ADMINISTRATION'S HIGHWAY USER TAX PROPOSAL

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 3044

NOVEMBER 30, 1982

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ADMINISTRATION'S HIGHWAY USER TAX PROPOSAL

TUESDAY, NOVEMBER 30, 1982

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 2:08 p.m., in room 2221, Dirksen Senate Office Building, Hon. Robert J. Dole (chairman) presiding.

Present: Senators Dole, Packwood, Roth, Danforth, Chafee, Heinz, Durenberger, Symms, Grassley, Long, Bentsen, Matsunaga, Moynihan, Boren, Bradley, and Mitchell.

Also present: Hon. Drew Lewis, Hon. John E. Chapoton, Mr. Ross C. Gaussoin, Mr. H.C. Heldenfels, and Mr. Charles N. Brady.

[The press release announcing the hearing and background material on the administration's highway user tax proposal and the opening statement of Senator Durenberger, a letter to Secretary Drew Lewis and Summary of Administration's Proposed Revision in Highway User Excise Taxes and Extension of Highway Trust Fund (S. 3044) follows:]

Press Release No. 82-173

PRESS RELEASE

FOR IMMEDIATE RELEASE
November 29, 1982

UNITED STATES SENATE
COMMITTEE ON FINANCE
2227 Dirksen Senate Office Bldg.

FINANCE COMMITTEE ANNOUNCES HEARING ON HIGHWAY EXCISE TAXES

Senator Bob Dole, Chairman of the Senate Committee on Finance, announced today that the Committee will hold a hearing on Tuesday, November 30, 1982, on the Administration's highway user tax proposal.

The hearing will begin at 2:00 p.m. in Room 2228 of the Dirksen Senate Office Building.

The Honorable Drew Lewis, Secretary of the Department of Transportation, and the Honorable John E. Chapoton, Assistant Secretary for Tax Policy, Department of the Treasury, are scheduled to be the lead-off witnesses.

In announcing the hearing Senator Dole stated that only a limited number of witnesses could be accommodated at the hearing and other interested parties are encouraged to submit written statements for the record.

Written statements.--Witnesses who are not scheduled to make oral presentations, and others who desire to present their views to the Committee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. These written statements should be typewritten, not more than 25 double-spaced pages in length, and delivered with five copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Monday, December 6, 1982.

P.R. #82-173

SUMMARY OF ADMINISTRATION's PROPOSED REVISIONS IN HIGHWAY USER EXCISE TAXES AND EXTENSION OF HIGHWAY TRUST FUND

(S. 3044)

Scheduled for a Hearing
Before the Senate
Committee on Finance
on November 30, 1982

Prepared by the Staff
of the
Joint Committee on Taxation

November 30, 1982

JCX-44-82

INTRODUCTION

This document provides a summary description of the Administration's proposed revisions in the highway user excise taxes and extension of the Highway Trust Fund, as transmitted to the Congress on November 29, 1982. The Administration's highway user tax proposal was introduced in S. 3044 (Senators Baker, Dole, Stafford, Garn, Packwood, Domenici, and Hatfield).

The first part of the document is a brief summary of present law highway user excise taxes and the rate reductions now scheduled for October 1, 1984. The second part is a summary of the Administration proposal. The third part presents the estimated revenue effect of the Administration proposal as compared to present law tax rates.

The Senate Committee on Finance has scheduled a public hearing on the Administration proposal on November 30, 1982, and the House Committee on Ways and Means has scheduled a public hearing on December 1, 1982.

I. PRESENT LAW HIGHWAY EXCISE TAXES

A. Overview and Background

Overview

Under present law, excise taxes are imposed on certain motor fuels, lubricating oil, trucks, truck parts, tires and tubes, tread rubber, and heavy highway vehicles. After September 30, 1984, these excise taxes are scheduled to decline generally to pre-Trust Fund rates or to expire. (See Table 1 for a list of the present and scheduled tax rates.)

Revenues from these excise taxes currently are deposited in the Highway Trust Fund. Under present law, these revenues will continue to be deposited in the Trust Fund until October 1, 1984, at which time revenues from the remaining highway excise taxes (generally at reduced rates) will go into the general fund of the Treasury (as they did prior to the enactment of the Trust Fund in 1956).

Background

The Highway Trust Fund and the related highway excise taxes were last extended by the Highway Revenue Act of 1978,[1] at which time the extension was for 5 years, or from October 1, 1979 through September 30, 1984. The 5-year extension was added by the tax committees as a separate title to a highway authorization bill and generally involved only the extension of existing highway excise taxes and tax rates.

The 1978 Act made one change in the application of the fuels taxes by providing a temporary exemption through 1980 (later extended to December 31, 1982) for fuel used in qualified taxicab services. Such use is exempt (via refund or credit) where ride sharing is not prohibited by law or by company policy and for model 1978 or later taxicabs which meet fuel economy standards (sec. 6427(e)).

The 1978 Act also modified the prior anti-deficit provision (the so-called "Byrd amendment") to require that when anticipated Trust Fund revenues are insufficient to cover projected expenditures from existing unpaid authorizations, reductions will be made on a pro rata basis to all apportioned highway funds, rather than to Interstate apportionments only.

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1 Title V of the Surface Transportation Assistance Act of 1978 (P.L. 95-599).

In addition, the 1978 Act required that two studies be made: (1) a cost allocation study to be conducted by the Department of Transportation, with a final report to Congress by January 15, 1982; and (2) a study of the highway excise tax structure to be conducted by the Treasury Department, with a final report to Congress by April 15, 1982.[2]

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2 The cost allocation study was submitted to the Congress on May 13, 1982: "Final Report on Federal Highway Cost Allocation Study." The final Treasury report on the highway excise tax structure has not yet been submitted. (A second progress report was submitted by the Secretary of the Treasury on October 1, 1981.)

B. Present Law Tax Rates

The following is a summary of present highway-related excise tax rates.

TABLE 1.—CURRENT HIGHWAY USER EXCISE TAXES AND SCHEDULED RATES OF TAX UNDER PRESENT LAW

Tax	Rate of tax, present law	
	Before Oct. 1, 1984[1]	After Sept. 30, 1984[2]
Petroleum products:		
Gasoline	4 cents/gallon	1.5 cents/gallon.
Diesel fuel	4 cents/gallon	1.5 cents/gallon.
Special motor fuels	4 cents/gallon	1.5 cents/gallon.
Lubricating oil	6 cents/gallon	6 cents/gallon.
Trucks and truck parts:		
Trucks and trailers	10 percent of manufacturer's sale price.	5 percent of manufacturer's sale price.
Parts and accessories.	8 percent of manufacturer's sale price.	5 percent of manufacturer's sale price.
Tires, tubes and tread rubber:		
Tires for highway vehicles.	9.75 cents/pound	4.875 cents/pound.
Laminated tires	1 cent/pound	1 cent/pound.
Other tires	4.875 cents/pound	4.875 cents/pound.
Inner tubes	10 cents/pound	9 cents/pound.
Tread rubber	5 cents/pound	No tax.
Use tax on heavy vehicles	$3 per 1,000 pounds per year, if more than 26,000 pounds.	No tax.

[1] Revenues are deposited into the Highway Trust Fund.
[2] Revenues would be deposited into the general fund of the Treasury, unless the Trust Fund is extended.

II. SUMMARY OF ADMINISTRATION PROPOSAL

A. Highway User Excise Tax Revisions

Table 2, following, lists the highway user excise tax rates under the Administration proposal. The specific tax changes are summarized below.

1. Motor Fuels Tax

Increase in tax rates.--The Administration proposal would increase the rates for the excise taxes imposed on gasoline, diesel fuel, and special motor fuels[1] from the present law 4-cents-per-gallon rate to 9 cents per gallon.

The increased taxes would apply to taxable fuels sold or used after March 31, 1983, and before April 1, 1990.

Continuation and modification of motor fuels tax exemptions.--The Administration proposal would continue at the new 9-cents-per-gallon tax rates the present law exemptions from the motor fuels taxes for fuels used by a State or local government, for sales for export, for use by a nonprofit educational institution, and for a fuels mixture (gasohol) which contains at least 10 percent alcohol of 190 proof. The present law exemptions for nonhighway use in farming and as supplies for vessels or aircraft would be continued at the new 9-cents-per gallon rates.

The present law exemptions for fuels used by school buses and intercity or local buses furnishing public transportation for compensation would be modified to provide exemption from 4 cents per gallon of the taxes rather than exemption from the entire 9-cent-per-gallon tax rates. Additionally, the exemption for certain qualified taxicab use would be continued beyond 1982 at a 4-cents-per-gallon rate.

Further, the Administration proposal would expand the partial exemption in present law for motor fuels used in a "qualified business use" would be expanded to permit exemption from the entire 9-cents-per-gallon tax rates.[2]

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[1]Special motor fuels are benzol, benzene, naptha, liquefied petroleum gas, casinghead and natural gasoline, or any other liquid (other than kerosene, gas oil, fuel oil, gasoline taxed under Code sec. 4081, or diesel fuel taxed under sec. 4041(a)).
[2]A qualified business use is a use in a trade or business or otherwise for the production of income in a vehicle not required to be registered for highway use or use in a highway vehicle owned by the United States.

2. Taxes on Trucks, Trailers and Truck Parts

Under the Administration proposal, the manufacturers excise tax on trucks and other heavy highway vehicles would be increased from 10 percent to 12 percent of the selling price. The current exemption for vehicles which weigh 10,000 pounds or less would be raised so that this tax would not apply if the gross vehicle weight were 33,000 pounds or less.

The proposal also would increase the manufacturers excise tax on parts and accessories for trucks and other heavy highway vehicles from 8 percent to 12 percent of the selling price. However, this tax would not apply if the part or accessory is suitable for use and is ordinarily used on a vehicle having a gross vehicle weight of 33,000 pounds or less.

These modifications would be effective for trucks, other heavy highway vehicles and parts and accessories for such vehicles sold after March 31, 1983. There would, however, be a refund of tax allowed for a taxable item for which the tax would no longer apply, for sales after November 28, 1982, and before April 1, 1983. (See item 6, following, relating to floor stocks refunds.)

3. Use Tax on Heavy Vehicles

Under the Administration proposal, the amount of tax imposed on the use of a highway vehicle would depend on its taxable gross weight, according to the following 4-bracket structure:

Taxable gross weight	Annual use tax
Under 55,000 pounds	No tax
55,000 to 70,000 pounds	\$100 plus \$6 per 100 pounds (or fraction thereof) over 55,000 pounds
70,000 to 80,000 pounds	\$1,000 plus \$17 per 100 pounds (or fraction thereof) over 70,000 pounds
80,000 pounds or more	\$2,700

-However, a vehicle would be exempted from tax for a taxable year during which its highway use is expected to be under 2,500 miles.

Generally, taxable gross weight wuld be the highest gross vehicle weight declared for purposes of registering a vehicle in any State where the vehicle is registered or required to be registered. In the event that State registration is not required for a vehicle, its taxable gross weight would be determined as under present law.

These modifications to the highway use tax wold apply to uses occurring after June 30, 1983.

The proposal also would direct the Secretary of Transportation (in consultation with the Secretary of the Treasury, State officials, motor carriers and other affected parties) to study alternative forms of the use tax, to devise a plan for the better administration of the tax, and to report findings and recommendations to Congress within 2 years. Further, States would be authorized to assist in enforcement of the Federal highway use tax.

4. Taxes on Tires, Tread Rubber and Inner Tubes

Tires and tread rubber.--Under the Administration proposal, the excise taxes on tires and tread rubber would increase to 25 cents per pound from present law rates of 9.75 (highway-type tires) and 5 cents per pound, respectively. The 25-cents-per-pound tax on new highway-type tires, however, would apply only to tires that weigh more than 100 pounds. The changes would be effective for sales after March 31, 1983.

Inner tubes.--The present law tax on inner tubes would be repealed for sales after March 31, 1983.

5. Tax on Lubricating Oil

The Administration proposal would repeal the present excise tax on lubricating oil, effective for sales after March 31, 1983.

6. Floor Stocks Taxes and Refunds

Floor stocks taxes.--The Administration proposal would impose special floor stocks taxes on items held in inventory on April 1, 1983, on which tax was paid at a lower rate than the new rates. The floor stocks taxes would be equal to the excess of the new tax rates over the previous rates for the taxable item involved. Thus, for example, a floor stocks tax of 5 cents per gallon would be imposed on gasoline held for sale by a dealer on April 1, 1983.

Floor stocks refunds.--The Administration proposal would provide for refund of (or credit for) tax paid on items held in inventory on April 1, 1983, for which tax was paid at a higher rate than would be in effect on and after that date. In addition, the proposal would provide for refunds to consumers of tax paid on trucks and trilers which are purchased after November 28, 1982, and before April 1, 1983, and for which the tax would be repealed by the increase in the taxable threshold for the manufacturers tax on trucks, and trailers, and on parts and accessories for such vehicles which have a taxable weight between 10,000 pounds and 33,000 pounds.

7. Sunset of Certain Exemptions from Taxes

The present exemptions from the Highway Trust Fund excise taxes for items used by State and local governments and for certain items used by intercity and other buses would be terminated on April 1, 1990. The other exemptions provided by present law would not be affected by this sunset provision. (I.e., the present sunset date of December 31, 1992 for the alcohol fuels tax exemption would remain, and the exemption for farming use would continue indefinitely.)

Table 2. Highway User Excise Tax Rates Under Administration Proposal

Item	Tax Rate[1]
Petroleum products	
Gasoline	9 cents per gallon
Diesel and special motor fuels	9 cents per gallon
Lubricating oil	No tax
Trucks and truck parts	
Trucks and trailers	12 percent of mfrs. sales price, if over 33,000 pounds gross vehicle weight (GVW)
Truck parts	12 percent of mfrs. sales price, if customarily used on trucks of over 33,000 pounds GVW
Tires, Tubes and tread rubber	
Highway tires	25 cents per pound, if over 100 pounds
Laminated tires	1 cent per pound
Other nonhighway tires	4.875 cents per pound
Inner tubes	No tax
Tread rubber	25 cents per pound
Heavy vehicle use tax[2]	
Under 55,000 pounds	No tax
55,000-70,000 pounds	$100, plus $6/100 pounds in excess of 55,000
70,000-80,000 pounds	$1,000, plus $17/100 pounds in excess of 70,000
Over 80,000 pounds	$2,700

[1]Tax changes generally effective on April 1, 1983.

[2]Tax change effective on July 1, 1983. Vehicles travelling less than 2,500 miles per year would be exempt from the tax.

B. Highway Trust Fund Extension/Transit Account

1. Extension of Highway Trust Fund

Under the Administration proposal, the Highway Trust Fund would receive designated highway excise taxes incurred through March 31, 1990, and expenditures for authorized purposes could be made from the trust fund through September 30, 1991. Present statutory requirements for reports to Congress on investigations and studies of an equitable distribution of the tax burden among the various users of the Federal-aid highways would be repealed.

2. The Transit Account

Within the Highway Trust Fund, there would be established a new Transit Account. Amounts equivalent to 1 cent per gallon of the diesel fuel, special motor fuels, and gasoline excise taxes (under secs. 4041(a) and (b) and 4081) would be deposited into this account. These amounts would be spent as appropriated for urban mass transportation capital programs, under the provisions of section 22 of the Urban Mass Transportation Act of 1964. Interest on obligations held in the Transit Account would be credited to the account. Repayable advances would be authorized for appropriation to the Transit Account so that it could make expenditures for authorized purposes. The advances would be repaid with interest on the amount advanced.

III. ESTIMATED REVENUE EFFECTS

Table 3 shows the estimated Highway Trust Fund tax revenues under present law tax rates for fiscal years 1982-1984, and for fiscal year 1985-1988 under rate reductions (or expirations) scheduled on October 1, 1984. Present law Trust Fund tax revenues are projected to increase slightly from $6.7 billion in fiscal year 1982 to $6.8 billion in fiscal year 1984. Then, unless present tax rates are further extended, the highway excise tax revenues would drop to $3.0 billion in fiscal year 1985 and to $3.4 billion in fiscal year 1988.

Gasoline tax revenues accounted for $4.1 billion of the Trust Fund tax revenues in fiscal year 1982, or about 61 percent. However, by fiscal year 1984, gasoline tax revenues are projected to decline to $3.8 billion, or about 55 percent of the Trust Fund tax revenues. The other highway excise tax revenues are generally projected to increase between fiscal 1982 and fiscal 1984 under present law. The only highway excise tax projected to increase significantly in revenues is the tax on trucks and truck trailers, from $0.7 billion in fiscal year 1982 to $1.1 billion in fiscal year 1984.

As indicated in table 4, highway excise tax revenues under present law rates extended through fiscal year 1988 would increase to an estimated $7.2 billion in fiscal year 1985, $7.8 billion in fiscal year 1987, and $8.0 billion in fiscal year 1988. The gasoline tax revenues are projected to continue to decline to a $3.8 billion level in fiscal year 1986, 1987, and 1988, or to about 47 percent of highway tax revenues in fiscal year 1988.

Table 5 presents the estimated changes in Highway Trust Fund tax revenues under the Administration proposal as compared to receipts under current rates extended. Total Highway Trust Fund tax revenues are projected to increase by $2.6 billion in fiscal year 1983, $5.4 billion in fiscal year 1984 and in fiscal year 1988.

Finally, table 6 shows total estimated Highway Trust Fund tax revenues under the Administration proposal for fiscal years 1983-1988. This indicates that total Trust Fund tax revenues will increase from $6.7 billion actual in fiscal year 1982 to $9.1 billion in fiscal year 1983, $12.2 billion in fiscal year 1984, and $13.4 billion in fiscal year 1988. (Trust Fund tax revenue projections are not presented beyond fiscal year 1988 in the following tables.)

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Table 3

Estimated Highway Trust Fund Tax Revenues Under Present Law Rates Through Fiscal 1988

Fiscal Years 1982 - 1988

[In Millions of Dollars]

Tax	1982 (Actual)	1983	1984	1985	1986	1987	1988
Gasoline	4,120	3,911	3,758	1,450	1,447	1,455	1,458
Diesel fuel	594	627	654	264	286	306	328
Trucks, and trailers	725	768	1,102	681	759	814	885
Truck parts and accessories	224	242	282	192	210	228	247
Tires, tubes, and tread rubber	672	647	679	357	378	392	407
Lubricating oil	77	80	80	80	80	80	80
Use tax on heavy vehicles	333	228	275	--	--	--	--
Total Tax Revenues	6,743	6,503	6,830	3,024	3,160	3,275	3,405

Note: Revenues are net of refunds and transfers.

Source: Treasury Department, Office of Tax Analysis, November, 1982.

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Table 4

Estimated Highway Trust Fund Tax Revenues With Current Rates Extended Through Fiscal 1987
Fiscal Years 1982 - 1988

[In Millions of Dollars]

Tax	1982 (Actual)	1983	1984	1985	1986	1987	1988
Gasoline	4,120	3,911	3,758	3,747	3,757	3,778	3,785
Diesel fuel	594	627	654	706	761	818	878
Trucks, and trailers	725	768	1,102	1,362	1,517	1,628	1,771
Truck parts and accessories	224	242	282	308	336	364	395
Tires, tubes, and tread rubber	672	647	679	716	757	784	814
Lubricating oil	77	80	80	80	80	80	80
Use tax on heavy vehicles	333	228	275	287	299	312	325
Total Tax Revenues	6,743	6,503	6,830	7,206	7,507	7,764	8,048

Note: Revenues are net of refunds and transfers

Source: Treasury Department, Office of Tax Analysis, November, 1982.

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Table 5

Estimated Changes in Highway Trust Fund Tax Revenues From Administration Proposal Over Receipts at Current Rates

Fiscal Years 1983 - 1988

[In Millions of Dollars]

Tax	1983	1984	1985	1986	1987	1988
Gasoline	2,205	4,463	4,311	4,202	4,172	4,214
Diesel fuel	344	812	870	931	996	1,070
Trucks, and trailers	-87	-62	-76	-84	-90	-98
Truck parts and accessories	-94	-140	-153	-167	-181	-196
Tires, tubes, and tread rubber	-173	-396	-423	-453	-472	-494
Lubricating oil	-48	-86	-80	-80	-80	-80
Use tax on heavy vehicles	457	794	829	863	901	939
Total Tax Revenues	2,604	5,385	5,278	5,212	5,246	5,355
Net revenue effect on budget receipts after income offsets 1/	1,966	4,063	3,982	3,933	3,959	4,042

Note: Revenues are net of refunds and transfers.

1/ Based on increase in all tax revenues. The amounts that are not included in the Highway Trust Fund are $17 million in fiscal year 1983, $32 million in 1984, $32 million in 1985, $32 million in 1986, $33 million in 1987 and $34 million in 1988.

Source: Treasury Department, Office of Tax Analysis, November, 1982.

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Table 6

Estimated Highway Trust Fund Tax Revenues Under Administration Proposal

Fiscal Years 1982 - 1988

[In Millions of Dollars]

Tax	1982 (Actual)	1983	1984	1985	1986	1987	1988
Gasoline	4,120	6,116	8,221	8,058	7,959	7,950	7,999
Diesel fuel	594	971	1,466	1,576	1,692	1,814	1,948
Trucks, and trailers	725	681	1,040	1,286	1,433	1,538	1,673
Truck parts and accessories	224	148	142	155	169	183	199
Tires, tubes, and tread rubber	672	474	283	293	304	312	320
Lubricating oil	77	32	-6	--	--	--	--
Use tax on heavy vehicles	333	685	1,069	1,116	1,162	1,213	1,264
Total Tax Revenues	6,743	9,107	12,215	12,484	12,719	13,010	13,403

Note: Revenues are net of refunds and transfers.

Source: Treasury Department, Office of Tax Analysis, November, 1982.

11/30/82

Opening Statement of Senator Dave Durenberger

Mr. Chairman, I am one among the many who support an increase in the Federal excise tax on gasoline. There is a demonstrated need to put more money into road construction and maintenance.

The best estimate I have seen indicates that we will need to spend $400 billion over the next decade just to finish the interstate system and maintain the rest of our roads at current service levels. That's $40 billion a year. But according to the General Accounting Office, all governments, Federal, State and local, are now spending only about $26 billion a year on roads, bridges and highways. That leaves a $14 billion gap. So even the increase of 5 cents a gallon is modest compared to the need that has been demonstrated.

As the President has said, the tax we are considering is a user fee. It is allocated, or should be allocated, among the users of the nation's highways and bridges so that each user is paying for costs that they impose on the transportation system.

An increase is justified when we viewed from the perspective of transportation policy. But if we also included the dimension of energy policy, the cost to our economy of importing oil and the certainty that the oil resource is a declining resource, we might find sufficient justification for imposing an even higher tax.

So I support this tax increase. It is an entirely reasonable and necessary tax increase. But that does not also make it a panacea to solve all of the other problems confronting the nation. In fact, there will be some new problems created by this program—perhaps not so much in the area of the tax, but in how we choose to spend the revenues it raises. Let me give some examples.

Cycling the revenues through the Highway Trust Fund will create some lag between the time dollars are taken from highway users and the time they are paid to highway builders. Last summer, when the gasoline tax was being advertised as a way to balance the budget rather than a way to put people to work, DOT circulated a paper indicating that of the $5.5 billion collected in the first year only $800 million would actually be spent. The remaining $4.7 billion would simply increase the balance in the highway trust fund. We need to design a program with a more rapid turnaround or we will simply be adding a drag to an economy that is already flat.

A second problem is the State matching requirements attached to the highway grant programs financed by the Trust Fund. Almost every dollar paid out by the Trust Fund must be matched with dollars from the States. The matching rates now range from 10 percent to 25 percent.

But most State and local governments are in no position to match a large new infusion of Federal funds. Let me use my State of Minnesota as an example. We get about 2 percent of all Federal highway funds. Of the $4.4 billion that is to be placed in the Trust Fund, Minnesota will be eligible for about $88 million. Matching that at the 25 percent rate means that Minnesota will have to come up with $22 million. Our revenue department recently announced an expected deficit of $312.5 million for the current fiscal year. And over the past two years service levels have been cut back by hundreds of millions to meet earlier shortfalls. Coming up with $22 million will mean that Minnesota has to raise taxes or again cut services which are already at barebones levels.

That is a condition not unique to Minnesota. Every governor and legislator in the country will have to scramble to find new State funds to meet the requirements of this Federal tax increase.

There are other problems that should also be mentioned. The current highway programs put emphasis on new construction. But the need that has been demonstrated is a need for maintenance. And the sooner maintenance is undertaken the less costly upkeep is. If we could focus more of these dollars on early maintenance and fewer on new construction or reconstruction we could put more people to work at an earlier date and save dollars in the long run.

Finally, there are many strings attached to Federal highway grants. These hundreds of requirements divert dollars that are needed for highway repair to other public purposes that are perhaps less important at this time.

The problems that I have cited are not new, are not created by this tax increase, and are not even peculiar to highway programs. They are found wherever the Federal government enters into a partnership with State and local government to implement a program. They were brought into focus by President Reagan last January when in his State of the Union message he called for a new federal partnership.

Part of his initiative include the return of highway program responsibilities to the States along with the return of a portion of the Federal gasoline tax. At that time he proposed that we cut the Federal tax by 2 cents a gallon. Times change and the Administration proposal has changed. But I think that we can still capture the spirit of the President's federalism initiative even in the context of a gasoline tax increase.

Two weeks ago I sent a letter to Secretary Drew Lewis outlining an alternative to the Highway Trust Fund and highway grant programs. Mr. Chairman, I would like that letter included in the record with my comments today. Essentially, I proposed an increase in the Federal tax but with an option to the States to buy out the Federal increase by increasing their own gasoline taxes. Any State which increased its own taxes would get a credit against the Federal increase so that the new Federal tax would not be collected in that State.

The only opposition that I have heard to this credit option is that there is not time in this lame duck session to consider any major change in the way we do highway programs. In a sense we have to use the Trust Fund because we don't have time to even ask if there is a better way.

And I suppose that I agree that 16 days is too short a time for full consideration of this alternative. I don't intend to throw sand in the gears of this machine which has been so finely oiled to get a tax increase through Congress. But I do hope that in the 98th Congress this alternative will get a thorough hearing and that in the 15 days that now remain of this Congress we will not be insensitive to the problems that the gas tax causes for State and local governments and their need for more flexibility in Federal programs so that they can fulfill their role in the partnership.

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C., November 18, 1982.

Hon. DREW LEWIS,
Secretary of Transportation,
Department of Transportation, Washington, D.C.

DEAR DREW: I want you to know that I can be counted as one who supports your proposal to increase the Federal excise tax on motor fuels. The highways, bridges and urban roads of this nation are in poor condition and the deterioration continues to escalate at a rapid rate. The Federal government has joined as a partner with State and local government in road construction since 1917 and it is a partnership that needs to be strengthened today. The Federal gasoline tax which has been 4 cents per gallon since 1959 should be increased.

However, by this letter I also want to express some reservations about the details of your proposal and to suggest an alternative that warrants your consideration. It is my understanding that your plan would channel revenues from any gasoline tax increase into the Federal Highway Trust Fund and from there into the existing highway grant programs authorized by the Congress. In light of the current fiscal condition of many State and local governments and the desire to use new tax revenues to stimulate employment in the construction industry, we should consider channels other than the existing grants and trust fund.

Virtually all of the highway grant programs now authorized require that Federal funds be matched by funds from State and local governments. Facing low reserves or actual deficits, many State and local governments are not in a position to match a large new infusion of Federal funds. Thus the revenues from a Federal tax increase could not be committed to construction and maintenance immediately.

A second objection to the use of existing highway grant programs as a channel for the new tax revenues is that Congress would continue to determine the priorities among highway projects when these decisions would be better returned to State and local officials. By allocation of the new revenues among 30 different Federal grants and by manipulation of matching rates and distribution formulas, Congress would surely perpetuate its control over the nation's highways. The appropriate mix of spending across the range of transportation programs from interstates to primary and secondary highways to bridges and urban roads is a decision that should now be turned back to State and local governments.

In the matter of job creation, maintenance rather than new construction promises more rapid stimulation of additional employment. And in most States highway maintenance rather than new construction is the pressing problem. However, the existing Federal highway grant programs are principally oriented toward new construction.

Finally, and as you know, Federal grant dollars for any purpose, but especially highway dollars, come with many strings attached. At a time when the need for highway maintenance and new jobs is great, some of the conditions attached to existing grant programs are diverting precious dollars from high priorities to less important public purposes.

In his State of the Union Message last January, President Reagan recognized the many failings of the categorical aid system, failings similar to those mentioned above, and recommended a new Federal partnership for the nation. Part of his Federalism initiative included the return of several highway grant programs and a portion of the Federal gasoline tax to the States. In the spirit of that initiative but reflecting the need for additional revenues committed to highway construction, I would offer an alternative to the proposal you have made. The following points constitute a brief outline of this alternative.

1. The Federal government would increase the highway motor fuel excise tax by an amount ranging from 5 cents to 7 cents per gallon. This would bring the Federal tax to a total of 9 to 11 cents. The precise amount of the increase would be determined through consultations with State and local officials.

2. Rather than channel these new revenues through the trust fund and existing grant programs, the Federal government would make the following offer to the States. Any State increasing its own gasoline tax above current levels would receive a credit for that increase against the Federal tax. The Federal tax would be reduced by the amount of the State increase. For instance and assuming that the Federal tax was raised to 9 cents, if a State followed a nickel increase in the Federal tax with a nickel increase in its own tax, then the new Federal nickel would not be collected in that State.

3. The amount of the credit for State increases would be limited to no more than the amount of the increases adopted at the Federal level—5, 6, or 7 cents. At a minimum the Federal government would continue to collect 4 cents per gallon in every State and more in those States which chose to forego increases of their own.

4. The only condition attached to the Federal credit would be that revenues from the State tax increases be used for transportation programs. Transportation would be broadly defined.

5. Revenues flowing to the Federal government from the existing 4 cent tax, taxes on trucks and truck parts and taxes on other highway users would be devoted to a limited set of purposes—completion and maintenance of the interstate highway system, mass transportation and highway safety.

6. From 1 to 2 cents of the existing 4 cents per gallon tax on gasoline would be put in a trust fund for mass transit.

7. Matching requirements for interstate construction and the interstate 4R program would be dropped. The Federal government would provide 100 percent of the financing for interstate completion and maintenance.

8. All other highway grant programs would be discontinued for those States choosing to take advantage of the credit option. States not taking the credit could continue to receive funds though the existing highway grant programs. Funds for these grants would come from a pool of revenues collected in those States which did not choose the credit option.

9. The credit would have one retroactive feature. 26 States increased their gasoline taxes in 1982. For those States an immediate credit of 1 cent would be allowed against the Federal increase. These States could receive the full Federal credit by increasing their own taxes by an amount 1 cent less than the Federal increase.

I believe that this alternative has the potential to satisfy both the President's desire for a new partnership with the States and the need for a rapid infusion on new funds for highway construction and maintenance.

Mr. Secretary, you have done the country a great service by calling attention to the critical maintenance problems affecting the public infrastructure. As a member of the Senate Finance Committee, I look forward to supporting your efforts to increase the highway user fee. I hope that the alternative program which I have described receives your attention and that we can work together in the coming weeks to assure adequate financing for the nation's highways.

Sincerely,

DAVE DURENBERGER.

The CHAIRMAN. Senator Heinz has a brief statement.

Senator HEINZ. Mr. Chairman, first I want to commend Secretary Lewis and the Reagan administration for having endorsed a proposal that many of us hoped we could get enacted even sooner than in this "lameduck" session. I know I speak for the Secretary when I say that.

This, as my chairman will recall, was an item that we originally considered when we were writing in this committee the tax bill back in late July and early August. Many of us on this side of the aisle felt it was a good idea to do so at that time, but there was an insufficient amount of preparation to move ahead at this time.

I am delighted that we are going to make this annual investment in our Nation's transportation system. Some people say, "Well, isn't this a rehabilitation and repair program?" The answer to that, in my judgment, is yes. Other people say, "Well, isn't this a jobs creation program?" My answer to that is yes. The answer, indeed, is that we have a program that is necessary because it presents us with the unusual opportunity to do two things: do something that needs to be done, and, second, create jobs at a time when they have never been more scarce, at least since the Great Depression.

So, Mr. Secretary, I want to commend you for your persistence in this matter. You have been a real crusader, and as a fellow Pennsylvanian I am doubly proud. I suspect maybe one of the reasons you pushed so hard is you know what the shape of our highways are, Federal aid highways, in our State; indeed, our State currently has more money available than the Federal Government currently can make available.

And finally, I would only add that it is my hope that when we are done with the legislative process and the bill moves to the President, that the legislation contains—and as I understand the latest version of it does contain—a strong "Buy-America" provision, similar to that that we have in the Surface Transportation Act. As the author of the provision in the Surface Transportation Act and as somebody who believes that a program which has at least as very important part of its mission the creation of meaningful jobs, it would be a tragedy if those jobs should end up going to Japanese steelworkers as opposed to American steelworkers.

So we hope, I hope, I think all of us hope, that when this legislation is signed into law, that the strong kinds of "Buy-America" provisions that we have in other laws are indeed a part of this.

Mr. Secretary, thank you very much. I have some questions to you.

Mr. Chairman, thank you.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. Thank you, Mr. Chairman.

Mr. Secretary, congratulations. I know we discussed this during the tax bill last August. I think the votes were present in the Congress at that time to adopt a gasoline tax and to start down the road which we are now starting down.

I, too, don't care whether you call this a "jobs bill," a "bridge bill" or a "highway bill," it, by and large, is a good bill. If you want to call it a "hippopotamus," that is fine with me, if that will take some of the onus away from those who want to call it one or the other.

I also applaud the decision to say that heavy trucks will pay their fair share, although I question whether or not the very, very high tax that has been levied on very, large trucks is not a disproportionately high share. That is something we can address during questions and answers and while we are working on the bill.

I am delighted you have money for mass transit in this proposal; it is a needed step that will save our highways.

There is one question, and I will ask that when you have finished your statement; however, it will be in all of our minds, and that is: Will the money be spent at all, let alone for highways and related purposes? I support the premise of this bill, and I am planning to vote for it, unless it appears that the money collected will be mounded up into a trust fund with a surplus to help reduce the deficit, but not indeed spent for the purposes for which the tax is levied.

The CHAIRMAN. Senator Bentsen?

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

Mr. Secretary, I think there is a growing perception that this highway tax increase is going to be very easily passed in the Congress. I am not sure that is right. I think I have been as close to the highway program as any Member of the Senate over the last 10 years, and I have been a strong supporter of it, and I understand some of the problems of the infrastructure now; but, as the President has stated, it's a user tax, and that means those people who pay that tax should have it returned to their own particular regions and their own particular States.

Now, when we first started the Interstate System, there was an understanding that there would be some major dislocations as we brought about the construction of that Interstate System. But now some 25 years have passed, and I think it's time, once again, that we look at equity and fairness in the distribution of the funds that are collected.

My own State, for the last 20 years, has been receiving about $3 back for every $4 that it sent in. There has been an improvement in that in 1980 and 1981, and I have fought very hard to try to bring that about, and we have had some assistance from the members of the public work, the Environmental Committee.

Now, I am also concerned about the question of mass transit and the distribution there, because I understand the problems of mass transit of some of the older cities; but we have them compounded in some of the growth cities such as Houston and Dallas, and I want to be sure that we have funds in there for new starts, if we are talking about rail construction, that they at least have the option to have funds coming back for that purpose.

So, once again, Mr. Secretary, I understand the need, I understand the problem of plateauing of funds received in spite of the fact we have many more cars on the roads than we had before. But we took care of the problems of some of the smaller States and some of the sparsely settled States by putting one-half of 1 percent in it. I think we ought to also address the problems of the major donor States who have received back substantially less than they have sent in, if we are really going to call this a "user tax."

Thank you very much.

The CHAIRMAN. Senator Symms?

Senator SYMMS. Mr. Chairman, I would reserve my time until the questions and ask unanimous consent to put a statement in the record at this point.

[The prepared statement of Senator Symms follows:]

Statement of Senator Steve Symms, November 30, 1982

For many Americans, the consequences of a decaying infrastructure are becoming more apparent almost daily and are exacting a high price. In Houston for example, city planners estimate that motorists in the city's snarled expressways pay a "congestion tax" of $800 a year in time and gasoline wasted on the city's snarled expressways. U.S. Steel spends an extra $1 million a year in detouring trucks around a closed bridge in Pittsburgh. TRIP (The Road Information Program), a highway-industry group, estimates that the aggregate cost to the private sector of bad roads and bridges is $30 billion a year -- from everything from broken axles to lost business. Even worse, the infrastructure crisis is exacting a heavy human toll. A recent Federal Highway Administration study found that spending an additional $4.3 billion to fix dilapidated bridges and roads could save 480,000 injuries and 172,000 lives over fifteen years.

Crumbling highways and rusting bridges are basic problems which have built up for over a decade and a half while the Congress focused its attention on non-productive economic and social issues. The problems with the infrastructure have accumulated to the point where they pose a growing obstacle to sustained national recovery. American business and farming absolutely depend on the smooth functioning of public works. The simple fact is that if producers cannot get their products to market in time, prices increase and competitivness declines. America's competitiveness and economic well-being depend on an effective infrastructure.

While I personally do not want to label the highway-gas tax package as a "jobs bill," private-sector jobs will result from the implementation of this package. In 1976, the Bureau of Labor Statistics estimated that each $1 billion in contract cost, generated 43,000 full-time jobs, 20,000 within the construction industry and 23,000 in other industries. Excluded from other industries are estimates of the employment generated by spending of construction workers' wages and salaries, and contractors' profits. Money spent for federally aided highways generated a total of 354,000 jobs in 1976, 143,000 in construction and 191,000 in other industries.

Today, the Bureau of Labor Statistics estimates that this package will generate 325,000 jobs in the constiuction industry and directly-related industries.

After reviewing the data, I do not believe that jobs will be lost in the energy industry as a result of a nominal increase in the cost of gasoline to the consumer at the pump.

First, gasoline prices have declined over the past year and cars have become more fuel efficient. The result has been a slow decrease in the cost of motor fuel to the consumer. A nominal increase in the cost of gasoline to the consumer at the pump will not induce the consumer to decrease his consumption by travelling fewer miles. In fact, road repairs might actually save the consumer money annually because dilapidated roads are now costing the average consumer $200 more a year in wasted gas and extra repairs.

Second, as a result of the new cost-allocation method that is included in the gas tax proposal, truckers operating costs will be directly increased. However, while this package implements a new cost allocation method which will more fairly distribute the cost of building and maintaining our highway system to those who use them, the package also includes measures which will increase the truckers' shipping capacity, thereby greatly increasing the cost-effectiveness of these transporters. Also, the trucking industry's road repair costs represent a significant portion of today's shipping prices.

Well maintained roads will lead to greater operating efficiency and will eventually be reflected in the price of shipping goods.

There is only one portion of the Administration's proposal with which I strongly disagree and that is the one cent set-aside for mass transit and I intend to offer an amendment in the Committee to delete that portion of the bill. We are trying to implement a fair and equitable cost allocation method in this legislation and I do not believe that there is anything fair or equitable about making Idahoans pay for New York City's subway system. I realize the financial burdens of the the mass transit systems, but I believe that it is the responsibility of those localities to raise revenues or trim operating expenses to meet their costs.

It is imperative that we commit ourselves to the problems of a decaying infrastructure now because without this commitment, we will be creating a bottleneck that will limit growth and economic expansion in the future.

Some have argued that we should not raise the gasoline tax in a recession because it will significantly impede the progress of economic recovery. Others have suggested that we postpone making the needed repairs in our system until the economy has picked up again or that if these repairs must be made that we fund the Highway Program out of the general revenues.

First, raising $5 billion in gasoline taxes in a $5½ trillion economy will not have any impact on the progress of economic recovery. Martin Feldstein, the President's Chairman of the Council of Economic Advisors, testified last Spring before this Committee and stated $10 billion either way in a $4½ trillion economy will not have any impact on the economy.

Furthermore, economic recovery will only be achieved by Congress controlling the "un-controllables" in the budget -- the so-called entitlement programs, which comprise about 50% of the Budget. For years now, we have been "eating our seed corn" in order to finance non-productive social government programs. Now we are faced with a situation where we must begin to replace the "seed corn," by rebuilding the infrastructure, or the ability of our economy to grow in future years will be severely impaired.

Second, postponing road and bridge repairs until some time in the future is not responsible because it will not only mortgage the future of our economy but it will also significantly impede the ability of our economy to recover. Our economy is dependent upon the smooth functioning of its public works programs. To suggest that we should thwart the inter and intra-state commmerce of this nation by not keeping our infrastructure in shape is very short-sighted. Postponing road and bridge repairs will not only increase the cost of those repairs but it will also contribute to higher shipping costs due to the fact that our transport system would be operating on a damaged system.

Third, while many have recommended financing the highway program out of general revenues, I view this option as the most irresponsible of all of the suggestions that has been made. The Highway Program has been financed by a gasoline tax package with revenues going into a Highway Trust Fund on a sound fiscal basis for many years. It is a "pay as you go" system, and the people paying for the system arethe same people who are using the system. It is perhaps the most equitable tax the Government imposes -- it is the essence of the flat tax.

Financing this program out of general revenus would not only greatly distort the fair and equitable manner by which this program is funded but I am afraid that it would greatly distort the program itself because the revenues collected for our nation's highway systems could then be used for non-productive uses, such as financing the uncontrollable costs of entitlement programs.

If anything we should be moving in a direction to take this trust fund out of the unified budget and establish other trust funds for other infrastructural programs upon which our nation's economy depends. By seperating these infrastructural programs from the remainder of the Budget, I believe the Congress and the public would then be able to focus their attention more readily to the problem areas of the Budget.

The U.S. has not choice but to make the commitment to rebuild our crumbling economic foundation -- and then insure that our infrastructure is maintained as a prime policy concern.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. I reserve my time, as well.

The CHAIRMAN. Senator Roth? Senator Mitchell?

Senator MITCHELL. I have no questions now.

The CHAIRMAN. Let me include my statement in the record and raise, in a general way, a question raised by Senator Packwood about the tax burden to heavy trucks. I certainly agree they should pay their proportionate share; that's one area I think we need to carefully review.

I am also concerned, to some extent, about mass transit, whether we are going in the right direction in that area. I have stated some of those concerns in a statement which I will ask be made a part of the record.

[The prepared statement of Senator Dole follows:]

STATEMENT OF SENATOR DOLE

Today we have an opportunity to hear the views of the Administration and the public on the Highway User Taxes.

BACKGROUND

In its 25 years of existence, the Interstate Highway System has assumed enormous importance within the Nation's transportation system. The Nation's economy has come to rely more and more on the efficient movement of people and freight. The highway and transit systems, which have provided the essential links in the transportation infrastructure as well as a major source of employment for U.S. workers, now face a future of rapidly accelerating deterioration if the commitment to meet capital investment is not made soon.

Although most Americans take the interstate highway system for granted, its future is threatened by several emerging problems and the need for renewed investment in the highway system is critical. Four thousand miles of the Interstate System pavement, nearly 10 percent of the total system, must be resurfaced or replaced now or in the very near future. Fifty percent of the primary system will reach the end of its design life during the 1980's. Forty percent of our bridges are more than 40 years old, and the design life of most bridges are more than 40 years old, and the design life of most bridges is 50 years.

HIGHWAY TRUST FUND

The 1956 Highway Act created the Highway Trust Fund to insure a stable source of funds to build the Interstate System and other highway related projects. Receipts from various highway user taxes are deposited in the Highway Trust Fund. These funds insure a source of long-term funding for multi-year construction projects such as the Interstate Highway System.

However, the existing taxes going into the Highway Trust Fund are insufficient to meet the current maintenance and repair needs of our Nation's vast highway system. The increased highway user taxes are designed to adequately fund the Federal share of the investment needed to complete construction of the Interstate system and proceed with the much need rehabilitation of the Nation's highways and bridges. By acting immediately on legislation which addresses the lower costs funding needs of resurfacing and rehabilitation, we will avoid the higher future costs of replacement or reconstructing many miles of highways and bridges.

Over the past year, there has been a lot of debate concerning the allocation of the highway user taxes. The Administration's bill shifts more of the highway user tax burden to heavy trucks in accordance with the Department of Transportation cost allocation study. While I agree that every highway user should pay his proportionate share, we also must consider the effect steep highway tax increases would have on the trucking industry, and our economy. I intend to review this issue very carefully and I am particularly interested in hearing from our public witnesses on this issue.

EMPLOYMENT EFFECTS

While the primary purpose of this program is to provide renewed investment to help rebuild our Nation's deteriorating roads and bridges, we can expect substantial positive employment effects. Since many states have bridge and road repaid projects ready-to-go and can use immediate funding, we can expect immediate employment effects in industries such as construction, paving, concrete, stone and clay mining, steel, and cement. The Department of Transportation has estimated that approximately 320,000 direct and indirect new jobs may be created by the highway program. Therefore, the highway program not only supports economic recovery but can be the catalyst for other beneficial effects on the economy.

Now others have argued that the gasoline tax will lower consumer spending, causing offsetting employment losses in other areas. However, the tax increase for the average consumer will be less than $1 per week. There is room for doubt that an amount this small will have any noticeable impact on spending habits. Further, the effective date of the tax bill will be delayed. The best economic evidence is that tax changes would not begin to affect output or employment until after a lag of several months. So if there is any effect of the 5-cent per gallon tax increase on demand, it would not be felt until early 1984. Meanwhile, the expenditure portion of the program would be stimulating employment in 1983, when unemployment is expected to be at its peak.

Finally, better roads and bridges will have positive long-term employment consequences. An improved transportation system would lower distribution costs and stimulate increased production and jobs. Just as we believe that private capital formation is necessary to expand employment opportunities, public investment also is essential.

I look forward to hearing the views of our witnesses, and I encourage all other interested parties to submit written statements for the record.

The CHAIRMAN. I would just say, for the general information of many in the audience who may not be testifying, we do have a time limit, and I would certainly be willing to stay here all day and all night to listen to statements; but I assure those who are not testifying that the record will be open, and we would hope that statements would be filed. They will be given the same careful attention as if they were read to the committee.

I know there are a number of people, including the American Road and Transportation Builders, who made specific requests. It may be, if we get into these hearings or finish these hearings, we may decide to have additional hearings; but I would hope that would not be necessary. I hope that this will be the only hearing the Senate Finance Committee has, except for the markup session—the only public hearing we will have during this so-called "lameduck" session.

I might also say for the benefit of the members that I have given to Senator Baker a list of what I consider to be matters that should be addressed; so, if there are any members who have other items that should have been added, I would hope that you communicate these to me.

One, is this gasoline tax increase; two, is the tariff reduction bill with the trade reciprocity amendment which is now on the Senate calendar. Three, is the Technical Corrections Act which has passed the House and the Senate in different forms, and I would hope that we might be able to address that.

There is one that has a great deal of interest in the White House, and that is the Caribbean Basin initiative. I have indicated to those in the White House that we would be glad to consider that if the House considers it.

And then there is a great deal of interest in the public utility normalization rules. I have talked to Senator Packwood and there is a minor amendment on the capital gains holding period, and they sort of go together if they go at all.

There may be others that members of the committee feel that we should act on. If they could communicate that to me, I would be very pleased to discuss it with Senator Baker.

Secretary Lewis, we are very happy to have you, and again, I would indicate, as others have, at one point this was in the tax reform bill this year; it was an amendment by Senator Symms. There was broad agreement on the Republican side. It was in the bill overnight, and we thought about it during the night. The phone rang in the morning, and we took it out. So, I would just suggest that there was support for it several months ago.

We are very pleased to have you before the committee, and without taking more of your time, we are pleased to hear from you.

STATEMENT OF HON. DREW LEWIS, SECRETARY OF THE DEPARTMENT OF TRANSPORTATION

Secretary LEWIS. Thank you very much, Mr. Chairman.

First, with your approval, rather than to read the rather lengthy statement, I would appreciate it if you would give us the opportunity to make that part of the record.

The CHAIRMAN. It will be made a part of the record.

[The prepared statement of Hon. Drew Lewis follows:]

STATEMENT OF SECRETARY OF TRANSPORTATION DREW LEWIS BEFORE THE SENATE FINANCE COMMITTEE REGARDING THE ADMINISTRATION'S PROPOSED HIGHWAY, TRANSIT AND USER FEE LEGISLATION, NOVEMBER 30, 1982.

Mr. Chairman and Members of the Committee:

Thank you for inviting me to testify today on the Administration's proposed highway, transit, and user fee legislation. The President today transmitted a bill to the Congress to establish long term programs to address this nation's highway and transit needs and to increase highway user fees so that we can begin immediately to correct the serious deterioration of our highway and transit capital infrastructure.

--Need

As you know, major portions of our highway and transit systems are deteriorating rapidly. These systems are essential to efficiently move people and freight and to a healthy national economy. Investments by all levels of government are falling well short of the amount necessary to complete the Interstate System and to keep our nation's highway system, including its bridges, from continuing to deteriorate. To give you some perspective on what we are facing--

Over 4,000 miles of the Interstate System, nearly 10 percent of the total, requires resurfacing or replacement now or in the near future.

Forty percent of our nation's bridges are more than 40 years old, and the design life of most bridges is about 50 years.

Urban rail and bus transit capital investment needs could total almost $50 billion over the next decade to maintain our existing systems. These mass transit systems, which move hundreds of thousands of people daily, complement and are interdependent with our highways in efficiently and economically moving people and goods in urban areas.

The Administration's proposal adequately funds the Federal share of the investment needed to halt this deterioration. The proposal relies on the user fee principle--those who generate the need for highways and benefit from them should bear the cost of both building and preserving the Nation's transportation system.

--Cost Allocation

Present Federal highway user taxes need revision both because their overall yield is not keeping pace with program needs and because they do not distribute the tax burden equitably among the vehicle groups.

The total annual yield from present highway user fees has fallen in recent years from a 1979 peak of $7.2 billion to $6.3 billion in 1981 and projected revenue yields are expected to rise only slightly over the coming decade. With our proposed user fee increase, the annual yield will increase by approximately $5.5 billion per year, allowing us to address rather than defer our pressing needs.

