MINIMUM ALLOCATION	603,352	544,943	651,173
DONOR STATE BONUS	488,014	371,592	415,001
COMBINED ROAD PLAN		108CR	
FUNDING RESTORATION	154,986	168,683	137,455
STATE UNOBLIGATED-FLEXIBLE		268,306	146,226
REIMBURSEMENT FOR INTER-KS	34,880	1,228	58,071
SIB	31,297	139,030	1,848
TOTAL APPORTIONED	19,401,520	18,095,863	10,213,921
ALLOCATIONS:			
DISC I CONST	33,003	9,169	77,880
DISC I-4R	1,314	82CR	
DISC-NHS	68,428	66,381	
DISC I TRANSFER		156	
DISC BRIDGE	68,779	67,725	2,010
DEMO PROJECTS **		5,383	111,257
EMERGENCY RELIEF	617,587	612,926	38,575
PUBLIC LANDS	51,923	50,446	10,665
FOREST/INDIAN/PARKWAY RDS	145,648	146,363	72,820
SPECIAL PROJECTS ***	66,016	65,778	1,047
ISTEA-91 DEMOS	1,077,045	1,115,780	1,813,702
ISTEA-91 SPECIAL PROJECTS	202,203	186,905	35,666
TOTAL ALLOCATED	2,331,946	2,326,930	2,163,622
TOTAL FEDERAL-AID ACCOUNT	21,733,466	20,422,793	12,377,543
FTA OBLIGATIONS:			
CMAQ		256,351	
STP		176,304	
OTHER		78,104	
TOTAL		510,759	

FY 1997 OBLIGATION AUTHORITY

FORMULA	17,278,033
ALLOCATED	450,800
BONUS LIMITATION	228,510
TOTAL	17,957,338
UNOBLIGATED BALANCE	

1/ FY 1998 INTERSTATE FUNDS. ALL OTHER FUNDS AUTHORIZED FOR FY 1997. REFLECTS ADJUSTMENTS FOR TRANSFERS BETWEEN FUND CATEGORIES.
* INCLUDES METROPOLITAN PLANNING AND PLANNING & RESEARCH FUNDS
** INCLUDES 1982 STAA & 1987 STURAA PROJECTS
*** INCLUDES ACOSTA BRIDGE, BRIDGES ON FEDERAL DAMS, BYPASS HIGHWAY, FRANCONIA NOTCH, SP BRIDGE REPLACEMENT, SP URBAN HIGH DENSITY, STRATEGIC HIGHWAY RESEARCH, LEGISLATIVE STUDIES, TALMADGE BRIDGE, UNION STATION, WOODROW WILSON BRIDGE, AND URGENT SUPPL APPN ACT

TRANSPORTATION
CONSTRUCTION
COALITION

We're Building A Better America!

American Road & Transportation Builders Association (co-chair) ■ Associated General Contractors of America (co-chair) ■ American Coal Ash Association ■ American Concrete Pavement Association ■ American Concrete Pipe Association ■ American Consulting Engineers Council ■ American Portland Cement Alliance ■ American Subcontractors Association ■ American Traffic Safety Services Association ■ Asphalt Emulsion Manufacturers Association ■ Asphalt Recycling & Reclaiming Association ■ Associated Equipment Distributors ■ Construction Industry Manufacturers Association ■ Equipment Manufacturers Institute ■ International Slurry Surfacing Association ■ International Union of Operating Engineers ■ Laborers-Employers Cooperation and Education Trust ■ Laborers' International Union of North America, AFL-CIO ■ National Asphalt Pavement Association ■ National Association of Surety Bond Producers ■ National Ready Mixed Concrete Association ■ National Aggregates Association ■ National Stone Association ■ National Utility Contractors Association ■ Precast/Prestressed Concrete Institute ■ The Road Information Program

For More Information:
202/289/4434 (ARTBA)
202/393-2040 (AGC)

