

AMERICAN ASSOCIATION
OF STATE HIGHWAY AND
TRANSPORTATION OFFICIALS

AASHTO

TESTIMONY OF

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**President, American Association of State Highway and
Transportation Officials;
Commissioner, Tennessee Department of Transportation**

REGARDING

**Building a 21st Century Infrastructure for America:
Long-term Funding for Highway and Transit
Programs**

BEFORE THE

**Subcommittee on Highways and Transit of the
Committee on Transportation and Infrastructure of the
United States House of Representatives**

ON

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INTRODUCTION

Chairman Graves, Ranking Member Norton, and Members of the Subcommittee, thank you for the opportunity to provide the perspective of the nation's state departments of transportation (state DOTs) on building a 21st-century transportation infrastructure for America by ensuring long-term funding for federal highway and transit programs.

I was appointed as the 29th Commissioner of the Tennessee Department of Transportation (TDOT) by Governor Bill Haslam in January 2011, and I oversee a statewide transportation system including highways, rail, airports, waterways and transit.

During my tenure, TDOT has remained debt-free and has saved taxpayers more than \$610 million dollars by reexamining and reducing the scope of projects we pursue from those we may want to those we actually need. In 2017, I worked with Governor Bill Haslam to develop and pass the IMPROVE Act to provide increased state funding for transportation, including raising the state gas tax for the first time in 28 years. The legislation will fund 962 road and bridge projects across all 95 counties and will provide an additional \$105 million annually for cities and counties to support local infrastructure needs.

I'm also honored to serve as the 2017-2018 President of the American Association of State Highway and Transportation Officials (AASHTO), an organization composed of peers from all DOTs across the nation. In this role, I have prioritized sustainable transportation funding solutions—the subject of today's hearing—and ensuring states are prepared for emerging transportation technology.

My testimony today will emphasize the following five key points:

- The federal government should look to build upon substantial state and local investment in transportation;
- The future of the federal Highway Trust Fund (HTF) must be secured through a long-term and sustainable revenue solution;
- Well-documented surface transportation capital investment needs exist;
- Additional revenues are needed simply to support current investment levels, and;
- Direct program funding is absolutely critical relative to financing tools.

THE FEDERAL GOVERNMENT SHOULD LOOK TO BUILD UPON SUBSTANTIAL STATE AND LOCAL INVESTMENT IN TRANSPORTATION

I would like to first express appreciation to you on behalf of the state DOTs for your leadership, along with your Senate and House colleagues in partner committees, in shepherding the FAST Act in December 2015. The FAST Act represented the first comprehensive, long-term surface transportation legislation since the Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users Act in 2005.

The FAST Act continues to fulfill the Constitutional directive that investment in transportation is a core federal responsibility. The federal government, along with states, local governments and the private sector, is a key partner in working to address an ever-growing need for transportation investments resulting from a growing population and aging infrastructure assets. According to the US Department of Transportation's (USDOT) *2015 Conditions and Performance Report* to Congress, the highway and bridge capital and maintenance investment backlog reached \$836 billion and the transit capital and maintenance investment backlog reached \$122 billion. Similarly, the American Society of Civil Engineers has identified a \$1.1 trillion funding gap for surface transportation between 2016 and 2025. Furthermore, the USDOT report notes that state and local governments already provide the majority of funding for highway, bridge and transit programs. Roughly 80 percent of the \$217 billion invested in highway and bridge programs and 74 percent of \$43 billion invested in transit programs comes from state and local governments—compared to 20 percent and 26 percent, respectively that is contributed by the federal government.

States are answering this call to action for increasing transportation investments, signified by successful enactment of transportation revenue packages in 31 states since 2012, including, as I mentioned, in my home state of Tennessee. In 2017, I worked with Governor Bill Haslam to develop and pass the Improving Manufacturing, Public Roads and Opportunities for a Vibrant Economy (IMPROVE) Act to provide increased funding for transportation for the first time in 30 years. The IMPROVE Act funds 962 road and bridge projects across all 95 Tennessee counties. The conservative, responsible, and user-based approach raises the gas tax by six cents and diesel tax by 10 cents, each over the next three years. It also increases the user fee for electric vehicle owners and allows local voters, through a referendum, in the state's largest counties and its four largest cities to impose a surcharge on taxes they already collect to be dedicated to transit projects.