The structure as well as the level of the user fees needs to be changed to bring about equity. The current structure established in 1961, was designed to address equitable cost allocation at a time when the highway program was focused on major needs for new construction. Now, however, the major focus of the program must be on rehabilitation and replacement of highway facilities.

Using that perspective, the Highway Cost Allocation Study, which I submitted to Congresss last May, and which was prepared using assumptions recommended by CBO, found that heavy combination trucks are underpaying by an average of 40 percent while single unit trucks (not including pickups or vans) are paying on the average nearly double their share. Because the current user fee structure has many fees that do not vary directly with vehicle weight, low-weight trucks are overpaying substantially compared to vehicles with high registered weight and annual mileage. Our highway user fee proposal is aimed at rectifying these failings.

We have worked jointly with the Department of the Treasury in the development of a user fee proposal that is far more equitable than the current user fee structure, and is administratively feasible. To facilitate the administration of the user fee structure, our proposal greatly reduces the number of vehicles subject to the current set of fees by eliminating the current fees on lubricating oil and tire tubes, by increasing the gross weight level at which the truck parts and new truck excises apply, by eliminating the tire tax from light tires, and by raising the gross vehicle weight level at which the annual heavy vehicle use fee applies. The recommended annual heavy vehicle use fee is more equitable than the current version since the rate is graduated as a function of registered weight.

In addition, very low-mileage heavy vehicles would not be penalized as this proposal calls for exempting vehicles traveling less than 2,500 miles on Federal-aid highways from the user fee.

The user fee proposal would increase the annual fees for the typical automobile driver by approximately $30 a year. We feel that the benefits of an improved highway infrastructure will clearly outweigh the additional fees imposed on the American consumer. As the President mentioned in his talk on Saturday, this increase amounts to the cost of a couple of shock absorbers.

--Truck Size and Weight

While the user fee structure does shift the relative burden from the lighter trucks to the heavier trucks, we believe that the associated benefits to the trucking industry from both an improved highway network and the productivity gains from truck size and weight reform are far greater than the increased user fee burden.

Our truck size and weight proposal would eliminate the existing barrier states and retain the existing bridge formula with a 80,000 pound maximum weight cap. In addition, no state would be allowed to establish a length limit of less than 48 feet for trailers operating in a single-bottom combination or 28 feet for trailers operating in double-bottom combination on the Interstate System. States would also be prohibited from establishing overall length limits. All States would be required to allow the operation of doubles on the Interstate System. Finally, States would be required to establish a mandatory width of 102 inches for vehicles operating on the Interstate System.

We have consistently maintained that the Administration's cost allocation proposal would be accompanied by increased productivity benefits for the trucking industry. Changes to Federal rules governing truck size and weight limits have always been viewed as inseparable from a fair and equitable highway user charge structure. The Department of Transportation's study of the costs and benefits of uniform truck size and weight limits, which I sent to the Congress last year, assumed that the additional costs imposed by longer, heavier or wider trucks would be captured in a fair user fee system. Overall, the trucking industry as a whole should benefit by our size and weight recommendations by almost twice as much as they will pay in additional user fees. Of course, the trucking industry is diverse, and some truckers will benefit more and some less. But on the whole we believe that under our proposal the industry stands to capture a substantial net benefit. Because the proposed user charge structure and size and weight uniformity would benefit the nation and the trucking industry in a way that is fair and equitable to all users, these two provisions of the legislation should be considered as being highly dependent on one another.

Our studies have also shown that these productivity gains will not affect, in any significant way, the existing competitive balance in today's intercity freight transportation. The truck size and weight study found that under any of the options examined, the diversion of freight from the railroads to trucking will be very minor, less than 2 percent in all cases. We consider this an acceptable level, not likely to cause any financial hardship to the railroad industry.

--Other Features of the Administration's bill

Title I - Highways

The Highway title of the bill continues the direction established by the Federal-Aid Highway Act of 1981. Federal involvement is focused on programs of national interest and priority. Completion of the Interstate system and its rehabilitation and preservation remain our highest Federal priority. The Administration's bill features Interstate authorizations through FY 1991 at increased levels and revises the criteria for distribution of Interstate discretionary funds. These changes will further the expeditious completion of the Interstate System. Discretionary funds will be allocated on a priority basis to projects that will help complete segments not open to traffic and to projects of unusually high cost relative to a State's apportionment.

The importance of rehabilitation and preservation are reflected by increased levels of Interstate 4R authorizations.

Authorizations for the non-Interstate programs are provided through fiscal year 1988. Programs of state and local interest, such as the secondary and urban system programs, will be funded at their fiscal year 1982 levels. Although this bill does not contain a Federalism turnback, the Administration is consulting with the Governors, affected state and local officials, and the Congress on a bill which will implement the appropriate turnback of highway programs and accompanying revenues. We expect that revenues totalling $2.2 billion and the Federal-Aid programs relating to urban, secondary, non-primary bridges and safety construction would be turned back. This bill treats these programs in a manner that will allow them to be easily incorporated into Federalism legislation.

We also propose to repeal several categorical programs that have served their original purposes or that serve State and local interests and warrant little national attention. States will be able to make their own determinations as to the priority of the activities currently funded by these programs and will be able to use regular primary, secondary, or urban system funds to fund these programs.

<u>Title II- Transit</u>

The transit portion of our legislative proposal reflects our continued belief that public transportation is a vital and integral part of our urban surface transportation system. To address transit needs we are proposing that the equivalent of a penny of the five cent user fee increase be available for capital improvements to mass transit through fiscal year 1988. Approximately $1.1 billion per year would be available for a capital infrastructure program to replace or modernize buses and urban rail cars that are ready for retirement, as well as to modernize fixed rail track and other transit facilities. Funds under the program would be distributed on the basis of an administrative formula based upon factors such as size, age, condition and other appropriate measures of infrastructure needs of mass transit systems. The infrastructure program would adopt a greatly simplified self-certification and grant delivery process.

Funds under the infrastructure program would be made available to designated recipients in urbanized areas of 200,000 or more, and to the Governor in the case of areas under 200,000. In addition, the Governor or designated recipient could request that the transit infrastructure funds be used instead for highway needs in their respective areas, provided certain requirements are met.

In addition to the capital infrastructure program, our proposal includes a capital formula program which would be delivered to urbanized areas on the basis of a revenue-matching formula. Like the capital infrastructure program, the capital formula program would adopt a greatly simplified self-certification and grant delivery process. We believe that this program will provide enhanced predictability in funding and greater flexibility for State and local governments. The proposal also includes a parallel capital grant program for non-urbanized areas. To meet special capital needs, the proposal continues the capital discretionary grant program at reduced authorization levels.

As you know, this Administration remains committed to the phase-out of operating assistance and proposes to terminate Federal operating assistance by the end of fiscal year 1984. Federal operating assistance has encouraged uneconomical expansion of transit services, distorted local collective bargaining processes and invited Federal intrusion into local service and subsidy issues.

This legislative package will establish a sound financial framework for our nation's transit systems to provide necessary transportation services in cities throughout the country.

Title III-Revenue title

The revenue title of the bill features the tax adjustments and cost allocation features I discussed earlier. The bill provides that current tax receipts will accrue to the Highway Trust Fund through April 1, 1990 and the time during which expenditures may be made from the Highway Trust Fund is extended through October 1, 1991. The program features of this bill will become effective on January 1, 1983, but the actual increase in user taxes, with the exception of the heavy vehicle use tax, will become effective on April 1, 1983. This rapid program start will allow States to begin projects very quickly and, since the highway program reimburses states for expenses they have incurred, the money will be in the Trust Fund when the bills become due.

Finally, the revenue title sunsets most current tax exemptions in 1990. The existing major exemptions for state and local vehicles and gasohol will apply to the user fee increase. Private buses and taxicabs that currently receive a four cent exemption, would continue to receive a 4 cent exemption, but would be subject to the additional taxes.

Summary

The program restructuring and authorization levels proposed in this bill represent a strong Federal commitment to an effective national transportation system. The new Federal focus on national interest programs accompanied by greater flexibility for the States will ensure fulfillment of the nation's transportation needs. I hope the Congress will act quickly, during this lame duck session, to pass this legislation. With it, we will be able to move quickly to address our pressing needs, and to do so on a sound and fair user fee basis.

Thank you, I would now be happy to answer any questions you may have.

Secretary LEWIS. I would just like to make a few comments then open it up for questions.

First, I have to say that I'm more delighted than you can imagine to be here. It's not so much that I am here testifying, but the fact that I think this is an important bill for the country, and I think it will do a great deal to repair the infrastructure both in highways, bridges, and mass transportation.

If you look at this bill in total, and if you look at the problems we are confronting, we think that this proposal, which really in essence provides $5.5 billion through a 5-cent tax at the refinery on gasoline and diesel fuel, will adequately take care of the needs we have in what potentially is the finest transportation system in the world but has been deteriorating at a very rapid rate in the last 5 or 10 years.

Rather than go into the details of the bill, which has been submitted to all of you, I think what I would rather do is address a few of the concerns expressed by the Senators in their opening remarks.

First of all to the comments by Senator Heinz, I am most appreciative of his support and share with him the concern for the highways in Pennsylvania. The Buy-America provision which he mentioned is not specifically in this bill. It is in the previous bill, and since it is not amended, those provisions will continue in the present bill. Therefore, the concerns he has in Buy-America have been addressed.

As far as Senator Packwood is concerned and the question: Will the money be spent? It is clearly the intent of the administration, the Department of Transportation, and the Office of Management and Budget that we spend these funds expeditiously and properly and that we do not use this proposal to balance the budget. For that reason, when we indicated that we could put in place about 3 billion dollars' worth of contracts within 90 days, we also indicated that the tax would not take place until the 1st of April. That way so that we don't collect revenues, keep them in a pot and not spend those revenues, when the real purpose of this bill is to repair the infrastructure.

If there need to be further adjustments in that, you are going to be hearing from the Treasury Department later, and I am sure they would be willing to consider any views that you have about coordinating the timing for the income coming into our coffers with the program startup date.

Second, as far as the tax imposition on heavy trucks is concerned, we are obviously not in any way trying to change the relative position of modes in the transportation business. We do feel, and we feel very strongly, that heavy trucks are not paying their fair share of highway deterioration, and if you look at the total trucking industry, the lighter trucks, those under the 55,000-pound limit are paying a disproportionate share, as are pickup trucks and the average passenger car. We think there is a need to modify those rates and see that heavy trucks pay their fair share.

We are also convinced by our statistics, and I am sure they will indicate to the contrary when they testify, that in terms of the modifications we are willing to make on size and weights, and the barrier States, and so forth, and the 102-inch width which is of particular interest to you in the Northwest, that the revenues they are going to receive in productivity gains from this will give them a return of about 2 for 1 of what they are going to pay in terms of our increased taxes. Also, the increased taxes we are imposing on heavy trucks will be less than one-half of 1 percent of the total-revenues of trucking firms.

We are also willing to consider—and I talked with Buck Chapoton; you are going to hear from the Treasury Department—if there is a way we can finally get a dialog going with the trucking industry—modifications in the method of collection for these taxes.

Essentially what I am saying is, we are totally satisfied to work with the trucking industry, but we are also not satisfied to have them sit by, rip up our highways and not be willing to carry their fair share. We will talk with them, we will negotiate with them, and we think we can work out those problems.

As far as Senator Bentsen's comments are concerned, first of all, we don't think we have any cakewalk up here in terms of pushing this through Congress. Whenever you get a bill of this magnitude affecting as many Senators and Congressmen as this bill affects, it is very clear that you have considerable complications.

We do feel, as you indicated, this is a user fee and should be paid for by the people that are benefiting. But I think the other thing we have to realize in relation to the highway system, is no matter how much we want to modify it, there are always going to be donor and donee States. The facts are very clear that the products of your State have to move throughout this country on interstate highways, and primary systems, and primary bridges, and interstate bridges. It is also very clear, that some of the smaller States with less tax revenue coming in because of the lack of vehicle miles traveled in those States, in Montana for example, the revenue they raise from the gasoline tax would only provide the signs on their Interstate Highway System. If you want to transport Texan products through Montana and other States—I am not trying to pick on Montana, but if you want to get your products through those States—we have to maintain the Interstate System throughout the country.

We also have a problem, in a sense, because of the manner in which the Interstate System itself was structured. Several States started earlier than others. I believe it was Indiana or Tennessee; both of those States were very early in terms of completing their interstates. A large part of the rehabilitation money is going to have to go to Indiana and Tennessee. When I say a large portion, I mean a disproportionate share as compared, for example, with Florida. Last year we spent about $1.42 in Florida for every $1 we took in. The reason we did is, they were lagging in terms of their Interstate System. They had more to complete than other States. You have considerable projects in Texas, which we talked about, and your revenues were up last year; but you were still a donor State.

The point I am making is, if we expect to have an Interstate Highway System and provide for the free flow of interstate commerce, there are going to have to be those States—and Pennsylvania happens to be one of them, and Illinois, and some others—that are going to continue to be donor States, and others are going to have to be receivers, if we want to have a national transportation system and a national highway system.

So, I don't disagree with you in the sense that we would like to have dollar for dollar returned to Texas; but I do think we have an obligation in terms of a national interstate system.

I also share your concerns that the mass transporation money be returned equitably. And I would concur with Senator Packwood that mass transportation is crucial both in terms of highway needs within cities, reduction of congestion, and the problems we are having with the tremendous costs of intercity freeways. I think we have to make a commitment to mass transportation.

As we calculated this in the two major cities in terms of our total legislative package—and there are a number of major cities in Texas, but the two you mentioned, Houston and Dallas—you would get about a 2-for-1 return to those cities in terms of what you are presently getting.

We also believe, in terms of those two cities, that the present money that is available could be used under the provisions of the current act for new starts. The other programs could be used for buses, or whatever other acquisitions you wanted for Houston or Dallas. If it is in your wisdom, and the wisdom of the committee and the Senate, that those cities should have greater flexibility in the block grants for mass transporation, obviously we would respect your views and be willing to talk to you about how that could be restructured.

Essentially what we are trying to do in mass transportation, and this is partially an answer to you and to Senator Dole in the comment he made earlier, we are trying to take those 116 cities with populations of 200,000 or more, give them a block grant and let them determine how best to spend that money for capital investments in mass transportatation. Those cities or those States that do not have mass transportation needs would have the option to spend these funds on urban roads in the city. In the more rural areas, again, to use Montana as an example, if they didn't want to use the money for mass transportation, the funds would go to the State in a block grant. Our emphasis is on mass transportation; but if the States determined, in their wisdom, to spend it on highways and bridges and urban or farm-to-market roads, the legislation would provide that flexibility.

What we are essentially trying to do is to provide a pool of money for mass transportation capital expenditures that would give the States the resources to start rebuilding our deteriorating systems and to provide cities like Houston, which has probably some of the greatest transportation problems of any city in the country, the opportunity to start confronting the problem, because they can't solve it with urban freeways.

I didn't mean to try to answer all the questions raised here, but I thought I would at least address those few. I would just say, in balance, the administration and the Department of Transportation think this is a constructive bill. We are prepared to try to work with you to try to accommodate your concerns, your needs, so that the net result is that we can move on with what we think is a very important program in terms of the transportation infrastructure of this country.

I will close my remarks with that, and we are prepared to answer questions.

I should say, with me is our General Counsel, John Fowler, and Deputy Secretary of Transportation, Darrell Trent. Also with me is the Federal Highway Administrator, Ray Barnhart, and Art Teele, the Urban Mass Transportation Administration.

The CHAIRMAN. Is Mr. Barnhart from Texas?

Secretary LEWIS. He is from Texas, but we still like him. [Laughter.]

The CHAIRMAN. Right.

Well, under the early-bird rule, I want to congratulate all of the people on the committee. They all won, probably because we did things right, or something. [Laughter.]

But, in any event, I think under the early-bird rule, Senator Heinz was here first.

Senator HEINZ. Thank you.

Mr. Secretary, one issue that could become a bone of great contention, as I understand the legislation introduced by Senator Baker late yesterday at the request of the administration, is whether or not the 1-cent set-aside, roughly $1.1 billion a year for mass transit, is going to be add-on money or whether it is going to be replacement money.

Now, I support the 1-cent set-aside, and I support it as add-on money, but my understanding is that the legislation that was introduced yesterday by Senator Baker on behalf of the administration treats that money as simply money that will fund the existing mass transit program and that it would imply that there would be no add-on and therefore no incremental capital construction, no incremental employment, no incremental improvements.

What is your view on how that should be used?

Secretary LEWIS. I share your concern and concur with the implication of your question. First of all, the $1.1 billion for mass transportation is an add-on to present capital programs for mass transportation. We are recommending in mass transportation, consistent with what we recommended in the past, and that operating subsidies be phased out over a 3-year period.

As you indicated earlier, it may not be feasible in 3 years but gradually, local communities should be responsible for the operation of their systems and leave us with the burden of the capital expenditures.

This fund would provide them with about twice as much money over a 3-year period, if we were successful in phasing out operating over the same 3-year period.

So it is an add-on, and I can assure you that if it is recommended within the Office of Management and Budget, that because of this $1.1 billion, that we somehow cut the other capital funds that I will fight it internally within the administration in support of your position. I think you are absolutely correct.

Senator HEINZ. Mr. Secretary, I commend you. I think we all recognize that we want more out of this extra cent, and clearly, we would have a very poor case to take to the American people if we said, "We are going to increase your gas taxes by an extra penny, but we are not going to really spend it on what we are telling you we are going to spend it on—namely, capital improvements of mass transit and the jobs that it will create." I thank you.

Thank you, Mr. Chairman.

Secretary LEWIS. I agree with you completely.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. Mr. Secretary, while I think the taxes that you have levied on large trucks are too high, I am sure we will reach a compromise. I want to make sure that I understand your position. Are the length and width standards that you have in the bill a quid pro quo for the increased taxes on the heavy trucks? And if, for whatever reason, the lengths and widths and the weights part of it fail, that the administration would still not be pushing the very high taxes on the large trucks?

Secretary LEWIS. That is absolutely correct, and, obviously with the concurrence of the Senate and the House, if the trucking industry is not satisfied to step up to what we think is their obligation in terms of increased user fees, we would like to withdraw our recommendations on both the width, the lengths, double bottoms, and the barrier States problem.

Senator PACKWOOD. Well, Mr. Secretary, I want to reiterate my question about spending the tax money collected. I want to shift over to the the airport development program [ADP].

You will recall, when we passed this bill just a few months ago, there were significant negotiations as to what the spending figures should be. We had long negotiations with you and Director Stockman, and those figures were written into the bill for 5 years.

It is now my understanding that the Office of Management and Budget has submitted to the Department of Transportation lower spending figures than we had all originally agreed upon and the money is going to mount up in the trust fund and not be spent for airport development to the extent that we all thought.

I wonder if you can comment on at least the rumors I have which I think are accurate, that the numbers being submitted by OMB are lower than we agreed on?

Secretary LEWIS. First of all, these figures have not been submitted to me; they are within the Department, and I anticipate looking at them later this week. And the final decisions clearly have not been made by the President on the 1984 budget.

We made a very firm commitment to you at the time this bill was passed that we were committed to seeing that the funds were spent for the purpose that we are raising the money for. As a matter of fact, I can't recall the technicalities of the legislation right now, but I believe there is a trigger in there that if we do not spend the money as indicated by the bill, the tax reverts and we won't be collecting the tax.

I think this administration has a commitment to that. It is very clear that I do. That was the understanding when we presented that proposal to you. The aviation industry is paying the tax on the supposition they are going to get back what they are paying; it is a legitimate user fee; and there is no way that we should back down on that commitment. I see no indications, despite your rumor. I am sure that I may hear to the contrary from Mr. Stockman.

Senator PACKWOOD. Well, I hope that Mr. Stockman hears our exchange on this; because, as Senator Bentsen has indicated, this gasoline tax may not have smooth sailing. If, in the very midst of considering it, we receive some ADP figures that were lower than we had all agreed upon, it would not bode well for a number of people, including myself, who would otherwise support this bill. But not if we think the money is simply going to be stored up, saved up, mounted up, and not spent for highways and mass transit capital improvements and bridges.

Secretary LEWIS. I totally concur with your position, and I hope we prevail.

Senator PACKWOOD. So do I.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Long?

Senator LONG. No questions.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman.

Mr. Lewis, I applaud the administration's decision to maintain the gasohol exemption on motor fuel tax. I think the alcohol program is vital to America, particularly to making us energy self-sufficient. It also has ramifications in agricultural America as we try to find an outlet for surplus corn crops.

I think there is one technical point, though, that I would like to raise with the administration, not necessarily with you because it might come more under the Department of the Treasury: Don't you think we should make a coordinating change through the imported ethanol tariff to avoid subsidizing imported energy? We presently have a 20-cent tariff; that's going to go to 40 cents. We have to have a corresponding increase.

Secretary LEWIS. I believe that is covered in Howard Baker's bill, which is the administration bill, and let's let the Treasury comment on that.

I would just like to make one general comment.

Senator GRASSLEY. Did you say it is part of that bill?

The CHAIRMAN. No, it is not.

Secretary LEWIS. It is not part of the bill?

The CHAIRMAN. It was a last minute——

Secretary LEWIS. It was a last-minute change that I wasn't told about.

Senator GRASSLEY. Since you thought it was in the bill, then you would support that, probably. [Laughter.]

Secretary LEWIS. I support my President. If his position is, it's not in the bill, obviously that is my position.

I would like to make a comment, though, on the gasohol exemption. I think we should recognize what we are doing on this. We are supporting the exemption, as is the Treasury, but I have to say it with some reluctance. The 9 cent exemption on gasohol is going to cost us $440 million a year that could be spent on highways, and looking at it over 10 years you are talking about a subsidization of $4.5 billion; so it is a very significant subsidization for gasohol. And I would not be disappointed, Senator, with your approval, if we modified this exemption slightly to make that subsidization somewhat less.

The CHAIRMAN. Eight and a half. [Laughter.]

Senator GRASSLEY. OK.

Mr. Secretary—Mr. Chairman, can I have one more question?

The CHAIRMAN. Sure.

Senator GRASSLEY. On one other point, in regard to retreaded tires, I would like to know why the tax level is what it is, considering the fact that the additional rubber on a retreaded tire would seem to me like all that ought to be taxed, otherwise we are having a double tax placed on the original frame of the tire?

Secretary LEWIS. Well, actually, we have attempted to simplify the present tax structure imposed on heavy trucks. Most of this retreading rubber, as you know, is used on trucks. It was really a method to try to come up with the revenues we felt were justified based on the deterioration caused by heavy trucks on the highway.

It really adds about 5 percent to the cost of retread. We are not necessarily locked into this retread rate itself. Again, whenever you put these things together, you try to come up with what you think is an equitable package.

Senator GRASSLEY. Well, then you are willing to look at whether or not there is equity between the tax on the retreaded tire as opposed to a totally new tire?

Secretary LEWIS. Well, we are obviously pleased to listen to anything that you would recommend on that. We felt this was an equitable way to resolve the problem.

The CHAIRMAN. Senator Long?

Senator LONG. No questions.

The CHAIRMAN. Senator Roth?

[No response.]

The CHAIRMAN. Senator Symms?

Senator SYMMS. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for your statement.

Mr. Chairman, it is my understanding, and, Mr. Secretary, you may correct me on this, that the effective date for the increased users fee on the fuel is April 1, in the legislation, and the truck use tax is July 1. Is that correct?

Secretary LEWIS. That is correct.

Senator SYMMS. And of course that is a problem Senator Packwood has brought up, but I am certainly concerned about it.

What would be the attitude of the administration toward just taking the highway trust fund out of the unified budget altogether? So, we don't have this temptation that every administration has, whether they be Republicans or Democrats, they all want to use the trust fund money to balance the budget, so we could just remove that. Would you favor that?

Secretary LEWIS. Well, I would prefer to see the trust fund continue as is, and time the revenues with the construction projects themselves. That is the intent of the bill. That is why it was delayed to April 1. We considered even delaying it further; and, as I said, we are satisfied.

Senator SYMMS. Sort of spend it down, in other words?

Secretary LEWIS. We are not trying to end up taking this $5.5 billion and trying to—obviously not balance the budget with it, but offset budget deficits. So, to the extent that our timing is off, I believe you will find with the Treasury, when they testify here this afternoon, that there is receptivity to modifying the effective date if it is justified.

Senator SYMMS. With respect to the gasohol, and I know that there is some concern by many critics that say that we are subsidizing with the present law an inefficient energy source with the tax laws; what would be wrong with having that for the first 4 cents a gallon? In other words, gasohol production started in this country with a 4-cents-a-gallon exemption; isn't that correct?

Secretary LEWIS. That is correct.

Senator SYMMS. So, they never expected this other in the first part. Would there be a lot of objection to that? I would suppose from Kansas and Iowa there might be. [Laughter.]

But it might be something the committee might consider.

Now, Mr. Secretary, one other problem that I think many of us are concerned with who come from the more rural States is the problem about the mass transit. Would you please say again, for my edification, what it is that you are intending on the question that has to be answered to the constituencies that support the Federal highway program, how this 1-cent-a-gallon, or 1-cent equivalent, will be transferred to the mass transportation? In capital construction costs, you said; but what is the formula for the State that chooses to use it in the urban road system?

Secretary LEWIS. I will give you the detail on the formulas, and I believe it is in the information we submitted to you; but, to put it in very brief terms, let's just take Idaho. Your cities that are over 200,000 will get a block grant based on an administrative formula. We tried not to change the recipient mechanism in this bill from the previous recipient mechanism, because we figured if we got into that in the 3-week session we would never get it passed.

So, based on the previous recipient mechanism, each urbanized area over 200,000 population would get a block grant. The balance of the money that would be allocated to Idaho would go fundamentally to the Governor for use in cities under 200,000 population, which I guess would be spent by both the legislature and the Governor, because that's the way it seems to work in most States.

First of all, in areas over 200,000 the city that is involved would have the option of spending that money on mass transit first. And if they determine—whoever the designated recipient is; I don't know which city I am talking about——

Senator SYMMS. There isn't one, as it happens, in Idaho that is over——

Secretary LEWIS. Well, then all the money in Idaho would go—we have 115 cities over 200,000, and we will give you the list—all the money then would go to the State, and it will be determined by the State.

[The information referred to follows:]

Final 1980 urbanized areas ranked by population

	Rank, UA code and area	Population
1	5601—New York, N.Y.-Northeastern New Jersey	15,590,274
2	4480—Los Angeles-Long Beach, Calif	9,479,436
3	1601—Chicago, Ill.-Northwestern Indiana	6,779,799
4	6160—Philadelphia, Pa.-New Jersey	4,112,933
5	2160—Detroit, Mich	3,809,327
6	7360—San Francisco-Oakland, Calif	3,190,698
7	8840—Washington, D.C.-Maryland-Virginia	2,763,105
8	1120—Boston, Mass	2,678,473
9	1920—Dallas-Fort Worth, Tex	2,451,390

Rank, UA code and area		Population
10	3360—Houston, Tex	2,412,664
11	7040—St. Louis, Mo.-Illinois	1,848,590
12	6280—Pittsburgh, Pa.	1,810,038
13	5119—Minneapolis-St. Paul, Minn	1,787,564
14	0720—Baltimore, Md	1,755,477
15	1680—Cleveland, Ohio	1,752,424
16	7320—San Diego, Calif	1,704,352
17	0520—Atlanta, Ga	1,613,357
18	5000—Miami, Fla	1,608,159
19	6200—Phoenix, Ariz	1,409,279
20	7600—Seattle-Everett, Wash	1,391,535
21	2079—Denver, Colo	1,352,070
22	7400—San Jose, Calif	1,243,952
23	5080—Milwaukee, Wis	1,207,008
24	1639—Cincinnati, Ohio-Kentucky	1,123,412
25	3760—Kansas City, Mo.-Kansas	1,097,793
26	5560—New Orleans, La	1,078,299
27	6440—Portland, Oreg.-Washington	1,026,144
28	2680—Fort Lauderdale-Hollywood, Fla	1,008,526
29	1280—Buffalo, N.Y.	1,002,285
30	7240—San Antonio, Tex	944,893
31	3480—Indianapolis, Ind	836,472
32	1840—Columbus, Ohio	833,648
33	7060—St. Petersburg, Fla	833,337
34	6920—Sacramento, Calif	796,266
35	6479—Providence-Pawtucket-Warwick, R.I.-Massachusetts	796,250
36	4920—Memphis, Tenn.-Arkansas-Mississippi	774,551
37	5719—Norfolk-Portsmouth, Va	770,784
38	4520—Louisville, Ky.-Indiana	761,002
39	7279—San Bernardino-Riverside, Calif	705,175
40	5880—Oklahoma City, Okla	674,322
41	7159—Salt Lake City, Utah	674,201
42	6840—Rochester, N.Y.	606,070
43	1000—Birmingham, Ala	606,060
44	3600—Jacksonville, Fla	598,015
45	2000—Dayton, Ohio	595,059
46	3320—Honolulu, Hawaii	582,463
47	5960—Orlando, Fla	577,235
48	8279—Tampa, Fla	520,912
49	5360—Nashville-Davidson, Tenn	518,325
50	0080—Akron, Ohio	515,720
51	5920—Omaha, Nebr.-Iowa	512,438
52	3280—Hartford, Conn.	510,034
53	8000—Springfield-Chicopee-Holyoke, Mass.-Connecticut	505,822
54	6760—Richomond, Va.	491,627
55	0160—Albany-Schenectady-Troy, N.Y	490,015
56	8959—West Palm Beach, Fla	487,044
57	8400—Toledo, Ohio-Michigan	485,440
58	2320—El Paso, Tex	454,159
59	8520—Tucson, Ariz	450,059
60	8560—Tulsa, Okla	443,350
61	4120—Las Vegas, Nev	432,874
62	0200—Albuquerque, N. Mex	418,206
63	1160—Bridgeport, Conn	410,998
64	7560—Scranton-Wilkes-Barre, Pa.	406,517
65	9160—Wilmington, Del.-New Jersey-Maryland	406,112
66	8200—Tacoma, Wash	402,077
67	9320—Youngstown-Warren, Ohio	383,398
68	0240—Allentown-Bethlehem-Easton, Pa.-New Jersey	381,734
69	0640—Austin, Tex	379,580
70	8160—Syracuse, N.Y	379,284
71	6001—Oxnard-Ventura-Thousand Oaks, Calif	377,695
72	3000—Grand Rapids, Mich	374,744
73	5479—New Haven, Conn	368,061
74	1519—Charlotte, N.C.	350,715
75	0760—Baton Rouge, La	350,657

Rank, UA code and area		Population
76	2640—Flint, Mich	331,931
77	2840—Fresno, Calif	331,551
78	5580—Newport News-Hampton, Va	328,576
79	1439—Charleston, S.C	328,572
80	1760—Columbia, S.C	311,561
81	9040—Wichita, Kans	305,752
82	7511—Sarasota-Bradenton, Fla	305,431
83	1560—Chattanooga, Tenn.-Georgia	301,515
84	5160—Mobile, Ala	295,493
85	4400—Little Rock-North Little Rock, Ark	295,133
86	1960—Davenport-Rock Island-Moline, Iowa-Illinois	285,024
87	3840—Knoxville, Tenn	284,708
88	3240—Harrisburg, Pa	278,296
89	1720—Colorado Springs, Colo	276,872
90	9240—Worcester, Mass	276,022
91	2120—Des Moines, Iowa	267,192
92	7840—Spokane, Wash	266,709
93	3560—Jackson, Miss	265,051
94	7680—Shreveport, La	263,827
95	6120—Peoria, Ill	261,418
96	8481—Trenton, N.J.-Pennsylvania	260,751
97	4039—Lansing, Mich	254,704
98	0600—Augusta, Ga.-South Carolina	251,250
99	1880—Corpus Christi, Tex	245,854
100	1320—Canton, Ohio	244,888
101	2760—Fort Wayne, Ind	236,479
102	3159—Greenville, S.C	229,303
103	7801—South Bend, Ind.-Michigan	226,331
104	4440—Lorain-Elyria, Ohio	225,331
105	0680—Bakersfield, Calif	222,236
106	6080—Pensacola, Fla	215,995
107	2560—Fayetteville, N.C	215,839
108	1800—Columbus, Ga-Alabama	214,591
109	4720—Madison, Wis	213,675
110	4899—Melbourne-Cocoa, Fla	212,917
111	4160—Lawrence-Haverhill, Mass.-New Hampshire	211,428
112	0440—Ann Arbor, Mich	208,782
113	6639—Raleigh, N.C	206,597
114	5840—Ogden, Utah	205,744
115	6880—Rockford, Illinois	204,304

First of all, we would request that priority be put on mass transportation. If the State legislature and the Governor determine they do not have the needs for that, they could spend it on farm-to-market roads, highways, or bridges.

What we are not trying to do is penalize the more rural States by requiring they spend unneeded money on mass transportation. We are trying to see there is a fund available for the cities that desperately need mass transportation money. So you would have the flexibility. That is the point I am making, sir.

Senator SYMMS. You see, what I run into in a State like Idaho and in some of the other States where we held hearings, where we don't have cities that are over 200,000 in the first place; but in the second place, the smaller communities of 50,000 or less in some cases are quite concerned about the question of some help in operating subsidies. They've got new buses now, and they don't need to buy any more buses. But we don't want to get them in a situation where they have to buy buses. That is my concern.

Secretary LEWIS. Senator, our view on this mass transportation operating subsidies, and I realize that many people in Congress are not in agreement with the direction we are going in, but essentially our position is that if a city can get a bus from the Federal Government, being paid for 80-percent by the Federal Government and 16–20 percent depending on the State by the State government, essentially a local community gets a bus for nothing.

We think a combination of the fare box and a local dedicated tax source should be able to provide the driver, the maintenance, and the fuel for that bus. The problem that exists is we took these privately held transportation systems, they started losing money, we dumped them on the public, and we never came up with a dedicated tax source.

We feel, since we have nothing to say in terms of the operations, the maintenance, the labor contracts, or anything else in these systems, local communities should assume that responsibility, and our role should be on the capital side.

Now, I realize that not everyone necessarily agrees with our position on that. I don't think it is an illogical position when you look at the long-term needs of mass transportation from a capital standpoint.

Senator SYMMS. In other words, you are saying you don't think the Federal tax dollar ought to bail out the general taxpayer on this user's fee concept?

Secretary LEWIS. Excuse me. I was reading some figures here.

Senator SYMMS. What you are saying is, you don't think we ought to be trying to bail out the general taxpayer if it's a user's fee concept, that they should kind of pay their own way?

Secretary LEWIS. That's what we believe. That is correct.

Senator SYMMS. Thank you, Mr. Chairman.

The CHAIRMAN. I might say, for the Members, the number of the Senate bill is 3044, if anybody is trying to find it.

Senator Bentsen?

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

Mr. Secretary, I understand of course that there are going to be donor States and donee States. It's a question that I don't think it ought to be in perpetuity with any particular State or any particular group of States. And it's the degree of donorship that I am talking about.

When we say for the sparsely settled States that we will put a floor under there of one-half of 1 percent, I think you need some kind of a floor for the donor States as to the degree that they are going to get back less money than they sent in.

When you speak about traveling across other States, of course you travel to other States, and that's the sort of thing we want to promote. But those gasoline taxes are paid, or the diesel fuel taxes are paid, as you go into those other States.

So I am seriously considering offering one that would put that kind of a floor under this to try to protect the degree of donorship on those particular States.

Now, one of the other things I wanted to ask you about was in the mass transit. When you referred to a 2-to-1 increase, I would assume what you are saying, if I clearly understand it, is that you are talking about 2-to-1 above what they are now receiving.

Secretary LEWIS. That is correct.

Senator BENTSEN. That's what I thought. So you are not necessarily saying they are going to get back $2 for $1 that they pay in.

That's not what you meant, and I want to be sure that there is no misunderstanding on that.

Now, another question. Correct me if I am wrong, but we start from a low base, and I think we still stay as a low base. It is absolutely imperative that new rail projects as an option be allowed in those expanding areas to try to take care of the mass transit problems, because I agree with you that they are some of the most serious problems we have in transportation, and, as you stated, Houston probably has the most serious of those problems.

Now, the other one I wanted to ask you about: I have a concern in the program with those States that cannot at the present time match their part of the formula on Federal funds. It doesn't happen to be my State, but I am concerned about other States that have that problem. Then, when you raise it 5 cents, what happens there? Have we just complicated their problem, or should we be looking at a situation where, if that State decides it wants to raise its own taxes, that then we might give a credit against the Federal tax to try to meet that kind of a problem? Again, if we did that, we are assured that that State is going to be able to utilize all of the money that it raises within its own borders.

Secretary LEWIS. Let me comment on two or three things that you said. First of all, on the problem in the Houstons—and there are other Houstons around this country—where fundamentally you are prohibited from having new starts, I think that is a legitimate concern and I think that is something we should try to address in passing this bill. So, I appreciate your concern.

Senator BENTSEN. I appreciate that comment very much.

Secretary LEWIS. And I think we should consider that.

Second, on the donor/donee situation, actually we have approximately 14 donor States. Our concern is, we looked at this with the possibility of putting in the bill a floor of 80 percent or 85 percent, and conceivably that could be done; but two things happen: One, there is no question when you do that you reduce the ability to keep the interstates and the primaries and bridges in the more rural States, because no matter what you do to raise that ceiling it is going to come out of these other States. That concerns us.

The second thing is, we think we need some kind of flexibility on the kind of thing I indicated, where——

Senator BENTSEN. Let me say, though, if you raise it by 5 cents you will certainly be providing for those other States more than they now receive.

Secretary LEWIS. Yes, except that also the 5 cents, as we see it, is going to be totally consumed in terms of our tremendously deteriorating system. In other words, we haven't built any excess in here; we stretched it as far as we could because I felt, politically and in terms of getting the administration to support it, we could not go more than 5 cents. So we think we have an adequate bill but we don't have a lot of excess money in there to spread around. In other words, I am saying the money is needed wherever it is going to be spent.

Senator BENTSEN. Oh, I would agree with you on that, Mr. Secretary. I don't think there is any question about having surplus money for this purpose.

Secretary LEWIS. So we think we are properly covered there. Does that answer your question?

Senator BENTSEN. Not to my satisfaction, though. [Laughter.]

The CHAIRMAN. But it's better than it was, though, isn't it?

Senator BENTSEN. We may have gained. We certainly did on the new starts.

Thank you very much.

The CHAIRMAN. Senator Long.

Senator LONG. Go ahead. I'll wait.

The CHAIRMAN. Senator Mitchell.

Senator MITCHELL. Mr. Secretary, I would like to ask a couple of questions about the employment effects of this legislation.

On the first page, indeed in the first paragraph, of the fact sheet distributed by you, it is stated that stepped-up highway and transit projects will provide 170,000 extra jobs in construction-related industries. I have a series of questions about that that I would like to ask.

First, is that a net figure? Has there been an economic analysis to evaluate any loss of jobs that might occur as a result of the tax increases? As you know, statements by Mr. Feldstein to that effect were reported in the press some days ago. And if there has been such an economic analysis, could the committee be provided with a copy of it?

Second, I would like to ask a somewhat broader question. This is one of many proposals that are being discussed in the Congress and in the administration today, which has as its intended purpose, whether primary or secondary, decreasing unemployment and doing something about the serious unemployment in the country. But all of them involve stimulus in industries that employ very largely men. We hear nothing at all about the very serious and growing problem of unemployment among women, and in October of this year the unemployment rate for females who maintain families was 12.4 percent—two points above the national average.

Do you have any estimate of how many women will be among the 170,000 people employed as a result of this legislation?

Secretary LEWIS. I would say, first of all, I want to make it very clear we are not here promoting this as a jobs bill. There are jobs that are a fallout of this. They will be fundamentally in construction, where the unemployment rate exceeds 23 percent. And I would assume, coming out of the construction industry, that it would be predominately men. But, again, this is not a jobs bill.

As far as the total jobs and dislocation, we took, as you know, exception to the Council of Economic Advisors' report that this would not produce 170,000 jobs plus 150,000 induced. We have now reached agreement that the 170,000 is a reasonable figure, and this is why:

First of all, it is not necessarily true that the 5 cents at the refinery all gets passed on to the consumer.

Second, you have to look at industries that are more labor-intensive than the construction industry, and at best that would be 40 percent of what we are talking about.

Third, if the 5 cents is not going to be taxed and spent on highways, it is not necessarily going to be spent on something that provides jobs in the economy. It may be put into a savings account, because, as you know, out of these tax cuts we have had a tremendous increase in savings and less consumer consumption than many people anticipated.

The point I am making is that this proposal will definitely bring an improvement in the employment picture, that it is very clear it is in construction, likely male. But, nonetheless we are doing this. And the reason we proposed this originally was to repair the highways, bridges, and try to rebuild the transportation system. And I never posed this as an answer to the present high unemployment levels in the country.

Now, I assume those issues will be addressed by others in the administration and by the Congress, but this bill is not a jobs bill.

Senator MITCHELL. No, I understand that; but it is obvious you regard that as an important benefit, because it is right in the very first paragraph of your fact sheet. It is clear, and obviously everybody is for reducing unemployment.

When you say that you've reached agreement that, in effect, the figures you originally stated were correct, do you mean Mr. Feldstein has now acknowledged that he was wrong?

Secretary LEWIS. Mr. Feldstein indicated that, without any question, the figures that we received from the Department of Labor, which we compiled with our own statistics from the Department of Transportation, there will be 170,000 new jobs in construction. That does not mean there may not be some offset in terms of that money not being spent in more labor-intensive industries.

I see no indications that there is any possibility that out of this there would be any kind of a net loss in employment. We prepared our figures; he prepared his. We have had several meetings on the subject, and the indication is that this will have a plus effect on unemployment.

Senator MITCHELL. But you don't know how much. It's somewhere between zero and 170,000, is what you are saying.

Secretary LEWIS. Well, I would say it is considerably in excess of zero, but in terms of the construction industry we will stick to our figure that there will be 170,000 new jobs in construction. The question is what the offset to that could be from other industries. It will be 170,000 new jobs in construction.

Excuse me; when I say construction, I should add this includes the production of buses, trolleys. So I don't mean to tie it to just highways and bridges.

Senator MITCHELL. No, I understand that.

Mr. Chairman, will we have another round of questions?

The CHAIRMAN. Yes.

Senator MITCHELL. Thank you, Mr. Secretary.

Secretary LEWIS. The other thing I should point out, if I may make just one more point on that, is that in the report originally prepared it was assumed that the tax would be timed immediately with the passage of this bill. The delay of the tax also offsets some of the problems posed in Marty Feldstein's paper.

The point I am making is that if we can implement this bill in 90 days and start new construction, and we don't put the tax into effect until the construction is starting, we have not imposed the tax in a way that is counterproductive to employment. So this is a modification that we have included in the legislation. It was not considered at the time that memo was written.

Senator MITCHELL. Which moves you closer to 170,000 and away from zero, in the net increase.

Secretary LEWIS. Right. Yes, sir.

The CHAIRMAN. Senator Long?

Senator LONG. Mr. Secretary, you said that there are some donor and donee States. Would you provide me with whatever information you have on that subject? I might want to put it in the record, but I would just like to see what it is, to show which States tend to be the donor and donee States. If you could provide me with copies of that information, I can analyze it.

Secretary LEWIS. I will provide that copy to the committee so everybody has a copy.

[The information referred to follows:]

Highway Finance

COMPARISON OF ESTIMATED STATE PAYMENTS INTO THE HIGHWAY TRUST FUND. AND FEDERAL-AID APPORTIONMENTS FROM THE FUND

FISCAL YEARS 1957 - 1981

TABLE FE-221
MAY 1982

(IN THOUSANDS OF DOLLARS)

STATE	PAYMENTS INTO THE FUND 1/		APPORTIONMENTS FROM THE FUND 2/		RATIO - APPORTIONMENTS/PAYMENTS	
	FISCAL YEAR 1981	CUMULATED SINCE 7-1-56	FISCAL YEAR 1981	CUMULATED SINCE 7-1-56	FISCAL YEAR 1981	CUMULATED SINCE 7-1-56
	(1)	(2)	(3)	(4)	(5)	(6)
ALABAMA	119,689	2,152,844	155,223	2,464,778	1.30	1.14
ALASKA	12,110	163,955	126,199	1,852,350	10.42	9.47
ARIZONA	85,305	1,302,113	111,506	1,834,593	1.31	1.41
ARKANSAS	77,961	1,406,984	96,358	1,415,648	1.24	1.01
CALIFORNIA	637,102	11,707,714	649,619	9,320,112	1.02	0.80
COLORADO	89,231	1,497,562	116,951	1,823,809	1.31	1.22
CONNECTICUT	69,572	1,446,784	136,959	1,815,513	1.97	1.25
DELAWARE	18,111	342,046	37,590	502,361	2.08	1.47
DIST. OF COL.	8,802	278,754	64,838	950,514	7.37	3.41
FLORIDA	284,991	4,310,869	404,346	3,671,805	1.42	0.85
GEORGIA	174,682	3,076,851	414,134	3,043,147	2.37	0.99
HAWAII	17,459	293,270	90,714	939,589	5.18	3.20
IDAHO	30,083	564,843	59,665	885,409	1.98	1.57
ILLINOIS	273,476	5,594,864	306,126	5,945,046	1.12	1.06
INDIANA	167,689	3,312,534	146,493	2,678,250	0.87	0.81
IOWA	92,762	1,885,137	158,533	1,909,533	1.71	1.01
KANSAS	82,157	1,591,109	149,685	1,715,212	1.82	1.08
KENTUCKY	106,650	1,922,315	184,164	2,286,474	1.73	1.19
LOUISIANA	136,967	2,102,551	240,060	2,984,773	1.75	1.42
MAINE	31,295	616,913	52,985	703,220	1.69	1.14
MARYLAND	108,310	1,957,148	246,709	2,784,127	2.28	1.42
MASSACHUSETTS	123,479	2,522,183	182,270	2,495,144	1.48	0.99
MICHIGAN	238,747	5,039,892	240,166	4,192,747	1.01	0.83
MINNESOTA	118,232	2,290,049	187,220	2,788,922	1.58	1.22
MISSISSIPPI	74,241	1,398,559	90,910	1,416,359	1.22	1.01
MISSOURI	151,776	3,040,238	193,433	3,022,766	1.27	0.99
MONTANA	31,733	583,133	79,778	1,561,920	2.51	2.68
NEBRASKA	52,272	1,068,647	79,325	1,100,322	1.52	1.03
NEVADA	30,591	445,235	78,818	909,339	2.58	2.04
NEW HAMPSHIRE	24,583	439,438	46,171	631,274	1.88	1.44
NEW JERSEY	175,508	3,542,773	200,342	2,905,532	1.14	0.82
NEW MEXICO	51,370	864,633	113,703	1,360,215	2.21	1.57
NEW YORK	292,604	6,442,790	520,939	6,720,883	1.78	1.04
NORTH CAROLINA	175,844	3,179,645	192,975	2,356,871	1.10	0.74
NORTH DAKOTA	24,644	438,083	61,113	831,257	2.48	1.90
OHIO	289,989	5,835,262	257,012	5,196,989	0.89	0.89
OKLAHOMA	115,206	1,969,025	96,805	1,464,515	0.84	0.74
OREGON	86,732	1,512,771	132,479	2,114,039	1.53	1.40
PENNSYLVANIA	282,554	5,703,009	437,949	5,823,540	1.55	1.02
RHODE ISLAND	19,840	417,284	67,795	658,500	3.42	1.58
SOUTH CAROLINA	92,068	1,599,708	126,081	1,355,408	1.37	0.85
SOUTH DAKOTA	24,155	491,560	58,362	927,051	2.41	1.89
TENNESSEE	144,489	2,496,532	194,075	2,674,286	1.34	1.07
TEXAS	532,415	8,479,315	442,987	6,452,845	0.83	0.76
UTAH	44,059	732,424	105,667	1,454,426	2.40	1.99
VERMONT	14,231	275,555	47,015	685,129	3.30	2.49
VIRGINIA	148,417	2,721,173	243,662	3,653,099	1.64	1.34
WASHINGTON	115,224	2,015,814	287,060	2,933,886	2.49	1.46
WEST VIRGINIA	53,780	985,565	130,450	2,403,380	2.43	2.44
WISCONSIN	124,103	2,387,257	138,415	1,900,488	1.12	0.80
WYOMING	27,550	397,753	64,490	972,723	2.34	2.45
TOTAL	6,304,926	116,842,466	9,046,404	124,200,138	-	-
PUERTO RICO	-	-	34,516	368,609	-	-
GRAND TOTAL	6,304,926	116,842,466	9,080,920	124,568,747	1.44	1.07

1/ FISCAL YEAR PAYMENTS INTO THE FUND ARE BASED ON RECEIPTS AS REPORTED BY THE U.S. DEPARTMENT OF THE TREASURY. ATTRIBUTION BY STATE IS ESTIMATED BY THE FEDERAL HIGHWAY ADMINISTRATION. INCLUDES REVENUES FROM HIGHWAY-USER TAXES ONLY.

2/ INCLUDES ALLOCATIONS FOR URBAN HIGH DENSITY, OVERSEAS HIGHWAY, PRIORITY PRIMARY, BRIDGE AND INTERSTATE DISCRETIONARY, INTERSTATE WITHDRAWALS, ACCELERATION OF PROJECTS AND REAPPORTIONMENT OF LAPSED INTERSTATE FUNDS. EXCLUDES FUNDS FOR EMERGENCY RELIEF, PUBLIC LANDS HIGHWAYS, GREAT RIVER ROAD, BRIDGES OVER FEDERAL DAMS, RURAL HIGHWAY PUBLIC TRANSPORTATION DEMONSTRATION PROGRAM, RAIL/HIGHWAY DEMONSTRATION, AND TRAFFIC CONTROL SIGNALIZATION DEMONSTRATION PROJECTS.

The CHAIRMAN. We are making copies right now which we will distribute.

Senator LONG. I assume that the chart shows both which is which and also how the money would be distributed under the bill you have got here.

Secretary LEWIS. All right.

Senator LONG. All right. Now, to what extent do we proceed under this bill to initiate useful highway reconstruction and repair as soon as possible?