If ISTEA is not Reauthorized by September 30, 1997

State	Projected FY 1998 Allocation	Projected Unobligated Balance	Projected Quarterly Allocation	Month State Will Exhaust Balance in 1998
Florida	$869,277,000	$232,649,105	$217,319,250	January
Alabama	$396,091,000	$148,671,427	$99,022,750	February
Arkansas	$244,592,000	$91,772,583	$61,148,000	February
Illinois	$759,358,000	$268,240,216	$189,839,500	February
Indiana	$470,604,000	$191,634,701	$117,651,000	February
Kentucky	$343,085,000	$137,525,511	$85,771,250	February
Michigan	$610,265,000	$228,725,862	$152,566,250	February
Missouri	$470,538,000	$177,124,032	$117,634,500	February
New Mexico	$190,795,000	$72,300,680	$47,698,750	February
New York	$1,202,370,000	$500,224,694	$300,592,500	February
Oregon	$241,238,000	$96,327,584	$60,309,500	February
Alaska	$231,059,000	$98,745,441	$57,764,750	March
California	$1,801,124,000	$855,494,996	$450,281,000	March
Connecticut	$407,185,000	$175,466,939	$101,796,250	March
Georgia	$620,305,000	$293,339,196	$155,076,250	March
Idaho	$125,018,000	$52,544,166	$31,254,500	March
Maine	$105,102,000	$51,385,107	$26,275,500	March
Mississippi	$241,881,000	$108,155,597	$60,470,250	March
Nevada	$120,184,000	$57,900,983	$30,046,000	March
North Carolina	$532,817,000	$226,132,104	$133,204,250	March
North Dakota	$117,360,000	$53,855,085	$29,340,000	March
Tennessee	$451,035,000	$206,910,873	$112,758,750	March
Texas	$1,404,097,000	$648,432,305	$351,024,250	March
Virginia	$464,221,000	$224,290,930	$116,055,250	March
Wisconsin	$402,433,000	$171,316,912	$100,608,250	March
Wyoming	$128,057,000	$56,448,561	$32,014,250	March
Arizona	$285,850,000	$152,231,250	$71,462,500	April
Colorado	$229,249,000	$122,957,441	$57,312,250	April
Iowa	$227,597,000	$122,273,937	$56,899,250	April
Kansas	$236,001,000	$134,193,428	$59,000,250	April
Maryland	$306,085,000	$166,973,496	$76,521,250	April
Montana	$169,351,000	$93,115,235	$42,337,750	April
Nebraska	$160,125,000	$82,057,421	$40,031,250	April
New Jersey	$550,465,000	$289,147,575	$137,616,250	April
Ohio	$732,224,000	$373,043,842	$183,056,000	April
Oklahoma	$309,756,000	$168,233,959	$77,439,000	April
South Dakota	$128,097,000	$72,621,485	$32,024,250	April
Delaware	$89,241,000	$57,095,112	$22,310,250	May
New Hampshire	$98,474,000	$62,356,934	$24,618,500	May
Pennsylvania	$812,481,000	$482,130,855	$203,120,250	May
South Carolina	$314,160,000	$187,940,737	$78,540,000	May
Utah	$144,653,000	$94,664,128	$36,163,250	May
Washington	$369,628,000	$221,866,557	$92,407,000	May
Minnesota	$278,865,000	$187,696,659	$69,716,250	June
Rhode Island	$92,228,000	$68,880,400	$23,057,000	June
West Virginia	$182,354,000	$126,573,922	$45,588,500	June
Dist. of Col.	$93,231,000	$80,491,687	$23,307,750	August
Louisiana	$312,517,000	$285,399,158	$78,129,250	August
Puerto Rico	$87,690,000	$76,544,802	$21,922,500	August
Vermont	$90,381,000	$75,622,771	$22,595,250	August
Hawaii	$140,413,000	$139,085,207	$35,103,250	September
Massachusetts	$782,793,000	$834,955,526	$195,698,250	October
Total	$20,174,000,000	$10,183,769,10	$5,043,500,000	

Source: ARTBA Economics & Research Div. analysis from FHWA and Senate Appropriations Committee data. For further information, contact Dr. William Buechler at 202-289-4434.

INTERNATIONAL UNION OF OPERATING ENGINEERS,
Washington, DC, November 3, 1997.

SENATORS JOHN H. CHAFEE AND MAX BAUCUS,
Senate Committee on Environment and Public Works
Washington, DC 20510

DEAR CHAIRMAN CHAFEE AND RANKING MEMBER BAUCUS: The International Union of Operating Engineers (IUOE) represents 400,000 members throughout the country, the majority of whom are skilled heavy equipment operators in the construction industry. We have been actively engaged with other building trades unions, as well as our construction industry counterparts, in seeking reauthorization of ISTEA. While you both have worked diligently to pass a comprehensive six-year bill in the Senate. other extraneous political issues thwarted that effort As a result, the Senate now faces the choice of a short-term extension or no extension of ISTEA in the final days of this session of Congress.

On behalf of our hard-working members who earn their livelihood building the transportation infrastructure of this country, we strongly encourage you to advocate passage of six-month ISTEA extension similar to what the House has passed. While a six-month bill may be less than ideal in addressing the range of transportation infrastructure issues which a more comprehensive bill should to, nonetheless Congress must ensure that badly needed highway and transit funds keep flowing to the States. The IUOE will continue to aggressively work with you in the coming months as Congress considers and passes the necessary multi-year ISTEA reauthorization.

Thank you again for your continued leadership on this critical piece of legislation.

Sincerely,

FRANK HANLEY,
General President.

STATEMENT OF JAMES R. THOMAS, JR., P.E., FACEC, PRESIDENT, AMERICAN CONSULTING ENGINEERS COUNCIL

Mr. Chairman and members of the Committee, thank you for the opportunity to share with you the views of those who, working in partnership with State transportation departments, plan and design our nation's surface transportation systems. My name is Jim Thomas and I am a managing partner of George, Miles & Buhr Engineers-Architects in Salisbury, Maryland.

The American Consulting Engineers Council (ACEC) is the largest trade organization of its kind, representing over 5,700 consulting engineering firms from across the country, employing some 250,000 people. Our members are consultants to public and private entities, and furnish professional services in planning, engineering, maintenance, and operation of our nation's transportation systems.

Our message today is a simple one. Congress should not adjourn its First Session without completing one of its basic responsibilities, the reauthorization of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA).

Mr. Chairman, ACEC testified this past March before the Transportation and Infrastructure Subcommittee that the delivery of transportation projects in this country is taking too long and is costing American taxpayers in terms of delayed safety, convenience and economic vitality. We submitted a number of recommendations that would shorten the average delivery time of projects from 10 years to 7 years without weakening our environmental laws or limiting public or agency participation in the planning of projects.

Our proposals were embraced by Senators and Members of Congress on both sides of the aisle and have been included in the underlining ISTEA reauthorization bills pending in both the House of Representatives and the U.S. Senate.