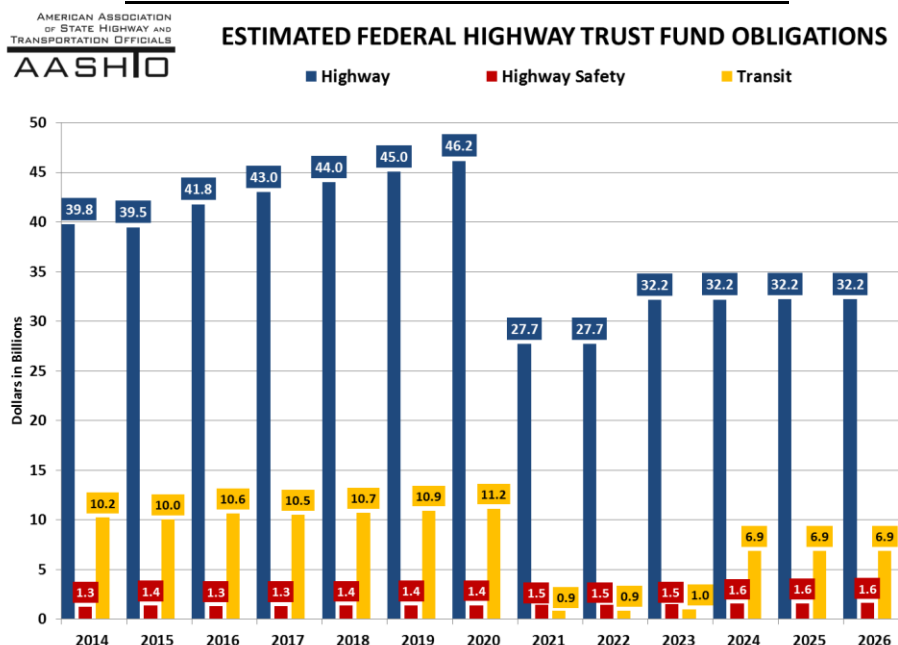
I mention this because AASHTO and its members vehemently disagree with any notion that federal transportation funding displaces or discourages state and local investment. In fact, as evidenced by significant transportation infrastructure investment needs, further strengthening and reaffirmation of the federally-assisted, state-implemented foundation of the national program is even more critical now than in the past. The best way for the federal government to lead is to augment substantial state and local transportation investment by ensuring long-term, sustainable federal funding from the Highway Trust Fund, and provide robust direct funding to address highway and transit system maintenance and capacity needs as part of the major infrastructure package currently under consideration.

FUTURE OF THE FEDERAL HIGHWAY TRUST FUND MUST BE SECURED THROUGH A LONG-TERM AND SUSTAINABLE REVENUE SOLUTION

The FAST Act’s authorization of \$305 billion for federal highway, highway safety, transit, and passenger rail programs from 2016 to 2020 could not have been timelier in supporting our economic growth and maintaining our multimodal transportation infrastructure. However, it should be recognized that the FAST Act provides only a near-term, though absolutely necessary, reprieve when it comes to federal surface transportation funding. That is because the HTF continues to remain at a crossroads. The HTF has provided stable, reliable, and substantial highway and transit funding for decades since its inception in 1956, but this is no longer the case. Since 2008, the HTF has been sustained through a series of General Fund transfers now amounting to \$140 billion. According to the June 2017 projection of the Congressional Budget Office, annual HTF spending is estimated to exceed receipts by about \$16 billion in FY 2021, growing to about \$23 billion by FY 2027. Furthermore, the HTF is expected to experience a significant cash shortfall in FY 2021, since it cannot incur a negative balance.

Framing this HTF “cliff” in terms of federal highway obligations, AASHTO estimates that states may see a 40 percent drop from FY 2020 to the following year—from \$46.2 billion to \$27.7 billion in FY 2021. In the past, such similar shortfall situations have led to the possibility of a reduction in federal reimbursements to states on existing obligations, leading to serious cash flow problems for states and resulting in project delays. More alarmingly, due to a steeper projected shortfall in the Mass Transit Account, new federal transit obligations are expected to be zeroed out between FY 2021 and FY 2023, excluding any “flex” of highway dollars to transit. Simply put, this is a devastating scenario that we must do all we can to avoid.