What I have in mind is that logically, it would seem to me, it does no harm at all if we get busy at the earliest possible moment on the highway work, to speed it up, to expedite whatever is under construction, and that that need not wait until the tax goes into effect.

In other words, I would think, looking at the economic problems in the country, if I were trying to write a program I would be urging you to call all the highway commissioners, and even call the cities and counties, and ask them what needed work they can do immediately, and, if the program passes, to get going with it.

Now, that may not be what you have in mind, but that's how I would do it if I were just writing a program. To what extent do you do that?

Secretary LEWIS. We will do it exactly the way you are saying, and that is our intent. We have contacted all of the States and territories that are involved in the program We now have an indication of what projects they have in, which environmental-impact statements have been approved what rights-of-way are purchased, and where the engineering is completed.

So we will start the program immediately. We said 90 days, because we just felt we didn't want to make a commitment we couldn't live up to just because of the contractual problems you have in wishing our Government money. So we will move it as promptly as we can, and we would like to have it out there before the tax starts coming in.

Senator LONG. Yes, because my thought is the greatest service that could be done to our country is to move at the earliest possible moment. And I would think that that would mean, from where you are sitting, even before the States or the local communities could let new contracts, they could start speeding up what they have under contract right now. I just wondered if you were planning to do that type of thing, because it seems to me that, with all of the people who are out of work during this winter, even between now and Christmas, that the earliest moment we can get things going the better off we are all going to be, and the more the public will approve the program.

Secretary LEWIS. I can assure you the day that this bill is passed, which I hope it will, and signed by the President we will implement the program within the confines that we are permitted by law. So your position is, I think, totally correct. We support that position, and we will do this as soon as possible.

Senator LONG. Thank you very much.

Secretary LEWIS. I also might indicate that, in terms of your home State, you happen to be a donee, and you get $1.42 back for every dollar you put in.

Senator LONG. Well, that's good news. I hope we can keep it that way. [Laughter.]

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Secretary, what are the facts as regards the Highway Trust Fund and the matching share from the States or the local communities? Do you see some problems there, with the States having trouble coming up with their 20 or 15 percent, or whatever it might be?

Secretary LEWIS. We are concerned about that. I really didn't respond to Senator Bentsen's question on this matter.

We looked at the 50 States and find that we think 13 may have some problems. We are going to submit to OMB and to Treasury, and I met with Governor Orr of Indiana who is chairman of the Governors' Association on this problem this morning, to see if there is some way to solve this problem. There is a precedent having been set by Congress, I think in 1975, which would permit States who do not have the adequate matching funds to proceed with the program. There is no sense for us to start the program, trying to put out $3 billion, if the matching funds aren't there and the program can't move ahead.

The concept in 1975 was that, for the first year these States were permitted to have 100 percent Federal money, with the matching funds being repaid within 2 years. Whether or not that is totally feasible, I am not here to say; I am throwing it out as a concept, and a concept which I think could likely satisfy the current problems of the States.

Second, when we are able to enact a new federalism, which I hope we do early in 1983, and turn the $2.2 billion back to the States with the approval, hopefully, of the Senate and the House—otherwise, we won't be able to do it—that those funds would go into their coffers in block grants to be used as they see fit; and those moneys, we would have no objection and I have seen no indication of any objection within the administration, could be used to help these matching grants.

Your concern is legitimate, and it is a concern we have to address. We think we have addressed it. Governor Orr is planning to talk to other Governors to see if this is a feasible solution to this problem.

Senator CHAFEE. Well, I think the second part of your answer might be viewing this future through sort of rose-colored glasses as far as that new federalism passing quickly; but, never mind, we will see about that.

Well, what about—can any of this money be used for new roads except for the interstate? In other words, as I understand the objective of this, it is to repair the capital investment or maintain the capital investment we've got. So would we be building new primary or secondary roads?

Secretary LEWIS. Essentially the program is directed to repairing the interstates, repairing the primaries, repairing bridges. And we will give you a summary of the detail on how it would be spent.

In addition to that, our objective is to achieve completion of the interstate. We still have about 5 percent of the interstate not completed.

Senator CHAFEE. Yes.

Secretary LEWIS. There is no specific prohibition to new roads in there, but the thrust of the program will be toward rehabilitation and completion of the interstate, and it's highly improbable that the States are going to decide to build new roads except ones that provide significant employment in terms of new factories, or something of that sort.

Senator CHAFEE. Would you have any objection to an exclusion against any new roads except the interstate?

Secretary LEWIS. Well, I think we would, because, again, we are trying to give the States the maximum flexibility, and if there is a real need to provide access to a plant that is going to employ 2,000 or 3,000 people, we would like to provide that flexibility.

So, again, we are not trying to take on more discretion at the Department of Transportation than we presently have; we are actually trying to return as much to the States as we can, and I would much prefer not to give them that restriction.

Senator CHAFEE. Would the same philosophy apply to the mass transit situation? In other words, you are really not mandating that that 1 cent be spent on mass transit; it would go back, and the Governor or the local officials would have it within their determination whether they want to spend it on mass transit or on secondary roads. Isn't that true?

Secretary LEWIS. Well, that is true; but, so it is not misleading, the designated recipients in most cases are transit authorities, and it is highly improbable that SEPTA for example, in Philadelphia, or the Metropolitan Planning Organization, or whatever it happens to be there, would take mass transportation money and say, "We don't want it; spend it on highways."

The point I am making is that about 85 percent of this money will be locked into programs where there is a legitimate need, and it is highly improbable that anybody would not continue with the program.

I think the only cases where that would exist, Senator, would be in something like the Idaho situation where they have no cities over 200,000 and may need farm-to-market roads. Excuse me for making such a long answer.

Senator CHAFEE. I guess my time is up, Mr. Chairman. Let me just ask one quick question.

You suggest the elimination of the so-called 4(f) requirements for the preservation of parkland. You say certain burdensome requirements—I am not sure those requirements—they may be burdensome, but they are quite worthwhile. That's the protection of parklands, and under this legislation you are going to remove that. What is your philosophy on that?

Secretary LEWIS. We would continue to fund, though, the national park system under this program and the forest lands. The specifics of that my General Counsel, John Fowler, will answer.

Senator CHAFEE. No, this is something else. This is the restrictions you have now on going through public parks. Under this provision you would remove a lot of those so-called burdensome requirements.

JOHN FOWLER. We are removing the requirements that we don't feel go to the intent of 4(f). It is not all of 4(f) we are removing; it is only in situations where, if we are building a highway for the Department of Interior on a public land, rarely it is going to impact the public land. If we are doing a curb cut into a parking lot in a park, that is not something that ought to trigger a complete 4(f) evaluation.

We are not intending to eliminate the 4(f) evaluations in the major areas where we currently are doing it, just in areas where there is a marginal taking for things like that, and we would be certainly willing to work with the committee.

Senator CHAFEE. Just the burdensome requirements. OK.

Mr. Chairman, that wouldn't come up before us anyway in this committee.

The CHAIRMAN. No, that is the jurisdiction of the Senate Public Works Committee.

We raise the money, and then they tell us how to spend it in the other committee.

Senator CHAFEE. Thank you.

The CHAIRMAN. But I think it is good to explore those areas, because we may not want to raise the money if we don't fully understand it.

Senator Danforth?

Senator DANFORTH. Mr. Secretary, I want to really reiterate the point that was made by Senator Bentsen and then by Senator Chafee with respect to extension of matching fund requirements to this program.

It seems to me that right now State governments are very, very strapped for funds, and the Federal Government has been much tighter in Federal grants to State governments.

In our State of Missouri, our chief highway engineer said—and it was reported in the paper yesterday, I think—that Missouri just could not qualify for this money because we could not put up the match. I would hope that the requirement of a match could be waived for this.

I think that one thing that would happen is that, if we required a match and State legislatures had to come up with it, it would simply delay the availability of these funds, maybe permanently delay them but certainly further delay the availability of these funds, at a time when, as Senator Long pointed out, the sooner we get working the better off we are going to be.

Secretary LEWIS. I think your point is well taken. The indications are that 37 States can comply and 13 could conceivably have trouble, and I will continue to work with the Department of the Treasury and with OMB to try to arrive at a resolution, and hopefully submit something to your chairman tomorrow.

Senator DANFORTH. Good. And I hope it wouldn't just rely on some future programs such as New Federalism, because I think that that would really be an iffy proposition. I don't think that any State would want to commit itself.

Secretary LEWIS. No. We are talking about deferral until their problem could be corrected, through a 2-year period. I am not throwing the New Federalism out; I guess I am more optimistic on that. The highway program has essentially been a Federalism type program for years. The States have made their determinations and priorities for 30 years or 40 years, and I think New Federalism can work in the highway program. They are now making their determinations and if we can give money back to them with the programs and not try to shortchange them when the programs go back, I think it makes sense to get that responsibility and burden out of Washington into local areas where they can do a better job.

Senator DANFORTH. I think it makes sense, too. I think the problem is to say to the State government, "Can you bank on that right now?" And I think the answer is no.

Secretary LEWIS. No, I didn't indicate that to Governor Orr this morning. I just said this is another possibility.

Senator DANFORTH. Yes.

Second, with respect to where decisions are made and what is being decided by State governments and local governments, some States do have restrictions on truck size. And as I understand this bill, it would preempt that decisionmaking?

Secretary LEWIS. That is correct.

Senator DANFORTH. I wonder if you might reconsider that requirement in the bill, particularly for States which have faced the question—in our State of Missouri, by referendum within the past year. It kind of makes it tough for those of us who would like to support this legislation if we would be flying right in the face of a decision that was made by our constituents in the recent past.

Secretary LEWIS. I clearly understand your concern. We are actually talking about three States in the country on the weight issue. It seems to us, despite the fact we have great respect for the determination of the people in Missouri, that if we are going to have the rest of the country, through donors and the kind of situation that Senator Bentsen was talking about, pay for an Interstate System, they should be able to take advantage of that system in terms of uniform truck size and weights and standards—and we are just talking about the interstate only.

But, again, I totally appreciate your concern, and we considered this and felt that it was justified, particularly if we are going to try to put the burden on heavy trucks to pay what we think should be their equitable share. They should have the advantage of being able to utilize an Interstate System that they are fundamentally paying for.

Senator DANFORTH. Is there any flexibility in the administration's position on this issue?

Secretary LEWIS. I would hope we do not have to be flexible on this. We think, in terms of the economy, this one single move will benefit the economy about $3 billion a year; so it will bring a significant increase in productivity.

I would be happy to discuss it with you further.

Senator DANFORTH. OK.

The CHAIRMAN. We have our first "lameduck" vote, the motion to proceed on S. 995. The order is Senators Durenberger, Matsunaga, Bradley, Moynihan, and Dole. So maybe some of those who are yet to come up could run over and vote, and the rest of us could stay a while.

Senator Durenberger?

Senator DURENBERGER. Thank you.

Mr. Secretary, I was here listening to the conversation about whether this is a jobs bill or whether eventually we can get to New Federalism, and I was thinking if I promise not to call it a jobs bill will you promise not to talk about "New Federalism?" [Laughter.]

I can tell from some of the reaction around here that we didn't score too well last year. Some people even accused me of calling it baloney, which of course you know I never said and never intended.

But I think by now you certainly have a sense of the feeling that some of the people around this table have, on both sides of this table, about the role that State financing has to play in the highway system.

Frankly, Mr. Chairman, I would like to have a statement made part of the record together with a letter that I think you have a copy of, that I sent you a couple of weeks ago, which outlines what I will call the Drew Lewis devilution theory, how we sent responsibility back to State and local government and the money that goes along with it.

But I do have a deep concern about the ability of the States to raise the match or of our being able to gimmick any solution to it. And I think that is a realistic concern that somehow might be a roadblock to the passage of this legislation.

The second one is the problem of lag time. And that lag time is, I suppose in part, the function of the paperwork and the strings, and all that sort of thing, and a function of the inability of some States to come up with either the required match or the deal.

The third part of it that hasn't been addressed yet, and maybe you addressed the lag time earlier, but the third part of it is that if you really want to create some jobs quickly, you put money into maintenance; you don't put it into construction. Or, you maximize your maintenance, you minimize your construction.

Now, as I read your proposal, in effect what we are doing with this bill is speeding up the use of existing obligated funds or potentially obligated funds, and somewhere down the line we are going to add to those moneys.

I wonder if you would give us some indication of how fast we can get how much money into maintenance as opposed to construction?

Secretary LEWIS. Actually, the bulk of the increases will go into rehabilitation. The only thing we are attempting to do, which is the same thing we agreed we would try to do last year by 1992, is completion of the Interstate by 1991, which is basically the only new construction we are talking about. This is fundamentally a rehabilitation program

But I also have to point out that a great many of these projects, particular bridges and so forth, are major reconstruction projects because of the tremendous deterioration that was permitted to take place.

Further I will say—I see Governor Orr is here—on this problem of matching funds with the States, again, we are going to try to work some kind of an arrangement on a deferral. But I think all of us in the Department of Transportation, at least, which I guess the Governors would not agree on, feel that if there is going to be a commitment to the States for 80 percent, or whatever it is, there has to be some kind of a State commitment to the highway system as well as a Federal commitment. And I would hope we would not try to make this a 100-percent grant

The other thing we do, by making it 80 percent with even a deferred matching grant, you create a 20-percent increase in needed construction. So we think there is some advantage to keeping the heat on the States and the Governors and the State legislatures so they do not feel that every time they have a problem they can come down here to Congress and have you solve their problems for them.

Now, as I say, the Governors will not testify exactly as I am testifying, but I think there is a shared responsibility here. But, again, we don't want to come up with a program that the States can't fund, and end up not providing what we think are the very much needed repairs.

Senator DURENBERGER. Do you have a philosophical problem with dropping the matches for any part of the Federal aid highway system?

Secretary LEWIS. Fundamentally, I do. Yes. But I don't try to make decisions on what my philosophy is; I try to make them on what I think is best in terms of improving the transportation infrastructure, and I think this is a better approach.

Senator DURENBERGER. Would you do one other thing while I still have a yellow light? On the donee/donor list, in case some of us think this is money actually raised at the pump, or something, in our State—Senator Long's Louisiana is $1.42; Senator Bentsen's Texas is 76 cents—actually, a large part of this is refinery imposed tax. So it reflects the amount of tax imposed on refineries in certain States; that is, Texas versus a Minnesota, for example.

Secretary LEWIS. That is true, it is fundamentally a refinery tax, but our chart indicates the manner in which the fuel is actually consumed by highway users in each State. That's what the chart indicates, the distribution of user fees by States on the basis of actual road use.

Senator DURENBERGER. Well, you've got two columns. Oh, I see. All right. Thank you.

The CHAIRMAN. Mr. Secretary, we have to run over and vote. Senator Matsunaga will be back in just a minute and he will go ahead. Is that all right with you?

Secretary LEWIS. Yes, whatever you say.

The CHAIRMAN. It just happened that Governor Orr dropped in while you were responding to those questions. Maybe you would have a chance to visit with him while we are gone, or have you already done that? Oh, he's already done that.

Secretary LEWIS. It bothers me when he is sitting up there, though, and I'm down here. [Laughter.]

The CHAIRMAN. Well, do you want to ask questions while we are gone? [Laughter.]

There will be a recess for 5 minutes

[Whereupon, at 3:20 p.m., the hearing was recessed.]

AFTER RECESS

Senator BRADLEY. Mr. Secretary, the meeting here is called to order by the minority side, and I'll take as much time as I need or until the chairman returns. [Laughter.]

I was interested in the comment you made in response to one of the earlier questions about what you see as to the nature of this program. Is this a jobs program or a public works program?

Secretary LEWIS. We see it fundamentally as a public works program, but not public works in the sense of just public works; we see it as a program to restore the transportation system, in highways, bridges, and mass transportation in this country.

Senator BRADLEY. If it is a public works program, then, instead of a job program, meaning that it won't create that many jobs, the question is: Why are you doing it now? Why not last year? The Schuylkill Expressway was just as bad last year as this year.

Secretary LEWIS. Well, it is probably worse this year, having traveled it last week, and I'm sure you travel it.

The reason is relatively simple. I presented this, I guess, last April to the President. We were going through the tax reform bill then, and it was the judgment of both the Treasury Department and the Office of Management and Budget, and concurred in by the President, that this was an inopportune time to add this program to what they felt was a tax package that wasn't addressing these kinds of issues.

At that time the President said, "We are not rejecting this; we are deferring it. We understand there is a need, and we think a user fee is the correct manner for that need to be fulfilled," and told us to come back during our budget session this year. That budget session was set up for the 2 weeks after election, and that's why it came up at this particular time.

Senator BRADLEY. You are not concerned about raising taxes in a recession?

Secretary LEWIS. Well, that's why we are deferring the implementation of the tax until the programs actually start. We are not using this to try to balance the budget, and for that reason we hope to accommodate what Mr. Long had said earlier—to start the jobs as soon as possible and get the money out there. We don't plan to collect the tax until it can correspond with the money going out for the construction project itself.

Senator BRADLEY. Let's say this was passed in the lameduck session. When would we get the first jobs out there?

Secretary LEWIS. Well, we are saying we know we have a backlog of between $5 to $6 billion we can put out, which is a great deal more than we are going to be able to put out initially just because of the shortfall in revenues and our cashflow. We feel we can get funds out within 90 days.

Now, I am not saying that we are going to wait 90 days to put it out. Anything we can do, if we have the contracts that can be let, we are going to do it immediately. So we think the timing on this is that we can satisfy basically—put the money out within 90 days of when this is passed by Congress and signed by the President.

So, let's just assume that this were passed and signed by December 15; we are talking about March 15.

Senator BRADLEY. So you think the issue is really we need to rebuild our infrastructure and not necessarily that we need a jobs program, and that therefore what we need to do is to set out on a path that will show that we are going to rebuild that infrastructure program and begin today as well as at any other time? Is that a correct description?

Secretary LEWIS. That is correct, and there is a fallout in terms of jobs being provided; but that is not the purpose of the program.

Senator BRADLEY. This shouldn't be sold as a jobs program primarily, then, as the answer to the question in every town meeting where people say, "What are you going to do for jobs?" The answer is not, "Well, I'm going to support the 5-cent gasoline tax to generate public works jobs."

Secretary LEWIS. This is not an answer to unemployment in this country. It will provide jobs, but its impact in terms of the unemployment levels is not the real significant part of why we are proposing this program.

Senator BRADLEY. All right. I noticed that in the bill there are two specific questions that I have. One of them regards the trailer lengths and widths. You essentially allow longer and wider trailers on the interstates, and then you have a provision that says it's up to the States to pay for the access roads off of the interstates.

Now, in places like New Jersey and, I think, frankly, in the Philadelphia area, and certainly in New York, that presents: (a) a problem of where the State is going to get the money to provide the access off the interstate, and (b) where are they going to get the space?

Secretary LEWIS. Actually, these roads would be paid for with the same matching funds, because it would be part of the primary system.

Senator BRADLEY. So, the sentence in the bill, section 403, that says, "Each State shall determine and provide for reasonable access to the Interstate System by such vehicle State-link units for combination vehicles permitted under this subsection shall apply solely to semitrailer or trailer and not to the truck-trailer," does not mean that the State pays for it?

Secretary LEWIS. No. It has nothing to do with money; it has to do with access. And if that is confusing, perhaps we should look at the wording on that, because it had to do with access.

Senator BRADLEY. Good. I think that would be helpful to clear it up.

Secretary LEWIS. I can see where that could be confusing.

Senator BRADLEY. Yes.

Then the next point is, in the bill I think you wisely do account for some of the mass transit needs of places that already have the mass transit in position; but also in the bill is tucked away a little provision that I'm sure is going to send shivers down the back of the Governor of my State, and that is an elimination of operating assistance. Could you state why you chose to put the elimination of operating assistance to mass transit in this bill?

Secretary LEWIS. Actually, the elimination of operating assistance has been in every bill I think I have submitted here since I've been Secretary of Transportation, and as far as this administration is concerned.

There are a number of areas, and one of them happens to be the New York, North Jersey, and Connecticut area where actually the capital expenditures are considerably more important to them than the operating subsidies, if you look at the system in which you are operating, and Senator Moynihan, and so forth. So our proposal is not necessarily negative; in fact, we are moving into the capital side.

I think for too long a period of time the Federal Government has neglected the capital needs of mass transit and just has been nickeled and dimed to death with every increase in wages in these local transportation systems. And if we permit that to continue, I can assure you it will just continue to escalate.

Perhaps you may not agree philosophically that we should do this; it's our feeling that, again, since we have no control over the various operations in a mass transportation system—as an example, in Philadelphia SEPTA system, which you are familiar with, negotiated a labor contract. We put up 20 percent of the money in Philadelphia. We did not think it was an attractive contract; we think they should have been much tougher in terms of work rules. They were not, and yet we put up 20 percent of the money. Nobody contacted us.

We would rather provide the buses, the carbarns, the elevateds, and that type of thing in Philadelphia, than the operating subsidies.

Senator BRADLEY. But isn't it true that, if you do cut off operating assistance, that will transfer through to higher fares for those who are commuting on those systems?

Secretary LEWIS. Not necessarily higher fares; it depends on what the local communities do. If they are not willing to have a regional sales tax, or the State is not willing to address the problem, and there is no other source of revenue, it is going to increase fares. But it is going to increase, we think, on the average over a 3-year period, 6 cents per year. And I don't believe any mass transportation system is going to rise or fall on a 6-cent fare increase, particularly when you look at inflation rates of even 5 percent this year.

Senator BRADLEY. Well, but, you know we have dealt with projections before. We were all supposed to have a $48 billion budget deficit this year, and we got a $185 billion budget deficit.

Senator BENTSEN. I believe, Senator Matsunaga.

Senator BRADLEY. Could I just finish this one question?

Senator BENTSEN. Yes.

Senator BRADLEY. So you say that it is either we increase taxes or increase fares?

Secretary LEWIS. Increase taxes or increase fares, with one exception: If you have a better maintained system, if your track bed is in better shape and you don't have dilapidated cars the chances are you are going to pick up some on your shortfall in operating revenues, too.

Senator BRADLEY. Thank you.

Senator BENTSEN. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

Mr. Secretary, the comparison of estimated State payments into the Highway Trust Fund, and the Federal aid apportionments from the fund, I believe is tabulated. Does your proposal make any change in the ratio of contribution between the State and the Federal Government?

Secretary LEWIS. It does not for the highway program.

Senator MATSUNAGA. It does not at all? Thank you.

Now, there is one thing I am puzzled about. You say that the imposition of the penalty on heavy vehicles would not be imposed upon vehicles traveling less than 2,500 miles on Federal-aid highways. Does this mean at one stretch, or within a 1-year period, or what is it?

Secretary LEWIS. Within a 1-year period.

Essentially what we are trying to do there is, a number of farms and logging operations have trucks that fundamentally travel on dirt roads around the farm or around the logging camp that could be public roads; but they are really not Federal-aid highways, and they are really not in the trucking business. We are trying to eliminate an imposition on a truck that is fundamentally a farm kind of vehicle. That's the intent that we are trying to build into this law.

Senator MATSUNAGA. Well, of course, in Hawaii we have a situation where we can't travel more than 100 miles in one stretch.

Secretary LEWIS. Well, this may discriminate against Hawaii, but you are also getting $3.20 back for the $1 you put in.

Senator MATSUNAGA. It means that our heavier trucks will be exempt then, under your proposal?

Secretary LEWIS. I frankly didn't realize that, but that is likely true. You understand, as long as it is not more than 2,500 miles.

Senator MATSUNAGA. That's per year, is that it?

Secretary LEWIS. That is correct, per year.

Senator MATSUNAGA. I take it that you do realize, Mr. Secretary, that your proposal probably wouldn't have the chance of a snowball in hell in this "lame duck" session had it not been for the fact that we are looking for jobs. And why you are avoiding jobs I cannot understand. I say this because I am wondering whether you have given any consideration to the greatest number of jobs that possibly could be created by a highway, bridge repair program?

Secretary LEWIS. Actually, as we looked at the program, and we have not finally defined how moneys can be allocated because we are not that far along, we think it will go into areas of higher employment.

Look, in no way have I denied that this is not going to, in our judgment, produce a number of jobs. But what I also don't want to do is come here and have people say, Look, you are taking money out of one sector of the economy. If the money were spent somewhere else it would create more jobs, because you can go into more labor-intensive industries.

We are here to provide a program that does provide jobs; but, at the same time, it is going to improve the commerce of this country and strengthen its economy because it is improving the commerce and the mobility of its people.

Senator MATSUNAGA. But you did not think of, say, projects which would require more workmen than others in formulating your bill?

Secretary LEWIS. We did not think of that in terms of formulating the bill, but that will happen; because, in the areas where we probably have the greatest maintenance needs, they are also going to be in areas of highest unemployment.

Senator MATSUNAGA. Now, the cabdrivers and the busdrivers, they will be required to pay the additional 5 cents per gallon tax, will they not?

Secretary LEWIS. That is correct.

Senator MATSUNAGA. Although they are now exempt from the 4 cents Federal tax?

Secretary LEWIS. That is correct, and it will increase their fees. We are talking about intercity buses and taxicabs. We have submitted it. Do you have those figures? If not, we will submit them to you.

[The information referred to follows:]

The Administration's user fee proposal would increase the fees on intercity buses by about $10 million in 1985. This would still leave intercity buses paying only 35 percent of their cost responsibility.

The 4-cent fuel exemption for fuel efficient and otherwise qualified taxicabs amounted to about $4 million in refunds in fiscal year 1980 and under $1 million in fiscal year 1981.

Senator MATSUNAGA. No, I don't have those figures. Do you have those figures there?

Secretary LEWIS. Yes, we do, and we will submit that for the record. We do preserve the exemption on the first 4 cents.

Senator MATSUNAGA. All right. I would appreciate it.

Have you had the reaction from the people who will be affected?

Secretary LEWIS. Yes. It's very clear on this bill or any other bill. Everybody wants the benefits of the bill and nobody wants to pay for it, whether it's a taxicab or heavy truck or an intercity bus or even the average driver. I don't think anybody is looking forward to paying $30 more. We are trying to look at the benefits from the programs and come up with an equitable way to distribute the costs.

So it's clear that people paying an increased cost are not going to be overly enthused about this particular bill. We think it's a fair distribution of the charges.

Senator MATSUNAGA. Your program is projected for a 6-year period? Is that correct?

Secretary LEWIS. A 6-year period, with an extension of the Highway Trust to 1991.

Senator MATSUNAGA. And it means that for every one of those 6 years you expect $5½ billion additional revenue?

Secretary LEWIS. That is correct.

Senator MATSUNAGA. And do you intend, under your program, to spend the entire $5½ billion in the first year?

Secretary LEWIS. We expect to spend most of it in the first year. We should point out that in the last 2 years we have actually spent more than $3 billion than we have taken in. So when you look at the Highway Trust Fund, and people think money is sitting there, we are actually spending more money than we are taking in now.

There could conceivably be some lag, but we have not built a lag into the bill to try to provide money to balance the budget. Again, if you look at the total $32 or $33 billion we are talking about, if you look at the bridge programs and the needs we have, it's scarcely more than adequate just to keep up with where we were, for example, for the level of highway support we had for primary roads in 1978. So it's not a tremendous advancement for highways.

Senator MATSUNAGA. And you talk about creating approximately 170,000 jobs. Within what period after the bill is enacted into law do you expect 170,000 jobs?

Secretary LEWIS. That's difficult to answer. And the reason is this: There is going to be a lag, for example, in any mass transportation bill. If a community is going to go out and rebuild track bed, you might get immediate jobs. If a local community determines they are going to order new trolley cars or new buses, and the order lags for 6 or 8 months, it may take longer. That's one reason I did not try to get involved in the jobs bill because you get into all kinds of speculation and arguments as to the timing and as to when the jobs will come into place.

I would be glad to submit a best guess, if you would like, in terms of how we see those jobs coming on stream, but it would be a guess.

Senator MATSUNAGA. We would appreciate that because it would affect other programs that we would be calling jobs programs.

Secretary LEWIS. Yes, sir.

Senator MATSUNAGA. Thank you.

[The information follows:]

We estimate that 167,000 persons would be engaged in highway construction or supplying highway construction materials by September 1983. This assumes that authorization is made in January 1983, and work begun 90 days later. This estimate is based on a Federal Highway Administration study of employment effects associated with the release of $2 billion of impounded funds in 1975.

Senator MATSUNAGA. I see my time is up.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman.

May I say, Mr. Secretary, you would agree that you had $5 billion to spend in this area, and you wanted to produce the largest employment impact possible in the shortest period of time, that you would mix the program in one way as against another. And it's possible to think of a mix of rehabilitation and new construction and such like so as to maximize for a given period the new jobs created.

Secretary LEWIS. I certainly think that is a reasonable conception, yes.

Senator MOYNIHAN. And that as go to Public Works Committees and such like that, that might be a reasonable consideration. Not over a 6-year period, perhaps, but over a 2-year period.

Secretary LEWIS. Yes. The only difficulty I have with that is that I would not like to be in a position where bridges that are literally potentially hazardous in terms of traffic moving across them would not be repaired because we are trying to provide——

Senator MOYNIHAN. But as between repairing a bridge and building a bridge the employment effect will come more quickly when you decide to repair.

Secretary LEWIS. And that's why the program is totally skewed in that direction. Not for the jobs itself because that's where the problem is.

Senator MOYNIHAN. Would you give us perhaps a breakdown of that kind?

Secretary LEWIS. We will bring you a breakdown of jobs for the different classes of work.

Senator MOYNIHAN. I wonder if I could just clarify one question or one response that you gave to Senator Heinz who asked about the additional moneys going to mass transit. And if I remember you correctly, sir, you said that this will be additional construction money. Well, at the same time, we will, of course, be phasing out, in your objective, operating subsidies.

What I would like to ask you is when you have phased out operating subsidies and added construction money, will there, in fact, in combination, be a significantly larger amount of money for mass transit from the administration?

Secretary LEWIS. Even if you were to phase out the operating assistance over 3 years, we would approximately double the money going into the capital side of mass transportation. We offset the new capital coming in versus operating. Long-term, after you get past the 3 years, and you look at it in the relation to the fact that there would be no operating, assuming we did phase it out over 3 years, then you would have about $500 million more going into mass transit per year.

We are not recommending a cut in capital expenditures for mass transit. We have a regular budget, in other words.

Senator MOYNIHAN. But I would not be wrong in hearing you say that if operating subsidies are taken out, then the additional construction funds end up just about a wash.

Secretary LEWIS. At the end of 3 years, it's about $500 million more per year.

Senator MOYNIHAN. Which is not all significant an increase. Whereas, we are significantly increasing expenditures on highways.

Secretary LEWIS. That is correct.

Senator MOYNIHAN. I think it is. I wonder if we could get that table from you or a table suggesting how you would like to see this run.

The CHAIRMAN. Senator Mitchell, you had another question?

Senator MITCHELL. Thank you, Mr. Chairman.

Mr. Secretary, as I understand it, under current law, there are certain minimum apportionment transferability provisions. The factsheet makes mention of a proposed change in the minimum apportionment provisions, and I would lik to ask you what that change is; why it is being proposed; and are there any other changes in either the minimum apportionment or transferability provisions of the law?

Secretary LEWIS. We are really trying to just modify the interstate transferability. And the reason we are doing it is it is because in many States the interstate has already been completed. In effect, we would hold minimum half percent States harmless and transfer these funds into the 4R programs.

Is that true, technically?

Mr. FOWLER. Yes.

Senator MITCHELL. So you are not proposing any changes there?

Mr. FOWLER. We compensate for the drop in the half minimum for interstate construction by giving those States that would get the minimum in construction, but have completed interstates, the equivalent in 4R reconstruction funds.

Senator MITCHELL. Well, I understand the compensation, but why are you dropping the minimum in the first place?

Secretary LEWIS. Because the interstates in many States are completed so there is no reason to have the funds there.

Essentially I think your question is: Is there going to be a shortfall because of this? And the answer, as I understand it, is no.

It's a shift of program emphasis, not a shift of funds to try to squeeze money out of one State and put it in another. We are getting to the point now where the interstates, particularly over the next 9 years, will be completed.

Senator MITCHELL. My question really is more basic. What would the affect be on the State that has received funds under the half percent minimum apportionment?

Secretary LEWIS. They will get that money in the 4R program, not in the construction fund program. It would shift the program emphasis.

Senator MITCHELL. For States that have received funds under minimum apportionment, there will be no loss of funds as a result of deletion of the minimum apportionment provision?

Secretary LEWIS. That's right, we hold them harmless.

Senator MITCHELL. Is that correct?

Secretary LEWIS. That's correct.

Senator MITCHELL. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Has there been any discussion while I was out, Mr. Chairman, on the bridge formula?

The CHAIRMAN. I was out for a while. Apparently not.

Senator GRASSLEY. You are suggesting a change in the distribution formula for bridges, right?

Secretary LEWIS. Yes.

Senator GRASSLEY. All right. What I want to know is the rationale for changing from what we have now for the distribution of what funds we have. Why couldn't we just distribute an increased amount of money based on the same formulas?

Secretary LEWIS. Well, we could, but we are trying to address bridge needs in relation to the interstates, primaries and the other problems that we have within the transportation highway infrastructure. And we think this formula more equitably addresses that.

Senator GRASSLEY. Well, what you are saying, then, is you are targeting it more toward interstate bridges as opposed to all bridges?

Secretary LEWIS. No.

Mr. FOWLER. Interstate, primary, and high cost bridges, which are not on the primary or interstate will remain programs of Federal emphasis.

Secretary LEWIS. There are some bridges that have, historically, been covered by Congress which are not on either the primaries or the interstates. We have covered them in the total bridge program. The other bridge program and money will go back under our New Federalism along with the rural and urban program, and the $2.2

billion I mentioned earlier, which is already being raised as part of the present tax structure.

Senator GRASSLEY. Well, I wonder, rather than take up the time of the committee, if I could ask you to analyze for me the difference for my State of Iowa between the present formula and what you propose here, how that might impact?

Mr. FOWLER. There shouldn't be any impact. We are taking the present amount of dollars spent under the present formula and separating—what are called noninterstate, nonprimary, nonhigh cost bridges and putting them into a separate program.

Secretary LEWIS. Which we refer to as non-Federal interest. We will give you the breakdown on that. We have it.

Senator GRASSLEY. Well, maybe there isn't any. Maybe we should explain that.

[The information follows:]

The revised bridge formula under the Administration's proposal is intended to more equitably address nationwide bridge needs by separating available funds into two categories: one that would address the needs of Interstate, primary system, and high cost bridges, which remain as areas of Federal interest, and another that is targeted to meet bridge needs on lower Federal interest highways. An additional $300 million would be set aside from each year's authorization for the discretionary bridge program.

In fiscal year 1983, under the Administration's proposed new formula, Iowa would be apportioned for both of these categories a total of approximately $27.5 million. Using the existing bridge formula, assuming the same $300 million set aside for discretionary bridges, it is estimated that Iowa would receive slightly more than $25 million.

Under the Administration's revised bridge formula, it is estimated that Iowa would receive slightly less than $12 million for Interstate, primary, and high cost bridges, and about $15.8 million for other non-Federal interest bridges.

Secretary LEWIS. One point I think I should make, Mr. Chairman. We have tried in this bill—to make no modifications in terms of existing programs. We use the same distribution mechanism cutoff of cities of over 200,000 population as presently used on UMTA grants. We have tried to keep everything, in terms of distribution, the same so that in a 3-week period we didn't have to reinvent the wheel in terms of reestablishing programs that would take a great deal of time for Congress to resolve.

Senator GRASSLEY. Well, I appreciate that. And I think before reading your program that was the perception I had of what I would like to see the distribution be as opposed to the general subject of whether or not the tax ought to be increased at all. And I saw that as a more important factor.

Secretary LEWIS. Yes, sir.

The CHAIRMAN. Now you have arrived at your cost allocations by changing the methodology used to determine road stress. Is that a fact?

Secretary LEWIS. That is correct. And we will submit to the committee, Mr. Chairman, the detailed studies.

The CHAIRMAN. Would you supply the committee with a comparison of the cost allocation study under the new methodology and the old methodololgy?

Secretary LEWIS. We can provide that. It has been provided to Congress in the cost allocation study. But we certainly can provide it to this committee.

[The information follows:]

The following table summarizes the distribution of highway costs that would result from the use of the recommended approach and the so-called "updated incremental" approach. The incremental approach is updated only in the sense that more increments were used than when the approach was last used (20 years ago) in a major Federal highway cost allocation study. It should be noted that the results of the incremental approach have no validity since the approach totally misapplies the cost assignment results for new pavement to the substantial cost category of pavement reconstruction. The comparison between the two approaches was placed in the highway cost allocation study simply to highlight the changes in cost responsibilities that result from the shift of the highway program from building new pavements (for which the incremental approach is a possible option and had been used previously) to rehabilitating existing pavements. It should also be noted that the Administration proposal would charge the heaviest combinations only 12.6 percent and all combinations only 29.2 percent of program costs rater than the 15.9 percent and 33.2 percent, respectively, that our cost allocation results indicate.

COMPARISON OF THE RECOMMENDED AND UPDATED INCREMENTAL APPROACHES—1985

[Percentage of costs assigned to each vehicle class]

Vehicle class	Recommended approach	Updated incremental approach
Passenger vehicles	58.89	71.35
Autos	39,77	45.62
Large	23.40	27.16
Small	16.37	18.46
Motorcycles	0.50	0.50
Pickups and vans	17.33	24.27
Buses	1.30	0.97
Intercity	0.27	0.20
Other	1.03	0.77
Trucks	41.11	28.65
Single unit	7.89	7.68
Under 26 kips	3.43	4.46
Over 26 kips	4.46	3.22
Combinations	33.21	20.97
Under 50 kips	2.75	2.39
50 to 70 kips	5.19	4.04
70 to 75 kips	9.36	6.28
Over 75 kips	15.92	8.25
All vehicles	100.00	100.00

Source: Page V-5 "Final Report on the Federal Highway Cost Allocation Study" submitted to the Congress, May 13, 1982.

The CHAIRMAN. That's one of the key concerns that truckers seem to have.

Secretary LEWIS. That's right. And that's one where we differ.

The CHAIRMAN. Senator Boren.

Senator BOREN. Mr. Chairman, I apologize. I wanted to ask a question in regard to the agricultural exemptions.

Secretary LEWIS. Under present law on fuel used for agricultural production?

Senator BOREN. Yes.

Secretary LEWIS. Yes, we would continue present law, including an exemption for farm-type vehicles that travel less than 2,500 miles on the Federal Highway System.

Senator BOREN. We've had a bill before this committee in terms of the exemption for agricultural trailers, horse trailers and those sorts of vehicles. Has consideration been given to changing, in terms of the excise tax, the manufacturers' excise tax—have you taken that into account? Has there been an adjustment made there in terms of the weight, the size of truck to be excluded from the tax as it would impact the——

Secretary LEWIS. I can't give you the specifics because I don't know the weight of horse trailers. But fundamentally what we are doing is lifting the burden on lighter loads, and I think that horse trailers might qualify in these terms, and trying to impose it on heavy trucks. Not many horse trailers would weigh as much as the heavy combinations of 75,000 pounds.

Senator BOREN. As a general philosophical approach, how would you argue the merits of the Federal Government collecting this tax and distributing it back under the formulas you have indicated versus simply allowing this tax to be returned to the States where it is collected to be expended by the State governments as opposed to the Federal Government? How would you argue the relative merits of those two approaches?

Secretary LEWIS. First of all, and we talked about this a little earlier, we think we have a Federal responsibility for an Interstate System, a primary system, and for the bridges that go with that system. That is the fundamental thrust of this program. The $2.2 billion we are talking about, we are totally satisfied to turn back to the States.

The other problem we have—and it is very clear in a State such as Montana, for example—that for the taxes they can collect there on a user fee basis, because of lack of miles traveled and gallons purchased according to the statistics coming out of the Federal Highway Administration, they can only provide the signs for their interstate systems. They would have no money for maintenance. I believe we would have a similar problem in Nebraska, which is a State where there is a great deal of truck travel. If we are going to keep the commerce of this country going, there is going to have to be some kind of redistribution with donor and donee States or we are not going to have an Interstate System. We are going to have a hodgepodge patchwork system that cannot move the commerce of the country. So for that reason, we think it makes sense.

Furthermore, in terms of Federal programs, I think the Federal Highway Administration does about as well in redistributing funds as any other agency in the Federal Government, which maybe isn't much of a compliment. But administrative costs amount to about 2 percent so they have a relatively efficient way to distribute funds because of the experience they have had. And as you know, the States make the determination as to which projects they want to spend the money on.

The CHAIRMAN. Let me say that Senator Boren raised the farm exemption. I would just indicate that Senator Wallop, who could not be here, would like to comment on the 2,500-mile provision. That's not a very long trip in Wyoming.

Secretary LEWIS. Our purpose, though, is not to exempt trucks if they are going to take long trips. It's really to give them access to the local roads around their farms so that we don't put a burden on somebody who is fundamentally using a truck to haul grain.

The CHAIRMAN. Right. But Senator Wallop can discuss it. But to get to the highways sometimes, you are out a ways in Wyoming. [Laughter.]

He has just been out there.

Senator GRASSLEY. Mr. Chairman, before you let them go I have another question.

The CHAIRMAN. OK. We have five more witnesses.

Senator GRASSLEY. This will be my last one.

The CHAIRMAN. All right.

Senator GRASSLEY. Let's hypothesize. If there is a State that has 20 percent of its gasoline consumption with gasohol, the ethanol mixture, and there is another State that has 40 percent of its gasoline consumed as gasohol, explain to me how the exemption of 9 cents versus the 4 cents is going to affect the reallocation of the money back to the States.

Secretary LEWIS. It doesn't affect the reallocation. What it does is for each cent, it creates a subsidy of about $50 million. And actually that would, as you know, be determined by the Internal Revenue Service.

Senator GRASSLEY. OK. What it amounts to, then, is there are $50 million less for all States?

Secretary LEWIS. That's correct. We are subsidizing the industry, and it gives us approximately $450 million less.

Senator GRASSLEY. I understand that, but there's no way it affects the allocation of money back to the States, negatively, the one with 40 percent as opposed to the one with 20 percent?

Secretary LEWIS. None whatsoever.

Senator GRASSLEY. All right. Well, I thought I detected in your original statement, when you talked about—not in your original statement but one of your answers to some question—that it had something to do with the apportionment back.

Secretary LEWIS. No. If I left you with that impression, I was wrong in my statement or I misspoke because I did not intend to leave that impression with you at all.

The CHAIRMAN. Mr. Secretary, we want to thank you for your excellent testimony. I think there is some indication that there is strong general support. There are a number of questions I hope we can resolve. I'm not certain when we will mark up the bill. I understand the House hearing will be tomorrow. Markup will be on Thursday. It may be possible to mark it up in the Senate this week. But if not, we will do it as quickly as we can. I would hope that you might continue discussions with the Governors' Association if, in fact—would you say 13 States have a real problem?

Secretary LEWIS. That's our impression.

The CHAIRMAN. And I share your view. We have got a real problem at the Federal level, too, as far as money. But if there is some way to address their concerns, we would want to do that. And I think other members have expressed some concerns that perhaps we can visit with about in the next few days.

We appreciate your initiative. And I am pleased that you aren't trying to promote this just as a jobs bill. That wasn't how it was promoted earlier this year. It will create jobs. I think that was mentioned. And we discussed it earlier this year. That wasn't the primary thrust of the provision. The primary thrust is to repair the roads and bridges, and also some assistance for mass transit.

And I note that Mr. Teele is here, Mass Transit Administrator, and also Les Lamm, the Deputy Administrator of the Federal Highway Administration. We are pleased to have them, along with

Ray Barnhart, and other members of your staff. We are pleased to have all of you here.

Thank you.

Secretary LEWIS. Thank you very much for having us.

The CHAIRMAN. Mr. Chapoton. While you are getting ready, do you have any ideas about that Alaskan windfall profits tax? [Laughter.]

Mr. CHAPOTON. I think it's going to be appealed.

The CHAIRMAN. I just wanted to raise that for Senator Stevens who seems to have an interest in that.

STATEMENT OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY

Mr. CHAPOTON. Mr. Chairman, I am pleased to be here today to discuss the administration's proposals to increase and restructure the excise taxes currently dedicated to the Highway Trust Fund.

I will be very brief. We have a rather brief statement. I just want to make a few points.

First, from the Treasury standpoint, we strongly support reliance on a user tax to finance Federal highway program costs. A reliance on user taxes to finance particular Federal programs such as highways and airports is fair because the costs of the programs are then paid by the beneficiaries of the service rendered rather than by the general taxpaying public.

Other than making that point, I want to cover a couple of points about the restructuring aspects of the administration's proposal, and then two points dealing with the administration of the heavy vehicle use tax.

On the restructuring, there is a major restructuring of the highway excise taxes in this legislation. The proposals reflect the conclusions from studies undertaken by the Department of Treasury and Transportation on the highway excise tax structure. The proposals are designed to promote a more equitable distribution of the burden of the highway taxes among user classes, and at the same time, to reduce the compliance burden on taxpayers and the cost of administration to the Internal Revenue Service.

There are three major conclusions of the recently completed Transportation study that Secretary Lewis referred to on several occasions. First, under the current tax structure, single unit trucks and light combination trucks pay a tax share substantially exceeding their cost share.

Second, the tax shares of heavy combination trucks are significantly less than the relative costs they impose on the highway system.

Third, the tax share of autos is roughly equivalent to their cost responsibilities but they will pay less than their cost share in future years under the current rate structure because the relative share of revenues raised by the fuel taxes will decline under the current structure.

The administration proposals are designed to redress these imbalances. These objectives are accomplished by increasing the share of the Highway Trust Fund revenues raised from motor fuel taxes and by restructuring other excise taxes so as to shift the tax burden from lighter to heavier vehicles.

There are three basic restructuring proposals. First, the highway use tax imposed annually on heavy vehicles registered for highway use will be increased and graduated for the heaviest vehicles. Second, the exemption for lightweight vehicles from the manufacturers' excise taxes on trucks and truck parts is extended from the current 10,000-pound exemption to vehicles weighing less than 33,000 pounds, and the tax rate is increased from 10 percent to 12 percent. This increase in the exemption will eliminate excise tax liability for 76 percent of all trucks and trailers currently subject to the tax. There is also an increase in the exemption level for truck parts and accessories, and an increase in the rate of tax on truck parts and accessories from 8 to 12 percent.

Third, there is an exemption from the manufacturers' excise tax on tires. It will be provided for tires weighing less than 100 pounds. But the tax rates for those subject to the tax will be increased from 9.75 cents per pound to 25 cents per pound for highway tires, and from 5 cents per pound to 25 cents per pound for tread rubber.

I also want to mention two administrative points. The first is that the highway spending proposal that accompanies the bill provides for increased State participation in enforcing the highway use tax. Under the proposal, States will not be eligible for Federal highway assistance unless they require that taxable vehicles show proof of payment of the Federal highway use tax before they can be registered. The effective date of this enforcement requirement will be January 1, 1985, leaving States ample time to make the needed changes in the vehicle registration procedures.

The Treasury Department views this provision or some alternative proposal to accomplish the same objective as an essential component in restructuring of the highway excise taxes that relies on the highway use tax as the primary method of insuring that different types of vehicles pay taxes in proportion to the cost they impose on the highway system.

At the higher rates, and they are substantially higher, noncompliance would have much more severe adverse effects on the trust fund revenues, on the competitive position of taxpayers who pay the tax, and on the equity of the tax structure. For those reasons, we think it is essential that accompanying legislation include some mechanism to assure that State registration procedures be used as a tool in enforcement.

Finally, I will just mention a point that has been made here several times. That is, the highway use tax is not applicable with respect to vehicles that drive less than 2,500 miles per year. We think some flat cutoff point such as 2,500 miles is necessary to prevent imposing an excessive tax on those vehicles that are used primarily off the road, and that only occasionally use the public highways.

Mr. Chairman, those are the major points that we care to make. I would be happy to answer any questions you might have.

[The prepared statement of Hon. John E. Chapoton follows:]

FOR RELEASE UPON DELIVERY
Expected at 2:00 p.m.
November 30, 1982

STATEMENT OF THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to discuss the Administration's proposals to increase and restructure the excise taxes currently dedicated to the Highway Trust Fund. The Administration has decided that increased Federal funding is needed at this time to maintain the quality of the nation's highway system. Therefore, it is appropriate that highway excise taxes be increased to finance these needed investments in the nation's public capital stock.

The Administration strongly supports reliance on user taxes to finance Federal highway program costs. Reliance on user taxes to finance particular Federal programs, such as highways and airports, is fair because costs of the program are then paid by the beneficiaries of the service rather than by the general taxpaying public. User taxes also promote economic efficiency by encouraging the best use of scarce productive resources. By forcing highway users to confront the costs resulting from their use of the highway system, highway user taxes promote an economically rational use of the highway system and contribute to rational choices between highways and other methods of transportation.

R-1042

Motor Fuels Taxes

Under the Administration highway excise tax proposals, the tax rates applied to gasoline, diesel, and other highway motor fuels will increase from 4 cents per gallon to 9 cents per gallon. The present 2 cents per gallon tax on gasoline and other motor fuels used for non-highway purposes will be repealed. These changes in taxation of motor fuels will increase revenue to the Highway Trust Fund by $5.3 billion per year in FY 1984.

The tax rate on gasoline and other motor fuels has been 4 cents per gallon since 1959. During that period, the price level, as measured by the GNP deflator, has more than tripled and the price of gasoline has increased by an even greater proportion. Thus, the gasoline tax has declined significantly both in real terms and as a percentage of the price of gasoline. Moreover, the reduction in fuel consumption induced by the large increases in fuel prices in the past decade has further contributed to the decline in real revenue from Federal motor fuel taxes.

Under the Administration's proposals, the tax burden per gallon of gasoline consumed, whether measured in real terms or as a proportion of the price of gasoline, will continue to remain significantly below the tax burden when the 4 cent rate was first imposed. For an average motorist driving 12,000 miles per year in an automobile with fuel consumption of 20 miles per gallon, the increased tax will raise the cost of driving by only $30 per year.