When ACEC made its recommendations and estimated the impact they would have on the project delivery schedule, a key underlining assumption was that ISTEA would be reauthorized before the September 30, 1997 expiration date. Should Congress adjourn without even enacting a temporary extension of the ISTEA program, then the gains that might have been made with respect to the "timesaving" project delivery schedules included in both S. 1173 and H.R. 2400 will be lost in both the short- and long-run.

I want to share with you what ACEC members, many of them small business owners, are saying about the impact shutting down the ISTEA program will have on their lives, jobs, and the nation's transportation system. These quotes are from actual letters sent to their Senators on this very issue.

A Professional Engineer from Missouri writes: "I am very concerned that a new Highway Bill has not passed or the current ISTEA Program extended. With the start of the new fiscal year, I am already seeing projects that are ready to be constructed being held up due to funding issues in Washington. Further delays may hurt the economy due to lack of construction projects; and, with the coming of winter, jobs may also be lost."

A Civil Engineer from Wisconsin writes: "Congress' non-support (for enacting a short-term extension) will have an economic impact. I am President of a consulting firm in Wisconsin, employing over 200 people, and a lack of funding for road and highway projects will cause a real loss of jobs. We will not have sufficient work to keep our staff of Transportation Engineers and Technicians gainfully employed."

A Professional Engineer and Chairman of the Board for a consulting engineering firm in Florida writes: "A six-month loss of Federal funding would have an unacceptable negative impact on our economy, costing up to 42,000 jobs for every $1 billion delayed, would increase the level of public health and safety concerns, and would significantly increase the cost of delayed projects. This company will personally feel that impact, as we are currently performing approximately $3 million in annual services for the Florida Department of Transportation."

Mr. Chairman, these are not isolated comments but just a mere sampling of the hundreds of letters ACEC members have been sending their Senators about the impact of not reauthorizing ISTEA.

ACEC members are not alone in their views. The American Association of State Highway and Transportation Officials surveyed the States on the impact to department operations of letting the program lapse. Idaho, for example, reports that postponing Federal project development activity would have disastrous consequences for the timely progress of projects. Moreover, federally assisted preliminary engineering, (including consultant contracted work), right-of-way acquisition, and planning activities would no longer proceed.

Mr. Chairman, stopping the program even for a brief period will also impact project delivery schedules in the long-run. If preliminary engineering and design work is not allowed to proceed, then construction will not occur and, in fact, be deferred into a second construction season, thus crowding out and delaying projects that were planned for the second year. The effect would be a rippling delay that may take years for States to fully recovery. More importantly, projects that effect safety will be deferred.

In closing, Mr. Chairman, ACEC urges you and the other distinguished members not to let ISTEA's program lapse. There is still time for the Senate to do its job to enact a short-term extension of ISTEA so that ACEC members may continue do our job, which is to design high quality and safe highways, bridges and transit systems for the American people.

Thank you, Mr. Chairman, for giving ACEC this opportunity to include our views for the record.

American Road & Transportation Builders Association

Industry Study

Impact of Federal Highway Investment on the Aggregates Industry

William R. Buechner, Ph.D.
Director of Economics and Research

GENERAL INDUSTRY INFORMATION

- **Definition.** The aggregates industry is comprised of firms that mine or quarry nonmetallic minerals (SIC 1400), which consists primarily of firms producing dimension, crushed and broken stone (SIC 141-142) and construction sand and gravel (SIC 1442).

- **Size of Industry.** According to the 1992 *Census of Mineral Industries*, which provides the latest comprehensive information on the aggregates industry, there are 2,308 establishments whose primary business is producing crushed stone products and 2,516 producing construction sand and gravel. By contrast, the highway construction industry (SIC 1611) is comprised of 10,090 establishments while the bridge and tunnel building industry (SIC 1622) has another 1,041 establishments. The following table compares data on output, employment, payroll, etc. for the aggregates industry with the highway construction industry, from the 1992 *Census of Mineral Industries* and the 1992 *Census of Construction Industries.*

	Crushed Stone and Construction Sand & Gravel	Highway, Bridge and Tunnel Construction
Number of firms	4,824	11,131
Number of jobs	70,100	301,057
Annual Payroll	$2.03 billion	$8.84 billion
Value of output	$7.85 billion	$42.53 billion

Note: The number of firms in the aggregates industry was fairly constant between the 1972 and 1992 Censuses of Mining, although the number of workers in mining has been declining at a steady pace since the early 1980s, so the figures in this table should still be a reasonable description of the industry.

- **Size of firms.** There are only a few very large firms in this industry. According to the 1994 *Corporation Source Book* from the Internal Revenue Service, there are only nine firms in the aggregates industry with assets of $250 million or more and another 10 with assets of $100 - $250 million, out of 3,845 firms in the industry that filed tax returns. These 19 largest firms alone account for almost two-thirds of the industry's assets and more than half its total sales. The following table provides details.

	All firms	Largest 9	Largest 19
Number of firms	3,845	9	19
Total assets	$18.59 Bil.	$10.20 Bil. (54.9%)	$11.91 Bil. (64.1%)
Business receipts	$12.90 Bil.	$5.00 Bil. (38.8%)	$6.69 Bil. (51.9%)
Net Income	$986.0 Mil.	$235.2 Mil. (23.9%)	$310.1 Mil. (31.5%)

MARKET FOR AGGREGATES

- **Demand for Industry Output.** The crushed stone and construction sand and gravel industries are intermediate goods industries. According to the 1987 input-output tables for the U.S. economy, prepared by the Commerce Department's Bureau of Economic Analysis, the largest purchaser of products from the aggregates industry is the construction industry which, directly and indirectly, accounts for more than 81 percent of the industry's sales, as the following table indicates.