EXHIBIT 1: ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2020 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



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In Tennessee, like it will be for our peer states, user fee revenues supporting the HTF are projected to provide only about 60 percent of FAST Act funding levels in FY 2021. If post-FAST Act federal obligations are reduced to match only the receipts generated through the HTF user fees, Tennessee would see its federal dollars shrink by over \$300 million annually, representing about 15 percent of our overall budget and 45 percent of our heavy construction program. A cut of this magnitude will eliminate our ability to make significant inroads in addressing congestion through capacity expansion, with the remaining dollars needed primarily for resurfacing and bridge rehabilitation. Tennessee would largely become a maintenance-only state with little resources remaining to support a growing economy and creating the conditions for a high quality of life.

While AASHTO is grateful for past efforts to provide General Fund transfers into the HTF, we do not believe that is a viable long-term solution upon expiration of the FAST Act. Given the national policy momentum and support for infrastructure investment, now may be that rare and opportune time to finally resolve the structural fiscal imbalance in the HTF.

In order to provide additional HTF receipts to maintain or increase current federal highway and transit investment levels, there is no shortage of technically feasible tax and user fee options that Congress could consider. Three broad categories of revenue for the HTF exist, along with illustrative examples:

- Raising the rate of taxation or fee rates of existing federal revenue streams into the HTF: Examples include motor fuel taxes on gasoline and diesel (including indexing), user fee on heavy vehicles, and sales tax on trucks, trailers, and truck tires.
- Identifying and creating new federal revenue sources for the HTF: Examples include a mileage-based user fee, container fee, driver's license surcharge, vehicle registration fee, imported oil fee, sales tax on fuel, carbon tax, vehicle sales tax, sales tax on auto-related components, and a tire tax on light-duty vehicles.
- Diverting current revenues (and possibly increasing the rates) from other federal sources into the HTF: Examples include customs duties, income taxes, and other revenues from the general fund.

Following is a matrix that demonstrates the breadth of potential HTF revenue mechanisms, including a column that shows an illustrative rate or percentage increase and the associated revenue yield estimated.