Highway Excise Tax Structure

The Administration's proposals also provide for a major restructuring of the highway excise taxes. These proposals reflect the conclusions from studies undertaken by the Departments of Treasury and Transportation on the highway excise tax structure, in response to a Congressional mandate contained in the Surface Transportation Assistance Act of 1978. The proposals are designed to promote a more equitable distribution of the burden of highway excise taxes among user classes, and at the same time reduce the compliance burden on taxpayers and the cost of administration to the Internal Revenue Service.

The Administration believes that the share of highway taxes paid by different highway users should be correlated with the share of costs each user imposes on the highway system. To the extent that some highway costs cannot be separately attributed among users, tax shares should correspond with the amount of benefit from highway use.

The major conclusion of the recently completed Department of Transportation study on highway cost allocation is that, under the current tax structure, single unit trucks and light combination trucks pay a tax share substantially exceeding their cost share, while the tax shares of heavy combination trucks are significantly less than the relative costs they impose on the highway system. Autos, pickups, and vans appear to pay taxes roughly in line with cost responsibilities, but will pay less than their cost share in future years under the current rate structure because the relative share of revenues raised by fuel taxes will decline.

Restructuring Proposals

The Administration proposals are designed to redress these imbalances and to bring tax shares paid by different user classes more closely in line with cost shares for the remainder of this decade. These objectives are accomplished by increasing the share of Highway Trust Fund revenues raised by motor fuels taxes and by restructuring other excise taxes so as to shift the tax burden from lighter to heavier vehicles.

There are three major parts to the restructuring proposals. First, the highway use tax imposed annually on heavy vehicles registered for highway use will be increased and graduated for the heaviest vehicles. The exemption from this tax will be increased from 26,000 pounds to 55,000 pounds, but the rates for vehicles over 55,000 pounds will be increased from the current rate of $3 per thousand pounds to $100 plus $6 per hundred pounds in excess of 55,000 pounds for vehicles between 55,000 and 70,000 pounds, $1,000 plus $17 per hundred pounds in excess of 70,000 pounds for vehicles between 70,000 and 80,000 pounds, and $2,700 for vehicles in excess of 80,000 pounds. Second, the exemption for light weight vehicles from the manufacturers' excise taxes on trucks and truck parts will be extended from the current 10,000 pound exemption to vehicles weighing less than 33,000 pounds, but the tax rates will increase from 10 percent to 12 percent on the truck sales tax and from 8 percent to 12 percent on the parts tax. This increase in the exemption will eliminate excise tax liability for 76 percent of all trucks and trailers currently subject to the tax and for 96 percent of the truck parts and accessories th t are currently taxable. Third, an exemption from the manufacturers' excise tax on tires will be provided for tires weighing less than 100 pounds, but the tax rates for those items remaining subject to tax will increase from 9.75 cents per pound to 25 cents per pound for highway tires and from 5 cents per pound to 25 cents per pound for tread rubber.

In addition to these changes, we are recommending the elimination of Federal excise taxes on inner tubes and lubricating oil. These taxes are not needed to provide an equitable distribution of tax shares among user groups and the lubricating oil tax in particular has been found to be excessively costly to administer relative to the amount of revenue collected.

Modifications to Improve Use Tax Administration and Equity

The Administration's proposals also include two important modifications to the highway use tax designed to improve administration and increase equity. First, the highway spending proposal that accompanies this bill provides for increased state participation in enforcing the highway use tax. Under that proposal, states will not be eligible for Federal highway assistance unless they require that taxable vehicles show proof of payment of the Federal highway use tax before they can be registered. The effective date of this enforcement requirement will be January 1, 1985, leaving states ample time to make the needed changes in vehicle registration procedures. The Treasury Department views this provision, or some alternative proposal to accomplish the same objective, as an essential component of any restructuring of the highway excise taxes that relies on the highway use tax as the primary method of ensuring that different types of vehilces pay taxes in proportion to the costs they impose on the highway system. The Administration proposal will greatly reduce the number of vehicles subject to the highway use tax by exempting from the tax all vehicles with a gross vehicle weight under 55,000 pounds. At the same time, the tax will be significantly increased for the heaviest vehicles. For example, the annual tax imposed on the vehicles weighing 80,000 pounds would be increased from $240 to $2,700. In the absence of improved enforcment procedures, these higher tax rates on the heaviest vehicles would greatly increase incentives for tax avoidance. Moreover, at higher tax rates, non-compliance would have much more severe adverse effects on trust fund revenues, on the competitive position of taxpayers who pay the tax, and on the equity of the tax structure. For these reasons, the Treasury

Department regards it as essential that accompanying legislation include some mechanism to assure that state registration procedures can be used as a tool in enforcement.

Second, the tax proposal provides an exemption from the highway use tax for vehicles that drive less than 2,500 miles per year on public highways. This type of exemption is necessary to prevent imposing an excessive and unjustified tax on those vehicles, such as trucks used primarily in farming or logging, that are mostly used off-highway but that do occasionally use public highways to bring products to markets. The Treasury Department believes that a flat mileage exemption is the best method from an administrative and enforcement standpoint of relieving low-mileage vehicles from an excessive burden under the highway use tax.

Conclusion

The proposals we are presenting will provide needed revenues to finance Federal highway programs, restructure the highway excise taxes to allocate the tax burden more equitably among user groups, and improve enforcement and reduce costs of compliance with the new tax structure. We urge their prompt enactment.

Revenue Effect

			Fiscal Years			
	1983	1984	1985	1986	1987	1988
			($ billions)			
Increase in Excise Tax Receipts	2,628	5,417	5,310	5,244	5,279	5,389
Income Tax Offset	-657	-1,354	-1,327	-1,311	-1,320	-1,347
Net Revenue Increase	1,971	4,063	3,983	3,933	3,959	4,042

The CHAIRMAN. Senator Heinz.
Senator HEINZ. No questions.
The CHAIRMAN. Senator Packwood.
Senator PACKWOOD. Buck, after you have reshuffled all the truck taxes around, how much more will trucks pay than they pay now?
Mr. CHAPOTON. They pay at a graduated rate, Senator Packwood, so it's not possible to say. You have to pick a certain weight. But, for example, if you pick the heaviest truck—I think in our statement the worst case would be an 80,000-pound truck—the proposal would increase the use tax from $240 to $2,700 under the heavy vehicle use tax. The total tax on these vehicles from all the highway taxes will increase from $1,700 per year to $4,100 per year. A very major increase.
Senator PACKWOOD. Say that again.
Mr. CHAPOTON. From $240 a year to $2,700 a year.
Senator PACKWOOD. You heard Secretary Lewis say that the quid pro quo for that is the weights, the lengths, and the widths?
Mr. CHAPOTON. That's correct. And, of course, the purpose of this is they are having the benefit of the cost involved in the highway system.
Senator PACKWOOD. Thank you.
The CHAIRMAN. Senator Long.
[No response.]
The CHAIRMAN. Senator Grassley.
Senator GRASSLEY. I assume that we are still going to continue the same exemption from gas tax for nonhighway agricultural use for farm machinery.
Mr. CHAPOTON. On the gas tax?
Senator GRASSLEY. Yes. And the 4 cents now will be extended to the full 9 cents.
Mr. CHAPOTON. Actually, I think, off-highway use now has a 2-cent tax rather than a 4-cent tax. And under this proposal, it would be eliminated.
Senator GRASSLEY. I'm talking about nonhighway.
Mr. CHAPOTON. I am too. I'm talking about, for example, farm use.
Senator GRASSLEY. Yes.
Mr. CHAPOTON. There would be no tax on the farm use. I think there is now a 2-cent tax on diesel fuel. On diesel fuel I am certain, and on gasoline, I believe, as well. But that would be eliminated.
Senator GRASSLEY. But anyway, whatever the exemption is now, it is going to be continued.
Mr. CHAPOTON. There will be a total exemption for off-highway use.
The CHAIRMAN. Senator Mitchell.
Senator MITCHELL. Mr. Secretary, I would like to ask a question which puts this in the broader context of overall tax policy. This is described as a user fee. It is, of course, a form of taxation. And it seems to me that what we have underway now are two parallel courses with respect to taxes; the reduction of some taxes while other taxes are being increased. It seems to be part of a pattern. The taxes that are being reduced are related to ability to pay; the taxes that are being increased are unrelated to ability to pay. And if you look back at the tax bills of 1981 and 1982 and now this here,

you see that while there is a lot of arguing about how much of a tax increase there was in 1982, two facts are indisputable: One, some taxes were increased; and, second, those that were were unrelated to ability to pay.

Are you, as the Assistant Secretary for Tax Policy, not concerned about what is clearly, at least to me, the inevitable result of these parallel policies, which is the shifting of the tax burden in our society away from those at the upper end of the income scale and onto the middle class? Is that not occurring in our society, inevitably, if you reduce income taxes and increase excise taxes at the same time, over a period of time?

Mr. CHAPOTON. Senator, I think that is a helpful analysis. That is a way to look at the system. I think when you look at 1981, we certainly had a reduction in graduated rates. The system was made somewhat less progressive because we had reduction in marginal rates. Ten years before that we had seen tremendous increases in that—15 years before that, tremendous increases in the marginal rates. And, indeed, we have seen an increase in the marginal rates since 1981. We will see it until—absent the tax cut, we would have seen it; bracket creep in other words.

I think there was a general feeling in 1981, the administration certainly felt, and I think there was a general feeling in the Congress, that because of bracket creep and other factors, marginal rates had gotten too high, and they were simply reduced. Now I think you make that judgment independently of what else you do in the tax system. This, for example, and the same analysis as we are now going through—we went through it last year with respect to airport taxes. We think that such taxes should be borne by the users of the facilities they finance.

Senator MITCHELL. You make a logical and persuasive argument for the tax reduction of 1981 Independent. You make a logical and persuasive argument for the airport tax. And you can come here and make a very logical and persuasive argument for this as a user fee. What I am asking you is whether you, as the person most responsible for tax policy, have considered the effect, totally apart from the underlying rationale for each element, that the overall effect is to produce what is clearly a massive transfer of the tax burden in our society downward in the economic scale? And is that not a matter of concern? I mean especially at a time when we are talking about how the consumers have got to lead us out of the recession.

Mr. CHAPOTON. Senator, I am agreeing with what we are doing. First off, let me state, I think if you ran the tables—you would probably be correct. The system overall was made less progressive by these changes. I think that is overall sound. I think you can go too far in that direction, I would concede immediately, but I think overall these changes are sound for the independent reasons that I have pointed out. I think you could go too far in that direction.

Senator MITCHELL. But you don't feel we have?

Mr. CHAPOTON. I do not at all feel we have. Indeed, when you look at the rate structure, the marginal rates imposed at different levels of income compared in 1980 to the late 1960's, the average taxpayer moved way, way up in the marginal rate structure. And I think it was very appropriate that we reduced them across the board.

Senator MITCHELL. But how can you justify raising taxes on a fellow who makes $175 a week and has to drive to work, or $200 a week and has to drive to work—and that's the average employee in the State which I represent—while at the same time we are cutting taxes a further 10 percent for someone who is making $100,000 a year?

Mr. CHAPOTON. Well, these arguments have gone back and forth now for 2 years. Of course, that fellow that is getting the larger tax cut is paying a whopping tax bill or he wouldn't be getting a larger tax cut. I think you simply have to simply decide whether you like the progressivity or reduced progressivity in the system as a result of reduced marginal tax rates, and view that independently. And then view whether you want this to be some type of user charge or you want to pay it out of general revenues. And we have come down on the side that this should be a user charge.

Senator MITCHELL. Well, my time is up, and I don't want to delay the others. I just want to say to you that I think the problem is precisely that each of these actions has been considered independently and each may have an independent rationale, but the overall effect has been ignored. And I think you have to consider it in the context of the total effect on what it is doing to the tax burden.

And I will tell you one other thing. That is the one of the major factors in the enormous and rising increase in tax evasion in our society, and especially it has spread into the middle-income levels.

Several years ago, Mr. Chapoton, when I was the U.S. attorney I prosecuted a lot of income tax evasion cases. The typical tax evasion case until very recently in this country was the self-employed professionals. Doctors and lawyers were at the top of the list, as you well know. And now, as you also know, it's spreading down into salaried, middle-income people, all of whom are being affected. Now they may not make this precise analysis, but I suggest to you that that's a significant reason for it, and something I think should concern you and all of us.

Mr. CHAPOTON. The noncompliance is a very significant concern of ours. I don't agree that taxes such as this or this shift you are talking of is what causes it. I do agree that you should review the two together. And, indeed, we do. I think you do review them separately, and you do review the overall effect, and you make your decision accordingly.

The CHAIRMAN. Senator Bentsen.

Senator BENTSEN. I understand a question was asked earlier concerning the collection of the tax, and where it is collected, whether it is at the refinery, or the job, or wherever it might be. And the impression might have been left that if the State had more refineries there might be a distortion insofar as the tax paid within the State by the user. It is my understanding that a correction is made for that. And that's taken into consideration. And, therefore, it does not skew those figures. Is that correct?

Mr. CHAPOTON. That is my understanding. That those tables show the ultimate burden of the tax by State. Yes, sir.

Senator BENTSEN. All right. Thank you very much.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you.

Mr. Chapoton, what is going to be the effect of this tax? The tax isn't levied of what amounts to 3-percent increase in gasoline tax—something in that neighborhood—without something happening other than just the price of gasoline going up. I mean is this going to increase barge traffic or divert more trucking into rail? Is it going to call for increased retreads as opposed to new equipment? Do you see any side ramifications or is this just a little add-on that doesn't affect—have ramifications elsewhere?

Mr. CHAPOTON. It does have ramifications elsewhere. We tried to analyze those ramifications. Of course, those ramifications are offset by other effects in the economy. For example, if the price of gasoline drops independently of this then those ramifications are lessened. But it certainly does have ramifications. It does transfer some resources for example from other sectors of the economy to the maintenance and construction of highways and bridges. And it also will have some of the other ramifications you mentioned. Shifting of traffic or use of those resources of—you suggest barges. I'm not sure that would be the effect, but those effects always will occur, and, indeed, we tried to analyze that. They are very difficult to analyze, but we try to analyze those effects.

Senator CHAFEE. I mean I was surprised when you said the cost on a large heavy vehicle, transportation vehicle, truck, would go, I believe you said, from $240 to $2,700. That is a $2,300-increase. And if you have got 20 trucks in your fleet, you are talking a few dollars. Obviously, that gets passed onto the consumer. Somebody pays for all this.

Mr. CHAPOTON. That's correct. As I think I made the point earlier, that, No. 1, is the worst case. That's the heaviest vehicle, an 80,000-pound combination heavy vehicle. The study showed that it is doing that amount of damage to the highways. And, indeed, it has not been paying its fair share. That doesn't belittle the fact, though, that you have a change in the tax on that vehicle. And you are right, a fleet owner has a significantly heavier tax. He will have significantly better roads. And there will be this trade-off, as Senator Packwood mentioned, with respect to the barrier States. But you can't get around the fact that it's a significant increase and a burden.

Senator CHAFEE. Well, outside of what these suppositions or the feeling that it is hard to analyze, you don't have any direct effects that you can predict as you visualize this. That there will be a change in such and such industry as a result. More retread, more whatever it might be as a result of what appears to be a relatively modest increase.

Mr. CHAPOTON. I do not have that information at hand. I suspect, Senator Chafee, that we will have further discussion. The retread is a good example. I understand there is some concern about the change in taxation of tires and tread rubber. We will hear from different industries. We will analyze with the committee staff the points they make. If the Department of Transportation has heretofore not taken that fully into account, I think we should take those effects into account.

Senator CHAFEE. Is the rationale that your increase in the exemption—I'm not familiar with this intimately, but I take it there is some kind of exemption for trucks now under 6,000 pounds and you are increasing that to trucks of 33,000 pounds. What, they won't pay the——

Mr. CHAPOTON. There's a 10-percent tax on the sale of a new truck. And the exemption level, currently is of—if it was 10,000 pounds, that would be increased to 33,000 pounds.

Senator CHAFEE. Now is the rationale that the lighter truck doesn't cause such damage to the highway, and thus it is not fair to penalize that vehicle?

Mr. CHAPOTON. That's correct. The rationale of the present system is that too heavy a burden is imposed on the light truck and not heavy enough on the heavy truck.

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

The CHAIRMAN. Senator Durenberger.

Senator DURENBERGER. Buck, I don't want to belabor a point that Senator Bentsen raised, and maybe you are not prepared to answer the question—in effect, we are talking about the proportion of the burden State by State of Federal motor fuel taxes.

The bulk of the tax is levied at the refinery. Is that not correct?

Mr. CHAPOTON. The bulk of the tax is the gasoline tax. Now I think it's a little bit of a misnomer to say it's leveled at the refinery. It's paid by the manufacturers. The manufacturers' excise tax. It's paid by the wholesaler in some case. But it is a manufacturers' tax, and that's where it is borne, yes. Excuse me. It is ultimately borne by the——

Senator DURENBERGER. The refiner of gasoline pays the tax on every gallon of gasoline?

Mr. CHAPOTON. That's correct.

Senator DURENBERGER. And the manufacturer of tires pays the tax on every tire at the point of manufacture.

Mr. CHAPOTON. That's correct.

Senator DURENBERGER. Now we are led to believe when we drive up to a gasoline pump that we are paying a tax, but we are not. Are we? That manufacturer can either pass through the 4 cents or not pass through the 4 or 5 cents. Is that not correct?

Mr. CHAPOTON. That's correct. But certainly—I don't see how you could fail to pass it through. It's an additional cost, and I think the——

Senator DURENBERGER. Well, that's a fact of economics. I'm trying to get to the sheet here that says fiscal year payments into the fund are based on receipts as reported by the U.S. Department of the Treasury. Those receipts are not coming from all these gas pumps. They are coming from refineries. Is that not correct?

Mr. CHAPOTON. That is correct.

Senator DURENBERGER. All right, the last question, Mr. Chairman, deals with this whole issue of whether or not the fund is running ahead or behind. And, again, I don't know whether you are qualified to respond to it. Now, 5 months ago when we talked about raising a gas tax at this committee level, we were doing it to help balance the budget and make up the deficit. And we had before us a document from—I don't know whether it was from Treasury, or OMB, or where it started—but it said we could save about $4.7 billion in fiscal year 1983 if we passed a 5-cent gas tax because only a little over one-half of a billion dollars would actually be spent in

1983, fiscal, and the rest would not be spent. Now how does that jive with what we heard from the Secretary of Transportation about how fast all this money is going to get moved out into the system?

Mr. CHAPOTON. I'm not sure, Senator Durenberger, of the figures we had this summer, I suppose it was looked upon at that time, I think, in the short run as some deficit reducing item. We are not looking at it as that now. Indeed, the purpose is to attempt, to the extent we can, to time the receipts with the outlay so that it will not have that effect. It's not designed that way is the best way I can answer that question.

Senator DURENBERGER. Now if we wanted to use it as a deficit reducer this summer, we could have, just by holding back on obligations and the actual outlays.

Mr. CHAPOTON. That's correct, and also by making the tax come into play sooner. For example, under this proposal none of the taxes would be effective until April 1, and the heavy use tax wouldn't be effective until July 1. I assume we were looking at a tax effective January 1.

Senator DURENBERGER. Is not the problem that the bureaucracy and the Federal Highway Administration takes so long to turn over new tax dollars that there is no way it could be committed and spent?

Mr. CHAPOTON. No. Those are the factors that are taken into account in seeing whether a short-term surplus is created or not. Our hope is not to create any. You might have a partial one, but not to have any significant short-term surplus.

The CHAIRMAN. Senator Bentsen has one more.

Senator BENTSEN. I just have one again on this point. I don't want us to be left under this impression here.

When we are talking about payment of that tax, approximately 7.8 percent of the tax is paid from Texas. On the other hand, we have approximately 30 percent of the refineries. So, obviously, this more correctly reflects where the burden is.

Senator DURENBERGER. Maybe we just need to get the facts on it for both of us.

Senator BENTSEN. I hope I am giving them to you.

Mr. CHAPOTON. Let me add. We all understand what we are talking about. That makes the economic assumption of who ultimately bears the tax. You can disagree on that, I suppose, but it's clear that it is not based on the fact that the refinery is in a particular State and they pay the tax.

The CHAIRMAN. It might be helpful if we could have that information for the record.

Mr. CHAPOTON. I will supply that. I believe the assumption is the tax is just passed straight forward.

The CHAIRMAN. As I understand, the administration' bill repealed some existing taxes such as lubricating oil, innertube tax. Is that hard to administer or is there some reason for that?

Mr. CHAPOTON. It repeals the lubricating oil tax because it was difficult to administer for the dollars collected.

The CHAIRMAN. $100 million I understand. That's on the two. Approximately $80 million from the lubricating oil tax and $20 million from the innertube tax.

Mr. CHAPOTON. The lubricating oil was 1 percent of the revenue. I don't have immediately available, Mr. Chairman, the total dollars raised.

The CHAIRMAN. Well, was the reason for that because it was hard to collect the tax?

Mr. CHAPOTON. It was hard to collect the tax, and the overall restructuring was designed, in each of these taxes, including the truck parts and accessories, the use tax, the tires and rubber tax, in each case to put the burden of the tax where the costs are incurred, the costs to the highways are incurred.

The CHAIRMAN. Are there other questions of Secretary Chapoton?

[No response.]

The CHAIRMAN. If not, we may have additional questions. I think some of us may have questions on specific provisions that perhaps we can address in writing.

Mr. CHAPOTON. Thank you.

The CHAIRMAN. Thank you very much.

Our next witness is Ross C. Gaussoin, chairman of the American Trucking Associations, accompanied by Bennett C. Whitlock, and Edward V. Kiley, senior vice president.

Following that, we will have a panel of the Associated General Contractors and the American Automobile Association.

I might say, while you are preparing, your entire statement will be made a part of the record. We are hoping you might be able to highlight your concerns, and maybe respond to some of the comments made by other witnesses.

You may proceed.

Mr. BRADY. Thank you, Mr. Chairman.

I'm Charles Brady. I'm director of the highway department for the American Automobile Association.

The CHAIRMAN. Now where are the representatives of the trucking industries?

Mr. BRADY. The truckers are here on this side.

The CHAIRMAN. OK. I called the truckers first so don't leave unless you just want to put your statement in the record and then you are free to leave.

Ross.

STATEMENT OF ROSS C. GAUSSOIN, CHAIRMAN, AMERICAN TRUCKING ASSOCIATIONS, WASHINGTON, D.C.

Mr. GAUSSOIN. Mr. Chairman, and members of the committee, we appreciate the opportunity to testify before you on the need for increased funding of the Federal-aid highway program.

My name is Ross Gaussoin, and I am president of Silver Eagle Co., with headquarters in Portland, Oreg. I am also chairman of the board of the American Trucking Associations.

With me today are Edward Kiley, senior vice president, and Lana Bass, director of energy and economics for ATA.

Bennett Whitlock was to have accompanied me here today, but he is unable to be present.

American Trucking Associations is a federation with affiliated associations in every State and the District of Columbia. In the aggregate, we represent every type and class of motor carrier in the country, both for hire and private. The trucking industry has long recognized the need for a modern and progressive Federal-aid highway program. In fact, in July 1948—a full 8 years before President Eisenhower signed the Federal Aid Highway Act of 1956, creating the Interstate Highway System—ATA went on record in favor of proceeding as rapidly as possible with the development of the interstate highway program.

Today it is obvious that current financing is inadequate to complete and maintain the Federal-aid highway program. Unless corrective action is taken, our industry, indeed, the Nation's whole economy, stands to lose. Recognizing the critical need for increased funding for the highway program, the trucking industry as represented by ATA, last February endorsed increases in Federal highway taxes, including the increases in the special taxes on heavy trucks.

The trucking industry was the first group to move beyond the rhetoric concerning deteriorated highways and proposed a specific program of tax increases to help meet the present and future needs of an adequate and properly maintained highway system.

Our willingness to come forward with such a program, given today's anemic economic condition, underscores our commitment to a continued and expanded highway system. The industry's tax proposals, which were submitted to the Congress last May, would generate nearly $10½ billion of revenue for the Highway Trust Fund in 1985. This amount, coupled with the surplus in the trust fund, will support a $13.5 billion highway program in 1985.

Under the industry's tax program, a typical five axle tractor semitrailer would pay more than $2,300 in Federal highway use taxes, compared with $1,750 today. Heavy trucks would be paying 26.3 percent of all highway taxes, despite the fact that they comprise only 1.1 percent of all vehicles and travel only 5½ percent of all highway mileage.

However, the trucking industry's support of increased truck taxes is contingent upon meaningful increases in our productivity through increased sizes and weights. This country's total transportation requirements will not be fully met until our industry can operate at modern size and weight limits nationwide.

The CHAIRMAN. I wonder if you could just highlight? If we want to ask some questions, we are going to run out of time.

Mr. GAUSSOIN. I will just about have to complete the statement. I will proceed as quickly as I can because I'm afraid our meat is intertwined.

The CHAIRMAN. OK.

Mr. GAUSSOIN. I will do the best that I can.

Senator PACKWOOD. I think I know what this committee is aiming at and I know what Bob is aiming at. In the latter part of your statement you have a very serious question about what you regard as excessive taxes on large trucks.

Mr. GAUSSOIN. That's correct.

Senator PACKWOOD. That I think is the part that is going to be of most interest to this committee because the administration has indicated they regard the tax as the quid pro quo for the lengths, the widths, and the weights. Personally, I think, they have got an extraordinarily high tax for that tradeoff. If you would emphasize that particular point as to why you think that is unfair, it would be helpful to us.

Mr. GAUSSOIN. Well, if we could, let me just skip forward a few pages and try to address the meat.

If the industry faced only a 5-cent fuel tax increase, it would place a severe financial burden upon our industry. But, in addition, DOT also advocates special truck taxes that would impose another $1.3 billion on the trucks. A breakdown of the total is as follows: And I have simply provided a table, which you have before you, which shows the $1.3 billion and how it is broken down as to the various elements.

The devastating impact of these special truck tax recommendations is even more dramatic when related to individual units. Again, using the typical five axle tractor semitrailer and 65-foot twin trailer, the annual increase of DOT's special truck tax program would be an increase on the five axle semitrailer of $2,444. And that's using the base of $1,700. On the five axle twin trailer, it would be an increase of $2,850 so that total cost on the five axle semitrailer would be $4,919 over that $1,750 base. And $5,569 over the $1,868 base of the present day twin trailer. That's roughly a 200-percent increase in Federal tax payments for these combinations.

Now I can tell you personally that as far as my company is concerned—Silver Eagle Co.—we presently run about 150 highway combinations. The increase alone on those combinations would be for our company some $550,000 a year. So far, here to date, with the depressed state of the trucking industry, the depressed state of the economy, and the adjustments required of us moving into a deregulated environment, we have a $16,000 net profit on the books at the end of October. That is not substantially different from the condition of the entire trucking industry.

I have placed into this statement information relating to the failure rates in the industry that simply show that today the trucking industry is experiencing a failure rate of better than two times that of general business. Consequently, we have our problems as it is. Tacking these increased expenses on top will simply be disastrous. But we have to relate the problem as being one that the industry is not in a position to pay these increased fees today. The increases proposed by DOT would simply be disastrous to the industry, would expand the bankruptcy rate, and would simply place us in a position beyond our ability.

Special taxes applicable only to the trucking industry have historically been viewed as our contributions to the Highway Trust Fund in exchange for whatever additional costs our sizes and weights impose on the highway construction. The trucking industry needs increased productivity. We need the position effects that a nationwide minimum uniform size and weight standard would bring, both in terms of reduced operating costs and fuel savings. We have proposed special taxes which we believe adequately reflect our true cost responsibility related to necessary changes in Federal size and weight standards. Even if DOT size and weight recommendations included the necessary changes, which they do not, the proposed increase would, again, far exceed our ability to pay.

So in closing, Mr. Chairman, the trucking industry does not oppose the proposed $0.05 fuel tax increase. Moreover, we have offered recommendations for special taxes commensurate with that ability to pay, provided these increases are accompanied by acceptable changes in the Federal size and weight standards. We recognize that in the limited time available in this special session agreement on the level of special taxes on trucks which we can afford and support for the needed size and weight relief may be impossible. If this be the case, we urge the committee to defer any action on special truck taxes and adopt only the $0.05 tax increase.

And with that, I stand prepared to answer questions.

[The prepared statement of Ross C. Gaussoin follows:]

STATEMENT OF ROSS C. GAUSSOIN, PRESIDENT, SILVER EAGLE CO. AND CHAIRMAN, AMERICAN TRUCKING ASSOCIATIONS

Mr. Chairman, and members of the committee, we appreciate the opportunity to testify before you on the need for increased funding of the Federal-aid highway program.

My name is Ross C. Gaussoin, and I am President of Silver Eagle Company, with headquarters in Portland, Oregon. I am also Chairman of the Board of American Trucking Associations.

With me today are Bennett C. Whitlock, Jr., President of ATA, and Edward V. Kiley, Senior Vice President.

American Trucking Associations is a federation with affiliated associations in every state and the District of Columbia. In the aggregate, we represent every type and class of motor carriage in the country -- both for-hire and private.

The trucking industry has long recognized the need for a modern and progressive Federal-aid highway program. In fact, in July of 1948 -- a full eight years before President Eisenhower signed the Federal Aid Highway Act of 1956, creating the interstate highway system -- ATA went on record in favor of proceeding as rapidly as possible with the development of the interstate highway program.

Today it is obvious that current financing is inadequate to complete and maintain the Federal-aid highway program. Unless corrective action is taken, our industry -- indeed the nation's whole economy -- stands to lose.

Recognizing the critical need for increased funding for the highway program, the trucking industry, as represented by ATA, last February endorsed increases in federal highway taxes -- including increases in the special taxes on heavy trucks. The trucking industry was the first group to move beyond the rhetoric concerning deteriorating highways and to propose a specific program of tax increases to help meet the present and future needs of an adequate and properly maintained highway system.

Our willingness to come forward with such a program, given today's anemic economic conditions, underscores our commitment to a continued and expanded highway system.

The industry's tax proposals which were submitted to the Congress last May, would generate nearly $10.5 billion of revenue for the Highway Trust Fund in 1985. This amount coupled with the surplus in the Trust Fund will support a $13.5 billion highway program in 1985.

Under the industry's tax program, a typical five-axle tractor semitrailer would pay more than $2,300 in Federal highway use taxes, compared with $1,750 today. Heavy trucks would be paying 26.3 percent of all highway taxes despite the fact that they comprise only 1.1 percent of all vehicles and travel only 5.5 percent of all highway mileage.

However, the trucking industry's support of increased truck taxes is contingent upon meaningful increases in our productivity through increased sizes and weights. This country's total transportation requirements will not be fully met until our industry can operate at modern size and weight limits nationwide.

Before addressing the specifics of proposals before your committee today, I would like to make a few comments on the Department of Transportation's cost allocation studies.

The Department was directed by Congress in the Surface Transportation Act of 1978 to make a highway cost allocation study. Actually, DOT made two. One was based on the incremental approach which has been the measurement accepted by highway engineers for many years. The second study was based on a new methodology -- the so-called consumption or damage approach. Unfortunately, this latter study has received all of the publicity -- primarily because it calls for outrageous increases in truck taxes.

The trucking industry seriously questions and disputes the methodology in this study because it attributes all highway damage to truck weight and gives no significant recognition to age, weather, and environment.

Any of you who have ridden on the Baltimore-Washington Parkway, from which trucks are prohibited, can surely attest to the effect of non-weight factors on highway deterioration.

I should add that the DOT incremental study -- which it has attempted to bury -- conclusively finds that trucks in all weight categories are paying their fair share of the current federal highway taxes.

Mr. Chairman, we have prepared a detailed statement discussing the industry's objections to the DOT's cost allocation study based on the consumption theory and which also discusses in greater detail the ATA tax program. I request that this statement be made a part of the record.

Turning to the Department of Transportation's specific tax proposals, the trucking industry does not oppose the 5¢ increase in the present Federal 4¢ per gallon fuel tax. However, we adamantly oppose DOT's proposals which would increase the present Federal taxes applicable only to over-the-road combination vehicles by more than 200 percent.

The 5¢ fuel tax increase will represent a dramatic increase in truck taxes. For example, a typical five-axle tractor semi-trailer will pay an annual increase in fuel taxes of $729 -- almost 25 times greater than the $30 DOT estimates will be paid by the typical passenger car. The 65-foot twin-trailer unit, which is presently operating extensively in 36 states, will pay an additional $851 -- almost 30 times greater than the passenger car. The total cost of the fuel tax increases to the trucking industry is $1.049 billion dollars.

If the industry faced only a 5¢ fuel tax increase, it would place a severe financial burden upon our industry. But in addition, DOT also advocates special truck taxes that would impose another $1.3 billion tax burden on the trucks. A breakdown of this total is as follows:

IMPACT OF DOT'S PROPOSED
SPECIAL TRUCK TAXES ON
TRUCKING INDUSTRY
($ million -- 1985 estimates)

SPECIAL TRUCK TAXES	INCREASE
Heavy Use	$1,035.8
Excise	207.7
Tire, Tread, Rubber	12.5
Parts & Accessories	50.7
Lubricating Oil	(12.5)
INCREASE	$1,294.2

The devastating impact of these special truck tax recommendations is even more dramatic when related to individual units. Again using the typical five-axle tractor semitrailer and 65-foot twin-trailer, the annual increase would be:

IMPACT OF DOT'S PROPOSED
SPECIAL TRUCK TAXES
ON TWO TYPICAL VEHICLES

TAXES	5-Axle Tractor Semitrailer INCREASE	5-Axle Twin Trailer INCREASE
Heavy Use	$ 2,150	$ 2,520
Excise	151	157
Tire	20	35
Retread Rubber	118	134
Inner Tubes	(11)	(12)
Parts & Accessories	25	26
Lubricating Oil	(9)	(10)
INCREASE	$ 2,444	$ 2,850

Mr. Chairman, DOT's total tax package -- fuel and special truck taxes -- represents roughly a 200 percent increase in Federal highway tax payments for these typical combinations.

To demonstrate the effects of DOT's proposals upon various types of trucking operations, we have requested representative companies throughout the country to apply the DOT tax program to their own operations, and to advise us promptly. We expect to have this data within the next 24 to 48 hours, and request the opportunity to submit it for the record.

Mr. Chairman, the DOT recommended tax increases can only be viewed as confiscatory. It is incredible that the Department could be seriously proposing these truck tax increases under any circumstances. It is even more incredible that they are proposing them at a time when the trucking industry is reeling financially from the dual effects of the economic recession and the disruptions created by deregulation. The combination of recession and deregulation has produced a financial condition that can best be described as horrendous.

Available data shows that 195 motor carriers have closed their doors and ceased operations since 1980. At least another 55 carriers are experiencing financial difficulties so severe that their future is uncertain. Together, these 250 companies represent more than $2.31 billion in annual gross revenues and more than 47,000 jobs.

There have been almost 70 failures of Class I and II carriers out of a total of 3,707 -- or a failure rate of 1.9 percent. According to the most recent figures available from Dunn and Bradstreet, business failures are occurring this year at a rate of 80 out of 10,000 businesses -- a failure rate of 0.8 percent. The motor carrier failure rate is, therefore, more than double that of other businesses.

The general condition of the industry reflects not only these failures and bankruptcies, but the poor financial picture of the carriers that are continuing to operate.

In the first half of this year, for general freight carriers, the overall operating ratio rose to 99.29. This means that for every $100 of gross revenues, the typical carrier was making only 71¢. Interest expenses totally eroded this slight operating income, and for the first half of this year there was a .10 percent deficit.

ATA's Research and Economics Division estimates that for the full year of 1982, the entire regulated trucking industry will have gross operating revenues of $44.1 billion with a net income after taxes of $210 million. This represents a net income of less than one-half of one percent.

The International Brotherhood of Teamsters estimates that more than 175,000 of their trucking industry members are out of work today. The non-union sector of our industry is similarly affected. If DOT's proposals prevail, untold thousands would be added to the unemployment rolls. But the danger of increased unemployment goes far beyond just trucking operations. Many related industries are already depressed. Truck and trailer manufacturers, tire manufacturers, manufacturers of truck equipment and components -- will all feel the effects of the DOT proposals.

It will do no good to create jobs in the construction industry with one hand while eliminating jobs in trucking and related industries with the other. Neither will it do any good to build highways and bridges if the trucks that are America's transportation lifeline are taxed beyond their ability to survive.

Special taxes applicable only to the trucking industry have historically been viewed as our contribution to the Highway Trust Fund in exchange for whatever additional costs our size and weight imposes on highway construction. The trucking industry needs increased productivity. We need the positive effects that a nationwide minimum uniform size and weight standard would bring both in terms of reduced operating costs and fuel savings. We have proposed special taxes which we believe adequately reflect our true cost responsibility related to necessary changes in Federal size and weight standards. Even if the DOT's size and weight recommendations included the necessary changes (which they do not), the proposed increases in special truck taxes far exceed our ability to pay.

In closing, Mr. Chairman, the trucking industry does not oppose the proposed 5¢ fuel tax increase. Moreover, we have offered recommendations for special taxes commensurate with our ability to pay, provided these increases are accompanied by acceptable changes in the Federal size and weight standards.

We recognize that in the limited time available in this special session, agreement on the level of special taxes on trucks which we can afford and support for the needed size and weight relief may be impossible. Should this be the case, we urge the committee to defer any action on special truck taxes and adopt only the five-cent fuel tax increase.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. I have no questions. I have the ATA's proposed alternatives for what they think is a commensurate payment for the damage on the roads. I hope we can work out what would be a satisfactory compromise. I would hate to see this package lost simply because we couldn't reach a compromise on that particular issue. But I do know what the Administration has recommended is extraordinarily high.

Mr. GAUSSOIN. We agree, Senator.

The CHAIRMAN. Senator Durenberger.

Senator DURENBERGER. No questions.

The CHAIRMAN. Well, I want to share the views of Senator Packwood. We want to try to work it out. But I hope we do it all in the next couple of weeks. We think we are going to do it in any event, and we would like to have the cooperation of the American Trucking Association. We want to make certain that you pay a fair share and no more. Now how you measure that—I asked a question about the methodology—but we will be working with members of your staff to see if we can. Of course, Senator Packwood has jurisdiction. And Senator Stafford has jurisdiction. And Senator Garn has jursidiction. There is a lot of jurisdiction floating around. But we hope we can accommodate the opposing views of those, if they are just in their opposition.

Mr. GAUSSOIN. Mr. Kiley would like to make a statement.

Mr. KILEY. Mr. Chairman, Mr. Gaussoin, in reading his statement rather fast—there's a part in the statement that we would like to submit for the record.

The CHAIRMAN. It will all be made a part of the record.

Mr. KILEY. Our criticism of the methodology used by the Department in their study. We would like to submit that for the record.

The CHAIRMAN. Right. And I have asked the Department to show us what the cost might have been under the old method, and what it would be under the new method. I'm certain you have that information, I just haven't had a chance to review it.

Thank you very much. And we will be working with you and Senator Packwood and others in trying to fashion a fair package.

Mr. GAUSSOIN. You can be sure that we will give you all the help that we can. And our interests certainly are in increasing the amounts that go into the fund so that it will be responsible and do the job that needs to be done. We simply wish to be assured of an equitable structure, and be able to gaining the increases in productivity that the system should provide.

The CHAIRMAN. Now you indicate in your statement increasing the tax might decrease employment. Is that correct?

Mr. GAUSSOIN. Yes, sir.

The CHAIRMAN. Now if you increase the size and the weight, wouldn't that be the same? You would need fewer trucks.

Mr. GAUSSOIN. Oh, I think that there probably is some major validity to that. The problem that we have at the present time is that the industry is in a crunch. Increased expenses in transportation in many cases simply eliminates the transportation. I think we have to recognize that. That when you increase costs as much as these are being proposed to being increased, the transportation dies. That affects the economy.

The CHAIRMAN. Thank you very much.

Mr. Brady, are you ready to go?

Mr. BRADY. Yes, Mr. Chairman.

The CHAIRMAN. Mr. Heldenfels, president of the Associated General Contractors of America will be next.

Go ahead, Mr. Brady.

STATEMENT OF CHARLES N. BRADY, DIRECTOR, HIGHWAY DEPARTMENT, AMERICAN AUTOMOBILE ASSOCIATION, WASHINGTON, D.C.

Mr. BRADY. As I indicated, Mr. Chairman, I am Charles N. Brady. I am director of the Highway Department for the American Automobile Association.

The American Automobile Association, serving 23 million members, appreciates this opportunity to comment on the proposed $0.05 per gallon fuel tax increase to provide funds for highways and transit.

We are greatly concerned that the current proposal would divert some 20 percent of the new revenues to public transit. As much as we recognize the need for additional revenues in the highway trust fund for needed highway and bridge repair, we cannot support and must vigorously oppose any program which would divert badly needed highway revenue to other modes. With diversion, this is not a user fee. It is the very opposite of a user fee. It violates the basic user fee concept that this administration has endorsed.

AAA could support a program calling for increased user fees dedicated to highways provided that, one, the increase of such fees be based upon the findings of the recently reported Federal highway cost allocation study and, two, balances in the trust fund, which were over $9 billion at the end of this last August, be drawn down to an amount sufficient to accommodate normal cash flow requirements under prudent financial management practices.

We estimate that the trust fund balance should not exceed $3 billion for a program level of $12 billion. We believe that any such program should involve making some $6 billion of the trust fund balances available immediately, with new taxes phased in to maintain the program level as balances are used up and interest income is reduced.

The Federal highway cost allocation study was sent to the Congress on May 13, 1982. This study was mandated in section 506 of the Surface Transportation Assistance Act of 1978.

Delegates to the AAA annual meeting held in New Orleans October 12 through 14, 1982, endorsed the methodology incorporated in this study as superior to that of previous studies and took the position that the study presented an equitable and modern approach to cost allocation.

The delegates adopted the principle that tax increases should reflect the exponential rather than the linear relationships of vehicle weight to highway damage occasioned by heavy vehicles, and called for the imposition of a weight distance tax or a steeply graduated tax increase based upon gross vehicle weight.

As reported to the Congress, the study found that under existing user charge rates automobile owners would be paying their fair share of road cost by 1985. They have been paying more than their share—about 110 percent of their cost responsibility. Under these same conditions, truck-trailer combinations weighing more than 70,000 pounds would be paying only 65 percent of their cost responsibilities. Owners of light trucks, vans, and combinations weighing less than 70,000 pounds, would be paying 125 to 200 percent of cost responsibility.

Any change in only the fuel tax element of the mix of taxes making up the highway trust fund will place a heavier burden on light vehicle owners, who currently pay over 85 percent of all fuel taxes. According to the findings of the cost allocation study, any fuel tax increase of more than 3.5 cents per gallon for a $12 billion program would result in an excessive burden on light vehicle owners. This conclusion is based upon the study findings of appropriate fuel charges of 0.6 cents per gallon per $1 billion of program level, under the various options outlined in chapter 6, page 26, of the study.

Since 100 percent of the new revenues raised by this proposal before you are to be from increases in fuel tax, the net effect will be to shift the major share of the tax burden to owners of light vehicles. We believe this is wrong. It will, to a large extent, negate 3 years of study effort and millions of dollars of user fees invested in an effort to answer the questions raised by the Congress in 1978 pertaining to the equitable sharing of cost responsibilities between classes of highway users.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Thank you. It's an excellent statement. Senator Packwood, do you have questions?

Senator PACKWOOD. No questions.

The CHAIRMAN. Senator Durenberger.

Senator DURENBERGER. I have one question, Mr. Chairman.

I wish Senator Bradley were here because we both came on this committee in 1979 when all the members of the American Automobile Association and everybody else were lined up at gas stations waiting to get gasoline in this country. Part of the argument that was made at that time, and I know he made it in favor of a $0.50 gas tax increase and others have made other kinds of proposals, was that there was the role that the gas tax in some countries plays in conservation of fossil fuel energies. And I know this particular tax is small enough so that it doesn't fall in the category of a conservation incentive necessarily. And it is being used now not as a jobs bill, but strictly as a user fee.

Does the American Automobile Association, of which I am a member—one of your 23 million.

Mr. BRADY. Glad to hear that.

Senator DURENBERGER. Do we have a position on conservation, transportation conservation, generally in the role of the gas tax—that it might play or should play in this country in conservation of fossil fueled energies? I ask you that question because it relates to your position on the use of the gas tax.

Mr. BRADY. Our opposition to diversion.

Senator DURENBERGER. Right.

Mr. BRADY. That's correct. We have had for a long period of time, and it was reinforced again at our annual meeting last October, the position that user taxes, which are collected as highway user taxes to build highways, should be used only for that purpose. The highway user, the trucker or passenger car operator, pays all the other taxes that the normal person pays. And the only justification for a special tax on him is to provide the services that he requires by virtue of the ownership and operation of his particular vehicle. And that's the only justification for a special user tax, be it an airport tax or be it a highway tax.

And so we have had, as I indicated, a long standing position that highway user taxes should be used for highways.

Senator DURENBERGER. Thank you.

Mr. BRADY. And we think this is a grave tactical mistake in opening a Pandora's box here of taking highway user taxes and using them to support capital transit expenditures.

The CHAIRMAN. Thank you very much, Mr. Brady. I think some of us share that general concern. We appreciate your testimony, and we will be working with you as we try to mark up the legislation.

Mr. BRADY. Thank you, Senator.

The CHAIRMAN. Mr.—did I pronounce that correctly?

Mr. HELDENFELS. Heldenfels.

STATEMENT OF H. C. HELDENFELS, PRESIDENT, ASSOCIATED GENERAL CONTRACTORS OF AMERICA, WASHINGTON, D.C.

Mr. HELDENFELS. Mr. Chairman, and members of the committee, my name is H. C. Heldenfels. I'm from Corpus Christi, Tex., and I am president of Heldenfels Brothers, Inc., a general contractor in Corpus Christi, and also president of Associated General Contractors of America, a national trade association representing over 32,000 general contracting firms and affiliate businesses. I am accompanied today by Executive Vice President Hubert Beatty, and by the Highway Division Staff Director John Gentille.

I am most pleased to appear before you to discuss the financing needs of the Highway Trust Fund in future years.

America's construction contractors provide a unique perspective on the decay of the Nation's public facilities. We built them. We repair them. And we know the dangers and costs of continuing neglect.

We are concerned. America's public facilities are rapidly changing from one of the Nation's greatest assets to one of the largest liabilities because the country has failed to maintain its investment in them. This is clearly indicated by the fact that the Nation's spending on public facilities plummeted from 3.6 percent of the gross national product in 1965 to 1.7 percent in 1980.

With the chairman's permission, I would like to submit a paper prepared by the Associated General Contractors of America which sets forth the reasons why our industry is concerned about the condition of America's public facilities.

The CHAIRMAN. Let me just say we will accept—we will not make it a part of the record, but we will accept the package.

Mr. HELDENFELS. This report, which we have prepared for the Congress, details over $900 billion in public facilities construction and reconstruction needs, not just on our highways and bridges, but also in water supply, sewage treatment, hospitals, dams, ports, waterways, and other public investments, on which the very existence and expansion our Nation's communities depend.

The most explicit example of the deteriorating condition of our Nation's public facilities is found in our highway transportation network.

If I may, I would like to preface my remarks with a few basic principles in which the Associated General Contractors of America strongly believe.

First, this Nation cannot stand further deterioration of its highway system.

Second, the economy can stand no more loss of productivity due to increasingly deteriorated and congested travelways.

Third, our citizens should not have to tolerate any further reduction in their mobility.

Fourth, the economy is dependent on growth, and an adequately maintained transportation system is necessary to provide for and meet the demands of that growth.

Fifth, the defense system must include a completed, upgraded and well-maintained national system of highways.

We believe that a sound highway transportation system is a prerequisite of a prosperous and growing Nation. American highways are and will always remain the backbone of the Nation's transportation system. That backbone is being seriously weakened by deterioration—deterioration that is being caused by inadequate levels of investment, especially at the Federal level.

We in the Associated General Contractors have long recognized the need to increase the Federal highway user fees to bring the Federal-aid highway program to the level that transportation experts at all levels of the Government now agree is required to protect this Nation's investment in its highway system. In fact, on September 9, 1980, we testified before the Senate Transportation Subcommittee on the need for a Federal-aid highway program level of at least $12 billion annually. And we pointed out that the needs justify, indeed demand, that at least a doubling of the current fee on motor fuel be the absolute minimum increase deemed acceptable at this juncture. A lesser amount will simply fail to do the job.

Now, 2 years and 3 months of inadequate Federal investment levels later, we still believe that the needs justify, indeed demand, a Federal-aid highway program level of at least $12 billion, with that increase being funded through an increase in Federal highway user fees, as contemplated in the surface transportation legislation now before Congress and as proposed by the administration.

We, therefore, respectfully urge this committee to approve a measure extending the Highway Trust Fund and increasing the highway user fee revenues accruing to the fund in amounts that will support the multiyear surface transportation legislation currently being advanced in the Congress.

Before closing, I would be remiss if I did not comment on the current state of the construction industry and the industry's ability to handle the increased workload which would result from the passage of an enhanced Federal-aid highway program. Mr. Chairman, there is no question in my mind that, with the construction industry currently operating far below capacity, with contractor failures at an all-time high, and with 1.3 million construction workers looking for work, the construction industry can efficiently and effectively handle a Federal-aid highway program right now of $12 to $13 billion.

Thank you.

[The prepared statement of H. C. Heldenfel's follows:]

Testimony of

The Associated General Contractors of America

Presented to the

Committee on Finance

United States Senate

November 30, 1982

on the Topic of

Financing Needs of the Highway Trust Fund

AGC is:

* More than 32,000 firms including 8,500 of America's leading general contracting firms responsible for the employment of 3,500,000-plus employees;

* 113 chapters nationwide;

* More than 80 percent of America's contract construction of commercial buildings, highways, industrial and municipal-utility facilities;

* Approximately 50 percent of the contract construction by American firms in more than 100 countries abroad.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS H.C. HELDENFELS. I AM PRESIDENT OF HELDENFELS BROTHERS, INC. A GENERAL CONTRACTING CONSTRUCTION FIRM IN CORPUS CHRISTI, TEXAS. I AM ALSO THE PRESIDENT OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA, A NATIONAL TRADE ASSOCIATION REPRESENTING OVER 32,000 OF THIS NATION'S LEADING GENERAL CONTRACTING CONSTRUCTION FIRMS AND AFFILIATED BUSINESSES.