Purchasing Industry	Purchases, Millions of Dollars	Purchases, Percent of Total
Agriculture	$253.4	2.89%
Mining	$215.0	2.45%
Construction	**$4,721.2**	**53.80%**
Industrial Chemicals	$23.9	0.27%
Cleaning Prep. and Paint	$2.0	0.02%
Petroleum Ref. & Products	$463.5	5.28%
Plastic & Glass Products	$184.9	2.11%
Stone & Clay Products	$2,666.8	30.39%
of which, sold to Construction	**$2,440.9**	**27.82%**
Primary Metals Mfg.	$166.3	1.90%
Fabricated Metal Mfg.	$8.0	0.09%
Child Day Care Services	$3.1	0.04%
Business Inventories	$67.7	0.77%
Exports	$61.4	0.70%
Imports	-$62.1	-0.71%
Total Output	$8,775.1	100.00%
Total Direct & Indirect Sales to the Construction Industry	**$7,162.1**	**81.62%**

Note: The construction industry in the 1987 input-output tables includes highway construction as well as all other new and repair construction. Separate information was not developed by the BEA for highway construction, due to lack of funds.

- **Sales to Highway Construction.** According to the U.S. Geological Survey, just over 48 percent of the output of the crushed stone industry in 1996 was used "as construction aggregates, mostly for highway and road construction and maintenance." The Federal Highway Administration's *Highway Statistics* indicates that an average of 14.0 percent of every dollar spent on federal-aid highway construction contracts since 1980 has been for aggregates. As the following table shows, the federal-aid highway program including the state contribution currently accounts for about 25 percent of the sales of aggregates—or about half of the total used for highways—up from about 18 percent in the early 1980s. State and locally-funded construction and maintenance programs for highways and streets account for the rest. Total receipts are from the IRS Corporation Source Book for the indicated years.

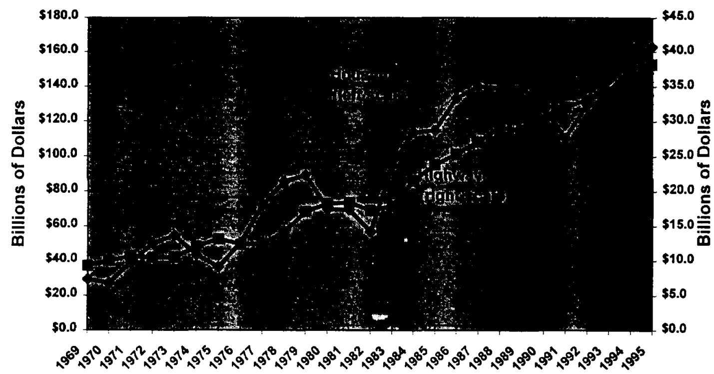
Importance of Federal-Aid Highway Program to the Aggregates Industry

Year	Total Receipts of Aggregates Industry ($ Billions)	Est. Use of Aggreg. by Federal Aid Highway Construction ($ Billions)	Percent of Aggreg. Used by Federal Aid Highway Construction
1994	$12.90	$3.19	24.7%
1993	$11.43	$2.80	24.5%
1992	$11.57	$2.61	22.6%
1991	$11.45	$2.47	21.6%
1990	$11.93	$2.42	20.3%
1989	$11.47	$2.29	20.0%
1988	$11.36	$2.36	20.8%
1987	$11.21	$2.15	19.2%
1986	$10.82	$2.38	22.0%
1985	$9.12	$2.14	23.5%
1984	$9.39	$1.74	18.5%
1983	$7.52	$1.48	19.7%
1982	$6.37	$1.35	21.2%
1981	$8.18	$1.54	18.8%
1980	$9.27	$1.55	16.7%

- **Stability of Highway Spending.** Some demand for construction aggregates comes from private sector activity, like construction of utilities and office buildings. This construction activity, and the associated demand for aggregates, is determined largely by market factors such as the overall state of the economy, the level of interest rates, and the expected growth of incomes and profits. During recessions, which are often characterized by rising vacancies in office and commercial buildings and a steep decline in housing starts, the market for aggregates can decline, as shown above for 1982 and 1991 when the U.S. was going through major recessions.

  The following figure illustrates the cyclical nature of one major source of private sector construction activity, the market for single- and multi-family housing. In particular, it shows how quickly and deeply private construction activity can fall during recessions. Other private sector sources of construction activity demonstrate similar cyclical ups and downs over the course of the business cycle. The cyclical nature of much of the construction industry is a major source of instability in output and profits for firms in the aggregates industry.

Private Spending on Housing Construction vs. Public Spending on Highways



Source: Bureau of the Census

The figure also demonstrates that highways can serve to cushion downturns in private-sector construction. Highway activity is determined largely by government spending, which is independent of overall economic conditions and can be influenced, to at least some extent, by industry representation in Washington, D.C., and the States. During recessions, in fact, increased highway and other public works spending is often used to offset declines in private-sector construction.

The following table illustrates the stability of highway spending growth compared to other sectors of the construction industry. Column 1 shows how much the spending in each construction sector has deviated year-by-year from its average growth rate during the past 25 years. Column 2 shows how unstable each type of construction spending is compared to spending for highways and streets. As the table shows, spending for highways and streets has shown the greatest year-to-year stability of spending growth of any sector of the construction industry, either public or private. This means that the aggregates industry gets a cushion from highway construction during recessions.