EXHIBIT 2: MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

Existing Highway Trust Fund Revenue Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	\$ in Billions	
			Assumed 2014 Yield	Total Forecast Yield 2015–2020
Motor Fuel Tax—Diesel	15.0¢	¢/gal increase in current rate (approx. 10% increase in total rate)	\$6.54	\$41.79
Motor Fuel Tax—Gas	10.0¢	¢/gal increase in current rate (approx. 10% increase in total rate)	\$13.21	\$78.12
Heavy Vehicle Use Tax	50%	Increase in current revenues, structure not defined	\$0.55	\$3.42
Sales Tax—Trucks and Trailers	10%	Increase in current revenues, structure not defined	\$0.33	\$2.19
Tire Tax—Trucks	10%	Increase in current revenues, structure not defined	\$0.04	\$0.23
Potential Highway Trust Fund Revenue Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	Assumed 2014 Yield*	Total Escalated Yield 2015–2020*
Container Tax	\$15.00	Dollar per TEU	\$0.66	\$4.26
Customs Revenues	5.0%	Increase in/reallocation of current revenues, structure not defined	\$1.80	\$11.66
Drivers License Surcharge	\$5.00	Dollar annually	\$1.08	\$6.98
Freight Bill—Truck Only	0.5%	Percent of gross freight revenues (primary shipments only)	\$3.07	\$19.90
Freight Bill—All Modes	0.5%	Percent of gross freight revenues (primary shipments only)	\$3.80	\$24.60
Freight Charge—Ton (Truck Only)	10.0¢	¢/ton of domestic shipments	\$1.17	\$7.54
Freight Charge—Ton (All Modes)	10.0¢	¢/ton of domestic shipments	\$1.44	\$9.29
Freight Charge—Ton-Mile (Truck Only)	0.10¢	¢/ton-mile of domestic shipments	\$1.41	\$9.15
Freight Charge—Ton-Mile (All Modes)	0.10¢	¢/ton-mile of domestic shipments	\$3.48	\$22.52
Harbor Maintenance Tax	25.0%	Increase in/reallocation of current revenues, structure not defined	\$0.43	\$2.79
Imported Oil Tax	\$2.50	Dollar/barrel	\$5.76	\$37.28
Income Tax—Business	1.0%	Increase in/reallocation of current revenues, structure not defined	\$2.79	\$18.06
Income Tax—Personal	0.5%	Increase in/reallocation of current revenues, structure not defined	\$6.70	\$43.36
Motor Fuel Tax Indexing to CPI—Diesel	–	¢/gal excise tax	–	\$5.22
Motor Fuel Tax Indexing to CPI—Gas	–	¢/gal excise tax	–	\$10.87
Oil, Gas, and Minerals Receipts	25.0%	Increase in/reallocation of current revenues, structure not defined	\$2.20	\$14.25
Registration Fee—Electric LDVs	\$100.00	Dollar annually	\$0.01	\$0.06
Registration Fee—Hybrid LDVs	\$50.00	Dollar annually	\$0.17	\$1.12
Registration Fee—Light Duty Vehicles	\$15.00	Dollar annually	\$3.57	\$23.11
Registration Fee—Trucks	\$150.00	Dollar annually	\$1.63	\$10.54
Registration Fee—All vehicles	\$20.00	Dollar annually	\$4.98	\$32.21
Sales Tax—Auto-related Parts & Services	1.0%	Percent of sales	\$2.32	\$15.04
Sales Tax—Bicycles	1.0%	Percent of sales	\$0.06	\$0.38
Sales Tax—Diesel	7.6%	Percent of sales (excl. excise taxes)	\$9.65	\$62.50
Sales Tax—Gas	5.6%	Percent of sales (excl. excise taxes)	\$24.05	\$155.66
Sales Tax—New Light Duty Vehicles	1.0%	Percent of sales	\$2.41	\$15.61
Sales Tax—New and Used Light Duty Vehicles	1.0%	Percent of sales	\$3.46	\$22.40
Tire Tax—Bicycles	\$2.50	Dollar per bicycle tire	\$0.08	\$0.53
Tire Tax—Light Duty Vehicles	1.0%	Of sales of LDV tires	\$0.33	\$2.12
Transit Passenger Miles Traveled Fee	1.5¢	¢/passenger mile traveled on all transit modes	\$0.84	\$5.45
Vehicle Miles Traveled Fee—Light Duty Vehicles	1.0¢	¢/LDV vehicle mile traveled on all roads	\$27.12	\$175.58
Vehicle Miles Traveled Fee—Trucks	4.0¢	¢/truck vehicle mile traveled on all roads	\$10.93	\$70.73
Vehicle Miles Traveled Fee—All Vehicles	–	¢/vehicle mile traveled on all roads	\$38.05	\$246.31

* Base annual yield escalated using CPI-U.

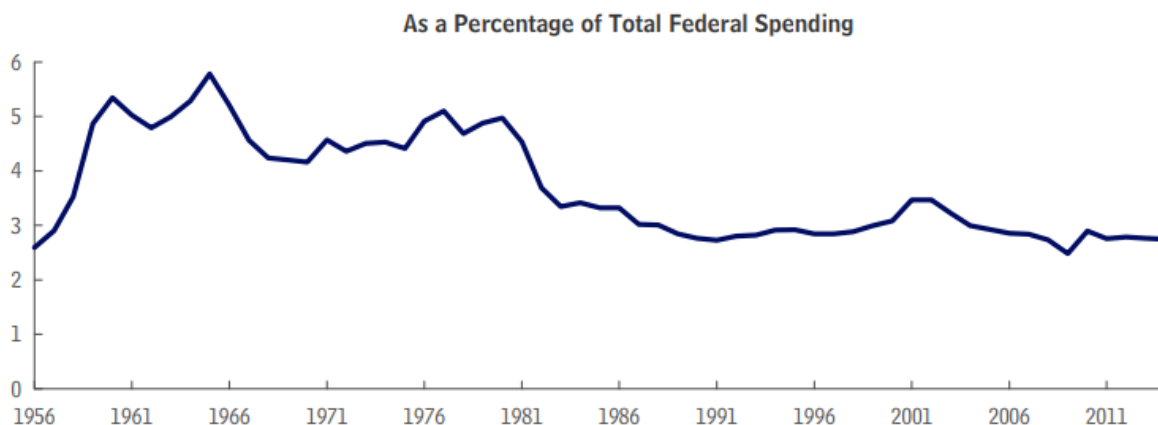
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WELL-DOCUMENTED SURFACE TRANSPORTATION CAPITAL INVESTMENT NEEDS EXIST