I AM ACCOMPANIED TODAY BY AGC'S EXECUTIVE VICE PRESIDENT, HUBERT BEATTY AND BY THE ASSOCIATION'S HIGHWAY DIVISION STAFF DIRECTOR, JOHN GENTILLE.

I AM MOST PLEASED TO APPEAR BEFORE YOU TO DISCUSS THE FINANCING NEEDS OF THE HIGHWAY TRUST FUND IN THE YEARS AHEAD.

MR. CHAIRMAN, MUCH HAS BEEN SAID OF LATE ABOUT THE ACCELERATING DETERIORATION OF OUR NATION'S HIGHWAYS AND BRIDGES, AS WELL AS THE OVERALL INADEQUATE CONDITION OF OUR COUNTRY'S PUBLIC FACILITIES. AMERICA'S CONSTRUCTION CONTRACTORS PROVIDE A UNIQUE PERSPECTIVE ON THE DECAY OF THE NATIONS'S PUBLIC FACILITIES. WE BUILT THEM. WE CAN REPAIR THEM. AND WE KNOW THE DANGERS AND COSTS OF CONTINUED NEGLECT.

ACCORDINGLY, WE ARE CONCERNED. AMERICA'S PUBLIC FACILITIES ARE RAPIDLY CHANGING FROM ONE OF THIS NATION'S GREATEST ASSETS TO ONE OF ITS LARGEST LIABILITIES BECAUSE THE COUNTRY HAS FAILED TO MAINTAIN ITS INVESTMENT IN THEM. THIS IS CLEARLY INDICATED BY THE FACT THAT THE NATION'S SPENDING ON

PUBLIC FACILITIES PLUMMETED FROM 3.6 PERCENT OF THE GROSS NATIONAL PRODUCT IN 1965 TO 1.7 PERCENT IN 1980.

WITH THE CHAIRMAN'S PERMISSION I WOULD LIKE TO SUBMIT A PAPER PREPARED BY THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA WHICH SETS FORTH THE REASONS WHY OUR INDUSTRY IS CONCERNED ABOUT THE CONDITION OF AMERICA'S PUBLIC FACILITIES. THIS REPORT, WHICH WE HAVE PREPARED FOR THE CONGRESS, DETAILS OVER $900 BILLION IN PUBLIC FACILITIES CONSTRUCTION AND RECONSTRUCTION NEEDS, NOT JUST ON OUR HIGHWAYS AND BRIDGES, BUT ALSO IN WATER SUPPLY, SEWAGE TREATMENT, JAILS, HOSPITALS, DAMS, PORTS, WATERWAYS, TRANSIT AND OTHER PUBLIC INVESTMENTS, ON WHICH THE VERY EXISTENCE AND EXPANSION OF OUR NATION'S COMMUNITITES DEPEND.

THE MOST EXPLICIT EXAMPLE OF THE DETERIORATING CONDITION OF OUR NATION'S PUBLIC FACILITIES IS FOUND IN OUR HIGHWAY TRANSPORTATION NETWORK.

MR. CHAIRMAN, WE BELIEVE IT APPROPRIATE TO DEFER TO HIGHWAY USER GROUPS AND ORGANIZATIONS REPRESENTING PUBLIC OFFICIALS ON THE ISSUE OF HOW BEST TO ALLOCATE HIGHWAY REPAIR COSTS AMONG USER CLASSES. AS THE BUILDERS AND REBUILDERS OF OUR NATION'S TRANSPORTATION FACILITIES, WE CONSIDER IT APPROPRIATE TO DIRECT OUR COMMENTS TO THE HIGHWAY CONSTRUCTION AND REPAIR NEEDS FACING THIS COUNTRY.

IF I MAY, I WOULD LIKE TO PREFACE MY FURTHER REMARKS WITH A FEW BASIC PRINCIPLES IN WHICH THE ASSOCIATED GENERAL CONTRACTORS

OF AMERICA STRONGLY BELIEVE:

- FIRST, THIS NATION CANNOT STAND FURTHER DETERIORATION OF ITS HIGHWAY SYSTEM.
- SECOND, THE ECONOMY CAN STAND NO MORE LOSS OF PRODUCTIVITY DUE TO INCREASINGLY DETERIORATED AND CONGESTED TRAVELWAYS.
- THIRD, OUR CITIZENS SHOULD NOT HAVE TO TOLERATE ANY FURTHER REDUCTION IN THEIR MOBILITY.
- FOURTH, THE ECONOMY IS DEPENDENT ON GROWTH, AND AN ADEQUATELY MAINTAINED TRANSPORTATION SYSTEM IS NECESSARY TO PROVIDE FOR AND MEET THE DEMANDS OF THAT GROWTH.
- FIFTH, THE DEFENSE SYSTEM MUST INCLUDE A COMPLETED, UPGRADED AND WELL-MAINTAINED NATIONAL SYSTEM OF HIGHWAYS.

WE BELIEVE A SOUND HIGHWAY TRANSPORTATION SYSTEM IS A PREREQUISITE TO A PROSPEROUS AND GROWING NATION. EVEN WITH ALL THE ADVANCES MADE IN PROVIDING MASS TRANSPORTATION, REVIVING RAILROADS AND IMPROVING AVIATION, AMERICA'S HIGHWAYS ARE, AND WILL ALWAYS REMAIN THE BACKBONE OF THE NATION'S TRANSPORTATION SYSTEM. BUT THAT BACKBONE IS BEING SERIOUSLY WEAKENED BY DETERIORATION -- DETERIORATION THAT IS BEING CAUSED BY INADEQUATE LEVELS OF INVESTMENT, ESPECIALLY AT THE FEDERAL LEVEL.

AND WHAT HAVE BEEN THE RESULTS? CONSIDER THE FOLLOWING:

- FACT: TEN PERCENT OF THE INTERSTATE SYSTEM - - SOME 4,000 MILES -- NEEDS RESURFACING NOW.
- FACT: SIXTY-FIVE PERCENT OF THE INTERSTATE SYSTEM -- MORE THAN 26,000 MILES -- WILL REQUIRE REPAIR WORK BY 1995.
- FACT: FIFTY PERCENT OF THE PRIMARY SYSTEM WILL REACH THE END OF ITS DESIGN LIFE DURING THE 1980'S -- A TEN

FOLD INCREASE IN DETERIORATED PAVEMENT SINCE 1978.

- <u>FACT</u>: FORTY PERCENT OF OUR BRIDGES WERE BUILT BEFORE 1940 AND ARE FAST REACHING THEIR DESIGN LIFE OF 50 YEARS.
- <u>FACT</u>: ONE OF EVERY FIVE BRIDGES IN THIS COUNTRY IS STRUCTURALLY DEFICIENT; THAT IS, IT IS RESTRICTED TO LIGHT VEHICLES ONLY, IT IS CLOSED, OR IT IS IN NEED OF IMMEDIATE REHABILITATION TO KEEP IT OPEN.

ALL OF THIS, AND THE FEDERAL HIGHWAY USER FEE HAS NOT BEEN INCREASED IN 23 YEARS. TODAY THE FOUR CENTS PER GALLON MOTOR FUEL FEE PURCHASES LESS THAN ONE-FOURTH THE ROAD AND BRIDGE IMPROVEMENTS IT PURCHASED IN 1959.

WE IN THE ASSOCIATED GENERAL CONTRACTORS HAVE LONG RECOGNIZED THE NEED TO INCREASE FEDERAL HIGHWAY USER FEES TO BRING THE FEDERAL-AID HIGHWAY PROGRAM TO THE LEVEL THAT TRANSPORTATION EXPERTS AT ALL LEVELS OF GOVERNMENT NOW AGREE IS REQUIRED TO PROTECT THIS NATION'S INVESTMENT IN ITS HIGHWAY SYSTEM. IN FACT, ON SEPTEMBER 9, 1980, BEFORE THE SENATE TRANSPORTATION SUBCOMMITTEE, OUR ASSOCIATION TESTIFIED ON THE NEED FOR A FEDERAL-AID HIGHWAY PROGRAM LEVEL OF AT LEAST 12 BILLION DOLLARS, AND WE POINTED OUT THAT "THE NEEDS JUSTIFY, INDEED DEMAND, THAT AT LEAST A DOUBLING OF THE CURRENT FEE ON MOTOR FUEL BE THE ABSOLUTE MINIMUM INCREASE DEEMED ACCEPTABLE AT THIS JUNCTURE. A LESSER AMOUNT WILL SIMPLY FAIL TO DO THE JOB."

NOW, TWO YEARS AND THREE MONTHS OF INADEQUATE FEDERAL INVESTMENT LEVELS LATER, WE STILL BELIEVE THAT THE NEEDS JUSTIFY,

INDEED DEMAND A FEDERAL-AID HIGHWAY PROGRAM LEVEL OF AT LEAST 12 BILLION DOLLARS, WITH THAT INCREASE BEING FUNDED THROUGH AN INCREASE IN FEDERAL HIGHWAY USER FEES, AS CONTEMPLATED IN THE SURFACE TRANSPORTATION LEGISLATION NOW BEFORE THE CONGRESS AND AS PROPOSED BY THE ADMINISTRATION.

WE THEREFORE RESPECTFULLY URGE THIS COMMITTEE TO APPROVE A MEASURE EXTENDING THE HIGHWAY TRUST FUND AND INCREASING HIGHWAY USER FEE REVENUES ACCRUING TO THE FUND IN AMOUNTS THAT WILL SUPPORT THE MULTI-YEAR SURFACE TRANSPORTATION LEGISLATION CURRENTLY BEING ADVANCED IN THE CONGRESS.

BEFORE CLOSING I WOULD BE REMISS IF I DID NOT COMMENT ON THE CURRENT STATE OF THE CONSTRUCITON INDUSTRY AND THE INDUSTRY'S ABILITY TO HANDLE THE INCREASED WORKLOAD THAT WOULD RESULT FROM PASSAGE OF AN ENHANCED FEDERAL-AID HIGHWAY PROGRAM. MR. CHAIRMAN, THERE IS NO QUESTION IN OUR MINDS THAT, WITH THE CONSTRUCTION INDUSTRY CURRENTLY OPERATING FAR BELOW CAPACITY, WITH CONTRACTOR FAILURES AT AN ALL-TIME HIGH, AND WITH 1.3 MILLION CONSTRUCTION WORKERS LOOKING FOR WORK, THE CONSTRUCTION INDUSTRY CAN EFFICIENTLY AND EFFECTIVELY HANDLE A FEDERAL-AID HIGHWAY PROGRAM -- RIGHT NOW -- OF 12 TO 13 BILLION DOLLARS.

AND THERE IS ALSO NO QUESTION AS TO WHETHER THE STATES HAVE THE ABILITY TO HANDLE THE INCREASED PROGRAM LEVEL. THE AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS (AASHTO) IS CURRENTLY CONDUCTING A SURVEY TO DETERMINE HOW MUCH FEDERAL AID FOR HIGHWAYS THE STATE DEPARTMENTS OF TRANSPORTATION COULD

OBLIGATE THIS YEAR IF AUTHORIZATIONS WERE INCREASED AND OBLIGATION CONTROLS LIFTED. TO DATE 46 STATES HAVE RESPONDED THAT THEY COULD OBLIGATE 15.3 BILLION DOLLARS IN FISCAL YEAR 1983 AND 16.7 BILLION DOLLARS IN FISCAL YEAR 1984. AND YET, THE CURRENT PROGRAM AUTHORIZATION FOR FISCAL YEAR 1983 IS ONLY 5.1 BILLION DOLLARS.

THIS SURVEY PROVES THAT WHICH WE IN THE TRANSPORTATION COMMUNITY HAVE LONG ARGUED -- RECENT FEDERAL-AID HIGHWAY PROGRAM INVESTMENT LEVELS HAVE BEEN WOEFULLY INADEQUATE AND THEY HAVE RESULTED IN A TREMENDOUS BACKLOG OF UNMET HIGHWAY AND BRIDGE CONSTRUCTION AND REHABILITATION NEEDS.

IMPORTANTLY, THE AASHTO SURVEY ALSO DISPELS THE MYTH THAT IT WOULD TAKE QUITE A LONG TIME, PERHAPS EVEN YEARS, FOR THE HIGHWAY PROGRAM, ONCE HAVING RECEIVED AN INFUSION OF DOLLARS, TO "CRANK UP" AND CREATE JOBS. THE 46 STATE DOT'S RESPONDING TO THE SURVEY INDICATE THAT THEY COULD LET AND HAVE UNDERWAY WITHIN 90 TO 120 DAYS OF ENACTMENT OF AN INCREASED SURFACE TRANSPORTATION PROGRAM, OVER 4,300 ADDITIONAL FEDERAL-AID HIGHWAY PROJECTS, TOTALLING 5.6 BILLION DOLLARS. I STRESS THAT THESE ARE PROJECTS ABOVE AND BEYOND THE STATES' CURRENTLY PLANNED PROGRAMS -- PROJECTS THAT ARE NEEDED, PROJECTS THAT ARE READY TO GO AND PROJECTS THAT WOULD HAVE BEEN CONSTRUCTED BY NOW BUT FOR THE LACK OF SUFFICIENT FEDERAL AID.

MR. CHAIRMAN, WE BELIEVE THE FEDERAL GOVERNMENT HAS A RESPONSIBILITY TO PROTECT THIS NATION'S HIGHWAY SYSTEM FROM FURTHER DETERIORATION.

ACTION MUST BE TAKEN NOW TO AVOID THE MUCH HIGHER COSTS THAT WILL INEVITABLY RESULT SHOULD OUR HIGHWAY AND BRIDGE NEEDS CONTINUE TO BE DEFERRED.

ACTION MUST BE TAKEN NOW TO ASSURE THE EFFICIENT MOVEMENT OF GOODS AND SERVICES.

ACTION MUST BE TAKEN NOW TO ENHANCE ECONOMIC RECOVERY. WE BELIEVE CONSTRUCTION IS THE ENGINE THAT DRIVES THE ECONOMY, AS IT DIRECTLY AND INDIRECTLY EMPLOYS MORE THAN TWENTY-TWO MILLION AMERICANS.

AND ACTION MUST BE TAKEN NOW TO MEET THE BASIC NEEDS AND SAFETY CONCERNS OF THE TRAVELLING PUBLIC.

THANK YOU VERY MUCH.

OUR FRACTURED FRAMEWORK

WHY AMERICA MUST REBUILD

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
1957 E STREET, NW WASHINGTON, DC 20006

OUR FRACTURED FRAMEWORK
Estimated Costs and Background

HIGHWAYS

Estimated Costs: $315.2 billion to eliminate highway deficiencies through 1995.

Background: Investments in highways are not keeping pace with the rates of inflation and deterioration. Overall pavement age is increasing: resurfacing and rehabilitation needs are growing; urban congestion is mounting. The cost is estimated in the U.S. Department of Transportation's latest report to Congress, exclusive of identified bridge needs.

BRIDGES

Estimated Costs: $47.6 billion to replace or rehabilitate currently deficient bridges.

Background: About 45 percent of the bridges evaluated by the Federal Highway Administration for its 6th Annual report to Congress are considered deficient or obsolete. At the rate the nation is repairing its bridges, it would take 287 years to catch up with existing problems. Nearly half the bridges inventoried are within 10 years of their average design life expectancy of 50 years.

MASS TRANSIT

Estimated Costs: $36.6 billion over the next 10 years.

Background: Maintenance commonly is deferred when there are funding shortfalls. Funds are needed to modernize existing rail systems, to complete new systems and planned extensions, and to improve bus facilities. Private industry sources and public agencies charged with mass transit responsibilities identify these needs as basic.

RAILROADS

Estimated Costs: $94 billion over a 10-year period.

Background: The poor financial condition of railroads has led to critical delays in spending for maintenance. Ties have not been regularly replaced since 1953, and 50 percent of all ties should be replaced by 1988. According to the American Association of Railroads, railroads continue to lose business as their facilities deteriorate, further worsening their financial conditions.

LOCKS

Estimated Costs: $9.7 billion over the next 20 years to repair locks and modernize those that have become technologically obsolete.

Background: Bottlenecks at the nation's locks are seriously affecting shipping, particularly farm products and coal. According to a recent Corps of Engineers' Waterway Study, the average age of 184 principal locks on the inland waterway system is 40 years old, with 56 that are over 50 years old and are obsolete. Many locks in the next few years are expected to be congested or to actually restrict waterway traffic.

WATERWAYS

Estimated Costs: $32 billion for dredging and maintaining facilities and canals over the next 20 years.

Background: The waterway system, again from the Corps' Waterway Study, was extended and developed in the period following World War II, without much attention to maintenance. Rehabilitation programs are needed to improve the efficiency and reliability of waterway transportation.

PORTS

Estimated Costs: $3.5 billion to deepen ports over the next 20 years.

Background: The General Accounting Office has cited the need to deepen ports as the most urgent navigation issue facing Congress. Over the next 20 years, the United States will find itself at a competitive disadvantage with other coal exporting countries unless it deepens 10 to 20 ports enough to handle deep-draft ships.

SEWAGE TREATMENT

Estimated Costs: $119 billion to meet the goals of the Environmental Protection Agency's 1980 Needs Survey to the year 2000.

Background: The nation's massive sewer problems not only involve deterioration through age and neglect, many cities are faced with sewers that combine sanitary sewage and storm water, creating frequent storm water overflows. Several studies have indicated sewage treatment facilities in many cities are operating at or near capacity, which restricts or even prevents economic development.

WATER SUPPLY/ DISTRIBUTION

Estimated Costs: $110 billion over the next 20 years for cities over 50,000 population to maintain their water systems.

Background: The pressure on the nation's water supply is increasing from almost all segments of the economy — agriculture, manufacturing, energy production, and public consumption. These needs were first identified in "America in Ruins." In addition to the difficulty of assuring adequate supplies, many of the nation's cities are suffering serious losses of water through broken and badly leaking distribution systems. Public health and the future of the nation's economic development are directly connected to the pipes that carry its water supply.

DAMS

Estimated Costs: $119.4 billion to repair currently hazardous dams.

Background: About 13 percent of the nation's dams surveyed by the Army Corps of Engineers have been classified as "high hazard" because of their potential to endanger human life and damage property. While no cost assessment has been done for all dams, those under the jurisdiction of the Bureau of Reclamation require an average investment of $13.5 million; applied to the 8,794 high-hazard dams identified by the Corps of Engineers, the total cost of their repair reaches $119.4 billion.

PUBLIC BUILDINGS

Estimated Costs: $9.4 billion to meet the needs of the properties owned by the General Services Administration, the Veterans Administration hospitals and the U.S. Postal Service over the next five years.

Background: Age and deterioration have hit all three government services. About 60 percent of the buildings owned by the GSA are more than 30 years old. On the VA's list of top 10 projects, the facilities have an average of over 50 years. Many others need improvements to keep up with modern medical standards.

AIRPORTS

Estimated Costs: $13.5 billion to improve and expand the nation's airports over the next 10 years.

Background: Due to projected increases both in commercial and general aviation demands for airport space and air travel lanes, the nation's airports are growing more congested. The National Airport System Plan calls for $13.5 billion in improvements over the next 10 years to meet these needs.

Introduction

• The storm drains in New York City couldn't handle the volume of a summer rainstorm and run-off caused untreated sewage to flow into nearby rivers.

• A dam, rated hazardous two years ago, bursts in Colorado. Four people are killed, and survivors are left with millions of dollars in damages.

• Courts across the country release criminals early from prisons because of overcrowded and antiquated facilities.

• A bridge near Toledo is weight-restricted and heavy commercial traffic faces a 23-mile detour into the city. Consumers pay the increased costs for goods and services.

• An 80-year old water tunnel breaks and more than 300,000 New Jersey residents line up for nearly a week to get fresh water from National Guard supply trucks.

• County officials in Arizona, facing massive highway repair bills, rip up 250 miles of potholed highways and replace them with gravel roads.

These are only a few of the recent headlines which are painting a picture of the rapid deterioration of America's infrastructure.

The nation's highways, bridges, water supply systems, jails, sewage treatment plants, pipelines, dams, reservoirs, schools, parks, public buildings and other facilities are grabbing public attention. But not because they have become the physical basis for an efficient modern society. Rather, they are falling apart from age, neglect and disrepair.

What is the nation's infrastructure? It consists of all public facilities which provide the nation's standard of living and continuity of its services. It is a self-contained, yet interdependent, set of structures providing mobility, shelter, services and utilities. In a strict sense, our infrastructure is not just the highways and bridges or pipelines and reservoirs, it is also our post offices and parklands, our schools and our subways. These are the physical structures which make our society work.

But these facilities share something else — they are all suffering from severe and mounting deficiencies. Consider these facts:

• Some 13 percent of the nation's aging dams are classified "high hazard."

• Municipal water systems require $100 billion by 1990 to keep pace with demand.

• Nearly half of the nation's sewage treatment plants are preventing economic growth because of inadequate capacity.

• Nearly one of every two paved miles of highways needs resurfacing or complete reconstruction.

• Nearly half of America's bridges are too old or too weak to adequately handle today's traffic.

• New York's subway breakdowns have doubled in the last seven years.

• America's rail network must replace half of its ties over the next five years.

• Fifty-six of the 184 principal locks on the nation's inland waterway system — nearly one-third — will require major repairs over the next 20 years.

• Deep water ports, a key to exporting American goods, have insufficient capacity and are stifling trade. A dozen ports will need dredging over the next 20 years at a cost of $200 million to $500 million each.

But meanwhile:

• Capital investment in public facilities at all levels of government has fallen annually for 15 years. Since 1965, America has cut in half its revenue commitment to infrastructure.

• Federal construction grants, as a total share of grants to state and local governments, fell by 43 percent from the mid '60s to the mid and late '70s.

This report details the nation's infrastructure needs. It presents a portrait of our aging and decaying physical base — our infrastructure.

But the view is not all grim. This report also outlines strategies employed by some levels of government to reverse the trend. It also discusses the economic benefits from public and private infrastructure projects that are rebuilt and rehabilitated.

In surveying "Our Fractured Framework," the needs for construction are obvious. The benefits of construction are also obvious. And economically, we cannot afford to do less.

Total Program Needs.

The documented public works needs across the country are vast and growing. Viewed collectively, along with private investments in projects such as hospitals, the total needs are staggering. Estimates run from $400 billion to $3 trillion over the next 20 years. This report attempts to avoid the pitfalls of projection by dealing only with established needs, which are staggering. They total nearly $1 trillion worth of construction work. Total public construction spending was only $53.6 billion for all levels of government in 1981. And 1982 is running nearly 20 percent below that level.

A composite picture of the state of the union reveals the following:

Need	Estimated Cost (in billions $)
Water supply/distribution (urban only)	$110.0
Dams	119.4
Sewage	119.0
Public buildings (GSA, VA and Post Office)	9.4
Highways	315.2
Bridges	47.6
Airports	13.5
Mass transit	36.6
Railroads	94.0
Locks	9.7
Waterways	32.0
Ports	3.5
TOTAL	$909,900,000,000.

These needs do not include the full range of private hospital and health facility needs, or the growing rural water delivery system needs. They also do not include a cost associated with the rehabilitation, expansion and construction of police stations, fire houses, libraries, prisons, jails and many other public buildings not yet surveyed and spread through every level of government.

Clearly, there is a need to survey these facilities. They would surely push the nation's infrastructure needs above the $1 trillion mark, but how high above is uncertain. Other estimates of needs ranging as high as $3 trillion can't be taken lightly. It is also obvious that, while the financing of public works projects may vary, the needs are continuous.

Infrastructure Spending Trends.

Capital spending by state and local governments on all aspects of the nation's infrastructure has fallen each year for 15 years. At the same time, the nation's infrastructure has reached a critical point in its decay, as most recently reported by the Urban Institute. During that time, points out the Institute and the Council of State Planning Agencies, state and local governments have become increasingly dependent on the federal government's participation, which has gone from 10 percent in 1957 to 40 percent in 1981. Pat Choate and Susan Walter co-authored "America in Ruins" for the Council. The crunch has come now that sharp reductions are planned in federal participation in many areas, including highways and wastewater treatment. Federal plans, for instance, call for reducing the federal share of wastewater treatment plant funding from some $90 billion to $24 billion through Clean Water Act amendments enacted at the end of 1981.

The key question is: How much have states and local governments allowed their own funding capability and responsibility to slide? The Bureau of Economic Analysis of the U.S. Department of Commerce reports that in 1960, states and local governments spent 27.1 percent of their budgets on infrastructure. That's down to 15.4 percent in 1980. In 1968-77, the Urban Institute reports, real spending by states and municipalities fell by 30 percent. Capital spending on infrastructure as a share of the total states' budget fell by almost half between 1960-77.

Buffalo, for example, trimmed its capital budget by one-third in 1976. New York City cut more than 50 percent, and Pittsburgh 20 percent, says the American Public Works Association, based upon research conducted for the U.S. Commerce Department.

The Urban Institute notes that "Cities historically have depended upon general obligation bonds and state and federal aid, in addition to local taxes, for financing of basic capital items. None of these financing sources has proved a rock of stability." High interest rates, fueled by the U.S. Treasury's competition for funds to finance the national debt, have dampened bond issues. The general fund has been the workhorse, at the local level, for capital investment, but too many programs are competing for too few funds.

Currently, according to the Joint Economic Committee of Congress, 79 percent of all cities can expect operating fund deficits this year if per capita expenditures stay the same. Nearly three-fourths — 72.3 percent — of all public works agencies project that under present fiscal trends, there will be inadequate service within five years.

In "America in Ruins," Choate and Walter point out that the percentage of the gross national product devoted to our infrastructure needs has dropped from 3.6 percent in 1965 to 1.7 percent in 1980.

The National Governors Association reports that state governments, for the third year in a row, expect to spend more than they collect in 1982. Even though 22 states increased taxes this year, most states have surplus funds to cover only four working days, according to the governors' group.

Meanwhile, the backlog of capital investment needs continues to mount. *Business Week* magazine estimates that $66 billion is needed for basic infrastructure maintenance alone in the next 15 years.

The Federal Role. Cuts in federal revenue-sharing are often cited by governors and local officials as a blow to state and local programs. However, revenue sharing has never been widely used to repair, rebuild and construct infrastructure projects. The U.S. Commerce and Treasury Departments, for example, report that in 1976-77, only 1.8 percent of all shared revenue was used for publicly owned utility systems, including water, electric light and power, gas supply and transit systems. Few shared revenue dollars have been used to meet our nation's water and transportation problems under the Community Development Block

Grants, according to the Department of Housing and Urban Development.

Now the trend is for less federal involvement in all aspects of capital spending. For highways, this may mean cutting back the federal role to the Interstate [with more emphasis on repair] and primary systems, as has been proposed by President Reagan. The wastewater treatment program under the Environmental Protection Agency [EPA] has been halved between 1981 and 1982 [$5 billion to $2.4 billion]. On water projects, Congress has been unwilling to authorize projects that don't have national significance.

Yet, as the American Public Works Association points out in "Revenue Shortfall," infrastructure is a national system, and can't work if even one of the local links is allowed to deteriorate.

Federal assistance traditionally has been geared toward new construction rather than maintenance — witness the EPA construction grants program, which can't solve the problems of overload on existing systems.

Federal programs have to be flexible enough to allow for local needs, and should not be based on nationwide, legislatively mandated standards.

Revenue Options. In the work of the Urban Institute, the Council of State Planning Agencies, the American Public Works Association, and others, three important needs emerge: 1] setting proper priorities for infrastructure; 2] determining what constitutes acceptable service levels; and 3] working out a long-term method of meeting those needs.

There is a trend toward independent authorities, especially for wastewater treatment, increased and new user fees, state mechanisms to provide localities access to bond markets, productivity improvement and information exchange among cities on how to solve revenue shortfalls. The idea of a "capital budget," proposed initially 30 years ago, is again being studied by Congressional committees. Perhaps capital investment can no longer be based solely on uniform standards of service, set by Congress, and must be linked to economic demand. But Congress still can be the funding pacesetter. Public works agencies also need to make lawmakers aware of the consequences of deferring maintenance. New York City alone has paid $61 million over the past seven years to plaintiffs injured by potholes and bad sidewalks.

There is yet another method of preventing deterioration. Capital investment dollars can go farther with fewer delays caused by bureaucratic red tape. About half of each year's appropriated funds in federal-aid programs aren't disbursed until three years later.

Transportation.

Americans are a mobile people, but the continuing deterioration of our roads, bridges, railroads and waterways threatens to curtail that mobility. The effects, however, will not only be upon our personal mobility, but also upon our pocketbooks. Delaying necessary repairs invites higher prices in our goods and services and a greater regionalization, bound not by our ability to produce goods but our inability to get resources to factories and farms, and then to get products to markets.

Highways. Many groups, both public and private, have surveyed the nation's nearly four-million-mile system of highways and each has made a similar determination — America's highways are wearing out faster than they are being repaired or replaced.

The most extensive review of our highway needs compared current conditions to design standards and examined the wide gap which exists and the resultant deteriorating service levels. The blue-ribbon National Transportation Policy Study Commission reported in 1980 that national highway capital needs through the year 2000 total $900 billion in 1975 dollars. Revenues of only $753 billion would, over the same time period, be generated by all levels of government under existing policies. If spending is, in fact, constrained to the commission's projected level of highway revenues from all sources under status quo policies, little if any funds for new construction or resurfacing would be available in the late 1990s. Almost all available funds would be required for routine operations, maintenance, debt service and administration.

It is the Sixth Biennial Report by the U.S. Department of Transportation on "The Status of the Nation's Highways: Conditions and Performance" which paints a more realistic picture of possible action. The Transportation Department report places the 1980-95 capital investment necessary to remove all highway deficiencies at $362.8 billion in 1980 dollars.

The report's other major findings include the following:

- Since 1970 highway investments by all levels of government have increased. But they have been eclipsed by inflation, resulting in decreased real buying power.
- The combined effects of declining real investment levels and travel increases are reflected in deteriorating highway system performance since 1975.
- Overall pavement age is increasing, unmet resurfacing and rehabilitation needs are mounting, and congestion is growing, especially in urban areas.
- There are severe challenges to completing our national Interstate program and to restructuring and restoring the system in the face of deterioration.
- Based on projections through 1995, highway revenues and investments must increase, or the condition and performance levels of the nation's highways will continue to deteriorate.

Using these DOT figures for total highway and bridge needs of $362.8 billion and bridge needs alone at $47.6 billion, the total for highways equals $315.2 billion.

Other groups have viewed highway needs in different time frames and varying levels of improvements. One such report was done by the nation's state highway officials through the American Association of State Highway and Transportation Official. They have offered "A Program for America's Highways in the 80s." The group reports that 10-year (1982-1991) needs for major federal-aid highway categories total $250 billion. It bases its cost projections through the decade on 1980 dollars and assumes an annual 10 percent inflation rate.

In assessing the national ability to meet those needs, the report cites the obvious revenue shortfall under existing federal highway revenue patterns. Total Highway Trust Fund authorization levels necessary to meet those total needs are $207 billion, broken down (in billions) as follows:

1982	$13.0	1987	$20.9
1983	14.3	1988	23.1
1984	15.8	1989	25.4
1985	17.3	1990	27.9
1986	19.0	1991	30.7

Another group, the American Transportation Advisory Council, agrees with the state officials' position that there will be a severe revenue shortfall under existing highway programs. In computing 10-year projected needs for highways (1981-1990), the Council found that in 1980 dollars some $262 billion would be required. Adding the 10 percent inflation factor brings it to $404 billion.

Bridges. The Third Annual Report to Congress by the Federal Highway Administration on the Highway Bridge Replacement and Rehabilitation Program offered the following assessment of our nation's bridges:

- Number of bridges inventoried — 557,516
- Number of bridges structurally deficient — 126,665
- Number of bridges functionally obsolete — 121,872
- Total number of bridges deficient and obsolete — 248,537 (or 45 percent of total)
- Number of bridges funded to date for replacement or rehabilitation (1972 to 1982) — 8,659

The 8,659 bridges funded over the 10 year period averaged 866 bridges annually. At that rate, we are faced with 287 years of work to repair existing bridge deficiencies. The total current estimate to replace or rehabilitate eligible deficient bridges is $47.6 billion. It's of even greater concern that a bridge's average design life span is 50 years and, of the 557,516 bridges, 205,828 were built before 1940.

Airports. Aviation has a vital transportation role in America's prosperity and economic growth.

Historically, commercial aviation has remained in the private sector, with control of the airways in the public domain. To guarantee an adequate airport and airways system, both the public and private sector must agree on the goals and policies to insure that the nation's airport and airways system remain an effective element of the nation's transportation infrastructure.

In planning for future aviation growth, it is imperative that three specific areas be addressed — airport and airway capacity; airport development; and funding.

Federal Aviation Administration (FAA) forecasts indicate that, despite the recent slump in the aviation industry, commercial aviation is expected to grow at an annual rate of 4.6 percent through fiscal year 1993 and that the total number of air passengers will increase from the current low of 277.6 million per year in fiscal year 1981 to 492.2 million per year by fiscal year 1993. In addition, commuter and general aviation operations are expected to nearly double during the same period. Therefore, airport and airways plans need to seek a balanced development.

Currently, the FAA is embarking upon an extensive multi-year upgrading and modernization of the Air Traffic Control System to ensure an Airspace Plan capable of handling the projected growth. While the airspace plan is the central element in a comprehensive airways plan, so is the airport development and facilities component. Both elements must simultaneously be considered and appropriately funded if aviation capacity in the 1980s and 1990s is to be adequately handled.

There are 15,476 airports in the United States and according to the FAA there are 3,650 airports in the National Airport System Plan for which approximately $13.5 billion in airport development requirements have been identified for the next 10-year period.

The administrator of the Federal Aviation Administration has stated during Congressional testimony that:

> "Of all the things that will limit the growth of aviation, it will be concrete or asphalt — the lack of runway capability...It's certain, airside congestion is going to get worse, since concrete will continue to be the primary limitation."

The FAA predicts that by 1990, 41 of the 71 major airports will have a critical congestion problem resulting in an average peak hour delay of 30 minutes per operation. Implementing an airway system plan alone will not adequately address the congestion dilemma. As the problem of airport congestion grows, it will be essential to have a balance between airport and airways needs. Developments in airport design that are essential to meet the need for runway, airport terminals and facilities cannot be provided without adequate funding. The Airport and Airways Improvement Act of 1982 provides, over a five-year period, a total of only $4.8 billion in Airport Development Aid, contrasted with the $13.5 billion required over a 10-year period.

Mass Transit. It is difficult to generalize about the condition of mass transit because the age of existing systems varies widely. Maintenance on existing systems, however is the first place that spending deferrals are made during a funding shortfall.

Mass transit has become an important link in the country's transportation network, especially as an aid to reaching energy independence and relieving highway congestion. Deterioration of existing systems and unfinished systems could seriously undermine the role of mass transit.

The following capital improvement needs for mass transit over the next 10 years are projected by the American Public Transit Association:

Modernization of Existing Fixed Rail Systems	$13.5 billion
Planned Rail Extension	$4.3 billion
Completion of New Systems	$8.4 billion
New Starts	$7.9 billion
Bus Facility Improvements	$2.5 billion
Total	$36.6 billion

Funding for mass transit is provided largely by the federal government through discretionary and formula grants.

Railroads. Due to the industry's poor financial condition, many railroads have deferred maintenance and delayed capital expenditures for roadway and equipment. For example, ties have not been regularly replaced since 1953. The large number of ties installed in the 1930s and 1940s are wearing out and 50 percent of all ties should be replaced by 1988 to continue current levels of track use and operating speeds. As a consequence of this reduced maintenance, a portion of the track mileage is classified for reduced operating speeds, resulting in impaired efficiency of rail operations. More maintenance deferral has occurred in railroad yards and facilities. A recent study indicates that about 15 percent of these facilities will have to be upgraded through expansion, reconfiguration or total reconstruction.

Railroads are an integral part of the transportation link for moving raw materials, agricultural products and manufactured products. Railroads also are essential to national defense and are taking on a new importance as a key link in moving coal for export and domestic use. Thousands of individual shippers and receivers rely on railroads for relatively low cost transportation. Without substantial improvement in the system, though, railroads will continue to lose traffic because of increased hauling rates and inefficient rail operations. In turn, that will overburden other, inadequate systems.

The American Association of Railroads estimates the cost of making these improvements over a 10-year period is almost $90 billion. In turn, that will overburden other, inadequate systems.

Railroads are financed primarily as private companies. U.S. policy is to maintain a privately owned railroad system and limit federal capital assistance for railroads in financial difficulty. The federal government, while tending to resist direct cash subsidies, has aided railroads through loans and loan guarantees. The federal government has made a commitment to upgrade rail passenger operations and in 1971 Amtrak, a quasi-public, government-sponsored corporation, was formed. Its capital need through the year 2000 is projected at $4 billion for 700 miles of track.

Locks. In an advance draft of the National Waterways Study by the U.S. Army Corps of Engineers, inefficient locks are cited as the most significant limitation to the inland waterways' ability to accommodate traffic.

The study has concluded that 56 locks are more than 50 years old and have obsolete technology. As many as 54 of these 56, which require major rehabilitation or replacement by

2003, may not be repaired if the existing planning-construction process is used. The average age of the 184 principal locks on the inland waterway system is 40 years.

The study also identifies 44 locks (36 U.S. and eight Canadian) which will be congested. About 30 of these 44 locks also are over 50 years old. Further, 29 of these 44 locks will actually restrict traffic. The study projects that under maximum traffic forecast conditions and existing planning-construction, as little as 10 percent, but no more than half, of the 44 locks which need work and are congested, can have work done on them. This reflects the 24.4 year average time it takes to complete a lock project, from study authorization to construction completion.

The study further projects that over 100 million tons of shipping will not be handled by the year 2003 due to lock constraints. Agricultural products and coal will be most affected. Defense needs in an emergency will also tax lock capacity, and the study estimates that 70 million tons of shipping cannot be handled now due to lock constraints, with metals and ores most affected.

The estimated cost of improving locks between 1982-2003 is $9.7 billion (1977 dollars).

Locks are funded through the Congressional authorization-appropriation process.

Waterways. Since 1824, the Corps of Engineers has been responsible for assuring the operation of the national system of waterways at federal expense. The Corps operates and maintains about 219 lock and dam facilities and other control structures on some 25,000 miles of inland and intercoastal waterways, and maintains over 100 commercial harbors and 416 small boat harbors.

Since World War II, resources have been directed to extending the waterway system rather than intensively developing the existing system. Consequently, needed maintenance, including rehabilitation, often has been postponed. Priorities are shifting to upgrading the existing waterways.

The most serious constraint to handling navigation traffic efficiently is that key facilities in the inland waterway system are getting old and may be technologically outdated. For example, even though, as we have reported, the average age of the system's 184 principal locks is 40 years, some are approaching 80. The National Waterways Study draft predicted that the annual cost to rehabilitate our existing facilities would increase fourfold by the year 2000.

Seaports in many areas are inadequate and need upgrading. No Eastern or Gulf Coast harbor is deep enough to accommodate supercolliers that carry more than 125,000 tons of coal, twice the load of standard ships. Many ports, including Hampton Roads, Baltimore, New Orleans and Mobile, need to be dredged to the 55-foot depth required by supercolliers.

In an energy-short world where U.S. coal is in demand, ships often stand in line for several weeks, at great cost, waiting to be loaded. Hampton Roads, Virginia, is the nation's busiest coal port and also the most notorious for being backed-up. On an average day, 150 ships are anchored offshore.

Pittsburgh, a city surrounded by rivers, needs $2.5 billion to aid its crumbling locks and dams.

Next to construction, operations and maintenance of existing facilities are the largest cost items in the Corps of Engineers' navigation budget. This activity includes dredging, constructing bulkheads, repairing channel and canal stabilization works and harbor jetties, and replacing parts for day-to-day functioning. Besides increased operation and maintenance costs due to the age of the facilities, the costs will also continually be driven up by inflation and the added costs of complying with environmental regulations, particularly those associated with disposing of dredged material in an environmentally safe manner.

Traffic forecasts, developed for the National Waterways Study to predict water transportation needs, indicate substantial growth in water-borne transport through the year 2000.

Coal and grain, both domestic and for export, will be growth leaders. Strategic materials, such as iron ore, will grow more modestly, but dependence on water transportation will continue.

The study also contains specific recommendations for waterway improvements which, if implemented, would cost about $32 billion (1981 dollars).

The traditional Congressional authorization-appropriation funding method is used for waterway projects. However, beginning in fiscal year 1981, a fuel tax was imposed on commercial cargo vessels operating on 26 specific inland and intracoastal waterways — about 40 percent of the navigable miles of all such waterways. Beginning at four cents a gallon, the tax will increase to 10 cents a gallon by fiscal year 1986. Revenues collected will be made available — after authorization and appropriation — for constructing and rehabilitating these waterways. The intent, however, is not to recover the full cost of operating, maintaining, and developing the inland waterways through fuel taxes.

As costs continue to escalate, a movement to recover more of the costs from waterway users can be anticipated. The administration, in March 1981, proposed assessing ships and barges for a share of the cost of improving ports, waterways, and navigation locks. Also, several bills introduced in the 97th Congress have provisions for up-front financing or repayment.

According to a recent study by the U.S. General Accounting Office (GAO), the most urgent navigation issue before Congress is the need to deepen our ports. The GAO cites the National Waterways Study draft which recommends that, to improve the nation's waterway system, the ports of Hampton Roads, Baltimore and Norfolk should be developed to accommodate deep draft ships to boost this nation's competitiveness, particularly in the export of coal and grains. According to the Corps of Engineers, over the next 20 years, 10 to 20 ports need to be deepened to 50-55 feet.

Without deep draft ports, America can't compete with other coal exporting countries that will have the capacity to handle European and Japanese deep-draft colliers.

The Corps of Engineers estimates that the 10 to 12 ports that it plans to deepen will cost between $200 million and $500 million each. The cost of improving the three ports noted in the National Waterways Study is estimated at $1.7 billion. Assuming an average cost per project of $350 million, the 10 ports most in need would require $3.5 billion.

Presently, port dredging is funded through a permanent authorization which permits appropriations for *maintenance* dredging. Improvements must be funded through the congressional authorization-appropriation process.

<u>Sewage Treatment.</u>

Condition. In cities as diverse as New York and Albuquerque, the threat of collapsed sewer lines is growing. The Council of State Planning Agencies warns that one-half of the nation's communities have wastewater treatment systems operating at full capacity and could not support further economic expansion. Of 6,870 communities surveyed, the Commerce Department found 3,133, or 46 percent, had sewage treatment systems operating at 80 percent of capacity or more. And that prevents non-residential growth.

Sewer system shortcomings involve more than the physical deterioration brought on by age and neglect. A single system of common sewers that combines sanitary sewage and storm

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water concerns most older cities. Stormwater in sewer systems is costly and difficult to treat or eliminate. In many systems with combined sanitary and storm sewers, overflows caused by stormwater are a serious pollution problem even after advanced treatment facilities have been built to handle such flaws. Boston Harbor, for example, is seriously polluted at times by sewer overflows, creating significant health hazards. A recent study entitled, "Water Quality Goals, Objectives and Alternatives in the Boston Metropolitan Area: A Case Study," revealed that combined sewer overflows and stormwater runoffs from city streets produce nearly all of the harbor's pollution problems. According to the Environmental Protection Agency's [EPA] 1980 Needs Survey, over 80 cities have combined sewer overflow needs greater than $50 million.

Significant system "infiltration and inflow" is another major problem facing many cities. Infiltration is the seepage of groundwater into the system through faulty joints and other pipe openings. Inflow is stormwater which enters directly through manholes, the illegal connection of down spouts, and other ways. To eliminate infiltration, mains with poor joints or deteriorated walls must be patched, sliplined (fitted with a new inner wall) or replaced. According to the 1980 EPA survey, $2.5 billion is needed to correct these infiltration and inflow problems.

Effect on Commerce and Development. Sewer systems inadequate to support new or expanded business investment are an urgent national problem. In older communities, worn out sewer lines and wastewater treatment facilities are inhibiting new plant construction and expansion. In growing areas, the lack of such vital facilities delays private investment, placing a heavy financial burden on the community.

With increasing federal cutbacks, many localities which aren't able to finance sewer lines independently will suffer an even greater slowdown in housing construction.

Costs. The EPA's 1980 Needs Survey shows remaining eligible needs of $119 billion to meet the program's goals, compared to $106 billion in the 1978 needs survey. America could get more for its public works dollars if it would consistently maintain what it has already built, according to a number of public and private sector reports. Yet EPA estimates a backlog of construction projects exceeding $8 billion, an amount equal to two full years of appropriations at past levels. Of the $119 billion needed to meet the program's goals to the year 2000, $91 billion, or 76 percent, is identified as backlog needs. Combined sewer systems alone need $37 billion to correct pollution caused by overflows.

To upgrade all facilities to secondary treatment levels, the EPA estimates $28.8 billion is needed. Due to the increased emphasis on such advanced treatment levels, total needs for treatment levels beyond secondary treatment have declined since 1978.

Rural areas and large cities have the greatest treatment needs. For example, rural areas below 3,500 in population — representing about 8 percent of the nation's population — have 16 percent of the total need. Moreover, cities above 50,000 population — representing 70 percent of the population — have 79 percent of the national need. Nineteen major U.S. metropolitan areas reported needs greater than $1 billion. New York City has the greatest needs with over $11 billion required for sewage treatment.

Spending Levels. Wastewater treatment has become the largest environmental public works program in the country's history, second only to the Interstate highway program in overall public works. The federal construction grants program, by law, can be used for both new construction and rehabilitation projects involving sewage treatment plants, interceptor sewage, outfall sewers, sewage collection systems, and equipment for operating sewage systems. But, in practice, there has been little spent on repair and rehabilitation. Combined stormwater and sanitary sewer-repair responsibilities usually have been left to local jurisdictions and have a low priority for construction grants funds.

The Clean Water Act of 1977 authorized an additional $25.5 billion for the construction grants program through 1982. The legislation gave states the exclusive authority to rank projects based on the EPA's Needs Survey. The law also stipulated that no more than 25 percent of a state's construction grants funds could be used to construct or rehabilitate sewer pipeline projects that were on a state's priority list and otherwise eligible for funding. Along with the restriction on these "pipeline" funds, state priorities are limited to meeting unfilled treatment needs before other eligible treatment works may be funded, according to the Urban Institute.

The construction grants program was not conceived as an ongoing capital aid program but rather as a one-time effort to assist communities in the construction of treatment works and related sewer facilities. To receive federal construction grants, local governments had to adopt user charges to ensure future self-sufficiency. Responsibility for maintenance and repair was lodged with the public owner of the sewer system.

According to the Urban Institute, in 1979 the EPA was directed to use its grants program to help strengthen central cities — specifically by favoring repair projects in older cities and discouraging the use of construction grants to develop interceptor systems for new exurban areas that would drain population or economic activities from the urban core. Although restrictions on grants for new sewer line installations have been effective, almost no funding was ever generated for central city repair and rehabilitation of sewer collection systems.

Through April 1982, the EPA had spent $29.9 billion on all wastewater treatment functions since 1956. According to its Needs Survey, another $454 billion should be spent through the year 2000. However, the EPA concludes, "Greater progress could be achieved toward treatment goals with a more focused funding strategy. Current treatment plant needs are estimated at $34.5 billion. If these needs are to be met, funding would have to be focused on these needs. Without a focus, treatment plant needs are unlikely to be met before the year 2000."

Water.

Conditions. Just as the energy shortage was the major crisis of the '70s, a water shortage may be the major crisis of the '80s and beyond. Water is needed for a variety of purposes: developing domestic energy supplies, supporting a healthy population, and maintaining industrial, manufacturing and agricultural bases. The water crisis, should it occur, would not be because this country lacks water: it would be the result of poor management of this resource.

Why is there suddenly an increased demand for water? Our population is shifting from the water abundant Northeast to the relatively arid West and Southwest. And demand on our agricultural system to increase exports is increasing. According to the U.S. General Accounting Office [GAO], irrigation accounts for more than 80 percent of the nation's water use.

To avoid future water shortages, America must increase supplies while reducing consumption. Methods of increasing water supplies include: building more water projects, such as reservoirs and pipelines to create additional holding and delivery capacity, and developing technologies to make formerly unusable water safe. One of the major problems with new projects is the tremendous time devoted to developmental stages. The GAO reports that up to 31 years have been spent moving some water projects from conception to reality. Shortening these development periods is a key to holding down overall project costs.

The nation's energy crisis presents even more implications for America's water needs. Not only will water be needed to generate hydro-electric power, but vast quantities will be necessary for other energy-related efforts including: steam electric power plants, shale oil recovery, coal gasification and liquification, and coal slurry pipelines. Many reports predict that these quests for energy will nearly exhaust all unused water supplies in the mineral-rich, water-short West. If America is to rely on alternative forms of energy, water must be made available.

Because of its importance, the supply and delivery of water can become a hot political issue. Many groups are at odds over water rights. For example, there are over 50 lawsuits in the courts involving Indian water rights. Environmentalists, competing industrial users and states sharing a common water supply are trying to resolve their problems.

An aging network of dams and reservoirs poses another threat to the nation's future water supply. A Corps of Engineers report on the safety of non-federal dams indicates that there are over 65,500 non-federal dams in the country of which 8,794 have been classified as high hazard because of their potential to damage human life and property. Of these high-hazard dams, more than a third are rated unsafe. Due to budget constraints, the study didn't even investigate another 56,000 dams rated less than "high hazard."

Federal dams are inspected and maintained by the agency that built them. Although most are maintained on a regular basis, 48 U.S. Bureau of Reclamation dams need structural improvements to make them safe.

Effect on commerce and development. Water is not only essential as a life support system, it is vital to any type of development. Water is necessary for drinking, washing, cooking and recreation. A workforce must have water as a life-support system. Development must have water for business. New communities built around new business and industrial centers will need new water.