Variation of Construction Spending Compared to Highways and Streets

	Average Annual Instability of Spending	Instability Relative to Highways
Private Construction		
Residential		
New Housing, Total	17.43%	3.18
1 Unit	18.12%	3.31
2 or More Units	20.05%	3.66
Improvements	8.44%	1.54
Nonresidential Buildings		
Industrial	14.66%	2.68
Office	16.66%	3.04
Hotels, Motels	20.39%	3.72
Other Commercial	12.57%	2.30
Religious	7.54%	1.38
Educational	11.24%	2.05
Hospital & Institutional	7.52%	1.37
Miscellaneous	10.80%	1.97
Farm	13.60%	2.48
Public Utilities		
Telecommunications	7.56%	1.38
Railroad	14.73%	2.69
Electric Light & Power	10.13%	1.85
Gas	13.25%	2.42
Petroleum Pipelines	35.63%	6.51
All Other Private	12.75%	2.33
Public Construction		
Buildings		
Housing & Redevelopment	8.47%	1.55
Industrial	12.62%	2.31
Educational	8.13%	1.49
Hospital	8.49%	1.55
Other	8.51%	1.55
Other Public Construction		
Highways & Streets	***5.48%***	***1.00***
Military Facilities	12.72%	2.32
Conservation & Development	6.72%	1.23
Sewer Systems	11.20%	2.04
Water Supply	13.18%	2.41
Miscellaneous	7.91%	1.44

- **Conclusion.** The prosperity of the aggregates industry is highly dependent on federal spending for highways. According to the U.S. Geological Survey, almost half of the annual production of aggregates is used for highway construction and maintenance, and according to the Federal Highway Administration almost half of that is funded through the federal-aid highway program. The Federal Highway Administration reports that one billion dollars of federal highway spending along with the required state matching generates almost $170 million in sales of aggregates for uses as road base, portland cement concrete and bituminous surfaces and portland cement concrete structures. The ARTBA goal of increasing the federal highway program to $32 billion per year from the projected $23 billion per year in the Congressional budget resolution thus would mean an increase in annual sales of aggregates of $1.5 billion from the current level. For the top nine firms in the industry, which represent almost 40 percent of all aggregate sales, this would mean additional total sales of $600 million per year or an average of $67 million per year for each firm.

ARTBA American Road & Transportation Builders Association

Industry Study

Impact of Federal Highway Investment on the Equipment Manufacturing Industry

William R. Buechner, Ph.D.
Director of Economics and Research

October 1996

INTRODUCTION

One of the great success stories of the U.S. economy in the post-war period has been the development of our nation-wide system of roads and highways. The billions of dollars invested in the Interstate Highway System and other Federal-aid highways has paid off many-fold in its contribution to the growth of the nation's economy and the benefits to highway users in reduced travel time and increased safety.

Much of the funding for our nation-wide system of highways has come from the Federal government through the Highway Trust Fund. Last year, the Federal government spent $19.5 billion on highway programs. Next year, that figure should rise above $20 billion for the first time. State and local governments also provide significant highway funding, but largely for local road systems.

During the past 25 years, the Federal highway program has grown significantly, from just under $4.2 billion in 1969 to $19.5 billion in 1995. This growth of Federal highway spending has provided a significant stimulus to the heavy construction industry, which specializes in building and maintaining roads, bridges, tunnels, and other large projects like dams, water and sewer systems, subways and airports. Today, more than 10,000 firms across the country specialize in this kind of construction.

The expansion of the Federal highway program has also stimulated the growth of other business sectors connected to highway construction, including the engineering firms that design highways, the suppliers of concrete, asphalt and other highway materials, and the manufacturing firms that build highway construction equipment, among others. While the relationship between Federal highway spending and the financial health of the roadbuilding industry is straightforward, little attention has been given in the past to assessing the importance of Federal highway spending to these other industries.

The purpose of this study is to examine the impact of the Federal highway program specifically on the construction machinery industry. This industry of approximately 1,000 firms produces a wide variety of construction equipment, some of which like cranes and excavators can be used in many types of construction and some like pavers and rollers are used primarily in roadbuilding.

The study addresses three questions:

- What impact did the growth of the Federal highway program during the past 25 years have on the construction machinery industry? Specifically, for each additional one billion dollars of Federal spending on highways, how much did the output of the construction machinery industry go up?

- How does the variability of highway spending from year to year compare with the variability of other construction spending? Does highway spending serve any special role for the construction industry?

- What is the outlook for Federal highway spending in the years immediately ahead and how would projected cuts in the Federal highway program affect the construction machinery industry?

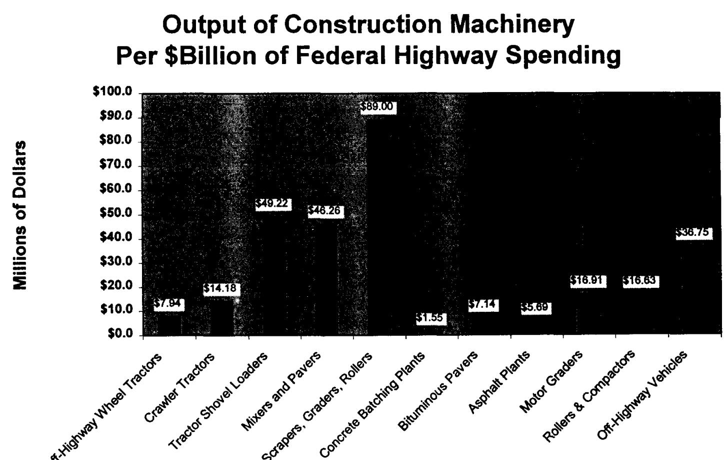
IMPACT OF FEDERAL HIGHWAY SPENDING ON THE CONSTRUCTION MACHINERY INDUSTRY

The methodology and data used to estimate the impact of a $1 billion change in highway spending on the output of the construction machinery industry are described in the appendix. Two separate estimates were made. First, at the broadest level, the study estimated the impact of total highway spending on the overall output of the construction machinery industry. Second and more narrowly, the study looked at the impact of Federal highway spending on the output of 11 specific types of construction equipment. The results include:

For the industry as a whole, each additional $1 billion of highway spending between 1969 and 1994 resulted on average in a $315 million increase in output of construction machinery.

In addition, figure 1 shows the results for 11 specific categories of heavy construction machinery. The first five bars represent broad categories of construction machinery, while the last six bars represent narrow categories of construction machinery that are more specific to roadbuilding. Each bar represents the estimated increase in output of the specific type of machinery associated with a *$1 billion* increase in Federal highway spending.

Figure 1



Source: ARTBA Analysis of Bureau of the Census data

While these figures demonstrate that the Federal highway program has had a significant impact on the construction machinery industry, the estimates derived in this study should be viewed as approximations, for the following reasons.

First, Federal highway funds are not spent immediately as they are authorized by Congress. Traditionally, when Congress authorizes highway funds, about 15 percent are spent during the first year, thirty percent during each of the next two years, and the rest after that. This tends to smooth changes in highway spending from year to year and makes it difficult to compute the relationship between year-to-year increases in the Federal highway program and increases in output of construction machinery. It should not, however, have a measurable impact on the long-run average relationships computed for this study.

Second, the decision by construction firms and equipment dealers to purchase additional equipment in response to an increase in Federal highway spending may come at different times in the roadbuilding process. It may occur in anticipation of the increase in highway spending, sometime during the early part of construction, or only after the capacity of existing equipment is being exceeded. Different firms may behave differently and the same firm may behave differently at different times or on different projects. Again, this may affect year-to-year changes but should not significantly affect the long-run average relationship estimated for this study.

Finally, if activity in other sectors of the construction industry increase and decrease in parallel with highway construction, this study may attribute some output of construction machinery to the Federal highway program that should in fact be attributed to other construction activity. For the 11 types of construction machinery in Figure 1, this possible overstatement should be very small, especially for those types of construction machinery that are specifically used for roadbuilding. The estimates nonetheless should be treated as close approximations rather than as hard facts.

Exports have also contributed to the growth of output of construction machinery, but exports in recent years have made up approximately the same share of total output as they did during the late 1960s and early 1970s and thus should have no impact on the results shown in Figure 1. There are no long-term data on imports, but if imports have risen as a share of U.S. sales, that would tend to increase the importance Federal highway spending for the U.S. construction equipment industry.

HIGHWAY SPENDING IS A CUSHION FOR THE CONSTRUCTION MACHINERY INDUSTRY

Some demand for heavy construction machinery comes from private sector activity, like construction of homes and office buildings. This construction activity, and the associated demand for construction machinery, is determined largely by market factors such as the overall state of the economy, the level of interest rates, and the expected growth of incomes and profits. During recessions, which are often characterized by rising vacancies in office and commercial buildings and a steep decline in housing starts, the market for new construction machinery can collapse.

Figure 2 illustrates the cyclical nature of one major source of private sector construction activity, the market for single- and multi-family housing. In particular, it shows how quickly and deeply housing activity can fall during recessions. Other private sector sources of construction activity demonstrate similar cyclical ups and downs over the course of the business cycle. The cyclical nature of much of the construction industry is a major source of instability in output and profits for firms in the construction machinery industry.

Figure 2

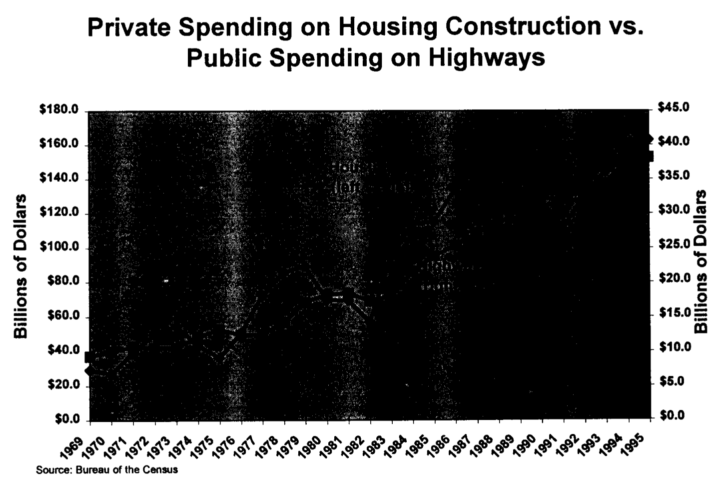


Figure 2 also demonstrates that highways can serve to cushion downturns in private-sector construction. Highway activity is determined largely by government spending, which is independent of overall economic conditions and can be influenced, to at least some extent, by industry representation in Washington, D.C., and the States. During recessions, in fact, increased highway and other public works spending is often used to offset declines in private-sector construction.