Despite federal funding challenges, investment needs continue to mount. As mentioned earlier, USDOT's *2015 Conditions and Performance Report* notes that \$142.5 billion in annual capital investment is necessary for highways in order to improve Interstate Highways, the National Highway System, and one million-plus miles of Federal-aid Highways. Put another way, annual funding necessary to tackle the \$836 billion backlog of highway investment needs would represent a 35.5 percent increase from 2012 levels, which itself was above the baseline spending levels due to outlays related to the temporary funding boost provided by the American Recovery and Reinvestment Act. Similar funding outlook exists for federal mass transit investment. The *2015 Conditions and Performance Report* states that low- and high-growth scenarios for transit will necessitate annual capital investment of \$22.8 billion and \$26.4 billion, respectively, equating to a 34 or 55 percent increase over 2012 levels.

However, in recent decades—especially after the completion of the Interstate Highway System—federal investment in transportation infrastructure has declined significantly as a share of its overall public spending.

EXHIBIT 3: FEDERAL SPENDING ON TRANSPORTATION AND WATER INFRASTRUCTURE, 1956 TO 2014



Sources: Congressional Budget Office, Office of Management and Budget, and the Census Bureau

Given that much of the Interstate system has now reached the end of its design life and must be reconstructed or replaced—and there is considerable need for additional capital improvements to the broader federal-aid highway network and the country's transit system—there is a strong argument that the federal government should strive to return to this prior level of investment relative to the national economy. Yet the federal government's share of transportation and water spending has actually been falling behind relative to state and local governments, as evidenced by its 19 percent drop between 2003 and 2014.

Our nation's freight network is an especially illuminating example of the capital investment backlog in our transportation infrastructure. The FAST Act provided almost \$11 billion to address the freight system needs in this country through the new National Highway Freight

Program and the Nationally Significant Freight and Highway Projects—now known as INFRA grant. While we welcome this new federal investment and focus on the freight network, it is important to provide some context regarding the scale of the need for these projects. According to the nationwide survey conducted for the *State of Freight II* report published by AASHTO and the American Association of Port Authorities last year, 57 percent of surveyed states have already identified 6,202 projects through their freight plan development process. Furthermore, \$259 billion in project costs have been identified by just 35 percent of all states – therefore we know the national figure is much higher.

At the same time, we continue to fall behind global peers in infrastructure quality and economic competitiveness. The recent *Global Competitiveness Report* rankings from the World Economic Forum on infrastructure quality has listed the United States at just 9th place overall.

EXHIBIT 4: US INFRASTRUCTURE QUALITY RANKINGS

Index Component	Rank/137	Value
↕↕ 2nd pillar: Infrastructure	9	6.0
2.01 Quality of overall infrastructure	10	5.9
2.02 Quality of roads	10	5.7
2.03 Quality of railroad infrastructure	10	5.5
2.04 Quality of port infrastructure	9	5.8
2.05 Quality of air transport infrastructure	9	6.0
2.06 Available airline seat kilometers millions/week	1	39,222.0
2.07 Quality of electricity supply	26	6.2
2.08 Mobile-cellular telephone subscriptions /100 pop.	47	127.2
2.09 Fixed-telephone lines /100 pop.	24	37.1