Old age is also catching up with many American Cities. In St. Louis, about 15 percent of the water supply leaks out of the pipes. Boston, the biggest loser, estimates it loses 15 to 25 percent of its water because of leaks. Philadelphia loses 15 percent, Chicago, 17 percent, Tulsa, 14 percent and Kansas City, 11 percent. The leaks not only waste water, they also cause street cave-ins and other above-ground hazards.

While water problems in the West are serious, the East also faces water problems. Many eastern reservoirs, dams and water tunnels are over 50 years old and need major renovation or replacement. With today's emphasis on reducing public expenditures, renovations and replacements are needed to prolong the life of these facilities. Since 75 percent of the nation's population lives in metropolitan areas, their water supply systems must not continue to deteriorate. The failure of a major water system could create a disaster for millions of our urban population.

Dams are constructed for specific reasons such as irrigation, hydroelectric power, flood control, water supply, recreation, or navigation. Whatever their purpose, a dam failure can be disastrous to a community, particularly with the loss of lives and property. In 1972, dam breaks in Buffalo Creek, West Virginia, and Rapid City, South Dakota, claimed 362 lives. The Teton River Dam burst in 1976, killing 11 people and causing $1 million in damage. A year later, a dam breached in Toccoa, Georgia, killing 39 people. This incident prompted the federal government's dam inspection program by the Corps of Engineers. In 1982, 19 dams were washed out or partially breached in Connecticut, and a dam burst in Colorado, flooding the town of Estes Park.

Costs. The "America in Ruins" study notes that urban areas with populations of over 50,000 will require between $75 and $110 billion to maintain their urban water systems over the next 20 years. About one-fifth of these communities would face revenue shortfalls, even if water rates are doubled.

No available figures project what it will cost to supply water to rural areas. But as the population continues its shift to the West and Southwest, huge sums will be needed to assure a water supply.

No cost estimate exists to upgrade all non-federal dams to safe condition. But the estimated cost of upgrading only the 48 Bureau of Reclamation dams is $650 million, an average of $13.54 million. Projected over the 8,794 high-hazard dams, the cost of repair exceeds $119 billion.

Spending Levels. Water projects have been financed and subsidized largely by the federal government. In fiscal year 1982, appropriations for water project construction and rehabilitation by the Corps of Engineers and the Bureau of Reclamation totaled about $1.9 billion. These agencies are requesting about the same funding for fiscal 1983. And they have a backlog of over $50 billion in congressionally authorized projects in various stages of delay in the contruction pipeline. Excluding navigation, the Corps of Engineers and the Bureau of Reclamation are spending over $500 million annually to operate and maintain water resources projects. This figure is expected to increase more than 300 percent in the next decade, according to the GAO.

To return more decision-making authority to the states, the federal participation in water projects may diminish. The source of financing, how it's repaid, and over what period are major issues that Congress faces in deliberating water policy reform. Existing federal water project repayment laws and policies have been questioned in the press and in Congress for heavily subsidizing agricultural water users. Congressional committees, presidential task forces, and advisory committees have concluded that reforms are needed to match the growing concern for fiscal austerity. The day of unquestioned low-cost or free water and generous repayment terms may be over.

Public Buildings.

"Public works" commonly mean the highways and bridges; sewers and water supply systems; locks, dams, ports and reservoirs which deliver the services we require. But the list continues.

Just as those highways and sewers hold our communities together, so do our schools, fire houses, police stations, libraries, post offices and all the government buildings which house the services and businesses required to meet the needs of a growing population. In detailing the nation's infrastructure needs, the public buildings must be counted.

The building needs of our nation are confined neither to the old nor the new. In Dallas, one of the nation's newest population centers, the city's government estimates that $30 million should be spent over the next two years to build and improve its libraries, recreation facilities, police stations, fire houses and jails. On the last, the entire state of Texas has been caught short. Some prisoners are reported sleeping "under the stars" due to overcrowded conditions.

New York City, one of the nation's oldest metropolitan centers, has started cataloging its construction needs. The city's capital budget plan — self-described as its "Brick and Mortar" needs — places required expenditures at $1.2 billion over just the next six years.

New York planners estimate its needs are:
$304 million for hospitals and health facilities
238 million for parks and libraries
143 million for jails
228 million for fire houses
133 million for police stations
131 million for court houses
TOTAL — $1.2 billion

The whole of government funded building construction could be bullish in the '80s. The need for such activity, however, may not be matched by the willingness of government at all levels to finance it. While the federal government's total construction program isn't handled by any single agency, the General Services Administration (GSA) handles the lion's share through its Public Buildings Service. The GSA oversees 7,200 buildings nationwide, providing office space for 860,000 employees.

In its 1982-1988 Management Plan, the GSA continues its move toward owned, rather than leased, space. Currently, the GSA owns 53 percent of the space it provides and leases the remaining 47 percent. Plans call for increasing the owned space to 78 percent by 1988. The agency's own studies, supported by congressional discussion, indicate that in roughly 90 percent of the 5,387 cases where space was leased by the government in 1980, constructing similar space would have been less expensive. That's why the GSA, in estimating its short-term construction needs, identified some 73 projects which should be underway by 1988.

The move toward increasing government-owned office space is not the only factor behind the GSA's $3.6 billion plans through 1988. Rehabilitation of existing structures also is necessary.

Of the 2,200 buildings owned by the GSA, 60 percent are more than 30 years old. In its latest Management Plan, the agency has identified 212 projects required at those locations with an estimated cost of $1.1 billion. Roof repairs, conservation retrofitting, safety systems, remodeling and installation of more efficient heating and cooling systems lead the list of work required in existing structures.

The U.S. Postal Service has projected the need for 15 projects in 1982 totaling $414 million.

Hospitals. Age also is the foe of hospitals and health facilities run by the Veterans Administration (VA). That agency's Medical Facility Construction Plan covering the next five years identifies $5.35 billion worth of major construction projects which should be undertaken. The report, which confines itself to projects costing $2 million or more, is the fourth such five-year plan issued by the agency, and is a "construction needs assessment" drafted without consideration for revenue availability.

In all, the VA has identified 252 major construction projects which meet one or more of the following three criteria:

1. To build and/or modernize existing facilities to accommodate program growth or realignment.
2. To meet the functional and space requirements of modern medicine.
3. To correct cited deficiencies in the areas of patient environment and safety, and to meet the standards of accreditation.

These projects range from new construction to renovation, but in most cases, age plays a role. Take, for example, the "Top Ten" major construction and rehabilitation projects listed in the VA report. Except for the facility in Gainesville, Fla. which opened in 1967 and is due for expansion, the remaining nine projects average over 50 years old. The Mountain Home facility in Tennessee is the oldest, opening its doors in 1903. These 10 hospitals serve as the primary healthcare facility for nearly 328,000 veterans.

The remaining 242 projects run the gamut of hospital improvement and upgrade, including renovation, alterations and modernization of facilities.

Jails and prisons. The system of justice in the United States has long been debated, but usually the argument concerns what happens *before* a criminal is convicted. Today's debate has centered on what happens *after* he is imprisoned. Crowding remains a principal factor prompting judicial intervention in corrections policy. As of April 1, 1981, prisons in 36 states and territories were under court orders to end overcrowding. Judges in several states, including Florida and Tennessee, are allowing for early prisoner release due to overcrowded conditions.

Unfortunately, this response points to the critical need for more prison and jail space. The prison population has rapidly increased since 1975, and recent data support steady growth through the 1980s. Consider the following facts from the American Correctional Association [ACA]:

- The number of prisoners held by long-term correctional institutions has reached a record high for the fifth consecutive year, the national number is now well in excess of 321,000 persons.
- The number of state prisoners housed in jails — there are about 7,000 such structures — continues to climb because of overcrowded state systems.
- Serious crime, measured by the FBI's crime index, rose 10 percent in volume during 1980, as compared to 1979, the sharpest increase since 1975.
- Only three times since the 1920s has the prison population decreased, during World War II, the Korean conflict and the Vietnam War.

All this points to the critical need for all levels of government to increase their funding to modernize old prisons and jails and construct new space. As reported in *Business Week*, over half of the nation's 3,500 jails are more than 30 years old. At least 1,300 of them, and perhaps as many as 3,000, need to be rebuilt. The ACA recommends that the federal government appropriate at least $1 billion per year to allow states and local criminal justice facilities to cope with judicial decisions which are classifying many facilities as unconstitutional and also to solve the overcrowding problem. The ACA also feels that there should be a national Correctional Construction and Program Development Act to provide a national basis for building more space.

Multifamily Housing. Rental housing is an important source of shelter for many Americans. About 26 million families — 35 percent of all families — depend on rental housing for shelter, according to the U.S. General Accounting Office. But, the National Association of Home Builders estimates that by the year 2000, renters will occupy about 30.5 million housing units, or only 26 percent of all occupied units.

The reasons for this are the losses of existing units through abandonments and conversions to condominiums, rapidly escalating operating costs and the increasing age of the existing rental stock. (According to the 1977 Annual Housing Survey, about 41 percent of all renter-occupied housing units are in structures built in 1939 or earlier.) All this points to the increased need for more rental buildings to accommodate those who either cannot buy housing or choose not to.

Historically, says the GAO, the private sector and the federal government have shared the burden of providing multifamily rental housing, with the private sector dominating the market. However, the factors adversely affecting rental housing have resulted in increasing reliance on government to provide this housing. In 1979, about 75 percent of multifamily rental starts were federally subsidized and/or insured. Unfortunately, according to the GAO, the government doesn't have the resources to meet current and future needs. With the private sector's reluctance to operate rental units, given current restraints, there will be a great need for multifamily units.

Energy

Pipelines. A major objective of America's national energy policy is the increased utilization of the nation's vast resources of coal to relieve dependence on imported oil and make natural gas available for premium fuel use. Although railroads have been and continue to be the prime haulers of coal, constructing long distance pipelines to transport this mineral are becoming more important. Currently, there are two major problems which confront pipeline construction.

One problem revolves around eminent domain — allowing pipelines right-of-way across privately owned property. The second problem is that a coal "slurry" (finely grinding coal and mixing it with a liquid for pumping) pipeline operation requires great amounts of water to move the pulverized coal. Indeed, this highlights the increased need of available water supplies in this country. (see section on Water).

It is vitally necessary that coal slurry pipelines be constructed so that the increased demands can be met efficiently and economically. According to *Pipeline and Gas Journal* (January, 1982), 10 coal slurry pipeline projects are proposed for the United States, totalling 10,396 miles and costing an estimated $12.6 billion. Construction of these pipelines depends on Congressional decisions about eminent domain legislation.

Pipelines carry products other than pulverized coal. They also carry natural gas, crude oil, carbon dioxide and petroleum by-products. In 1982, 11,200 miles of pipeline are scheduled for completion. This indicates that oil and energy producers and pipeline transporters plan to continue adding significant new facilities and to extend the national energy distribution system to previously untouched or lightly served areas. Much of this pipeline work is financed with private dollars.

Pipeline and Gas Journal has also estimated that pipelines will boom in this country as our alternative energy demands rise here and abroad. The magazine estimates that by 1991, total new pipeline miles will reach 28,800 — an average of 2,880 per year. Between 1991 and 2000, the magazine estimates an additional 31,700 miles of pipeline will be constructed.

Power Plants. According to the U.S. Department of Energy, the demand for electricity should continue to grow. The DOE cites three reasons for this: First, an expanding economy has raised income with which the electricity can be purchased, and has tended to raise investment in capital goods by which electricity is used. Second, large increases in non-electric energy prices have made electricity an increasingly attractive substitute for other forms of energy. Third, new technologies like air conditioning/heat pumps have broadened the range of services which electricity can provide.

The supply of electricity is threatened, according to the DOE, because financial problems are making it hard for utilities to build power plants. Existing regulatory policies have restricted utility earnings and weakened the ability of utilities to raise capital by selling stocks and bonds. Without profits or external capital, new capacity can't be built.

"Recent electric supply and demand trends point to two possible unsavory results by the end of the decade," the DOE notes in *The Nation's Electric Future: Perspectives on the Issue of Electricity Supply Sufficiency*. "First, the central regions of the nation may have less electricity than their growing economies require. Second, due to aging equipment and continued reliance on power plants that burn oil and gas, the entire nation may pay more for electricity than it needs to."

The DOE concluded that continued utility financial problems, when matched with modest electricity demand growth, may cause a long-term shortfall in electricity supply. If power plants continue to be cancelled and deferred, supply sufficiency could be risked in much of the country as early as 1990, the DOE warns. The reliability of service could be called into question, and the cost of electricity could increase substantially. While the frequent failure of regulators to allow utilities an adequate rate of return may save money for consumers in the near term, it guarantees long-term economic losses through weekened energy infrastructure, higher electricity prices and increased energy imports, says the DOE.

Infrastructure Deficiencies: Case Studies.

Cleveland. Cleveland's financial problems make it extremely difficult to assure an adequate level of capital investment in the city's infrastructure. Many of the city's facilities are in poor condition after years of neglect, jurisdictional disputes which have stalled investment and hindered maintenance efforts, and a pattern of voter reluctance to finance improvements. The city of Cleveland faces a backlog of some $700 million in basic improvements to its infrastructure system, according to estimates by the Urban Institute.

The Cleveland Water Division has four purification plants and one — the Division Avenue plant, built in 1915 — is in hazardous condition. Settling has severely stressed its structural components, causing mechanical failures, leaks and a partial roof collapse. Since this plant provides 31 percent of the total system's treatment capacity, the other three plants couldn't accommodate current or projected water demand if the Division Avenue plant were shut down.

The water distribution system also has major deficiencies, especially in Cleveland's suburban communities. Most of the distribution pipes installed before 1955 are metal, not concrete, and deposits, called tuberculations, have begun to impair the capacity of the system. Gilbert and Associates, which conducted a report entitled, "A Study of the Cleveland Water System and Relevant Issues on Suburban Service," found that tuberculation has drastically reduced the pipes' ability to transport water. With inadequate flow and impaired pipe capacity, water pressure frequently falls below the American Water Works Association's suggested minimum of 30 pounds per square inch during the peak demand periods, and many customers are without service.

By all indications, Cleveland's sewer network also has seriously deteriorated. There have been many street cave-ins and capacity can't accommodate peak flows. Two-thirds of the sewer main mileage is over 60 years old, with the oldest sections built in the 1880s. Most of the pipe is brick and the system's three treatment plants, built in the 1920s and '30s, have required extensive expansion of capacity and upgrading of treatment processes during the '70s and '80s. More amazing, over 90 percent of the combined sewers — sewers that handle both sewage and stormwater — and 60 percent of the sanitary sewers are approaching or exceeding the anticipated service life of 50 years.

The most difficult sewer system problem is inadequate capacity to handle stormwater runoff, with numerous flooding incidents and overflows of raw sewage into receiving waters during the more than 100 periods of rain Cleveland experiences each year.

Orlando. The Florida Environmental Protection Department recently prohibited Orlando from adding more homes to its overloaded sewer system. Orlando has two serious waste-treatment problems. The *Wall Street Journal* reported that its three waste-treatment plants are at capacity, including a $100-million plant that just opened last fall. A new plant would help, but the city is strapped for money. The city's second problem is that it doesn't have a place to put treated water. Previously, it had been discharging 12 million gallons of treated water a day into a local stream. The EPA, however, has ordered local officials to stop the practice by 1988. The city will have to build pipelines since it isn't located near a river, lake or other large body of water.

Oakland. Oakland has been reducing services since its 1976-77 fiscal year. With the passage of California's taxcutting Proposition 13 in 1978, it had to make even greater program and service reductions. During this time, the Office of Public Works has been struggling to maintain the basic integrity of the city's street system. In 1980, the city only resurfaced 1 percent of its street system and was unable to finance any street reconstruction projects without federal and state aid. The city is being forced to eliminate some street maintenance programs, and to reduce spending for other street repair work.

No local revenues are used for street improvement, and there is little likelihood of change. State gasoline tax revenues represent a diminishing source of aid that was previously used to finance street maintenance activities but not preventive maintenance. Two-thirds of Oakland's street mileage is ineligible for the major federal highway assistance. Under these circumstances, the backlog of unfunded street improvements soon will reach critical proportions.

Oakland's storm sewer system also is suffering a cutback in routine maintenance.

Boston. Boston has some of the oldest water and sewer pipelines in the country, according to the Urban Institute. More than 20 percent of Boston's water distribution pipeline system and over 70 percent of its sewers were built before 1900. Approximately 40 percent of the city's purchased water supply is unaccounted for, due to undermetering, pipeline leaks and breaks, and unmetered public uses. The city's combined sanitary and storm water sewers, as in other older cities, experience blockages and overflows.

Almost all of Boston's water pipes are cast iron, except a few large steel transmission mains and the stronger ductile iron pipes installed after 1968. Pipes laid before 1928 are not cement-lined and these unlined pipes are the primary source of corrosion and leakage.

The Boston Water and Sewer Commission was established under state legislation following a home rule petition by the city. Although it has made significant improvements over the city's maintenance levels, the commission expects several years of catch-up work before a systemwide preventive maintenance program is possible.

New York. Because of its past financial trouble, New York City is an extreme example of problems resulting from maintenance cutbacks. According to the Urban Institute, most of New York City's 6,000 miles of water mains are at least 75 years old. Fifty-five percent of its water distribution system consists of old cast iron pipes which fail to meet current city standards for pipe at least 10 inches in diameter. Coupled with reduced maintenance, this has caused a number of main breaks. It's estimated that about 25 percent of New York's total street length lacks adequate sewerage. In addition, an estimated 40 percent of the existing system is over 60 years old.

New York's streets and bridges suffer as much as the pipe beneath them. The Manhattan Bridge can sway several feet when a subway crosses, and cables have snapped on the Brooklyn Bridge. A report by the city comptroller noted, "the city has virtually no program for the systematic maintenance of its bridges and arterial structures." One out of every 10 bridge and tunnel structures was found to be in poor condition — deficient and needing major reconstruction or replacement. The need for reconstruction — not just resurfacing — has given New York's highway officials a 2,300-mile repair backlog. The Office of the Comptroller annually pays claims of about $9 million to persons injured because of faulty sidewalks or street surfaces. In addition, the city annually fills an estimated one million potholes, or about one for every 30 feet of roadway.

New York also needs to rebuild 25,000 acres of parks, 17 hospitals, 19 city university campuses, 950 schools, 200 libraries and hundreds of fire houses and police stations, the Council of State Planning Agencies reports.

Chicago. Chicago is one major city which is attempting to turn its rapidly deteriorating core back into the prosperous commercial and cultural center it was 20 years ago. Between 1981 and 1985, Chicago plans to spend $3.3 billion in improvements to its water and sewer lines, street and bridge construction, airport developments and public transit.

One noteworthy project is the proposed rehabilitation of Navy Pier, a 65-year-old lakefront structure adjacent to the downtown. This public and private venture will offer a wide array of activities including a retail and entertainment marketplace, children's play park, arts center, first-class hotel and marina. With all facilities in operation, it is expected to generate about $17 million annually in taxes to the city. Navy Pier redevelopment also will provide about 1,500 construction jobs in addition to at least 3,500 full-time and 1,500 part-time jobs when complete.

The new State Street Mall also is a good example of how renovating a key element of a city's infrastructure can stimulate economic growth. For years, State Street was the main retail strip in Chicago. Slowly, it began to decay. The city then decided to construct a transit-pedestrian mall. The sidewalks of the nine main State Street shopping blocks were widened and repaved, traffic lanes were reduced to two, with only buses and emergency vehicles allowed access, and the area was landscaped. Sales subsequently increased.

Dallas, Houston and the Southwest. While not perfect, Dallas' infrastructure is in better shape than most cities' physical plants. Dallas has been able to channel a substantial share of its general federal aid into the capital budget, a luxury not known to many northern and midwestern cities which have felt constrained to use federal assistance for operating deficits. In addition, Dallas has set aside a significant share of current revenues for capital spending, limiting its reliance on debt. Yet, "America in Ruins" notes that Dallas must raise almost $700 million for investment in water and sewage treatment systems in the next nine years, and more than $109 million must be generated to repair deteriorating city streets.

Like many southwestern cities, Dallas' downtown is suffering from a shortage of parking spaces — estimates place the shortage at 14,000 — and it is expected to more than double by 1985.

The morning and evening rush hours in Houston are considered the worst in the country. Like Los Angeles, Houston is growing out and not keeping pace with its growth.

Huge investments are needed in water systems throughout the Southwest. Existing water systems in much of the South and West haven't been maintained. "America in Ruins" predicts that at present rates, the area in the Texas and Oklahoma panhandles and surrounding states will have used all of its water by the year 2000.

Phoenix is facing the possibility of water shortages for the first time in years. In May 1982, city officials raised water rates 27 percent to discourage consumption in the hot months.

And in Albuquerque, New Mexico, one-third of all sewer lines have decayed to the point that trucks traveling over them frequently collapse the lines and covering streets.

Alternative Program Financing.

The deterioration of this nation's water and sewer facilities, bridges, roads, and public buildings has been well-documented. Publicity of bridge collapses, sewer systems overflowing, and bursting water mains in cities as diverse as New York and Albuquerque is awakening the public and politicians to the problems of their deteriorating infrastructure.

As many as two-thirds of America's towns and cities cannot accommodate new economic growth because their support systems are either worn out or limited. The National Council for Urban Economic Development reports that in older communities, worn out or insufficient water and sewer lines, wastewater treatment facilities and fire stations are inhibiting new plant construction or expansion. In growing areas, the lack of these facilities delays private investment, placing heavy burdens on the community.

With the growing dependency on federal assistance during the past generation, cities and states have been slow to find ways to increase their public capital.

Part of President Reagan's economic plan has been to shift controls and responsibilities to local and state governments while providing incentives to the private sector such as deregulation and the 1981 tax act.

However, it may be impossible to finance the rebuilding of America's infrastructure using traditional methods. Among alternatives suggested are user fees and private operators for some facilities, as well as providing better access to bond markets.

The realistic options are institutional and tax devices that reallocate resources to capital infrastructure from other priorities, but none is without cost.

Historically, revenues have been increased with tax boosts. To ensure adequate state funds to match federal revenues available, and to finance a 100 percent state program, many states have tied their tax increases by statute to federal monies. Recent cuts in federal expenditures, however, have placed these states in "double jeopardy." Not only are they faced with reduced federal aid, but they also have less revenue to fund their own programs.

In response, some states already have removed the ties between their tax codes and federal tax codes, to halt the losses. Two states recently raised sales taxes, while many others have hiked levies on gasoline and alcohol.

However, a study by the Joint Economic Committee of Congress on state and local growth patterns of the 1970s concludes that there are practical and relatively costless alternatives to tax increases.

The Urban Institute reviews some financing options in a policy paper entitled: "Financing Urban Infrastructure." The strategies include:

Bond Markets. The municipal bond traditionally was among the best sources for financing public works projects. States and cities across the country have been facing a borrowing crunch, however, because of their inability to pay high interest rates.

Industry sources report that: "Municipalities are not receptive to selling bonds because they face paying higher interest rates just at the time when federal cutbacks are occurring. Some states have established authorities to supervise local capital operations in conjunction with state bond banks which issue debts on behalf of localities. This idea has become especially popular in states such as South Carolina with many small communities."

The Texas Water Development Fund is one example of this type of operation. It enables localities and special districts to borrow funds for water supply and sewage treatment construction projects. The state's strong credit rating allows it to issue bonds with low interest rates and to lend the proceeds to cities or water and sewer districts. The Development Fund has been especially helpful to small cities in Texas with limited access to credit.

The Morgan Guaranty Trust Company, in a recent report, says volatile interest rates have dampened the municipal bond market.

"During the past two-and-a-half years . . . high and volatile interest rates have caused state and local governments to postpone trips to the long-term debt market. Instead, they have turned increasingly to the short-term market through the issuance of bond anticipation notes and tax-exempt commercial paper," the report says.

Contracting Out. Federal procurement from private sources or "contracting out" could reduce costs on public works projects by as much as 25 to 50 percent, says a business spokesman. Currently, many government agencies perform these activities with their own employees. Most often, this "force account" construction is undertaken without regard to comparative costs of construction by contract. The result, in many cases, is inflated costs. A 1981 Associated General Contractors of America survey indicates that contracting out could be more widely used. For example, the Tennessee Valley Authority [TVA] spent more than $1.9 billion on construction and engineering in 1980, 90 percent of which was spent on TVA's own construction force. An Oregon study, conducted by AGC's Oregon-Columbia Chapter, concluded that taxpayers received a net return of 23.2 to 24.5 percent of the contract cost when contract construction was chosen over force account costs.

Enterprise Zones. Enterprise zones could bring a new commitment to business in inner cities. Congress would permit designation of 25 poverty-stricken areas in each of the next three years. Companies in the zones would qualify for tax benefits and workers would also get tax credits. The American Legislative Exchange Council [ALEC] has supported this idea based on the belief that increased business activity would provide more jobs and more government revenue, eventually reducing the cost of welfare and unemployment benefits.

Private Participation. The shifting of services to the private sector, spurred by the 1981 federal tax bill, is underway in a number of cities. There has been significant success in new contractual arrangements between municipalities and private corporations. Scottsdale, Arizona, has even contracted out its fire department.

With not as much success, the idea of leasing public facilities also is beginning to draw attention from city and state officials. In effect, a public authority "sells" to a private firm the depreciation advantages of capital ownership. At the same time, the public authority retains the advantage of tax-exempt bond financing. Its limitations, of course, lie with high interest rates which must be paid by the private borrower.

With a few exceptions, this type of arrangement has been limited to cities selling buses or other transit facilities then leasing them back. The Oakland Museum and Oakland Auditorium in California, however, were sold to private investors by the city. The city leases the facilities and will have to repurchase the museum in 30 years. Pittsburgh officials are negotiating with the United States Steel Corporation to build a bridge which U.S. Steel would rent to the city.

Independent Authorities. Urban Institute studies show that where sewer and water systems are taken out of the general budget process and entrusted to independent authorities, the capital stock condition of these systems becomes superior, maintenance improves and capital replacement and repair plans are followed more often.

Independent authorities and enterprise operations are better able to gain access to capital markets. The fact that they possess stable revenue streams from user charges, and have authority to raise prices to cover cost increases, makes them able to issue well secured revenue bonds for their capital needs. In many cities, independent sewer and water systems enjoy significantly higher bond ratings than the general purpose city government, states an Urban Institute report.

The city of Boston shifted responsibility for water and sewer operations to an independent commission in 1977. The city's sale of these two systems wiped out an accumulated operating deficit of $25 million in the city's accounts and relieved the city of the outstanding debt service. The new Boston Water and Sewer Commission raised rates to cover full operating and maintenance costs, and recently issued its first series of revenue bonds for a 10-year capital improvement plan. In Boston's case, transferring authority relieved a fiscally troubled local government, brought better management to water and sewer operations and stabilized capital planning and financing.

State governments own a considerable amount of land and physical assets. Often a government purchases the asset because of a commercial, industrial or other function it performs. The state of Kentucky, however, recently proved that a substantial amount of money could be collected by selling unneeded land and assets. The Kentucky Department of Transportation has netted $1.5 billion since the program began in early 1980, and it has identified another $6.5 million this year. Because of the revenue, Kentucky has resurfaced more roads this year than ever.

"State and local governments," the Urban Institute warns, "must stop lobbying for more federal assistance and get about the job of setting their own priorities, reassessing their needs and collecting funds at the local level to pay for them."

Economic Benefits.

Construction creates buildings, roads, dams, or sewer lines, and all that goes with them. Construction creates jobs, material purchases, salaries, tax revenue and more, in what economists call the "rollover."

But, first there are the jobs.

Nearly one million construction workers — about one-fifth of the nation's largest industry's workforce — are unemployed. Construction, even during the current economic recession, accounts for some $230 billion of our gross national product, directly employs 3.8 million people, and indirectly an additional 16 million people in construction supply industries such as cement, glass, steel, insurance, architecture and engineering. Unlike the recent past, however, when construction accounted for 10 percent of the gross national product, today's level represents less than 8 percent of the GNP and a sharp drop in the number of people at work on construction sites.

Much has been written about the tremendous backlog of public works needs — estimates range from $1 trillion to $3 trillion — but even a much less ambitious program could put *all* those unemployed construction workers back on the job.

Jobs. Based upon data generated by the Department of Commerce's Bureau of Labor Statistics (BLS), the Department of Transportation and the Council of State Planning Agencies, each "on-site" construction job created by an expanded program of funding public works projects generates an equal number of "off-site" jobs, and "induces" nearly three times that number by corporate expenditures and the spending and respending of wages.

Those categories of work can be defined as follows:

"On-site" is labor at the construction site.

"Off-site" is labor required to manufacture, sell and transport the materials, equipment and supplies used in the construction industry.

"Induced" is labor generated by the spending and respending of wages and profits. It is also the most difficult category to quantify, yet even the most rudimentary approach reveals a significant economic effect.

A composite equation based on these data indicates that spending $1 billion on federal-aid highway construction would produce the following jobs:

$1 billion =	13,100	on-site jobs
	13,200	off-site jobs
	36,700	induced jobs
	63,000	total new jobs

The BLS has generated data for each of the three other categories of non-residential construction — municipal-utilities, heavy-industrial and commercial building. The following chart reflects the labor intensive nature of all four construction activities.

Activity	On-Site	Off-Site	Induced	Total
Highways	13,100	13,200	36,700	63,000
Municipal-Utilities	9,350	14,450	28,050	51,850
Heavy-Industrial	10,900	11,600	32,700	55,200
Commercial-Building	10,250	14,050	30,750	55,050
Averages, All Activities	10,900	13,325	32,050	56,275

According to data collected by the U.S. Department of Commerce's Bureau of Industrial Economics and The Road Information Program [TRIP], a non-profit, Washington, D.C.-based research firm, the average on-site construction worker earns approximately $21,320 annually. The off-site worker earns, on the average, 3.6 percent more, or approximately $22,100. [No data are available for the induced category as it includes various service industries with widely disparate pay scales.]

But of the 10,350 on-site and 13,450 off-site jobs created by investing $1 billion in capital construction funds, the benefits are two-fold. Newly employed workers stop collecting state and federal unemployment and other relief funds and become productive, *tax-paying* participants. The 23,800 on-site and off-site workers will pay some $56 million in federal income taxes and nearly $36 million in social security taxes. This assumes a non-working spouse and two other exemptions. Even without the ability to quantify the benefits of induced jobs to the federal treasury, the results can be assumed significant. And each new worker also pays similar double dividends to his home state. Clearly, every dollar invested in public works reaps a benefit in tax payments to both federal and state treasuries.

The facts underscore the position of the Department of Commerce on the indelible link between construction activity and economic vitality: The close relationship between a region's rate of economic expansion and its rate of growth in construction activity reflects the important role the construction industry plays in increasing productive capacity.

But jobs, an increased tax base and a cut in the number of people seeking federal and state aid in the face of diminishing job prospects are only the first of construction's economic benefits.

Deficient transportation networks can restrict commerce, even hinder new business development and jobs creation.

- 75 percent of the value of all freight rides the roads.
- Nearly 100 percent of all intracity freight rides the roads.
- 65 percent of all military shipments rides the roads.
- 93 percent of all trips are made on the road.

The Transportation Research Board, studying the effects of road improvements, discovered that access to good transportation is a key aspect in locating new plants and expands the area from which a workforce may be anticipated by increasing safety and cutting transportation costs. In fact, one industry report considers low transportation costs as essential to a manufacturer's ability to compete in the marketplace.

Public Safety and Health. The Urban Institute reports that "The poor condition of the water system threatens [Cleveland's] fire protection capability, and could contribute to future increases in fire insurance rates for area residents. Fire insurance grades are set by a private organization, the Insurance Services Office [ISO], based on periodic evaluation of municipal fire departments and water systems. On a 10-point scale where a grade of one is superlative, the ISO in 1970 gave Cleveland a desirable grade of three [two was the highest grade given any city]. Future evaluations could bring a lowering of this grade if pressure, flow adequacy and reliability continue to decline."

Clearly, Cleveland's deteriorating water supply and distribution systems are having serious consequences. An inability to fight fires threatens public safety and health. Conversely, an adequate water supply and distribution system provides adequate protection. If the only danger to the public were water pressure, the problem would only be half as serious as it really is. According to the EPA, 270 waterborne disease outbreaks occurred between 1970 and 1979. Some experts estimate the actual number is 10 times that and affects the health of more than half a million people annually.

The GAO sees drinking water contamination "emerging as one of the most serious health and environmental problems facing our nation during the '80s." The EPA itself reports that of the 250,000 on-land waste disposal sites across the country, some 51,000 [20 percent] may contain hazardous wastes, placing groundwater supplies in jeopardy. Groundwater, the EPA notes, is the principle source of water for more than 50 percent of the nation's population.

The federal agency estimates that some $1.3 billion would have to be spent by 1983 to bring deficient water supply systems up to legislated drinking water standards. In all, the EPA estimates, 13,600 or 21 percent of the 65,000 total number of year-round water supply systems in use, don't meet drinking water standards.

Conclusion

The needs of America's public works network are vast, the solutions must be untangled from complex political and economic considerations, and the funding must be found both in and apart from traditional sources. The price of rebuilding a deteriorating country will be unprecedented, but it also offers vast benefits in employment, public health and safety, and economic growth.

The nation must approach the issue with the attitudes that the work must be done.

The ability of the nation to regenerate its economic base directly determines its future vitality, and the futures of its citizens.

To meet its responsibility to the nation's current and future needs, the Associated General Contractors of America will continue to monitor infrastructure quality and recommend programs which will restore the nation's public works inventory.

Specifically, the Congress should initiate a program which would:

• Maintain a carefully inventoried list of public works needs and costs against which national and regional priorities can be set and funding can be allocated.

• Establish a five-year plan to set public works construction goals to meet existing needs and ensure economic growth.

• Blend traditional and alternative financing strategies, as needed, to provide necessary funding for the program.

The CHAIRMAN. Thank you very much. As I understand, you support the legislation without any suggested changes or reservations?

Mr. HELDENFELS. We very enthusiastically support it.

The CHAIRMAN. All right. In my view, I think the case was made for the legislation before the hearing. And now we have confirmed what many of us thought. There is widespread support for the legislation. This, in effect, is sort of a follow-on hearing in this committee. We had hearings on June 9, with reference to general legislation, gas tax increase for highway purposes. As I indicated earlier, the House will have hearings—House Ways and Means Committee—tomorrow. I assume you may be testifying there.

Mr. HELDENFELS. Yes, sir.

The CHAIRMAN. So we will only keep you away from Texas a couple of days.

And I would say to those who wish to file statements—as it normally happens late in the hearing, there is no one here but the chairman, so I hope that makes you feel better if you didn't have a chance to read to me.

But we appreciate the testimony. All the statements will be made part of the record, and the hearing record will remain open. We will be working with the various witnesses and others who were unable to testify, if, in fact, there are problems which should be addressed.

Mr. Heldenfels, we thank you. And we thank the Associated General Contractors of America for their participation.

Mr. HELDENFELS. Thank you.

We will be glad to help you any way we can. Thank you very much.

The CHAIRMAN. Thank you.

The hearing will be in recess, subject to the call of the Chair.

[Whereupon, at 5:02 p.m., the hearing was recessed.]

[By direction of the chairman, the following communications were made a part of the hearing record.]

14-375 O—83——10

AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

HENRY GRAY, President
Director
Arkansas State Highway and
Transportation Department

FRANCIS B. FRANCOIS
Executive Director

November 30, 1982

The Honorable Robert Dole, Chairman
Senate Finance Committee
2227 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Dole:

Recognizing that the Senate Finance Committee will be considering Secretary Drew Lewis' proposal for an equivalent 5¢ increase in highway user fees, we would like to advise you with regard to three actions taken by our AASHTO Policy Committee at its recent meeting in Orlando, Florida.

Meeting on November 21, the Policy Committee enacted the following motion with regard to Sec. Lewis' proposal:

> "That AASHTO, in recognition of large and unmet established needs in our nation's transportation system, supports the concept of Sec. Lewis' recommendation for a 5¢ equivalent motor fuel user fee increase, provided that the issue of equity among and between the states is addressed in any legislative proposals advanced."

In addition to this motion, the Policy Committee also approved two resolutions that have advanced through a rather lengthy and exhaustive development process within our Committees. The two resolutions were initiated within our Subcommittee on Highway Transport, and were later approved by our Standing Committee on Highway and the AASHTO Executive Committee before reaching the Policy Committee. The Policy Committee enacted both by more than the required two-thirds majority of all states. The two resolutions represent the best professional engineering judgment of our AASHTO membership on the subjects to which they are directed.

Copies of both resolutions are enclosed, and the first is titled "Resolution on United States Department of Transportation Truck Size and Weight Report", which has been transmitted to Congress. The resolution finds that the increase in axle loads from 18,000 pounds single/32,000 tandem to 20,000 single/34,000 tandem that occurred in 1974 has resulted in a large increase in the rate of deterioration of the nation's highways and bridges, and that any further increase in these axle loads will accelerate the deterioration rate and multiply the demand for funds needed to preserve and protect the system. Further, AASHTO finds that at both the state and Federal level it appears there will continue to be a shortfall in funding which will result in an increase in accidents, in circuity of travel and in vehicle operating costs, and we therefore oppose any further increase in truck size and weight limits beyond AASHTO's approved policy and oppose mandatory application of federal permissive size and weight limits.

At the same time, the resolution recommends adequate funding be made available to restore and maintain the nation's highways and bridges, to carry present size and weight limits, and that an equitable allocation of costs among the various classes of highway users be implemented to assure that each type vehicle is contributing its fair share.

This first resolution is thus fully supportive of our endorsement of Sec. Lewis' 5¢ proposal. Beyond that, it also calls for recognition of the damage heavy trucks do to our highways and bridges, and supports action in Congress to more equitably distribute highway user fees to take this into account.

The second resolution, which is accompanied by a supportive statement, deals with the issue of cost allocation. It is titled "Resolution On United States Department of Transportation Federal Highway Cost Allocation Study", and after stating several findings concludes with the following resolve:

"..the Policy Committee of the American Association of State Highway and Transportation Officials ... concurs in the findings of the Federal Highway Cost Allocation Study and recommends that legislation be enacted as soon as possible to assure that the various classes of highway users pay their fair share of the cost. It is further recommended that a national weight distance tax be considered as a more equitable tax approach with the administration and collection to be structured at the state level with the states being reimbursed for their expenses in administration and collection, provided that no premption of state laws establishing weight distance or ton mileage taxes occurs because of the establishment of a national weight distance tax."

I would emphasize that AASHTO's action in adopting this resolution follows extensive objective analysis of both the FHWA cost allocation study, and studies produced on behalf of the American Trucking Associations arguing against the FHWA methodology and conclusions. The conclusion reached by AASHTO with respect to the ATA studies is that they are not convincing, and to the contrary are not supportable under acknowledged engineering principles and empirical evidence. Accordingly, the professional judgement of AASHTO is in support of the work done by the Federal Highway Administration.

In summary, AASHTO is strongly supportive of increasing highway user charges to meet the needs of America's highways, and for capital needs of our mass transit systems. We also strongly believe that any legislation increasing highway user charges and extending the Highway Trust Fund should take into account the Federal Highway Administration's cost allocation study, and significantly increase the relative user charges applied to heavy trucks. While we believe a national weight distance tax is one way to achieve the collection of greater user fees from heavy trucks, we would be supportive of other approaches that will achieve the goal of equity to all classes of users.

If there is any way AASHTO can be of further assistance as you consider these issues, please let me know.

Very truly yours,

Francis B. Francois
Executive Director

FBF:mlm

AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

HENRY GRAY, President
Director
Arkansas State Highway and
Transportation Department

FRANCIS B. FRANCOIS
Executive Director

**RESOLUTION ON
UNITED STATES DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY COST ALLOCATION STUDY**

Passed by the Policy Committee in their meeting November 21, 1982

WHEREAS, the United States Department of Transportation has completed the "Final Report on the Federal Highway Cost Allocation Study" in response to Section 506 of the Surface Transportation Assistance Act of 1978; and

WHEREAS, the study methodology has been reviewed and evaluated and is considered to be an improvement over past cost allocation studies, in that it takes into account resurfacing and rehabilitation to preserve and protect existing highways; and

WHEREAS, the study is based on projected needs which are generally in accord with the American Association of State Highway and Transportation Officials' "Program for America's Highways in the '80's"; and

WHEREAS, the study appears to be unbiased in allocation of cost among the various classes of vehicles to attain equity and reflects the cost imposed on the highway system by that class; and

WHEREAS, the findings of the report show that heavier vehicles are not paying their fair share of highway costs and increased user charges are recommended on the heavier type vehicles; and

WHEREAS, the study recognizes that highway user taxes should be easily administered and should be graduated as a function of weight rather than remaining constant across all weights, and also recognizes that a weight distance tax could contribute significantly to a fairer and more efficient tax structure.

NOW THEREFORE, the Policy Committee of the American Association of State Highway and Transportation Officials acting at its November 21, 1982, meeting in Orlando, Florida, concurs in the findings of the Federal Highway Cost Allocation Study and recommends that legislation be enacted as soon as possible to assure that the various classes of highway users pay their fair share of the cost. It is further recommended that a national wieght distance tax be considered as a more equitable tax approach with the administration and collection to be structured at the state level with the states being reimbursed for their expenses in administration and collection, provided that no preemption of state laws establishing weight distances or ton mileage taxes occurs because of the establishment of a national weight distance tax.

A REVIEW OF

"FINAL REPORT ON THE FEDERAL
HIGHWAY COST ALLOCATION STUDY"

by

American Association of State
Highway & Transportation Officials

October, 1982

WHEREAS, the study recognizes that highway user taxes should be easily administered and should be graduated as a function of weight rather than remaining constant across all weights, and also recognizes that a weight distance tax could contribute significantly to a fairer and more efficient tax structure.

NOW THEREFORE, the Policy Committee of the American Association of State Highway and Transportation Officials acting at its November 21, 1982, meeting in Orlando, Florida, concurs in the findings of the Federal Highway Cost Allocation Study and recommends that legislation be enacted as soon as possible to assure that the various classes of highway users pay their fair share of the cost. It is further recommended that a national weight distance tax be considered as a more equitable tax approach with the administration and collection to be structured at the state level with the states being reimbursed for their expenses in administration and collection.

INTRODUCTION

A sound transportation system is a prerequisite for a prosperous, growing nation. Transportation plays a central role in our national economy, as attested to by the fact that annual expenditures for transportation currently account for about one-fifth of our gross national product. Within our national transportation system, highways play a key role as a common denominator connecting all other modes of transportation. Highways are and will continue to be the backbone of our nation's transportation system.

At the present time, we are faced with a critical need for additional funding to preserve the investment in our nation's highways and bridges. We can no longer ignore the serious problems affecting our highway system. Efforts to complete the Interstate System must be intensified and resources to restore critical bridges and aging highways substantially increased. Further, the preservation of our Interstate and Primary Highway Systems must be given a higher priority if we are to ensure the integrity of these vital highways and protect our capital investment.

Nationally, federal-aid highway authorizations have grown from $5.4 billion in 1975 to almost $7.0 billion in 1981, a 29%

increase. In terms of purchasing power, however, there has been a startling decline in the program. Based on the FHWA Construction Cost Index, the 1981 authorization is worth only $4.3 billion in 1975 dollars, or a 20% decrease in the program over this period. Thus, the real level of the program has clearly not kept up with the needs.

Detailed estimates of our national highways needs and recommendations on how to meet these needs have been provided in "A Program for America's Highways in the 80's", adopted by AASHTO in November 1980. AASHTO believes that progress toward meeting these needs requires that the Federal-Aid Highway Program be immediately increased to the level of $12 to $14 billion per year, with further increases to follow annually. We believe that this is a conservative position, and that, in fact, to fully meet the realistic needs now existing on our Federal-Aid Highway System will require a program in the range of $16 to $18 billion per year, or over twice the size of our present effort.

While there is virtually unanimous agreement on the present need for increased highway funding, the issues at this time revolve around the question of how much of the increase each class of highway users should be asked to pay. The allocation of costs among highway users is an area that has received an increasing amount of attention recently with the completion of the new Federal Highway Cost Allocation Study and several state studies. AASHTO believes that the new Federal Study makes an important contribution to the state-of-the-art in cost allocation and is in general agreement with the methodology and findings of the study.

The remainder of this paper presents an examination of the methodological approach and results of the Federal Study. The issue of an appropriate highway user tax structure to capture the cost responsibilities determined by the Federal Study is critical and remains to be addressed.

BASIC ASSUMPTIONS OF THE FEDERAL HIGHWAY COST ALLOCATION STUDY

With the exception of the methodology used to allocate costs, the two most important determinants of the results of a cost allocation study are the expenditure program assumed and the projections of future traffic by vehicle class.

Estimates of roadway capital costs were made for both the base period (1976-1978) and forecast period (1980-1995; 1985 as target year) in the Federal Study. The base period highway project cost analysis was based on actual federal expenditures from the Highway Trust Fund for this period. The forecast period costs used in the study are estimates of the costs of completing the Interstate Highway System gaps and the capital costs required to maintain service levels on existing highways.

Table 1 gives the estimated forecast period distribution of total federal highway capital costs by major category. The figures shown are for a $13 billion annual expenditure level, the midpoint of the $12 to $14 billion level recommended by AASHTO for immediate implementation.

For the purpose of allocating costs to the various highway user classes, right-of-way, grading, and administration and planning costs were separated out from the major categories of new construction, reconstruction, and bridges. When these costs are apportioned back to the major categories, the figures in the table imply a program of approximately $3.0 billion for new highway construction, $6.5 billion for reconstruction and rehabilitation of highways, and $2.5 billion for bridges. This breakdown is generally similar to the program goals and priorities endorsed by AASHTO in "A Program for America's Highways in the 80's", November 1980. The expenditure distribution utilized in the Federal Study appears to be an accurate reflection of the future requirements of the Federal-Aid Highway Program as perceived by AASHTO.

The traffic data and projections used in the Federal Study were derived from a wide variety of sources. Estimates of the vehicle fleet and vehicle miles of travel by vehicle class were made for the base year 1977 and projected to 1985, 1990 and 1995. The projected 1977-1985 average annual growth rates for passenger vehicles, single-unit trucks, and combination trucks are 2.3%, 1.1%, and 4.0%, respectively. Vehicle miles of travel (VMT) for all vehicles is forecast to increase at an average rate of 2.3% per year over this period. These projected growth rates are similar to those forecast by several other recent studies and appear to be generally reasonable.

THE ALLOCATION OF COSTS AMONG HIGHWAY USERS

The new Federal Highway Cost Allocation Study represents a significant departure from and improvement over the earlier 1965 Federal Study. The authors of the study are to be commended for their careful work and willingness to try new methods.

The 1965 Study used the traditional six-step incremental approach to allocating highway costs. Under this approach, the analysis of construction costs is developed in terms of a basic highway (or increment), which is defined as the highway design required to accommodate passenger cars and other light vehicles only. The cost of providing this basic highway is treated as a common cost to be shared by all vehicles, typically on the basis of their axle miles of travel. The cost of each additional increment beyond the basic highway is then the responsibility of all those vehicles requiring it--that is, all those vehicles having axle weights equal to or greater than the axle weight requiring this increment. Thus the heaviest axle weight class is solely responsible for the cost of the final increment and shares in the cost of all previous increments.

Despite the intuitive appeal of the traditional incremental method, there are a number of conceptual problems with this approach. The most serious of these is that this method favors the heavier axle weight classes by giving them the benefits of the *"economies of scale"* inherent in the relationship between required pavement thickness and the number of equivalent single axle loads (ESAL's) applied over the design life of a pavement. This relationship is such that the number of ESAL applications accommodated by the addition of an extra inch of pavement thickness is much less for thin pavements than for thick pavements. By conceptually beginning with the basic highway and then adding increments of pavement thickness to accommodate successively heavier axle weights, the traditional incremental method automatically accords the economies of scale in pavement design to the heavier vehicles. Thus this approach fails to follow an equitable application of design theory by charging one set of axle weights a different thickness requirement per-ESAL than another set of axle weights.

The recommended approach in the new Federal Study allocates new pavement costs by a modified incremental method. This approach, referred to as the minimum pavement thickness method, allocates all new pavement costs above the cost of a minimum feasible pavement thickness on the basis of the relative ESAL's contributed by each axle weight class. The cost of the minimum pavement thickness is considered to be a residual cost and is shared by all vehicle classes on the basis of their relative miles of travel.

The minimum pavement thickness method avoids the traditional incremental method's assignment of the economies of scale in pavement design to the heavier axles. By assigning new pavement costs above the minimum pavement thickness cost in direct proportion to the average ESAL value of each axle weight class, the minimum pavement thickness method effectively allows each vehicle class to share in these economies of scale. Thus, AASHTO believes that the approach used in the new Federal Study represents a more equitable application of pavement design theory than the traditional incremental approach.

The results of a cost allocation study can be highly dependent on the particular methodology utilized to assign costs. As illustrated by Table 1, however, new pavement costs account for only a minor portion (5.3%) of total program costs in the Federal Study, so that the method of allocating these costs has only a small effect on the overall cost allocation results.

The most important determinant of the overall cost allocation results of the Federal Study is the study's treatment of pavement rehabilitation costs. These costs account for a significant portion (38.4%) of total projected federal program costs. Under the traditional incremental approach, major pavement rehabilitation costs are assigned in the same way as new pavement costs. The recommended approach in the Federal Study, on the other hand, utilizes a damage function approach which concentrates on the different types of pavement distresses attributable to each vehicle class and on how important each type of distress is to the decision process for capital outlays. Each major type of pavement distress is modeled separately as a function of traffic and other variables. Although more sophisticated, this method is essentially similar to the approach used in many recent state cost allocation studies.