The following table illustrates the stability of highway spending compared to other sectors of the construction industry. Column 1 shows how much the spending in each construction sector has varied year-by-year from its average growth rate during the past 25 years, while Column 2 compares this deviation to the result for highways and streets. As the table shows, spending for highways and streets has shown the smallest year-to-year variation of any sector of the construction industry, either public or private.

Table 1
Variation of Construction Spending Compared to Highways and Streets

	Average Deviation	Rel. to Highways
Private Construction		
Residential		
New Housing, Total	17.43%	3.18
1 Unit	18.12%	3.31
2 or More Units	20.05%	3.66
Improvements	8.44%	1.54
Nonresidential Buildings		
Industrial	14.66%	2.68
Office	16.66%	3.04
Hotels, Motels	20.39%	3.72
Other Commercial	12.57%	2.30
Religious	7.54%	1.38
Educational	11.24%	2.05
Hospital & Institutional	7.52%	1.37
Miscellaneous	10.80%	1.97
Farm	13.60%	2.48
Public Utilities		
Telecommunications	7.56%	1.38
Railroad	14.73%	2.69
Electric Light & Power	10.13%	1.85
Gas	13.25%	2.42
Petroleum Pipelines	35.63%	6.51
All Other Private	12.75%	2.33
Public Construction		
Buildings		
Housing & Redevelopment	8.47%	1.55
Industrial	12.62%	2.31
Educational	8.13%	1.49
Hospital	8.49%	1.55
Other	8.51%	1.55
Other Public Construction		
Highways & Streets	5.48%	1.00
Military Facilities	12.72%	2.32
Conservation & Development	6.72%	1.23
Sewer Systems	11.20%	2.04
Water Supply	13.18%	2.41
Miscellaneous	7.91%	1.44

BUDGET OUTLOOK PROJECTS LARGE CUTS IN HIGHWAY SPENDING

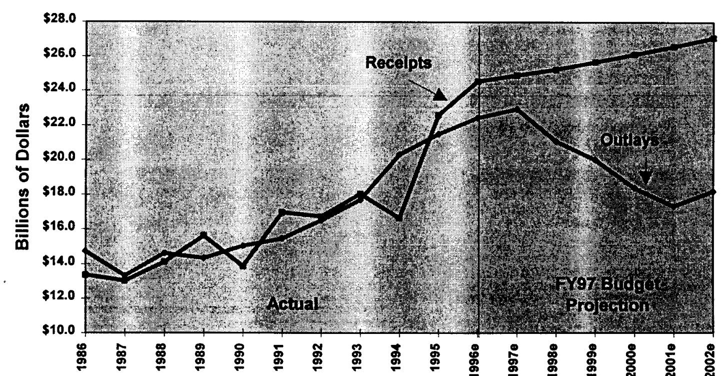
Even though Congress acted to increase funding for the highway program by almost half a billion dollars in fiscal year 1997, both the Clinton administration and Congressional Republicans assume significant cuts in federal highway spending between 1998 and 2002 as part of their long-term effort to balance the budget, as Figure 3 shows.

If these cuts occur, the roadbuilding industry and the construction machinery industry can expect some very painful years as we move into the 21st century.

One possible solution would be to take the highway trust fund, and the other transportation trust funds, off budget. As long as the trust funds remain as part of the unified budget, there will be a great temptation to hold down highway spending and use the growing revenues from the gasoline tax to reduce the budget deficit. Taking the trust funds off budget will eliminate the incentive to cut highway spending, since such action would have no impact on the size of the Federal deficit. Allowing highway spending to follow revenues more closely will significantly improve the economic outlook for the construction and construction machinery industries.

Figure 3

Highway Trust Fund Outlays and Receipts, Actual and FY97 Budget Projection



Source: Budget of the U.S. Government, Fiscal Year 1997 Note that outlays include projected disbursements from the Mass Transit Acct.

EFFECT OF PROJECTED CUTS IN HIGHWAY FUNDING ON CONSTRUCTION EQUIPMENT

As part of the plan to balance the budget by 2002, both the Clinton administration and Congressional Republicans have proposed significant cuts in Federal highway funding. The fiscal 1997 budget released earlier this year projects that Federal highway spending will decline from an estimated level of $20.5 billion in fiscal year 1996 to $15.8 billion in fiscal year 2001, or a cut of $4.7 billion.

The Dole budget plan would likely require an even larger cut in highway spending, since it proposes a significantly larger tax cut than does the Clinton administration's plan. Senator Dole has said that his tax cut could be accommodated with an across-the-board spending cut of 5 percent, but independent analysts estimate that once protected programs are taken into account, other programs like highway spending would have to be cut by as much as one-third to balance the budget.

The impact of proposed Federal highway spending cuts in the fiscal 1997 budget is illustrated in the following table. Column 1 shows estimated 1996 output, in millions of dollars, for each of the eleven categories of construction machinery examined in this study. Column 2 shows the projected decline in output between 1996 and 2001 if Federal highway spending is cut as projected. Column 3 shows the projected decline as a percent of 1996 output. These cuts in output could have a significant impact on the profits and valuation of firms in the construction machinery industry.