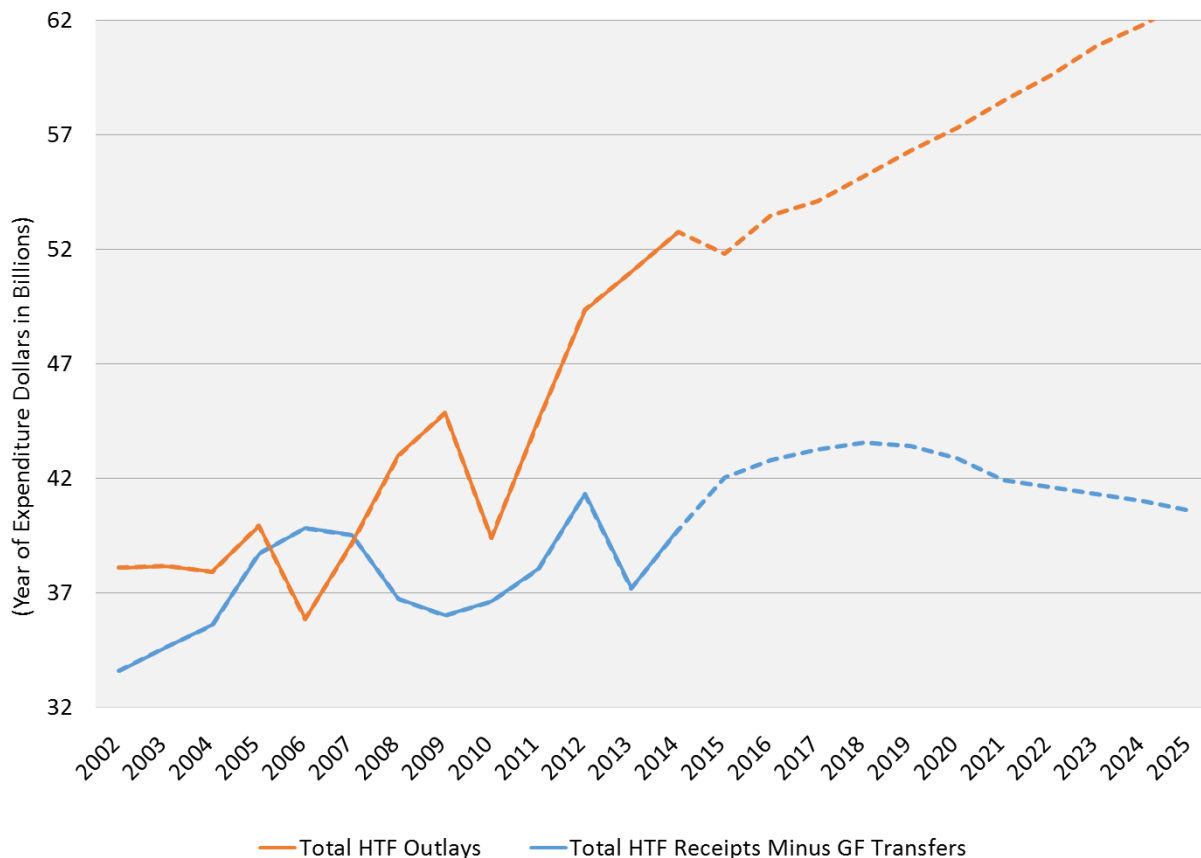
Sources: *The Global Competitiveness Report 2017-2018*

In light of continued population growth and increases in freight movements for all modes, capacity enhancements—and not just maintenance of existing infrastructure stock—must remain a key element of the national transportation investment strategy. A potentially catastrophic disruption to the federal transportation program in FY 2021 will produce serious losses that threaten the macroeconomic gains made since 2008.

ADDITIONAL REVENUES ARE NEEDED SIMPLY TO SUPPORT CURRENT INVESTMENT LEVELS

While the HTF continues to derive about 90 percent of its revenues from taxes on motor fuels, they are facing an increasingly unsustainable long-term future, therefore placing the viability of the HTF in question.

**EXHIBIT 5: HIGHWAY TRUST FUND DISCREPANCY IN RECEIPTS AND OUTLAYS
EXCLUDING GENERAL FUND TRANSFERS**



Three factors explain the structural challenge faced by long-term motor fuel tax revenue prospects.

First is the slowdown in the growth of vehicle miles traveled (VMT) in the United States, on an aggregate basis. A steady increase in VMT has allowed the HTF to see corresponding revenue increases without necessitating constant adjustments in fuel tax rates for most of its existence. While total VMT has resumed its growth in the last two years due to increases in both population and economic activity in the post-recessionary environment, it is unlikely to see the 3.2 percent growth rate experienced on average between 1956 and 2007.