The assignment of pavement repair and restoration costs is dependent upon both the method used to allocate the load-related portion of these costs and on what proportion of these costs are considered to be load versus nonload-related. In this light, the trucking industry has recently commissioned two studies, one by Counsel Trans and the other by the Texas Transportation Institute, which purport to show that environmental factors are the principal influence in pavement deterioration and that increased axle loadings are much less a factor than is commonly believed by highway engineers. These studies have been reviewed by several of the AASHTO member departments. These reviews concluded that there are several problems with the studies and that their stated conclusions are not fully supported. While environmental factors do play a role in pavement deterioration, there is no reason to believe that they are the principal cause of the deplorable condition of many of the nation's highways. On the contrary, the overwhelming weight of evidence indicates that frequency and weight of axle load applications are the primary factors which determine how rapidly a highway will deteriorate.

Neither the distress models nor the distress weighting schemes used in the Federal Study are the final word in the analysis of the causes of the need for pavement rehabilitation. This is an area in which further work needs to be done as more data is collected on the precise causes of pavement deterioration. Despite this, however, AASHTO believes that the approach taken in the Federal Study represents a step in the right direction and an improvement over past efforts in this area.

New and replaced structure costs are assigned incrementally in the Federal Study recommended approach. In the case of replaced structures, the cost of each increment is partially assigned in proportion to the degree to which the replaced structure has deficient load-bearing capacity. The cost of rehabilitating existing bridges is considered as a residual or common cost. Many of the recent state cost allocation studies have attributed at least some portion of these costs directly to trucks, so that the Federal Study's treatment of bridge repair costs as residual costs possibly understates the cost responsibility of heavy vehicles. The effect on the overall results of the study, however, is probably minor.

The Federal Study assigns all residual or common costs on the basis of vehicle miles of travel (VMT). This differs somewhat from the earlier 1965 Federal Study where axle miles of travel were used to assign residual pavement costs and vehicle miles were used in the assignment of all other residual costs. Similarly, most recent state studies have assigned some portion of residual costs on the basis of axle miles of travel and/or passenger car equivalent-weighted VMT. The Federal Study's use of VMT to assign all residual costs probably understates the cost responsibility of heavy vehicles to some extent, although the effect is relatively minor.

Table 2 gives the cost allocation results for new pavements, rehabilitated pavements, bridges, and all other costs. The final column of the table shows the overall cost allocation results for the Federal Study recommended approach.

The cost assignments shown in the table are based on a $13 billion annual expenditure level, the midpoint of the $12 to $14 billion level which AASHTO recommends be implemented immediately. As shown, the Federal Study determined that passenger vehicles (including buses) are responsible for 58.9% and trucks 41.1% of total 1985 program costs. The table also illustrates the major role played by pavement rehabilitation costs in determining the overall cost allocation results of the Federal Study. These costs are particularly important in determining the assignment of costs to the heaviest truck class.

Table 3 presents a 1985 revenue comparison between the recommended cost allocation approach and the existing federal tax structure and rates. The status-quo approach will raise an estimated $7.3 billion from the array of user charges and excise taxes currently in force. The recommended approach raises $13.0 billion for an expanded program and, at the same time, adjusts tax rates. As the table shows, the recommended 78.1% increase in total program revenue is not shared equally by all vehicle classes. This, of course, is due to the shift in cost allocation shares from light and medium trucks to heavy trucks as reflected in the tax structure change percentages in the right-hand column of the table.

CONCLUSIONS

The authors of the new Federal Highway Cost Allocation Study are to be commended for their willingness to apply new and improved methods to the allocation of costs among highway users. While the Federal Study does not represent the final word in highway cost allocation methodology, it does represent an important step toward a more equitable assignment of federal highway costs.

The recommended federal approach to the allocation of pavement costs represents a significant improvement over the methodology employed in previous federal studies. Recognizing the trend toward preservation of our existing highway investment, the Federal Study has devoted a good deal of careful analysis to the question of how best to allocate pavement rehabilitation costs. While further work needs to be done in this area, the approach taken in the Federal Study appears to be the best possible at this time. Overall, the approach taken in the Federal Study appears logical and the results reasonable.

It is AASHTO's position that the Federal Study represents a significant improvement in the state-of-the-art in highway cost allocation and that the study results should be endorsed by Congress and incorporated in any new legislation dealing with federal highway user taxation.

TABLE 1

DISTRIBUTION OF FUTURE FEDERAL-AID
HIGHWAY COSTS BY EXPENDITURE CATEGORY
(Billions of Dollars)

Category	Costs	Percent of Total
Pavements		
New	$ 0.69	5.3
Reconstructed	4.99	38.4
Subtotal	$ 5.68	43.7
Bridges		
New	$ 1.19	9.2
Replaced	1.12	8.6
Repaired	0.25	1.9
Subtotal	$ 2.56	19.7
Other		
Right-of-way	$ 0.80	6.1
Grading	2.48	19.1
Administration, Planning	0.31	2.4
Miscellaneous	1.17	9.0
Subtotal	$ 4.76	36.6
GRAND TOTAL	$ 13.00	100.0

TABLE 2

COST ASSIGNMENTS UNDER FEDERAL RECOMMENDED APPROACH
FOR A $13 BILLION FEDERAL PROGRAM IN 1985
(Millions of Dollars)

Vehicle Class	New Pavement Costs	Rehabilitated Pavement Costs	Bridge Costs 1/	All Other Costs 2/	Total Costs
Passenger Veh. (Auto, Mcy., Bus, Van, Pick-up)	330 (47.1%)	1,515 (30.3%)	1,625 (65.0%)	4,186 (87.2%)	7,656 (58.9%)
Light Trucks (Single Unit under 26 KIP)	20 (2.9)	207 (4.1)	95 (3.8)	124 (2.6)	446 (3.4)
Medium Trucks (Single Unit over 26 KIP, Combinations under 70 KIP)	95 (13.6)	1,019 (20.4)	293 (11.4)	205 (4.3)	1,612 (12.4)
Heavy Trucks (Combinations over 70 KIP)	255 (36.4)	2,259 (45.2)	487 (19.5)	285 (5.9)	3,286 (25.3)
Total	700 (100.0)	5,000 (100.0)	2,500 (100.0)	4,800 (100.0)	13,000 (100.0)

1/ Based on a bridge program of:

New bridges - $1.2 billion
Replace bridges - 1.1 billion
Repair bridges - 0.2 billion

2/ Includes right-of-way, grading, administration and planning, and miscellaneous costs.

TABLE 3

COMPARISON OF RECOMMENDED PROGRAM AND
EXISTING TAX STRUCTURE
1985 REVENUE LEVELS
(Millions of Dollars)

Vehicle Class	Recommended Fed. Approach (Min. Thickness)	Existing Tax Structure and Rates	Increase		Percent of Increase Due To	
			$	%	Program Increase	Tax Structure Change
Passenger Vehicles (Auto., Mcy., Bus, Van, Pick-up)	7,656	4,217	3,439	81.6	78.1	2.0
Light Trucks (Single Unit under 26 KIP)	446	427	19	4.4	78.1	(41.9)
Medium Trucks (Single Unit over 26 KIP, Combinations under 70 KIP)	1,612	1,437	175	12.2	78.1	(37.0)
Heavy Trucks (Combinations over 70 KIP)	3,286	1,219	2,067	169.6	78.1	51.5
TOTAL	13,000	7,300	5,700	78.1	78.1	-0-

AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

HENRY GRAY, President
Director
Arkansas State Highway and
Transportation Department

FRANCIS B FRANCOIS
Executive Director

RESOLUTION
ON
UNITED STATES DEPARTMENT OF TRANSPORTATION
TRUCK SIZE AND WEIGHT REPORT

Approved by the Policy Committee November 21, 1982
in Orlando, Florida

WHEREAS, the United States Department of Transportation has published a report entitled "An Investigation of Truck Size and Weight Limits" in response to Section 161 of the Surface Transportation Assistance Act of 1978; and

WHEREAS, the results of the Department of Transportation study indicate that "transport cost savings from improved truck productivity could overwhelm the associated costs of increased highway and bridge wear and tear and truck accident costs"; and

WHEREAS, the Department of Transportation study implies that the operation of larger trucks could result in an appreciable increase in the frequency and severity of truck accidents, but that further research is needed to more adequately address safety aspects; and

WHEREAS, the findings of the Department of Transportation report are based on what AASHTO knows to be an erroneous assumption that the states will provide sufficient funds to improve and maintain the nation's highway system at a level of service at least equal to its condition at the time of the study; and

WHEREAS, the maintenance, resurfacing and rehabilitation costs that would be required to comply with this assumption would have considerable effect on the conclusions and recommendations that are suggested by this Department of Transportation study; and

WHEREAS, AASHTO identified in its "Program for America's Highways in the 80's" that the condition of the nation's highways and bridges are continuing to deteriorate more rapidly than they can be improved under existing size and weight limits and that an expenditure of at least double the amount of present outlays will be needed to preserve and protect the current system; and

WHEREAS, the increase in axle loads from 18,000 pounds single/32,000 tandem to 20,000 single/34,000 tandem in 1974 has resulted in a large increase in the rate of deterioration of the nation's highways and bridges and any further increase in these axle loads will accelerate the deterioration rate and multiply the demand for funds needed to preserve and protect the system; and

WHEREAS, both at the State and Federal level it appears that there will continue to be a shortfall in funding which will result in an increase in accidents, in circuity of travel and in vehicle operating costs; and

WHEREAS, the U.S. Department of Transportation cost allocation study shows that the heavier vehicle classes are not paying their fair share of highway user costs for the existing system.

NOW THEREFORE, the American Association of State Highway and Transportation Officials, acting at its November 21, 1982, meeting in Orlando, Florida, opposes further increases in truck size and weight limits beyond AASHTO's approved policy and opposes mandatory application of federal permissive size and weight limits. AASHTO recommends adequate funding be made available to restore and maintain the nation's highways and bridges to carry present size and weight limits and that an equitable allocation of costs among the various classes of highway users be implemented to assure that each type vehicle is contributing its fair share.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
TO THE SENATE FINANCE COMMITTEE
ON THE FINANCIAL NEEDS OF THE HIGHWAY TRUST FUND
FOR FISCAL YEARS 1983-1986

December 2, 1982

We appreciate the opportunity to present Farm Bureau's comments concerning the financial needs of the Highway Trust Fund for fiscal years 1983 through 1986. We also wish to express our concern in regard to "The Highway Revenue Act of 1982" now under consideration by your Committee.

Farm Bureau is the nation's largest general farm organization representing more than three million member families in 48 states and Puerto Rico.

Farm Bureau's policy regarding the Federal Highway Trust Fund as adopted by the voting delegates of the Member State Farm Bureaus at the American Farm Bureau Federation's annual meeting in January 1982 states:

> "The Federal Highway Trust Fund should be maintained as now constituted and no further diversion of these highway funds to nonhighway-related purposes should be permitted. The Interstate Highway System should be completed at the earliest possible time. The Trust Fund should then be used for upgrading and rehabilitating the federal-aid system."

Mr. Chairman, we support the equitable principle that highway users should pay for the cost of constructing, maintaining, resurfacing, rehabilitating and repairing interstate highways and bridges, many of which are reaching the end of their design life every year. Although highway conditions vary widely among the states, recent reports confirm the national trend that our major highway system is rapidly deteriorating in many sections of the country and that there is an urgent need for additional funding if we are to meet the nation's highway transportation needs during the 1980's.

Farm Bureau supports many of the provisions in the legislation already approved by the House Public Works and Transportation Committee. These provisions include the four-year funding authority; uniform maximum weight, width and length standards for trucks operating on the Interstate System; the enforcement drive against drunk driving; and the national driver registration system. These are all meritorious provisions and we hope they are favorably approved by the Congress.

We are opposed, however, to any provision in the bill that would permit the diversion of highway user revenues for such purposes as mass transit. Since 1956 Interstate construction has received the highest priority, accounting for about 60 percent of the total highway program funding. Although 94 percent of this system is open to traffic, the cost to open the remaining sections and to upgrade older sections to current standards is estimated at about $54 billion, or about 40 percent of the estimated total cost of the system. Substantial investment has been made in our highway system; however, much more needs to be invested in the present system to permit any diversion of Highway Trust Funds to mass transit.

Our position in regard to mass transit should not be construed as being opposed to assisting local and state governments with financing capitol expenditures for public transit, since we recognize that public transit is an important service in many urban areas. We, therefore, suggest that the Administration propose a Public Transit Trust Fund that would provide an equitable and reliable source of revenue. Users of public transportation have an interest in the transportation needs of the cities and are willing to pay their fair share of necessary financing.

We are opposed to holding the future of the nation's highway program hostage to support for public transit. Each should stand on its own merits.

Farm Bureau policy also favors the elimination of the Federal Highway Use Tax on farm trucks. We urge the Committee to consider amendments to the Highway Use Revenue Act of 1982, eliminating this particular tax.

The main provision of "The Highway Revenue Act of 1982," is to increase the existing gasoline and diesel fuel tax from 4 to 9 cents a gallon. This represents a 125 percent increase in the gasoline tax. We believe the increase is excessive. Raising the gasoline tax from 4 to 7 cents would represent a 75 percent increase which we believe is appropriate at this time.

We thank you for consideration of our views on this legislation.

WRITTEN COMMENTS

AMERICAN PETROLEUM REFINERS ASSOCIATION

REGARDING

S. 3044; THE HIGHWAY REVENUE ACT OF 1982

SENATE COMMITTEE ON FINANCE

The American Petroleum Refiners Association would like to take this opportunity to comment briefly on the Administration's proposed five cent per gallon increase in the motor fuel manufacturers' excise tax. Our comments will be restricted to those aspects of the Administration's proposal that affect the members of our Association who refine gasoline. We express no opinion regarding other policy decisions reflected in the proposal before this Committee.

Approximately one-half of APRA's membership consists of independent refiners who are gasoline producers and currently pay, directly or indirectly, the existing four cent per gallon excise tax. Independent refiners generally tend to produce, on average, less total gasoline per barrel of crude oil refined than larger, more fully integrated companies. Smaller, independent refining companies account for between seven and ten percent of the total U.S. gasoline demand.

The current excise tax on gasoline is collected at the manufacturers' level and gasoline refiners have no assurance that they will be able to fully pass through the proposed five cent per gallon increase. Rather, most projections are that refiners will be able to pass along only a portion of the projected increase. Statements made by Secretary of Transportation Drew Lewis before this Committee point out that the tax is normally collected at the refinery gate and emphasize that gasoline pump prices may well rise by a factor less than the five cent per gallon increase. APRA would concur with the Secretary's assessment. Just last week wholesale leaded regular gasoline prices were as low as eighty-three cents per gallon. Given the intense competitive pressures in today's weak gasoline markets and the threat of additional gasoline imports from foreign refining centers, it appears likely that our membership will be forced to absorb a portion of the five cent per gallon increase.

Nevertheless, the Association as a group, does not oppose the imposition of the five cent per gallon motor fuel tax increase, provided that certain changes can be made in the reporting and deposit sections of the Internal Revenue Service regulations to ease the burden of collection on smaller gasoline producers. Under existing law, the motor fuel excise tax is collected from motor fuel manufacturers every two weeks, on the ninth and twenty-fourth days of each month. Typical terms of payment from wholesale gasoline purchasers usually equal fifteen and sometimes thirty days net. This means that a gasoline manufacturer may well be required to deposit the new nine cent per gallon excise tax with the Federal Treasury before he has in fact been reimbursed by the purchaser. Given the difficult economic climate in the oil business in general and in the marketing sector in particular, risk of loss associated with non-payment has never been higher than it is today. Increasing the present excise tax from its existing level of four cents per gallon to a new level of nine cents will more than double the risk of loss faced by small motor fuel manufacturers. Small motor fuel manufacturers are presently in the worst possible position to finance this additional cost of doing business.

Therefore, APRA would suggest a lengthening of the present two week deposit period. Gasoline manufacturers should be allowed a period of forty-five days following the close of the month in which the wholesale transfer of gasoline occurred to remit the excise tax proceeds to the Federal Treasury. Precedent for this lengthened deposit period can be found in Internal Revenue Code Secs. 4995(b) and 613A which relate to the collection and deposit of monies owing to the government under the Crude Oil Windfall Profits Tax Act.

Instituting a more lengthy deposit schedule may well encourage more refiners of gasoline to choose to remit the excise tax themselves rather than file an exemption certificate with the Internal Revenue Service. To the extent that payment of the excise tax occurs further upstream, fewer taxpayers will be involved and enforcing compliance will be easier and less costly to achieve. Certainly the present exemption system on wholesale transfers between manufacturers of gasoline should be retained, but the institution of a more lengthy deposit period may well encourage certain gasoline manufacturers not to file exemption certificates and pay the tax on the initial wholesale transfer of motor fuel.

While the Treasury Department has generally objected to any deferral of excise tax collections (even a very limited deferral as is proposed here), APRA would note that the Administration's own proposal does not seek to collect the tax before April 1, 1983. Certainly, to the extent that the Treasury has already endorsed deferral in the form of a later effective date, less objection should be encountered to a proposal which would defer the actual payment of the tax by manufacturers until such time as they were themselves assured of payment from their customers.

APRA supports the Administration's proposed repeal of the existing six cents per gallon excise tax on lubricating oils. Among those member refiners who are refiners of lubricating oils, this particular levy was long thought to be administratively burdensome in relation to the amount of revenues it actually raises.

APRA also supports retention of the existing gasohol exemption from the federal motor fuel excise tax. We feel that the use of ethanol and certain types of methanol offer attractive alternatives for refiners to boost the octane of motor fuels and do not believe that a nine cent per gallon exemption is excessively generous. However, we do feel that the existing custom duties imposed on imported alcohol should be adjusted so as to conform with the new nine cent per gallon excise tax exemption.

This concludes our brief comments on those sections of the Administration's proposal which directly affect small manufacturers of motor fuel. We would ask that our comments be included in the written record and carefully considered before the Committee proceeds to final disposition of S. 3044.

STATEMENT

OF THE

AMERICAN PETROLEUM INSTITUTE

SUBMITTED TO THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

Regarding

S. 3044, THE HIGHWAY REVENUE ACT OF 1982

DECEMBER 3, 1982

The petroleum industry is not opposed, in principle, to a true user fee for the construction and repair of the nation's highway system.

We believe, however, that a program the size of the proposed five-cent-a-gallon motor fuels tax should be considered in the context of general fiscal problems. In our view, therefore, it would be wiser if further consideration of this issue were delayed until the next Congress when its effect on deficits, jobs and price indices could be assessed along with the effects of other federal initiatives with regard to the general economic well-being of the country.

We would like initially to comment specifically on the impact of the proposal on federal deficits, jobs and price indices.

First, federal deficits. When originally outlined by Transportation Secretary Lewis, the proposal was thought to provide temporary but significant reductions in projected federal deficits. This was because estimated revenue inflows in the early years of the proposed program were far in excess of estimated outflows. Now little mention is made of this facet of the proposal, presumably because the creation of jobs and other recession-related considerations imply that spending must increase much more rapidly relative to revenue inflows. Yet the deficit projections continue to mount -- now approaching $170 billion for fiscal year 1983 and $200 billion for fiscal year 1984 and beyond.

Increasing federal revenues by any means without first cutting spending tends to lessen the pressure for a serious review of expenditures -- and thus is likely to add to the deficit. We would endorse a comprehensive analysis which would include a thorough review of all federal expenditures, the implementation of appropriate reductions in projected rates of increase in existing programs, and consideration of all new programs in the light of the overall fiscal problems facing the country. We think the present proposal should be included in such a comprehensive analysis rather than at this time.

Second, the impact on jobs. Present rates of unemployment make it obvious that proposed changes in federal taxes and spending should be carefully assessed to ensure that their net effect on jobs is positive. The effects of the current proposal on employment are uncertain. True, jobs will be saved or created in the highway and bridge construction industries, in mass transit, and in supplier industries. But reduced private spending of $5.4 billion/year resulting from the higher taxes on motorists and others will eliminate jobs elsewhere in the economy. (In addition, as noted recently by the U.S. Chamber of Commerce, constraints imposed on highway construction by the Davis-Bacon Act will limit the number of new jobs that might otherwise be created).

It is also important for the Congress to understand the effect of this proposal on employment within the petroleum industry. Sellers of motor fuels, from retail dealers to refiners, have experienced a major market contraction over the past several years. Contributing to this is the fact that many states have increased motor fuel taxes during that period.

Some 100,000 retail motor fuels dealers have gone out of business over the past decade. Large numbers of wholesalers also have left the petroleum business, with further job losses, and these reductions also are continuing. Additionally, more than two-million barrels-a-day of U.S. refining capacity (about 12 percent) has been shut down over the past two years. More than 90 refineries have been fully or partially closed with associated job losses.

It should also be noted that the petroleum industry already is the single most heavily taxed industry in the country. No matter how you measure taxes -- in terms of absolute dollars paid to federal, state, and local government, or in terms of percent of pretax income -- the petroleum industry pays more.

Third, the effect of the proposal on various price indices. In the short run, a tax increase on motor fuels would increase those indices. This, in turn, could trigger various escalators affecting both private contracts and government entitlement programs. Over the longer run, the price-increasing effects of the motor fuels tax increase on new spending programs will be balanced by price decreases elsewhere. However, a thorough analysis of these effects also should be a prerequisite to the enactment of a new tax.

We believe that Congress also should be cognizant of the effects of the proposed tax on motor fuel consumers. The proposal is expected to remove several billions of dollars a year in purchasing power from fuel consumers. Further, because of steep increases in oil product costs over the past decade, those consumers who already have had to bear a large increase in spending burden are being asked to shoulder this particular tax increase.

To summarize, we believe the net effects of the proposal on projected deficits, on jobs, on price indices and on the economy in general are significantly important for the country, that these effects are by no means certain, and that additional assessment is required prior to enactment of the tax. Also, we believe it would be wiser to deal further with this proposal next year as part of overall considerations regarding projected federal deficits. And we want to restate our strong conviction that reductions in projected rates of increase in federal spending are the appropriate starting place for attacking the deficit program.

In addition, we have comments on several specific provisions of the proposed legislation.

As stated, we support the concept of user fees for construction and rebuilding of highways and bridges. However, the proposal as drafted departs from the user fee concept in several significant ways.

First, the measure would collect money from highway users and divert it to mass transit, which the highway users -- and fee payers -- are not using.

Second, gasohol would be exempt from the tax. What is now a four-cent-a-gallon subsidy would become a nine-cent-a-gallon subsidy. Gasohol users are highway users, they would benefit from better roads, and they should pay a fair share. Moreoever, this increased subsidy of gasohol would create incentives for wasteful investment in alcohol and gasohol production and would reduce the yield of the proposed tax.

Our final comment on the proposed increase concerns certain inequities inherent in the present federal excise tax. In some cases, credit sales become entirely uncollectible long after the refiner has deposited the federal gasoline tax with the Internal Revenue Service. This occurs, for instance, when credit card users default on their bills or when a dealer goes out of business. This has been a significant problem with the present tax.

To solve this problem, an allowance should be made for uncollectible gasoline and diesel fuel taxes. This could be accomplished without administrative difficulty through the use of a credit against current tax liability. Specifically, a reduction, in an amount equal to the uncollectible tax, could be allowed in the tax required to be reported on the quarterly return.

Statement Of The
American Public Transit Association
In Support Of
Proposed Transportation User Fee Legislation

THE AMERICAN PUBLIC TRANSIT ASSOCIATION REPRESENTS NEARLY 300 BUS AND RAIL TRANSIT SYSTEMS ACROSS THE COUNTRY WHICH CARRY 94 PERCENT OF ALL TRANSIT RIDERS IN THE UNITED STATES, AND AN EQUAL NUMBER OF GOVERNMENT, SERVICE, AND MANUFACTURING ORGANIZATIONS WHICH SUPPORT AND SUPPLY THE NATION'S PUBLIC TRANSIT SYSTEMS.

APTA APPRECIATES THIS OPPORTUNITY TO PROVIDE ITS VIEWS TO THE COMMITTEE AND TO OFFER ITS CONTINUED STRONG SUPPORT FOR IMMEDIATE PASSAGE OF THE USER FEE PROPOSAL NOW UNDER CONSIDERATION.

IN RECENT MONTHS, THE SCOPE OF THE NATION'S INFRASTRUCTURE NEEDS HAS RECEIVED INCREASING ATTENTION IN THE PRESS AND AMONG POLICY MAKERS AT ALL LEVELS.

WE CANNOT STRESS STRONGLY ENOUGH THE IMPORTANT ROLE OF TRANSIT AS A KEY COMPONENT OF OUR INFRASTRUCTURE. EFFECTIVE PUBLIC TRANSIT IS VITAL IF WE ARE TO MAINTAIN BALANCED TRANSPORTATION IN SUPPORT OF OUR ECONOMIC RECOVERY.

--THIS IS TRUE IN OUR LARGE URBAN CENTERS WHICH STILL HOUSE THE MAJORITY OF OUR POPULATION AND ECONOMIC CAPACITY;

--IT IS EQUALLY TRUE IN SMALLER AREAS WHICH ARE EXPERIENCING THE MOST RAPID GROWTH IN TRANSIT RIDERSHIP;

--IT IS TRUE IN MANY LARGER AREAS WHERE GROWTH HAS SLOWED BUT WHERE THE MAJORITY OF TRIPS TO THE CENTRAL BUSINESS DISTRICTS CONTINUE TO BE MADE ON TRANSIT;

--AND, IT IS TRUE IN RAPIDLY GROWING AREAS WHERE ADEQUATE TRANSIT SERVICE IS ESSENTIAL TO SUPPORT ECONOMIC GROWTH, REDUCE CONGESTION, DECREASE TRAVEL TIME, AND MAINTAIN PRODUCTIVITY, GENERALLY.

THE PROPOSED FIVE CENT INCREASE IN USER FEES, AND PARTICULARLY THE ONE CENT FOR PUBLIC TRANSIT, IS CRITICAL IF BASIC TRANSIT SERVICES ARE TO BE MAINTAINED. THE DEDICATION OF A STABLE SOURCE OF FUNDING FOR TRANSIT THROUGH THE USER FEE IS ESSENTIAL IF OUR CURRENT AND FUTURE TRANSIT INFRASTRUCTURE NEEDS ARE TO BE MET.

AT THE PRESENT TIME, THE TRANSIT INDUSTRY IS PROJECTING OVER $50 BILLION IN CAPITAL REQUIREMENTS OVER THE NEXT TEN YEARS. THIS REPRESENTS THE NEED FOR A CONTINUING, SUSTAINED CAPITAL INVESTMENT PROGRAM OF $5 BILLION, ANNUALLY, IN CURRENT DOLLARS.

BASED ON THE PRESENT CONDITION OF EXISTING TRANSIT FACILITIES, IMMEDIATE NEEDS ARE EVEN GREATER. TO MODERNIZE AND REHABILITATE EXISTING TRANSIT FACILITIES TO A REASONABLE LEVEL WOULD REQUIRE THE IMMEDIATE COMMITMENT OF OVER $10 BILLION DOLLARS. WE MUST ACT:

--TO REPLACE 15,300 BUSES, NOW OVER 12 YEARS OLD;

--TO REPLACE NEARLY 3,000 RAIL CARS, NOW OVER 30 YEARS OLD;

--TO REHABILITATE MILES OF RAIL LINES AND OTHER BUS AND RAIL FACILITIES; AND;

--TO CONTINUE THE CONSTRUCTION OF NEW SYSTEMS ALREADY UNDERWAY.

IN ADDITION, AN ESTIMATED $3.5 BILLION IS NEEDED TODAY TO MAKE TIMELY COMMITMENTS TO PLANNED EXTENSIONS AND NEW SYSTEMS. MANY OF THESE PROJECTS HAVE ALREADY RECEIVED CAREFUL JUSTIFICATION AND, IN MANY CASES, SUBSTANTIAL LOCAL COMMITMENTS.

CLEARLY, THE ADDITIONAL $1.1 ~~BILLION~~ FROM USER FEE REVENUES WILL BE VITAL IN ANY ATTEMPT TO MAINTAIN EVEN THE MOST BASIC TRANSIT SERVICES.

IN REVIEWING THE VARIOUS MECHANISMS FOR ALLOCATION OF THE USER FEE TO TRANSIT, WE CONTINUE TO STRONGLY SUPPORT THE PROGRAM

OUTLINED IN H.R. 6211, MANY FEATURES OF WHICH ARE INCORPORATED IN THE AUTHORIZING BILL NOW BEING PREPARED BY SENATORS LUGAR AND D'AMATO. THE TRANSIT INDUSTRY AND THE SERVICES IT PROVIDES ARE DIVERSE. NEEDS VARY CONSIDERABLY, DEPENDING ON REGIONAL GROWTH PATTERNS, THE AGE AND SIZE OF THE SYSTEMS AND THE MODES OF SERVICE BEING PROVIDED-BUS, RAIL OR BOTH.

H.R. 6211 AND THE LUGAR-D'AMATO PROPOSAL PROVIDE A STRUCTURE AND FLEXIBILITY WHICH IS SENSITIVE TO THESE DIFFERING NEEDS. IN ADDITION, THEY PROVIDE FOR LONG-SOUGHT CHANGES TO CURRENT ALLOCATION MECHANISMS WHICH HAVE RECEIVED STRONG BI-PARTISAN SUPPORT IN CONGRESS AND THROUGHOUT THE INDUSTRY. ALSO, BOTH BILLS RETAIN THE PRESENT DECISION-MAKING MECHANISM AND DESIGNATED RECIPIENT STRUCTURE THAT IS NECESSARY TO INSURE THAT SOUND TRANSIT PROGRAMS CAN BE FULLY CARRIED OUT ON A TIMELY BASIS.

WE WOULD LIKE TO NOTE ALSO THAT BOTH H.R. 6211 AND THE LUGAR-D'AMATO PROPOSAL PROVIDE FOR CONTINUED FEDERAL SUPPORT OF TRANSIT OPERATIONS.

MEETING THE OPERATING NEEDS OF THE TRANSIT INDUSTRY IS, IN MANY CASES, AS CRITICAL AS MEETING PROJECTED CAPITAL NEEDS. THIS IS TRUE PARTICULARLY IN MEDIUM AND SMALL PROPERTIES AND NEW SYSTEMS WHERE THE CAPITAL PLANT IS AN RELATIVELY GOOD CONDITION, OR WHERE STABLE AND RELIABLE STATE AND LOCAL FUNDING MECHANISMS ARE STILL BEING ACTIVELY DEVELOPED. MAINTAINING THE FEDERAL OPERATING PROGRAM AT LEAST AT FY 1982 LEVELS REMAINS BASIC TO THE PROVISION OF EFFECTIVE TRANSIT SERVICES.

FINALLY, THE CURRENT STATE OF THE ECONOMY HAS GIVEN RISE TO CONSIDERABLE DEBATE OVER THE NEED TO ACTIVELY PROMOTE NEW JOB CREATION. WHILE THE URGENCY OF OUR TRANSIT NEEDS AND THE MERITS

OF THE USER FEE SHOULD REQUIRE NO FURTHER DEBATE, THE INVESTMENT OF $1.1 BILLION IN OUR PUBLIC TRANSIT INFRASTRUCTURE WILL HAVE A CONSIDERABLE POSITIVE IMPACT ON NEW JOB FORMATION.

ATTACHED TO OUR STATEMENT IS A PRELIMINARY ANALYSIS WHICH SUGGESTS THAT $1.1 BILLION PER YEAR IN NEW TRANSIT INVESTMENTS WILL SUPPORT THE FORMATION OF NEARLY 84,000 ADDITIONAL FULL TIME EQUIVALENT JOBS, BOTH DIRECT AND INDUCED.

DIRECT EMPLOYMENT ALONE FROM THIS INVESTMENT WILL CONSIDERABLY BENEFIT MANY OF THE INDUSTRIES WHICH ARE CURRENTLY AMONG THE MOST DEPRESSED IN THE COUNTRY:

--OVER 5,200 DIRECT JOBS IN BOTH THE CONSTRUCTION AND BUSINESS SERVICE SECTORS;

--OVER 4,800 DIRECT JOBS IN MAINTENANCE AND REPAIR INDUSTRIES;

--NEARLY 4,000 DIRECT JOBS IN THE MOTOR VEHICLE INDUSTRY;

--OVER 2,800 DIRECT JOBS IN THE METALS INDUSTRIES;

--OVER 2,000 DIRECT JOBS IN THE WHOLESALE INDUSTRY.

ALSO ATTACHED TO OUR STATEMENT IS A SELECTED LIST OF PROJECTS FROM 52 AGENCIES AROUND THE COUNTRY, REQUIRING OVER $3.1 BILLION, THAT ARE IMMEDIATELY READY TO GO. A MORE EXHAUSTIVE LISTING WOULD CERTAINLY INCLUDE DOZENS MORE MUCH-NEEDED IMPROVEMENTS, ALSO READY FOR IMMEDIATE ACTION, WHICH CAN ONLY BE CARRIED-OUT WITH THE ADDITION OF USER FEE REVENUES.

IN SUMMARY, OUR NATION NEEDS A BALANCED SYSTEM OF TRANSPORTATION AND SOUND PUBLIC TRANSIT SERVICES IN ORDER TO SUPPORT ECONOMIC GROWTH. THE IMMEDIATE AND FUTURE NEEDS OF THE TRANSIT INDUSTRY ARE CONSIDERABLE AND CANNOT BE REASONABLY MET WITHOUT THE ENACTMENT OF THE FIVE CENT USER FEE PROPOSAL AND DEDICATION OF THE ONE CENT EQUIVALENT TO PUBLIC TRANSPORTATION.

WE STRONGLY URGE THE COMMITTEE TO ACT AS EXPEDITIOUSLY AS POSSIBLE IN APPROVING THE PROPOSAL NOW UNDER CONSIDERATION.

ATTACHMENTS

1. "Estimated Current Capital Needs," APTA, November, 1982.

2. "Estimated Employment Impacts of User Fee Investment in Transit," APTA Working Paper, November, 1982.

3. "Selected Transit Capital Projects For Immediate Implementation," Table Prepared by APTA, November, 1982.

Attachment 1

ESTIMATED CURRENT TRANSIT NEEDS

<u>Bus Replacement</u>	
15,300 over 12 years old @ $150,000	$2,300 million
<u>Rail Vehicle Replacement (net of new orders)</u>	
heavy: 1,965 over 30 years old @ $900,000	1,800
light: 574 over 30 years old @ 700,000	405
Commuter: 448 over 30 years @ 500,000	224
2,987 new vehicles	$2,429 million
<u>Bus Facilities</u>	
$1.4 billion estimated over 5 years; 3/5 est. immed.	$840 million
<u>Rail Facilities</u>	
$13.5 billion estimated over 10 years; estimate 30% is currently needed commitment based on 3 year time horizon for project initiation	$4,050
SUB TOTAL MODERNIZATION NEEDS	$9,619 million
6 systems under construction @ $8.350 cost to complete (10 years) divide by 10 for current annual	$835
SUB TOTAL CURRENT NEEDS	$10,454
27 extensions @ 4.3 billion (10 years) estimate 30 % is currently needed commitment based on 3 year time horizon for project initiation	1,290
9 new starts @ 6.907 (10 year) estimate 30% currently needed, as above	2,072
TOTAL NEEDS	$13,816

Attachment 2

ESTIMATED EMPLOYMENT IMPACTS OF USER FEE
INVESTMENT IN TRANSIT

The user fee proposal provides for the equivalent of a five cent increase in the existing federal gasoline tax and excise taxes with one cent provided for public transit. The one cent is projected to yield approximately $1.1 billion per year for transit investments. The following analysis provides an estimate of the employment generated from $1.1 billion.

METHODOLOGY SUMMARY

The methodology used in this analysis is based on the application of the input-output technique (I-O) to measure direct labor earnings impacts. The specific input-output model used was the Regional Industrial Multiplier System (RIMS II) developed by the U.S. Department of Commerce, Bureau of Economic Analysis. The RIMS II model is a 1980, updated version of the U.S. Input-Output Structure study.

The RIMS II model accounts only for direct (on-site and off-site) employment impacts. Total employment estimates also incorporate the effects of secondary or induced employment stemming from increases in household income and expenditure, and corporate profits. The induced employment multiplier used to estimate these indirect impacts was 1.365.(1)

A more complete description of the methodology is provided in the attached Addendum.

(1) This factor is based on Bureau of Labor Statistics (BLS) estimates which have been used in previous UMTA and FHWA studies.

RESULTS OF ANALYSIS

Total Employment Generated

Should the $1.1 billion in user fee revenues be utilized for capital projects, the analysis indicates that an estimated total of 84,000 full time equivalent (FTE) jobs will be generated. This includes direct employment of 35,400 and indirect or induced employment of 48,600.

The $1.1 billion investment from the user fee will result in added employment within each of the 37 industrial sectors that make up the U.S. economy. Although the employment impact among sectors varies, there are major impacts within several industry groups that are presently among the most depressed, nationwide.

This is illustrated in Table 1 which indicates that over 80 percent of the direct employment impacts—over 28,000 jobs— will occur in nine industry groups, including additional direct employment of 5,200 in construction, 3,900 in motor vehicle industry, 2,800 in the metal industry and 2,000 in wholesale trade.

Induced employment, which varies somewhat for each industry, could more than double the total direct jobs created in each of these industries.(2)

Table A-2 in the Addendum identifies the projected amount of additional direct employment (FTE) in each industry group resulting from every $100 million in transit capital investment for various project types.

(2) Specific multipliers were not derived for each industry group.

Table 1

ESTIMATED DIRECT EMPLOYMENT INCREASES FROM $1.1 BILLION IN TRANSIT CAPITAL INVESTMENT BY MAJOR INDUSTRY GROUPS

Industry Group	Direct Employment Impact (1)	% of Total Direct Employment
Construction	5,221	15%
Maintenance and Repair	4,897	14%
Metals	2,809	8%
Machinery	1,745	5%
Motor Vehicles	3,934	11%
Transportation	1,189	3%
Wholesale	2,020	6%
Real Estate	1,242	3%
Business and Professional Services	5,281	15%
Other Industries	7,051	20%
Total	35,388	100%

(1) Including on-site and off-site direct impacts

Source: American Public Transit Association

Employment Generated by Project Type

Three basic types of capital projects were used in this analysis; bus and bus facilities, rail modernization, and new starts. The total direct and induced employment impacts for each of these types of projects is projected in Table 2 in terms of full-time equivalent (FTE) employment per $100 million of investment.

Table 2
ESTIMATED EMPLOYMENT PRODUCED BY PROJECT TYPE PER $100 MILLION INVESTMENT

Project Type	Employment per $100 million (FTE)
Bus and Bus Facilities	7,450
Rail Modernization	7,590
New Starts	7,960

Historically, the UMTA capital programs have supported a mix of projects in these three catagories. Table 3 provides an estimate of total employment resulting from $1.1 billion in capital investments assuming a mix of projects representative of past trends in UMTA funding.

Based on the historic pattern of UMTA capital investments (40 percent bus related, 40 percent rail modernization, 20 percent new starts), an estimated $440 million would be committed to bus and bus facility projects, producing an estimated total of 32,800 jobs (FTE). Similarly, $440 million for rail modernization would produce 33,400 jobs (FTE) and $220 million for new starts an additional 17,500 jobs (FTE).

Notes accompanying the table describe the assumptions made in arriving at the assumed mix of capital investments.

Table-3

PPROJECTED EMPLOYMENT BY PROJECT TYPE FROM $1.1 BILLION IN TRANSIT CAPITAL INVESTMENT

Project Type (1)	Element (2)	Estimated Investment (1) ($100 Million)	Estimated Employment (FTE)
Bus and Bus Facilities	Vehicles	257.0	18,476
	Facilities	183.0	14,303
		440.0	32,779
Rail Modernization	Vehicles	101.8	7,319
	Rehabilitation	233.5	17,154
	New Facilities	81.8	6,333
	Professional Services	21.2	2,597
	Other	1.7	- -
		440.0	33,403
New Starts	Vehicle	19.2	1,380
	New Construction	147.6	11,427
	Professional Services	38.4	4,704
	Other	14.8	- -
		220.0	17,511
Total		11.00	83,693

(1),(2) See notes on accompaning page.

Notes to Table 3

(1) Assumes a mix of capital investments from $1.1 billion of:
40% Bus and Bus Facilities
40% Rail Modernization
20% New Starts

Source: Historical mix of discretionary capital projects in UMTA capital program.

(2) Assumes a mix of expenditures in Bus and Bus Facilities of:

58.4% vehicles
41.6% facilities

Source: UMTA FY 83 Budget Request

Assumes a mix of expenditures in rail modernization of:

23.1% vehicles
53.1% maintenance and rehabilitation
18.6% new construction on existing systems
4.8% professional services

Source: Review of (3) representative rail modernization projects now fully funded and underway

Assumes a mix of expenditures in new starts of:

8.7% vehicles
67.1% new construction
17.5% professional services
(6.7% other—no employment impact, e.g. right-of-way acquisition, etc)

Source: Review of Four (4) representative new start projects now fully funded and underway.

Employment Impacts of Operating Assistance

Should a portion of the user fee be utilized to cover transit operating costs, substantial employment results. Comparable analysis of the employment impacts of operating expenditures indicate that for each $100 million of investment, 3,250-3,420 direct and 7,686-8,088 total jobs (FTE) are generated[3]

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(3) Direct employment from operations was estimated from the "Local Government Passenger Transit," category, (79.0100), in the RIMS II model and APTA analysis of the operating cost structure and employment levels in the industry.

The employment impact of investments in transit operations is, therefore, generally comparable to the impact of various types of capital investments as indicated in Table 2.

Meeting the operating needs of the transit industry is, in many cases, as critical as meeting projected capital needs. This is true particularly in medium and small properties and new systems where the capital plant is in relatively good condition, and where stable and reliable state and local funding mechanisms are still being actively developed.

ADDENDUM: METHODOLOGY

I. Analytical Framework

The basic method used in this estimation of employment impacts of capital investment on transit programs was application of the input-output (I-O) technique to measure the direct labor earning impacts in 37 industries constituting the U.S. economy. The computed earnings-employment coefficients for each of the 37 industries were used to derive the total direct (on-site and off-site) employment impacts within individual I-O sectors. Employment generation is expected to increase household incomes and expenditures, and corporate profits, with further increases in output and employment within the U.S. economy. Therefore, direct employment impacts were expanded to account for the induced multiplier effect in arriving at estimates of total employment impacts.

II. Model and Sources

The Regional Industrial Multiplier System (RIMS II) Model was the I-O technique used in this study. The original model was developed by the U.S. Department of Commerce, Bureau of Economic Analysis and contained information on inter-industry-linkages of 478 industrial sectors (RIMS Sectors). The RIMS II Model used in this analysis was the 1980 updated version of the 1972 U.S. Input-Output table. The earnings multipliers and coefficients were normalized to one year—1980. The expenditure mix of various transit projects was developed from recent historical data as described in the footnotes to Table 3.

III. Calculations

A. Direct Impacts

The initial stage of the calculations involved the estimation of incremental direct employment impacts on 37 industrial sectors per $100 million of transit capital expenditures. The employment impacts accounted for variations in average work hours per week among industries so that they are expressed in full-time equivalent jobs (FTE). Transit expenditures for new starts, rail modernization, and bus projects were categorized into five RIMS Sectors: Motor Vehicles, New Transit Facilities, Maintenance and Repair of Transit Facilities, Garage and Service Stations, and Miscellaneous Professional Services. The categorization was necessary to obtain more accurate estimates, since the degrees of capital/labor intensiveness are expected to vary among these RIMS Sectors.

An additional category ("Other items") was computed, but was excluded from the employment impact estimates. These items include real estate acquisition, relocation costs, and similar expenditures, which are expected to have minimal impacts on employment generation.

The shares of RIMS Sector components within each major element are highlighted in Table A-1.

Table A-1
PERCENTAGE SHARE OF RIMS SECTORS

RIM Sectors and Codes	New Starts	Rail Modernization	Bus and Bus Facilities
Motor Vehicles (59.0301)	8.74%	23.14%	58.40%
New Transit Fac. (11.0308)	67.08	18.58	—
Maintenance and Repair of Transit Fac. (12.0211)	—	53.06	—
Garages and Service Stations (11.0204)	—	—	41.60
Professional Services (73.0300)	17.46	4.82	
Other Items	6.72	0.40	
TOTAL	100.00	100.00	100/00

Source: See footnotes, Table 2

B. Indirect Impacts

The current option for the RIMS II technique accounts only for the direct (on-site and off-site) employment impacts in industries. To estimate the total (direct and induced/indirect) impacts, the induced employment value of 1.365 was used. This estimate was based on Bureau of Labor Statistics (BLS) studies which have been used in various Urban Mass Transportation Administration (UMTA) and Federal Highway Administration (FHWA) analyses. The estimate incorporates effects of spending from increased profits and wage income.(4)

IV. Results

The direct employment impacts per $100 million expenditures of new starts, rail modernization and bus projects on each of the 37 major industrial sectors are presented in Table A-2. The total impacts both direct and induced are also shown. The relatively high employment impacts of new starts projects are attributable to the higher labor intensity of new transit construction work and professional services. Bus projects would generate somewhat fewer jobs per unit of investment since a larger proportion of these project costs is expended on manufacture and assembly of motor vehicles which are more capital intensive.

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(4) See JWK International Corporation, National Level Employment Impacts of the Department of Transportation's Grant Programs, Prepared for U.S. Department of Transportation, Volume II: Main Report, October 1981. pp. 51-56.