Table 2
Impact of Proposed Cuts in Federal Highway Spending on Output of Construction Machinery

	1996 Output	Projected Change, 1996-2001	
	(million $)	(million $)	(percent)
Off-Highway Wheel Tractors	$449.0	-$37.3	-8.3%
Crawler Tractors	$1,100.1	-$66.7	-6.1%
Tractor Shovel Loaders	$2,348.2	-$231.4	-9.9%
Mixers and Pavers	$945.7	-$217.4	-23.0%
Scrapers, Graders, Rollers	$2,685.9	-$418.5	-15.6%
Concrete Batching Plants	$50.8	-$7.3	-14.3%
Bituminous Pavers	$150.2	-$33.6	-22.4%
Asphalt Plants	$135.1	-$26.7	-19.8%
Motor Graders	$513.9	-$79.5	-15.5%
Rollers & Compactors	$363.8	-$78.2	-21.5%
Off-Highway Vehicles	$1,006.3	-$172.8	-17.2%

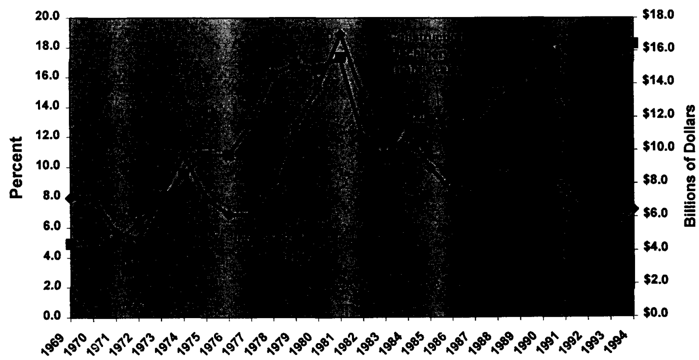
Is It More Important To Construction Equipment Makers to Increase Highway Spending or Balance the Budget?

Some argue that the decline in interest rates from balancing the Federal budget would stimulate the construction industry and sales of construction equipment, thus cushioning the effect of Federal highway cuts. In order for the data to support this view, we would expect to see output of construction machinery going up during periods of declining interest rates and to see output declining during periods of rising interest rates.

The facts, unfortunately, do not support this proposition, as Figure 4 shows. Output of construction machinery has, in fact, shown its strongest growth during periods of rising interest rates, just the opposite of what the argument would predict, while weak growth has occurred during periods of falling rates. This result, however, is not unexpected. When the economy is growing strongly, interest rates go up as demand for credit rises. These appear to be periods of strong growth for construction machinery too. During a weak economy, when market forces may also be cutting output of construction machinery, interest rates tend to fall. The construction machinery industry should not be beguiled into believing that the benefits of balancing the budget will offset the negative impact of projected cuts in Federal highway spending. Balancing the budget may help, but the effects at best will be minor.

Figure 4

Impact of Interest Rates on Output of Construction Machinery



Sources: Bureau of the Census, Federal Reserve Board

CONCLUSIONS

It is almost intuitive that the prosperity of the highway construction machinery industry would be affected by Federal highway spending. This report has gone beyond intuition to demonstrate that the prosperity of the construction machinery industry is in fact highly dependent on the Federal highway program.

For the 25 years between 1969 and 1994, each additional billion dollars of highway spending has resulted in an average increase of $315 million of output for the construction machinery industry. Firms that specialize in transportation construction equipment have especially benefited from the growth in the Federal highway program during that time.

But this program is now under attack. As part of the plan to balance the budget, both the Clinton administration and Congressional Republicans have proposed significant cuts in Federal highway funding, amounting to as much as $4.7 billion by fiscal year 2002. Other plans, including the Dole budget and the proposal to turn highways over to the states, could mean even larger cuts.

These projected cuts in the Federal highway program could have a devastating impact on the construction machinery industry. Demand for some kinds of construction machinery could fall by 20 percent or more between 1996 and 2002. This could have a significant impact on the profits and valuation of firms in the construction machinery industry. Lower interest rates from a balanced budget will not offset the impact of proposed cuts in the Federal highway program.

The construction machinery industry's first priority by far should be to protect the Federal highway program from projected spending cuts and, even more important, to push for the spending increases needed to maintain and improve the nation's highway system.

Appendix

Sources of Data

Federal highway data. Budget of the United States Government, Fiscal Year 1997, Historical Tables, Table 12.3, sum of lines 1-5 for outlays and Table 2.4 for receipts.

Total highway construction spending and housing construction. U.S. Bureau of the Census. New Construction Put in Place. Publication C-30. Table 3-B.

Output of Construction Machinery. U.S. Bureau of the Census. Annual Survey of Manufactures, Value of Product Shipments, 1994 and earlier, and Current Industrial Reports: Construction Machinery, Report MA35D, 1994 and earlier, "Value of Shipments" tables.

Interest rates. The Conference Board. Current Business Indicators, Table 109, "Average Prime Rate Charged by Banks."

Methodology

Figure 1. Estimates were obtained using ordinary least squares regression, with Federal highway spending as the independent variable and value of shipments of each product class as the dependent variable. Nominal values were used throughout the study, since applying the same inflation adjustment to both highway spending and value of shipments would not have altered the results but would have made the results more difficult to interpret. The bars measure the average increase in value of shipments per billion dollars of Federal highway spending for each product class between 1969 and 1994.

Table 2. Estimates in this table assumed that projected future cuts in Federal highway spending would have the same effect on shipments of construction machinery as was estimated for the period from 1969 to 1994. Changes that have occurred during the past quarter century in the highway construction industry may alter the future relationship. In particular, the end of the construction phase of the Interstate Highway System, less "green-field" construction and the growing importance of maintenance, resurfacing and reconstruction will alter the kinds of construction machinery needed for the highway program. Whether changes in Federal highway spending will have a larger or smaller impact on the construction machinery industry than estimated in this study remains to be seen. The impact, however, should still be significant.