Second, motor fuel taxes at the federal level were last increased to the current rates of 18.4 cents per gallon for gasoline and 24.4 cents for diesel 24 years ago in 1993. As an excise tax levied per gallon, taxes on motor fuel have lost a significant share of its purchasing power. Compared to the Consumer Price Index, the gas tax had lost 39 percent of its purchasing power by 2015, and is expected to lose more than half of its value—or 52 percent—by 2025. Put another way, while college tuition has increased by 379 percent and healthcare by 180 percent in nominal costs since the last time federal motor fuel taxes were increased, federal motor fuel taxes have stayed at the exact same rate during this period.

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EXHIBIT 6: PURCHASING POWER LOSS OF THE GAS TAX RELATIVE TO OTHER HOUSEHOLD EXPENSES

Sample of Nominal Price Changes Relative to Federal Gas Tax

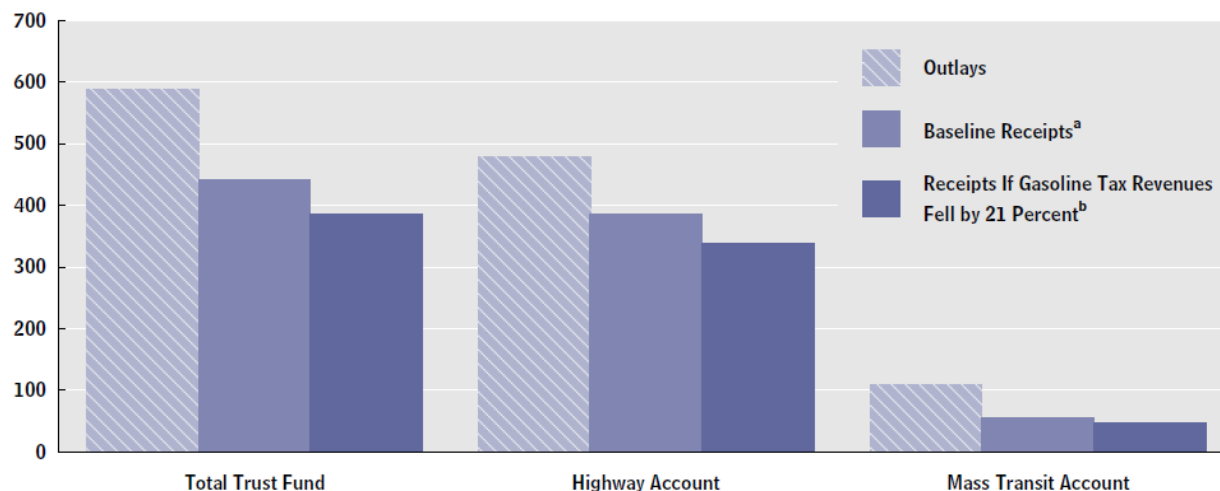
Item	Description	1993	2015	Percent Change
College Tuition	Average Tution & Fees at Public 4-year Universities	\$ 1,908	\$ 9,145	379%
Healthcare	National Expenediture Per Capita	\$ 3,402	\$ 9,523	180%
House	Median New Home Price	\$118,000	\$292,000	147%
Gas	Per Gallon	\$ 1.08	\$ 2.56	137%
Beef	Per Pound of Ground Beef	\$ 1.97	\$ 4.38	122%
Movie Ticket	Average Ticket Price	\$ 4.14	\$ 8.43	104%
Bread	Per Pound of White Bread	\$ 0.75	\$ 1.48	98%
Income	National Median Household	\$ 31,241	\$ 56,516	81%
Stamp	One First-Class Stamp	\$ 0.29	\$ 0.49	69%
Car	Average New Car	\$ 16,871	\$ 25,487	51%
Federal Gas Tax	Per Gallon	\$ 0.18	\$ 0.18	0%

Source: Bureau of Labor Statistics, Center for Medicare and Medicaid Services, College Board, Federal Reserve Bank of St. Louis, Oak Ridge National Laboratory, Census Bureau, Energy Information Agency, Postal Service

Third, according to the CBO, increases in Corporate Average Fuel Economy standards over the past decades are expected to cause a significant reduction in fuel consumption by light-duty vehicles, which would result in a proportionate drop in gasoline tax receipts. CBO expects gradual lowering of gasoline tax revenues, eventually causing them to fall by 21 percent by 2040. Just in the 2012 to 2022 period, CBO estimates that such a decrease would result in a \$57 billion drop in revenues credited to the fund over those 11 years, a 13 percent reduction in the total receipts credited to the fund.

EXHIBIT 7: PROJECTED OUTLAYS AND RECEIPTS OF THE HIGHWAY TRUST FUND BY ACCOUNT, 2012-2022

(Billions of dollars)



Source: Congressional Budget Office

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DIRECT PROGRAM FUNDING IS ABSOLUTELY CRITICAL RELATIVE TO FINANCING TOOLS

In further defining the proper federal role and responsibility, AASHTO strongly believes that any Congressional infrastructure package must focus on direct grant funding distributed to states and transit agencies through formula programs rather than federal financing support. This is because financing tools that leverage existing revenue streams—such as user fees and taxes—are typically not viable for most individual transportation projects in the United States. AASHTO's member DOTs appreciate the ability to access capital markets to help speed up the delivery of much-needed transportation improvements, and many states already rely on various forms of financing and procurement ranging from bonding, TIFIA credit assistance, state infrastructure banks, and public-private partnerships, among other tools.

That being said, states also fully recognize the inherent limitations of financing for the vast spectrum of publicly-valuable transportation projects. The reality is that most transportation projects simply cannot generate a sufficient revenue stream through tolls, fares, or other user fees to service debt or provide return on investment to private-sector equity holders. In 2014, such non-direct funding sources amounted to less than 18 percent of total capital outlays.

The state DOTs continue to support a role for financing and procurement tools such as public-private partnerships given their ability to not only leverage scarce dollars, but to also better optimize project risks between public and private sector partners best suited to handle them. But we also maintain that financing instruments in the form of subsidized loans like TIFIA, tax-exempt municipal and private activity bonds, infrastructure banks, and tax code incentives are insufficient in and of themselves to meet most types of transportation infrastructure investment needs we face.

I also would like to draw your attention to the immediate crisis of deteriorating rural infrastructure, including highways, local roads, bridges, railroads, locks and dams, and harbors and port facilities. The lack of attention and underfunding of the nation's rural infrastructure—over many decades—has created a void in the heartland, where access and connectivity for 60 million Americans is in critical need of investment and renewal.

A reinvigoration of investment in rural infrastructure is essential to improving both mobility and quality of life for residents. Rural infrastructure provides individuals the access they need to health care facilities, educational opportunities, and jobs. In addition to moving people, this infrastructure is also critical to moving goods and connecting rural communities to national and global markets. Rural areas remain critical to the nation's economic success through the production and movement of goods such as in agriculture, forestry, energy, manufacturing, fishing, and mining. Improving rural infrastructure connections will ensure these goods can travel efficiently to national and international markets.

The health of our rural communities is inextricably linked to the overall prosperity and continued success of our nation's economy and its ability to compete globally. Fixing the Highway Trust Fund that provides federal resources to every corner of our country through its formula programs will be critical in meeting the needs of rural America, and realize its full potential as an economic engine of the nation.

CONCLUSION

There is ample documented evidence that shows infrastructure investment is critical for long-term economic growth, increasing productivity, employment, household income, and exports. Conversely, without prioritizing our nation's infrastructure needs, deteriorating conditions can produce a severe drag on the overall economy. In light of new capacity and upkeep needs for every state in the country, the current trajectory of the HTF—the backbone of federal surface transportation program—is simply unsustainable, as it will have insufficient resources to meet current federal investment levels beyond FY 2020.

Congress could address the projected annual shortfalls by boosting much-needed revenues. Whichever revenue tools are utilized, it is crucial to identify solutions that will, at a minimum, sustain the FAST Act-level of surface transportation investment in real terms.

A potential 40 percent reduction of federal highway funding in FY 2021 and a virtual wipeout of federal transit funding from FY 2021 to FY 2023 will have a devastating impact on all aspects of the national and regional economy. To overcome this significant challenge, AASHTO looks forward to assisting you and the rest of your House colleagues in finding and implementing a viable set of revenue solutions to the HTF not only for FY 2021, but that can also be sustained for the long term.

I want to thank you again for the opportunity to testify today, and I am happy to answer any questions that you may have.