Table A-2

DIRECT EMPLOYMENT IMPACTS PER $100 MILLION IN TRANSIT INVESTMENTS BY INDUSTRY GROUP (1)
(Full-Time Equivalent Employment)

Industry	RAIL NEW STARTS	RAIL MODERNIZATION	BUS and BUS Facilities
1. Agriculture	18.1	12.8	16.2
2. Forestry and Fisheries	1.3	2.0	3.1
3. Coal Mining	3.2	3.1	5.5
4. Pretroleum and Natural Gas	8.4	12.0	13.7
5. Other Mining	19.8	11.8	15.8
6. New Construction	929.5	257.4	464.3
7. Maintenance and Repair	15.3	1,085.6	18.8
8. Food and Kindred Products	6.9	7.8	7.2
9. Textiles	7.2	15.1	30.6
10. Apparel	8.1	18.4	45.5
11. Paper	11.3	10.5	18.4
12. Printing and Publishing	20.7	20.4	30.2
13. Chemicals	29.5	46.4	49.5
14. Rubber and Leather	23.3	43.6	72.1
15. Lumber and Furniture	18.2	26.2	43.0
16. Stone, Clay and Glass	76.5	35.8	93.9
17. Primary Metals	65.3	60.5	116.5
18. Fabricated Metals	143.5	116.7	240.4
19. Non-electrical Machinery	47.1	47.0	114.7
20. Electrical Machinery	45.8	80.1	108.4
21. Motor Vehicles	93.2	241.6	605.9
22. Other Transportation Equipment	2.6	2.3	3.8
23. Instruments	5.7	6.2	11.4
24. Micellaneous Manufacturing	8.4	5.9	7.9
25. Transportation	122.9	89.1	119.7
26. Communication	60.1	59.6	61.6
27. Utilities	21.1	21.4	33.5
28. Wholesale Trade	115.3	140.4	260.8
29. Retail Trade	36.1	55.7	59.2
30. Eating and Drinking Establishments	26.6	30.9	24.4
31. Finance	33.8	37.2	36.3
32. Insurance	17.9	20.2	16.4
33. Real Estate	126.7	115.0	103.8
34. Lodging and Amusement	19.7	13.1	13.7
35. Personal Services	6.1	5.6	9.3
36. Business Services	1,124.7	405.3	232.8
37. Other Services	45.7	42.2	41.5
Total- Direct Impacts	3,365.6	3,204.9	3,149.8
Total- Direct & Induced Impacts	7,959.6	7,579.6	7,449.3

(1) Including on-site and off-site direct impacts

Source: American Public Transit Association

Attachment 3

American Public Transit Association November 30, 1982

Selected Transit Capital Projects Ready for Immediate Implementation

Transit Agency	Project Type	Project Cost (Millions of Dollars)
Intercity Transit, Olympia, WA	Bus Maintenance/Operations/Administration Facility Construction	6.00
York Area Transportation Authority, York, PA	Bus Maintenance/Storage Facility Construction	2.25
Ben Franklin Transit, Pasco, WA	Bus Maintenance/Operations/Administration Facility Construction	5.34
Mass Transportation Authority Flint, MI	Bus Maintenance/Administration Facility Expansion, Rolling Stock Procurement	5.83
New Jersey Transit, Newark, NJ	Bus Garage Construction and Facility Rehabilitation; Rail Electrification, Facility Construction, Bridge Repairs	218.00
Utica Transit Authority, Utica, NY	Rolling Stock, Communication System Procurement	1.73
Greater Cleveland Regional Transit, Authority, Cleveland, OH	Rail Station and Right-of-way Rehabilitation	200.00
Mobile Transit Authority, Mobile, AL	Bus Garage Facility Purchase and Renovation, Rolling Stock and Equipment Procurement	1.66
Lehigh and Northampton Transportation Authority, Allentown, PA	Bus Garage Improvement, Maintenance Equipment and Rolling Stock Procurement	4.26
Indianapolis Public Transportation Corporation, Indianapolis, IN	Bus Operating Facility Construction, Rolling Stock Procurement	8.50
Public Transportation Administration, El Paso, TX	Bus Vehicle Modernization and Rehabilitation, Transit Mall Construction	6.57
Monterey-Salinas Transit, Monterey, CA	Bus Maintenance Facility Construction	1.33
Mass Transit Administration, Baltimore, MD	Bus Garage Construction; Rail Rapid Transit Extension	225.00
Des Moines Metropolitan Transit Authority, Des Moines, IA	Rolling Stock Procurement	0.88

American Public Transit Association
Selected Transit Capital Projects Ready for
Immediate Implementation, page 2

November 30, 1982

Transit Agency	Project Type	Project Cost (Millions of Dollars)
Corpus Christi Transit System, Corpus Christi, TX	Bus Facility and Rolling Stock Rehabilitation	1.13
Southeastern Pennsylvania Transportation Authority, Philadelphia, PA	Rail Station, Right-of-way, and Electrification Rehabilitation; Bus Facility Construction	96.00
Department of Transportation Services, Honolulu, HI	Bus Rolling Stock Procurement and Rehabilitation, Bus Maintenance Facility Rehabilitation and Construction	41.71
Billings Metropolitan Transit, Billings, MT	Bus Maintenance Facility Construction	1.61
Isabella County Transportation Commission, Mount Pleasant, MI	Bus Facility Construction	0.50
Santa Clara County Transportation Agency, San Jose, CA	Transit Mall Construction	34.00
Niagara Frontier Transportation Authority, Buffalo, NY	Bus Transit Mall and Facility Construction, Bus Rolling Stock Improvement and Procurement; Rail Station and Right-of-way Construction	88.12
Jackson Transit System, Jackson, MI	Bus Rolling Stock Rehabilitation	0.24
Western Reserve Transit Authority, Youngstown, OH	Bus Maintenance Facility and Passenger Loading Zone Construction	3.40
Long Beach Public Transportation Company, Long Beach, CA	Bus Maintenance/Operating Facility Modernization and Expansion	5.90
Central Ohio Transit Authority, Columbus, OH	Bus Equipment and Rolling Stock Procurement, Park and Ride Lot Construction, Storage Facility Construction	41.08
Northeastern Illinois Regional Transportation Authority, Chicago, IL	Rail Right-of-way and Signal Rehabilitation; Bus Facility Construction	204.00
Chicago Transit Authority, Chicago, IL	Rail Facility and Equipment Rehabilitation, Bus Facility and Equipment Rehabilitation	310.06

American Public Transit Association
Selected Transit Capital Projects Ready for
Immediate Implementation, page 3

November 30, 1982

Transit Agency	Project Type	Project Cost (Millions of Dollars)
Burlington Northern Railroad Company, Chicago, IL	Rail Terminal, Maintenance Facility Construction	26.00
Memphis Area Transit Authority, Memphis, TN	Bus Rolling Stock Procurement, Maintenance Facility Improvements	17.42
Kansas City Area Transportation Authority, Kansas City, MO	Bus Rolling Stock Rehabilitation	3.00
Port Authority of Allegheny County, Pittsburgh, PA	Light Rail Construction	150.00
K-TRANS, Knoxville, TN	Bus Passenger Information System and Rolling Stock Procurement, Bus Facility Expansion	0.33
Washington Metropolitan Area Transit Authority, Washington, DC	Bus Rolling Stock Procurement and Rehabilitation, Bus Facility Construction and Rehabilitation; Rail Right-of-way and Station Construction, Rail Rolling Stock Procurement	472.00
Southern California Rapid Transit District, Los Angeles, CA	Bus Garage, Terminal Construction and Rehabilitation	57.80
Dallas Transit System, Dallas, TX	Bus Rolling Stock Improvement and Procurement, Bus Lane Construction, Bus Garage Construction	57.43
Metropolitan Transit Authority of Harris County, Houston, TX	Rail Right-of-way, Facility Construction; Bus Facility, Park and Ride Lot, Terminal, Bus Lane Construction; Road and Street Improvements	286.19
Metropolitan Transit Commission, Minneapolis, MN	Bus Rolling Stock Rehabilitation	13.00
Metropolitan Transportation Commission, San Francisco, CA	Bus Facility, Rolling Stock Rehabilitation and Construction; Rail Facility, Rolling Stock Rehabilitation and Construction	200.00
Southeastern Michigan Transportation Authority, Detroit, MI	Rail Engineering, Station Construction	30.00
Massachusetts Bay Transportation Authority, Boston, MA	Rail Rolling Stock, Right-of-way, Bridge, Tunnel, Station, Signal, and Electrification Rehabilitation; Bus Rolling Stock Rehabilitation	164.00

American Public Transit Association
Selected Transit Capital Projects Ready for
Immediate Implementation, page 4

November 30, 1982

Transit Agency	Project Type	Project Cost (Millions of Dollars)
Metropolitan Transportation Authority, New York, NY	Rail Modernization and Rehabilitation; Bus Procurement and Facility Rehabilitation	96.00
Austin Transit System, Austin, TX	Bus Rolling Stock Procurement, Park and Ride Lot Construction	3.46
Northwest Suburban Mass Transit District, Chicago, IL	Rail Facility Construction	10.00
Milwaukee County Transit System, Milwaukee, WI	Bus Rolling Stock Procurement	35.00
Department of Transportation, Madison, WI	Bus Rolling Stock Procurement, Facility Expansion	4.55
Kanawha Valley Regional Transportation Authority, Charleston, WV	Bus Facility Renovation, Rolling Stock Procurement	1.82
Palm Beach County Transportation Authority, West Palm Beach, FL	Bus Rolling Stock and Equipment Procurement	2.56
Regional Transportation Commission, Reno, NV	Bus Facility Construction	6.00
Saginaw Transit System, Saginaw, MI	Bus Operations Center Construction	3.50
Rhode Island Public Transit Authority, Providence, RI	Bus Rolling Stock and Equipment Procurement, Bus Facility Renovation	7.55
Valley Transit, Appleton, WI	Bus Garage Construction, Rolling Stock Procurement	3.18
Central Contra Costa Transit Authority, Walnut Creek, CA	Bus Rolling Stock and Equipment Procurement, Bus Facility Construction	8.82
TOTAL		3,174.61

American Road & Transportation Builders Association

Statement

of the

American Road & Transportation Builders Association

before the

Committee on Finance

United States Senate

97th Congress

Re: Extension of the Highway Trust Fund
and Increases in Highway-User Fees

Witness:

James A. Caywood
Chairman
ARTBA

November 30, 1982

525 School Street, S.W., Washington, D.C. 20024 • (202) 488-2722

My name is James A. Caywood. I am the president of De Leuw, Cather & Co., with headquarters in Washington, D.C., and I am here today representing the American Road & Transportation Builders Association, of which I am the chairman. I am accompanied by ARTBA's president, Daniel J. Hanson, Sr.

ARTBA is a national organization with members concerned with all aspects of transportation development in the United States. Our major interests include highways, airports, railroads and public transit, with a particular concern for the safety of all modes. Our membership includes contractors, public officials, materials producers and suppliers, equipment manufacturers and distributors, transportation safety specialists and educators.

We are here today to express our strong support for an immediate increase in the highway-user fees which support the Highway Trust Fund. We do so primarily because of the urgent need to undertake a long-term rebuilding of the national highway system. The increase in the program is especially desirable at this time because of the important employment values it contains. Through this program, we can put many thousands of unemployed workers back to work.

The highway program is a shared responsibility of the Federal, state and local governments. In 1981, all levels of government spent a total of $38.9 billion on highways and streets. Of that amount, $18.8 billion was spent on capital projects. The remaining $20.1 billion was expended for non-capital purposes, principally maintenance, traffic services and law enforcement.

We are concerned with the capital portion of the highway budget because the Federal share of the program is so important. In 1981, a total of $7.9 billion was expended from the Highway Trust Fund, which represents about 42 percent of all capital spending.

To correct the deficiencies in the highway system, we need to at least double the current capital spending. The proposed increase in the Federal share must be accompanied by increases of a similar magnitude at the state and local levels. We do not expect, or look for, a Federal "quick fix" for our highway problems. Instead we seek a strong, long-range Federal commitment as a foundation for an increased level of funding at both the state and local levels.

Each billion dollars invested in the Federal-aid highway program produces over 63,000 full-time jobs. These jobs will be spread out throughout the economy. Most important, however, the direct impact will be felt in numerous industries particularly hard hit by unemployment.

These include the transportation construction industry, where current unemployment exceeds 23 percent. The highway program also has a major impact on steel, cement, asphalt and aggregate producers, all of which are presently operating far below capacity. We do, indeed, foresee an immediate positive impact on these distressed sectors of the economy.

In summary, our proposed recommendations are as follows:

1. The proposed increase in user fees should be made effective immediately upon enactment. The mechanisms for collecting these fees are already in place; no extended regulatory proceedings should be necessary.

2. The Highway Trust Fund should be extended on a permanent basis by simply striking out the existing September 30, 1984, expiration date.

3. Highway authorizations should be increased to at least $12 billion in Fiscal Year 1983. They should be increased in graduated steps to reach a level of $18 billion by Fiscal Year 1987.

4. The arbitrary obligation ceiling, which is the equivalent of impoundment, should be removed immediately.

5. Each state should be guaranteed at least an 85 percent return of the highway-user fees paid into the Highway Trust Fund by the highway users of that state.

The Motor Fuel User Charge

The Federal user charge on motor fuel is, quite properly, the principal source of revenue for the Highway Trust Fund. ARTBA believes that it should continue to be the principal source, augmented by special charges on the heavier classes of vehicles.

The user charge on motor fuel has several distinct advantages. First and foremost, it is an equitable charge. Those who do not use the highways do not pay. Consumers who drive more pay more than those who choose to drive less. Drivers of vehicles with greater weight and horsepower, consume more gasoline, and pay more per mile driven. Fuel consumption is by far the best single measure of highway usage.

The motor fuel user charge has the further advantages of being relatively easy to collect and difficult to evade. The only loop-holes are the legally approved ones, such as the gasohol exemption. ARTBA has steadfastly opposed such loop-holes. Every vehicle which operates on the public roads should pay the basic motor fuel user charge.

History of Highway Funding

The linkage between the motor fuel user charge and the construction and maintenance of highwys is well established in law and precedent. The very first motor fuel user charge in the United States was established by the Oregon legislature in February, 1919. Other states quickly followed the Oregon example, usually with a provision dedicating the revenue for highway purposes. By 1929, every state had imposed a motor fuel user charge of at least 2 cents per gallon.

The Federal motor fuel user fee dates from 1932, when a charge of 1 cent per gallon was levied. The Federal charge was increased to 1.5 cents in 1940 and to 2 cents in 1951. With the establishment of the Highway Trust Fund in 1956, the rate went to 3 cents per gallon. It was further increased to 4 cents in 1959. At that time, it was equal to the cost of a first-class postage stamp.

The user charges applied in 1956 were developed pragmatically, and were intended to be perfected at a later date. As stated in Sec. 209 (b) of the Highway Revenue Act of 1956:

"It is hereby declared to be the policy of the Congress that if it hereafter appears --

"(1) that the total receipts of the Trust Fund ... will be less than the total expenditures from such Fund ...: or

"(2) that the distribution of the tax burden among the various classes of persons using the Federal-aid highways, or otherwise deriving benefits from such highways, is not equitable, the Congress shall enact legislation in order to bring about a balance of total receipts and total expenditures, or such equitable distribution, as the case may be."

The Equity Issue

Since 1961, the changes in user charges have been relatively minor. They have been directed essentially to provide relief for certain classes of users, without complete review of the entire equity situation. The Surface Transportation Assistance Act of 1978 directed the Secretary of Transportation to undertake a new Highway Cost Allocation Study.

ARTBA supports the general findings of the Highway Cost Allocation Study and considers it to be an appropriate basis for adjusting the highway-user charges supporting the Highway Trust Fund in the future.

The Immediate Problem

We are confronted with an urgent need to extend the life of the Highway Trust Fund and substantially increase the supporting highway-user charges. This should be done at once.

The adoption of the revenue proposals submitted by the Administration, together with the necessary authorizing legislation, will enable us to get to work immediately with the restoration of our highway system. At the same time, we will take a giant step forward in relieving unemployment, particularly in the hard-hit construction industry where almost one worker in four is out of work.

We strongly urge the adoption of the Administration proposal, with the suggestion that it is appropriate for this Committee to consider a fine-tuning of the revenue provisions at a reasonably early date. For example, the proposed increases in the user charges impacting the trucking industry are related, to some extent, to proposed changes in the area of allowable sizes and weights. It is not improbable that some changes in language will occur in the legislative process.

The Role of Transit

Approximately 95 percent of all urban passenger miles of travel in the Untied States is by private automobile. Buses account for 2.7 percent, subways and other rail systems 2.2 percent, and taxicabs less than 1 percent.

Urban transportation is properly viewed as an interrelated intermodal system, heavily dependent on streets and urban freeways. In the narrow view, the highway user is concerned with the streets and freeways, but not with the other elements of the system such as transit vehicles and fixed facilities for rail transit.

ARTBA believes that a somewhat broader view is in order, one in which the urban transportation system is seen as an integrated whole. In that broader view, it is not inconsistent to direct some Federal highway-user revenues to the capital costs of public transit. Such applications are fairly common at the state level. We therefore support the Administration's transit funding proposal.

At the same time, we believe that the state and local governments should be able to exercise the option of using the proposed transit funding for highway needs, in cases where highway needs are more pressing. ARTBA firmly opposes the use of any highway-user revenues to support the operating costs of public transit.

Mr. Chairman, we appreciate the opportunity to present the view of the American Road & Transportation Builders Association. We will be most pleased to respond to your questions, or to supply additional information.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

HILTON DAVIS
VICE PRESIDENT
LEGISLATIVE AND POLITICAL AFFAIRS

1615 H STREET, N.W.
WASHINGTON, D. C. 20062
202/659-6140

November 30, 1982

The Honorable Robert J. Dole
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the over 244,000 members of the U.S. Chamber of Commerce, I respectfully urge you and the members of the Finance Committee to support the Administration's bipartisan proposal to increase the federal gasoline user fee by the equivalent of 5 cents a gallon to finance the repairs, rehabilitation and completion of our nation's roads and bridges through the Highway Trust Fund mechanism.

The user fee on gasoline and diesel fuel has been 4 cents a gallon since 1959. Since that year, construction costs have risen 300 percent and the purchasing power of current revenues has been cut by three-fourths. Also, during the 1980's, 50 percent of our primary road system will reach the end of its design life. Ten percent of the Interstate System needs immediate resurfacing and over 40 percent of our bridges are now judged to be deficient. Because of poor road conditions, motorists' driving costs will increase by 20 percent by the mid-1990's and driving time by 20 percent unless action is taken.

We also understand that Congress may examine waiving Davis-Bacon Act coverage as it applies to programs funded under the proposed increase. We urge you to support such an effort. By waiving Davis-Bacon requirements, thousands of additional jobs can be created and more efficient use of the increased user fees paid by motorists can be accomplished.

The U.S. Chamber and our national federation of business people working through state and local chambers of commerce were among the key supporters for the Highway Trust Fund in 1956. That action helped give us one of our greatest economic resources, a national highway system second to none. Today that system needs major repair. The U.S. Chamber believes it is in our best interest both as citizens and business people to support responsible efforts to maintain our road network.

I will appreciate your consideration of our views, and I request that this letter be included in the hearing record.

Cordially,

Hilton Davis

cc: Committee Members
Robert E. Lighthizer
Michael Stern

STATEMENT OF SIGMUND ZILBER ON BEHALF OF
THE INTERNATIONAL TAXICAB ASSOCIATION
BEFORE THE SENATE COMMITTEE ON FINANCE
CONCERNING THE FINANCING NEEDS OF THE
HIGHWAY TRUST FUND FOR FISCAL YEARS 1983-1986

December 6, 1982

Mr. Chairman, my name is Sigmund Zilber. I am President of Metro Taxi, Inc. of Miami, Florida and the President of the International Taxicab Association (ITA). ITA, on whose behalf I am appearing here today, is the sole trade association in the taxicab industry, representing taxicab operators in every state and in all major cities of the United States. The members of ITA own or control over half of the principal corporations which operate taxicabs in the United States.

I am here today to give you the views of ITA not on the merits of the proposal to increase the excise tax on gasoline from 4 to 9 cents, but rather upon the anticipated effect of such a tax increase upon the taxicab industry, an effect which will be financially disastrous absent an extension of our industry's entitlement to a rebate of excise taxes paid.

In 1978, Congress enacted what became Section 6427(e) of the Internal Revenue Code, which permitted taxicab companies to obtain a refund of federal excise taxes on gasoline, diesel and other fuels used in taxicabs if the following conditions are met: (1) the company must provide shared riding; (2) company vehicles must meet EPA fuel economy standards; and (3) the company must be the ultimate user of the fuel.

This rebate, originally enacted for a two-year period, was extended for an additional two years in 1980. Unless extended further, the rebate is scheduled to expire on December 31, 1982. A proposal to extend the rebate for one year has already passed the Senate as an amendment to H.R. 5470. The House Ways and Means Committee reported out its gas tax bill on December 2, 1982 which granted the taxicab industry an exemption from four of the nine cent tax through September 30, 1984.

I am testifying today to emphasize the fact that this Committee has already determined that the taxicab industry should be, in effect, exempt from the excise tax on fuels. The reasons supporting the current rebate apply with equal force to ITA's request that any increase in the excise tax not be assessed against the taxicab industry.

1. Were our industry, composed primarily of small businesses, to be hit with an additional gasoline tax, the financial stability of many of our smaller members would be seriously jeopardized.

2. In many cities the taxicab industry is the sole surviving private sector provider of intra-city transportation. As such it must compete with

public mass transit systems which are exempt from the federal excise tax in question. Our ability to survive along side those systems and to continue to provide supplemental mass transportation service would be severely curtailed should our current rebate not be extended.

3. Perhaps most importantly, the Committee should recognize that taxicabs are not substantial users of the interstate highway system, which ITA understands will be the primary beneficiary of the increased revenue generated by the additional 5 cents per gallon excise tax.

ITA respectfully suggests that, at a minimum, any proposal to increase the federal excise tax on fuels contain a provision which would amend §6427(e)(3) of the Internal Revenue Code to read as follows: "This subsection shall not apply after September 30, 1988." By making this simple amendment, it will be made clear that the taxicab industry rebate will not expire and will apply both to the current 4 cent tax and to the proposed additional 5 cent tax. The proposed September 30, 1988 expiration date is consistent with the other termination provisions contained in the Administration's proposed bill.

ITA therefore urges that this Committee grant the taxicab industry an exemption from the full nine cent tax through September 30, 1988.

816-921-2230

JACK COOPER TRANSPORT CO., INC.
8801 MANCHESTER TRAFFICWAY
KANSAS CITY, MISSOURI 64129

December 3, 1982

Senator Robert J. Dole
2227 Dirkson Senate Office Building
Washington, D. C. 20510

Attention: Ethel Stehle

Dear Senator:

As we told you in our telephone conversation yesterday, we feel the Highway Tax Program as proposed by the Department of Transportation is grossly unfair to the trucking industry. We can support the 5-cent-per-gallon fuel tax increase, but the other increases are unfair to our industry and would certainly be disastrous to the industry in general and our company in particular.

We are a contract carrier of automobiles and trucks for General Motors serving their plants in Kansas City, Kansas and Kansas City, Missouri. We have approximately 250 employees in each state. As you know automobile sales have been badly depressed for some time now and consequently it has been a struggle for us to keep our head above water. If this tax program were to be enacted as proposed by the DOT, the rate increase we would have to have would undoubtedly cause us to lose business to the railroads. This in turn would cause us to lay off sizable numbers of employees adding to what is already a serious unemployment problem in Kansas as well as nationwide.

At our present level of operations we spend approximately $314,000 annually in federal taxes on fuel, tires, repair parts and highway use tax. Should the DOT proposals prevail our taxes on these items would increase to approximately $1,179,000 annually. As you can readily see this is an increase that a relatively small company cannot absorb.

We, along with other companies in our industry, are willing to pay our fair share of maintaining the highways. However, we do not think the cost allocation used by the DOT is valid. There are many factors other than truck weight, such as weather and age, which cause road and bridge deterioration. It appears to us that the DOT cost application virtually ignores these other factors.

We urgently request your support of the legislation as proposed by the ATA rather than the DOT proposal.

Yours very truly,

JACK COOPER TRANSPORT COMPANY, INC.

Thom Cooper

Thom Cooper, President

TC:bm

INDEPENDENCE FOR INDEPENDENTS

MARYLAND INDEPENDENT TRUCKERS & DRIVERS ASS'N., INC.
BOX 9646 BALTIMORE, MARYLAND 21237

December 3, 1982

The Honorable Robert Dole
Chairman
Committee on Finance
U. S. Senate
Washington, D.C. 20510

Dear Chairman Dole:

We respectfully submit the attached statement on behalf of the Maryland Independent Truckers and Drivers Association, Inc., a group of owner-operators and drivers residing in Eastern Seaboard states, and the Truckers Action Conference, 1109 Plover Drive, Baltimore, Md. 21227, which is a small group of persons from around the country who are associated with the trucking industry either as owner-operators or as small fleet owners.

We hope that the Committee will consider our statement as it deliberates proposals to raise fuel and highway use taxes.

Thank you for the opportunity to present our views.

Yours truly,

Rita Bontz

Rita Bontz
President
Maryland Independent Truckers
and Drivers Association, Inc.

Theodore E. Brooks, Sr.

Theodore E. Brooks, Sr.
Director
Truckers Action Conference

Mr. Chairman and Members of the Committee on Finance:

The members of the Maryland Independent Truckers and Drivers Association and the Truckers Action Conference are stunned by the proposals to raise the highway use taxes.

These proposals come at a time when our expenses are at an all-time high--when freight rates are being cut far below our cost of operations--and when the amount of available freight is at a low.

We are fighting the most serious battle for survival that we have ever known. The trucking industry is in a tumultuous period as its components strive to adjust and survive the effects of deregulation initiatives that have already taken place.

We recognize that many of the Nation's highways and bridges are sorely in need of repair and replacement. We know that we, as do all highway users, contribute to the deterioration. We are willing to bear our fair share of the cost to repair and replace the highways and bridges.

But we believe that we have not only been paying our fair share over the years; we have been paying more than our share. And now we are being asked to pay astronomical increases in highway user fees and are being told that 20 percent of that money will be parceled out in block grants to states and cities to update and repair urban mass-transit systems.

This nation needs a stable, safe, and efficient trucking industry. And it needs independent truck owner-operators who are such a vital part of that industry. For example, we haul most of the Nation's produce and meat, much of its processed foodstuffs, nearly all of its heavy equipment, steel, a large portion of its manufactured goods, and a significant portion of military shipments.

These proposals will drive many of us out of business--forever. Truckers who have for years provided reliable service at a reasonable cost will disappear. They will be replaced by the inexperienced--those who will be able to survive in the industry only long enough to cause problems.

We are not asking to be excluded from helping to pay for the repairs and replacement of highways and bridges. We are only asking that our payment be a reasonable share.

It is unreasonable, we believe, to expect one group of users to bear such a disproportionate share of the costs. The proposals are being touted as costing the average motorist $30 a year. Not bad if it brings us road repairs and replacement. That's less than the cost of a pair of shock absorbers for the average automobile.

But let's look at what it will cost the average trucker. Most truckers will pay the $2,700 fee--or close to it. If the trucker drives 100,000 miles a year--not an unusual amount--there's an extra $1,000 for 20,000 gallon of fuel (at 5 miles per gallon). Increases in taxes on truck sales, parts, tires, tubes, and so on could add as much as $1,500. How does that compare with the $30 the average motorist pays? Is it in proportion?

This bill is being promoted as a measure to create new jobs. We see it in a different light. Our assessment of this bill can be summed up in three paragraphs.

First, the net gain in jobs will be minimal at best. We predict this bill, if enacted, will be a boondoggle in the truest sense of the word. There will be so many trucking industry people thrown out of work that their numbers may actually equal the projected number of created jobs.

Secondly, we truckers spend twenty, thirty, even forty years of our working lives on the highways. We watched the Interstate System being built. We see the repair work being done. We are out there every day and we can state in all sincerity that the major part of this work is not up to the standards which highway users have been paying for. One instance among hundreds comes immediately to mind. One of the writers of this statement travelled Interstate 80 across Pennsylvania the day it was opened. We saw hundreds of pavement cracks, concrete slabs rocking under the weight of vehicles and shooting muddy water 6 feet in the air, bridges so rough they threatened loss of vehicle control. All of this on the day the road was opened to the public. This is only one of many examples of poor design, poor workmanship, poor supervision, and waste of our money which are repeated over and over from coast to coast.

There is ten times more highway damage caused by poor construction and skimpy material than was ever caused by truck traffic. Truckers pay for this fraud in damage to their equipment, injury to their health, and damage to the goods they haul. Further taxation adds insult to literal injury.

Finally, passage of this bill in its present form would constitute an inflationary quick-fix for the sake of political expediency. It would place cost in varying degrees on those least responsible for the condition of our highway system and in large part on an industry which is least able to pay the grossly unfair and unrealistic share proposed by this measure.

We realize the fuel tax is unchanged over the last 23 years. We accept the 5 cent increase as reasonable and fair. To put this in perspective, the average truck will pay tax on 20,000 gallons of fuel per year, a rate of payment at least 40 times that paid by the average motorist.

We deem totally unacceptable the astronomical proposed increases in user and excise taxes. And we especially reject the concept of diversion of highway taxes into non-highway uses. We consider these sections of the bill to be unfair, unlawful, and confiscatory.

We sincerely hope the Congress will consider the potentially devastating long-term effect of this bill as it is now written. And finally, we hope the Congress will take the steps necessary to ensure that those who provide the funds for the Highway Trust Fund receive fair value for the taxes paid.

Thank you for considering our views.

National Association of Truck Stop Operators

December 2, 1982

The Honorable Robert Dole, Chairman
Committee on Finance
U. S. Senate
Washington, D. C. 20510

Dear Mr. Chairman:

On behalf of the members of the National Association of Truck Stop Operators, I would like to submit for the record our comments on the proposed legislation for highway funding.

NATSO strongly supports the efforts currently being made by the Administration and Members of the U. S. Congress to develop a program which will re-energize the nation's interstate system. The National Association of Truck Stop Operators would like to support the proposed 5¢ per gallon increase in the federal motor fuels excise tax, but we do have some reservations about other proposals being aired.

It is our concern that the real issue in this debate -- re-energizing highways -- may become bogged down over technical matters relating to road use by heavy-duty trucks and the formula by which they should be made to pay their fair share. We would encourage you and the members of your Committee to take a hard look at the various excise taxes recommended by the Department of Transportation. These items have created so much controversy that it may be necessary, in order to accomplish the primary goal of funding the highway system, to drop them from consideration until the new Congress convenes.

We would like to take this opportunity to associate ourselves with the testimony presented to your Committee by representatives of the American Trucking Association. In addition to the elements outlined by the ATA, we would also like to associate ourselves with the remarks of the National Oil Jobbers Council with regard to an adjustment in the remittance schedule. Many of our members are excise tax collectors with the same cash-flow problems attendant to a twice-monthly deposit requirement. We would encourage you to adopt the NOJC recommendation of once-per-month excise tax remittance schedule on the 15th day of each month following the tax collection month.

Enclosed for your review is a copy of the NATSO Position Paper on Highway Funding. Thank you for your consideration of our views.

Sincerely,

Ronald L. Ziegler

Ronald L. Ziegler
President

National Association of Truck Stop Operators

Position Paper

Highway Funding Legislation

The National Association of Truck Stop Operators strongly endorses legislation which will establish a fair and easy-to-administer system of raising revenues to re-energize the nation's highways. We would stress, however, that the procedures established must be equitable in approach so that one segment of the users of the highway transportation system are not called upon to carry an undue tax burden or subsidize other segments which will not be taxed at their fair share. With these views in mind, the following are essential elements of proposed highway funding legislation which the National Association of Truck Stop Operators can support:

1. 5¢-per-gallon Increase in Federal Motor Fuels Excise Tax. We feel that 90% of this fuel tax increase should go toward repairing and maintaining the Interstate system. However, if NO LESS than 4¢ is channeled into the Highway Trust Fund we support it.

2. Federal Minimum Standard in Truck Weights and Lengths. This issue has been the subject of legislative debate since the beginning of the 97th Congress. Because of the barrier to interstate commerce created by the standards set by the States of Illinois, Arkansas and Missouri, this provision is absolutely essential. We endorse MINIMUM federal standards of 65' length, 102" width, and 80,000 pounds gross vehicle weight.

3. Elimination of or No Change in Current Excise Taxes on New Equipment/Truck Parts. While it is our contention that these taxes bear no relationship to use or impact on highways, in the interest of accommodation, we would accept these taxes as long as no increase in the amount or manner of tax is made.

4. No Change in Current Definition of Heavy-Duty Truck. The current definition of heavy-duty truck is any over 26,000 pounds. If, as some have proposed, that definition is changed to trucks over 55,000 pounds, there will be a disproportionate tax burden levied on those trucks; one which is unrelated to road use and impact.

5. No Change in Incremental System of Road Use Tax. The current incremental tax which employs a dollar-per-thousand pound formula more equitably distributes the tax burden among trucks which use the highways than would a formula that would allocate costs only to trucks over 55,000 pounds. We could support an increase in the current three dollar-per-thousand to six dollar-per-thousand, as long as it includes all trucks over 26,000 gross vehicle weight.

STATEMENT OF PHILIP P. FRIEDLANDER, JR.
EXECUTIVE VICE PRESIDENT
NATIONAL TIRE DEALERS AND RETREADERS ASSOCIATION

Before

THE COMMITTEE ON FINANCE
Of The
UNITED STATES SENATE

My name is Philip P. Friedlander, Jr., Executive Vice President of the National Tire Dealers and Retreaders Association, a national nonprofit trade association representing approximately 5,000 independent tire dealers and retreaders located in fifty states who are engaged in the wholesale and retail distribution of automobile and truck tires, the retreading of tires and the sale of related products and services.

I appear before you today to express concerns and reservations that we have regarding the President's proposals for financing the federal highway program. To be specific, we challenge the attempt to raise the manufacturers federal excise tax on heavy duty truck tires from 9.75 cents per pound to 25 cents per pound and to raise the excise tax on tread rubber from 5 cents per pound to 25 cents per pound. Any tax increase would mandate a delayed payment plan. We are quite frankly astounded that this Administration would propose a highway bill that could put thousands of small businesses out of business.

As an association comprised of small businessmen who are committed to and dependent on the automotive industry, the trucking industry, and the nation's transportation system, NTDRA is concerned with the nation's economy and has historically supported the Highway Trust Fund and the pay-as-you-go or user fee principle for financing it.

We believe, however, that with respect to heavy duty trucks and to tread rubber that the proposal before this Committee was drafted without an awareness or understanding of its impact on independent truck tire dealers and on the nation's retreaders. It seems to be incongruous for the Congress to pass legislation which would result in a substantive adverse economic impact on independent tire dealers and could ruin the tire retreading industry when, simultaneously, this Congress expresses sincere concern with measures to aid and strengthen the small business community.

A brief history of excise taxes on tires will help frame the context of the current proposal.

Excise taxes were initially levied on tires and tubes in 1919, primarily to produce revenue. During World War II the tax rates on tires and tubes were raised to reduce the use of rubber where it was not essential for defense purposes. These excise taxes were retained after the War as a source of revenue. In 1956 tread rubber was subjected to an excise tax for the first time as a part of the Federal Highway Program. The taxes on tires for highway use were increased. The purpose of this additional tax was obviously to produce revenue to support the Highway Program.

NTDRA is in full accord with the supposition that this nation needs an improved and adequately maintained interstate highway system. Increased automobile and truck registration and use necessitated this recognition. The highway system is vital to the military forces, to each motorist, to every trucker, and to every citizen.

It thus becomes necessary to develop a wise program of payment of such a highway system. Given that premise, we question the wisdom of singling out the user of large truck tires as a principle instrument of taxation. The trucker and the supplying tire dealer are specifically named to bear a heavy and burdensome load.

NTDRA opposes the proposed tax on heavy duty truck tires for the following reasons:

(1) The proposed increase from 9.75 cents per pound to 25 cents per pound is clearly excessive.

(2) Because of economic conditions resulting in slow inventory turnover rates, dealers would be forced to finance increased inventory costs for longer periods of time.

(3) At a time when the nation's trucking industry is experiencing severe economic hardships, NTDRA questions proposals which would substantially increase various taxes levied on truckers.

(4) If the philosophy of this proposal is indeed a users fee, then Congress should support language which would stipulate that the tax is collected once the user purchases the particular product.

(5) It is a gross fallacy to assume that all truckers indeed use the nation's interstate system.

Each of these points is discussed below:

1. The proposed increase from 9.75 cents per pound to 25 cents per pound is clearly excessive.

NTDRA has historically supported the Highway Trust Fund and the philosophy of the financing of that fund. Assembled in annual convention in September 1982, NTDRA members adopted a resolution which in part stated a support of the fund and a tentative support for reasonable increases on the tax on tires with revenues directed into the fund. We believe that given the current rate of 9.75 cents per pound any proposal to increase the FET by a significant percentage per pound would be unreasonable. Certainly the current proposal to increase the tax by more than 15 cents per pound is unreasonable and should be withdrawn.

2. Because of economic conditions resulting in slow inventory turnover rates, dealers would be forced to finance increased inventory costs for longer periods of time.

To the tire dealer the proposed tax increase is especially serious because he must pay for these taxes when he pays his supplier for the tires. He thus is forced to materially increase his capital investment without a source of raising such capital. Such a proposal would result in significant administrative and financial burdens on small independent distributors who hold the tires in inventory and who must collect the tax from the consumer under a variety of payment plans.

A November 1982 Arthur Andersen and Company report to the National Tire Dealers and Retreaders Association clearly revealed that the proposed rate on the federal excise tax on truck tires under the current IRS tax collection schedule would result in extreme carrying cost economic hardships for both the manufacturers and the distributors of truck tires.

The Arthur Andersen report underscored the inventory carrying cost problem created by the current payment schedule and present consumer purchasing practices. An NTDRA study supported this premise, asserting that the average inventory turnover for truck tires is 148 days. The Andersen report added, "...if the current carrying charges of the tax are a median 7.5 percent of inventory cost, if the tax is doubled it would be 14 percent of inventory cost, and if tripled, 20 percent of inventory cost. The annual carrying costs for the tax portion of each $1 million of inventory would go from approximately $11,000 to $34,000 if the tax is tripled."

A 1981 study prepared by Dr. Robert G. Cox, Dean of the College of Business Administration, University of South Florida, indicated that the average independent tire dealer earned $28,900 in net operating profit. In an industry already enduring severe economic hardships it would thus be inequitable to impose on small distributors the burden of financing inventory costs of a so-called user fee which would approach 100 percent of the distributor's net operating profit.

A substantial increase in inventory financing charges, to be borne by the retailers, constitutes a legitimate threat to the viability of these small channel members in the tire industry. The NTDRA thus strongly recommends that the current tax collection schedule be adjusted to alleviate problems that would occur if the excise tax is increased.

3. At a time when the nation's trucking industry is experiencing severe economic hardships, NTDRA questions proposals which would substantially increase various taxes levied on truckers.

American Trucking Association figures indicate that truckers are currently operating on a .1 percent profit margin (net income after taxes) as opposed to an historical 3 percent. Their return on equity is now running about 1 percent as opposed to an historical 13 to 15 percent.

Clearly the American trucking industry is experiencing severe economic hardships. Given the current economic environment, a proposal that will, in effect, punish truckers raises questions and concerns.

4. If the philosophy of this proposal is indeed a users fee, then Congress should support language which would stipulate that the tax is collected once the user purchases the particular product.

Accordingly, if DOT proposes to increase the federal excise tax on truck tires, the NTDRA urges the incorporation in the legislation of a delayed payment program. DOT is using the term user fee to describe the tax increase, and most of the other fees involved will be collected when the user in fact purchases the particular product. Thus a delayed payment plan would be consistent with the Administration's policy and would not create undue inventory cost hardships on the small business retailer and, because the Highway Trust Fund is a separate segregated fund, it would produce no adverse economic impact on Treasury.

The NTDRA thus supports and is working for Congressional approval for a modified tax payment schedule which recognizes and responds to the inventory problems inherent and the tax collection problems of small business tire distributors throughout the United States. The Association supports the adoption of a federal excise tax payment schedule which would delay the payment of the amount of the tax by the dealer to the manufacturer to 120 days after the last day of the month in which the tire is sold.

We propose the following wording to the Committee on Ways and Means for consideration:

Dealers Only

A BILL

To amend the Internal Revenue Code of 1954 to adjust the time for payment of amounts attributable to manufacturers excise tax on tires and tubes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. IN GENERAL. - Section 6302 of the Internal Revenue Code of 1954 (relating to mode or time of collection of taxes) is amended by redesignating subsection (d) as subsection (f) and by inserting after subsection (c) the following new subsections:

"(d) TIME FOR PAYMENT OF TAX AMOUNTS BY RETAILERS - Manufacturers, producers and importers of tires and tubes subject to the tax imposed by Section 4071(a) shall identify separately the amounts attributable to such taxes on their invoices or on separate invoices to their customers (other than retail customers). Such amounts shall be due and payable from such customers 120 days after the last day of the month in which the sale to such customers occurs.

(d) SPECIAL RULE FOR CERTAIN RELATED PARTIES - For purposes of subsection (d), the term "manufacturer, producer or importer" shall include a wholesaler or distributor that is related (as that term is defined in Section 267(b) to a manufacturer, producer or importer from which it buys tires or tubes.

SECTION 2. REPEAL OF TAX ON TREAD RUBBER - Sections 4071(a)(4), 4071(d)(3) and 4072(b) of the Internal Revenue Code of 1954 are repealed.

SECTION 3. EFFECTIVE DATE -

(a) The amendments made by Section 1 of this Act shall apply to tires and tubes sold during or after the second month beginning after the date of enactment of this Act.

(b) Section 2 of this Act shall take effect 30 days after the enactment of this Act.

The proposed legislation is very simple and straight forward. Section 1 would amend Section 6302 of the Internal Revenue Code by requiring manufacturers, producers and importers to specifically identify on their invoices to their customers the amount attributable to federal excise tax. As a practical matter, tire manufacturers currently do this. The break out of the federal excise tax amount could be done on the invoice which describes the transaction or on a separate invoice. The amounts attributable to this tax would not be due and payable from the dealer to the manufacturer until 120 days after the last day of the month in which the sale occurs. This provision would permit the tire dealer to collect, on average, the amount of the federal excise tax from his customers, the end users of the tires, at approximately the same time at which he is required to pay these amounts back to the tire manufacturer. Under this system, the independent tire dealer would not have to finance the amount of the federal excise tax between the time that his bill is due to the tire manufacturer and the time the tires are actually sold to the end users.

You will note that this amendment would not apply in situations in which the tire manufacturers or importers sell directly, on a national account basis or otherwise, to an end user, such as a trucking firm.

The proposed Subsection E to Section 6302 would add a special rule for related parties so that the intent of the legislation could not be subverted by a manufacturer or importer selling to a wholly-owned sales subsidiary, for instance. Subsection E provides that the benefits of the 120 day delay do not accrue when a sale is made to a related party.

The second major feature of the bill is the repeal of the federal excise tax on tread rubber. Tread rubber is a raw material which a retreader uses in the manufacturing process. Tread rubber is not an end product. We do not believe that it is appropriately subject to the federal excise taxes. Section 2 of the proposed bill would repeal the tax contained in Section 4071(a)(4) as well as Section 4071(d)(3) repealing the tread rubber tax in 1984 and the definition of tread rubber found in Section 4072(b).

Section 3, setting the effective date of the legislation, provides for a lead time so that those in the stream of commerce can alter their current practices to conform with the new law.

We believe that these provisions are equitable, easy to administer and easy to implement. We urge the passage of this measure.

In keeping with the philosophy of a user fee, NTDRA supports legislation, H.R.2925, introduced by Congressman John J. Duncan (R-TN) to amend the Internal Revenue Code of 1954 to adjust the time for payment of manufacturers excise tax on tires, tubes and tread rubber. Senator John Glenn (D-OH) has introduced a companion bill, S.1496, in the Senate. The bill would alter the current FET payment schedule, making the tax due and payable 90 days after the last day of the month in which the manufacturer, producer, or importer of articles subject to the tax sells such articles. Treasury has not taken a public position on the proposal.

5. It is a gross fallacy to assume that all truckers indeed use the nation's interstate system.

The theory in imposing such a heavy levy against the users of large trucks is to establish a means of collection from those who benefit the most from the nation's interstate system. There are numerous fallacies in such a theory. There are approximately 25,000 communities in this country which are almost completely dependent on trucks for their needs. They will be impacted by this proposed larger truck tire levy. In large mid-western states, 65 percent of the cattle are moved to the market by trucks. Similarly, 85 percent of the nation's urban population receive their milk from the country by truck. Trucks delivering milk, soft drinks, lumber, packages and the like who confine their operations to the city will have to pay multiplied taxes for a highway program that will benefit them no more than it will an average citizen.

This nation moves on rubber. Burdensome and oppressive taxes to the trucker and to the tire dealer could mean a breaking down of our transportation system. Many truckers and tire dealers will simply go out of business.

However, no part of this tax proposal is more discriminatory and unfair than the suggestion to increase the tax on tread rubber from 5 cents per pound to 25 cents per pound. Currently strip rubber sells for approximately 56 cents per pound and pre-cure rubber sells for around $1.24 per pound. Such a philosophy of taxation demands a penalty for progress and conservation. If such an increase were enacted, the retreader could soon find his reasons for existance removed and ultimately lose his investment and his business.

Actually a tax on tread rubber is quite unrealistic and we urge Congress to in fact eliminate the current federal excise tax of 5 cents per pound. We sincerely seek your decision to eliminate any tax on the operation of any retreading establishment and thus give these small businessmen some chance to survive under today's highly competitive conditions.

NTDRA supports the elimination of the federal excise tax on tread rubber to be used in the retreading process for the following reasons:

(1) Tire retreading recovers great amounts of solid waste.

(2) The elimination of the current FET on tread rubber would have a negligible effect on the Treasury.

(3) Both the Department of Energy and the Environmental Protection Agency have defined the retreading of tires to be the recycling of tires.

(4) The Department of Energy and the United States Congress recognize a need to stimulate the retreading industry.

(5) Tire retreading is a long-standing recycling industry, conserving oil and rubber.

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(6) Retreading represents a practicable and meaningful way that small business people can aid the country by undertaking a major recycling program.

(7) Tire retreading recovers substantial amounts of rubber polymer.

(8) An increase to the FET on tread rubber discriminates against the less affluent segments of society.

Each of these points is discussed below:

1. Tire retreading recovers great amounts of solid waste.

Roughly 175 million new tires and 50 million retreads were sold in the replacement tire market in 1979. That means approximately 225 million worn tires were taken out of service and replaced with either a new or retreaded tire. In addition, new cars, trucks, and buses, were equipped with about 62 million new tires in 1979 -- 51 million passenger tires and 11 million truck-bus tires. On average, scrapped automobiles amount to about 70 percent of those sold, and scrapped trucks and buses amount to about 40 percent of sales. Therefore, about 36 million passenger tires and 4 million truck-bus tires were taken out of service on scrapped vehicles. In total, approximately 260 million tires were potential candidates for disposal as solid waste. One can assume that 40 million to 50 million of them will be retreaded -- 15 percent to 19 percent. An additional 10 to 15 percent of the worn out tires will be used for other productive purposes such as reclaimed rubber for recycling into new rubber products, fuel, breakwaters and artificial reefs, dock bumpers, play ground equipment, roadside impact absorbers, and construction materials. The remaining 70 to 75 percent of the worn out tires, about 180 million, must be disposed of in non-productive ways -- mainly in landfills. Based on our knowledge of the industry, we estimate oil consumption at about 25 gallons per hundred weight of tires produced -- about

20 gallons for the materials and five gallons in the manufacturing of tires. The total weight of the 180 million tires which were non-productively disposed of in 1979 was approximately 7 billion pounds, representing the consumption of 1.75 billion gallons of oil -- 40 million barrels. Forty million barrels of oil were simply thrown away. This solid tire waste must be recycled.

The 650 million plus pounds of tread rubber consumed in the production of the 50 million retreads sold in 1979 provided the equivalent service of 2.3 billion pounds of new tires. At 20 gallons per hundredweight of tires, the oil savings from raw material production alone was 330 million gallons -- more than 20 thousand barrels per day. Additional energy savings are realized during the manufacture of retreads versus new tires. With the current product mix of passenger, truck and other retreads, the average oil savings in raw materials alone for a retread over a new tire is about seven gallons per tire -- a 70 percent savings. Retreading is recycling of a solid waste; it saves energy; and Congress should give consideration to eliminating the federal excise tax on tread rubber to increase the production of retread tires.

2. The elimination of the current FET on tread rubber would have a negligible effect on the Treasury.

The current tax on tread rubber generates less than $30 million per year for the Highway Trust Fund. In its proposed package, DOT tried to eliminate some of the current taxes that raised relatively lower revenue levels which are difficult to collect. Given that philosophy, certainly Congress should consider eliminating a tax on a raw material used by small businessmen in a national recycling program.

3. Both the Department of Energy and the Environmental Protection Agency have defined the retreading of tires to be the recycling of tires.

NTDRA concurs with the findings and philosophy of the United States Department of Energy in its recently completed final report, Industrial Recovered Materials Utilization Targets for the Rubber Industry, that "retreading is the most obvious form of tire recycling" Book II (p. II-55). The document was prepared by Hittman Associates, Inc. under the direction of the Office of Industrial Programs, Office of the Assistant Secretary for Conservation and Solar Energy, United States Department of Energy. To quote from the introduction, "The analysis and determinations indicated in this document have been used as a basis for recovered material utilization targets for the rubber industry. These targets are required to be established by Section 374A of the Energy Policy and Conservation Policy Act." Thus in the most recent instance in which a federal agency has had to determine Congressional intent as it relates to retreading, it was clearly defined to be recycling.

The Environmental Protection Agency has long recognized retreading as an effective means of resource recovery and reducing solid waste. In 1973, EPA Contract No. 68-1-2906 was awarded to Smithers Scientific Services, Inc., to study the feasibility of requiring the federal government to use retreaded tires. The introduction to that report states:

> "More than five billion pounds of discarded tires end up as solid, municipal waste every year. This represents about 1.5 percent of the total solid waste disposed of annually . . . Obviously, one way to reduce this solid waste problem is to increase the percentage of tires being retreaded . . . A second benefit to be derived from the increased recycling of tires by retreading will be a reduction in petroleum consumption. Industry sources have estimated that it requires seven gallons of crude oil to make an average passenger tire. Five gallons as raw material feed stock, and two gallons to supply the required energy."

Because two agencies of the federal government are encouraging the increased production of tire retreads, Congress should eliminate the FET on tread rubber to further stimulate this struggling industry.

4. The Department of Energy and the United States Congress recognize a need to stimulate the retreading industry.

Because it sees the retreading process as a recycling process, the Department of Energy has taken an active leadership role to insure an increase in the number of retreaded tires. The retread industry has had to overcome numerous obstacles over the past few years, and industry figures project an 11.4 percent decrease in sales in 1980 as compared to 1979. In fact, the number of tires that have been retreaded has decreased yearly since 1974. In the DOE report previously mentioned, that agency calls on the government to provide the necessary stimuli to the retreading industry to satisfy a spurring demand for retreaded tires (pp. IV 1-IV 12). With the endorsement of the Treasury Department, Congress passed legislation (H.R.3317) and on December 24, 1980, President Carter signed into law (PL 96-598), a measure to aid the retreading industry. The new law provides for credits or refunds of the manufacturers' excise tax on tread rubber where tax-paid tread rubber is wasted in the retreading process, used in the retreading of tires that are exported, sold to state or local governments, sold to nonprofit educational institutions, or sold as supplies for vessels or aircraft. It also modified the statute of limitations so that a credit or refund of the tread rubber can be obtained for a period of one year after the warranty or guarantee adjustment is made. Senator Robert Dole (R-KS) said in the Federal Register on October 1, 1980, that this legislation was needed to correct inequities imposed on retreaders to stimulate the industry (S.14033).

In general, financial incentives are the most efficient mechanism to stimulate a market. Retreading, particularly passenger tire retreading is an industry which is experiencing financial difficulties. Competition from new tire industry is the main cause. The availability of inexpensive bias-ply tires which compete directly with retreads has made an adverse impact on profits, reducing the amount of cash reserves that could have been reinvested for equipment. The elimination of the FET on tread rubber would provide a new stimulus for reversing the recent downward trend in an energy conserving industry.

High and ever-increasing costs have also placed severe limitations on the growth of retreading. The foremost cost involves the collection of retreadable casings. As a result worn tires become a solid waste disposal problem rather than a partial solution to the problem of increased oil consumption.

5. Tire retreading is a long-standing recycling industry, conserving oil and rubber.

Tire retreading is a current and long-standing, as was seen especially during World War II, recycling industry. It is and has been a major program in the conserving of both oil and rubber. General industry figures reveal that in 1979 there were 50 million retreaded tires sold in the United States; of which 30 million were for passenger car use, 4 million for light trucks, 14 million for heavy-duty truck use and 2 million for aircraft, off-the-road, industrial-life trucks, motorcycles, and agricultural equipment. Sales of retreaded tires in 1979 were approximately $1.6 billion, and that figure is projected to increase to $1.9 billion this year. The collective snow tire market for the last six years, as an example, may well have been greater for retreads than it has been for new tires. Eliminating the FET on tread rubber could be a further stimulus in this area.

There exists a varying degree of acceptability of retreaded tires, as is the case with most recycled products. One out of five new replacement passenger car tires is a retread, while 98 percent of the world's airlines use retread tires. Nearly 60 million worn tire casings that could be retreaded are discarded every years.

There are numerous cost and energy savings by using retreaded tires. The price of a retreaded passenger vehicle tire is 50 to 70 percent of the cost of a new tire; and the savings with truck tires is even greater. Due to the oil savings and price differentials of new tires to retreaded tires, the industry saves the consumer one dollar for every one dollar of retreaded sales.

Based on the industry figure of 50 million tires, retreading conserves more than 400 million gallons of oil a year. The manufacturing of a new passenger tire consumes seven gallons of oil, on the average, while retreading the same size tire uses two and one-half gallons -- a savings of four and one-half gallons per tire. Retreading a truck tire saves an average of about fifteen gallons of oil.

6. Retreading represents a practicable and meaningful way that small business people can aid the country by undertaking a major recycling program.

Retreading saves more energy, pound for pound, than reducing tire to powdered or crumb rubber. An analogy -- returnable soft drink bottles represent a sound recycling project. But instead of washing and refilling the bottles, the recycling process should be to pulverize the returned bottles and manufacture new bottles from the recycled glass. It makes no sense to subsidize the recycling of worn out tires into the basic raw material while refusing to recognize the greater economic benefit to be realized by recycling tires as retreads. If the intent of the regulation is to reduce consumption of petroleum -- derived products and to provide incentives for expansions in recycling industries, the investment tax credit must be extended to the retread industry. It accomplishes the objective extremely well. Approximately 95 percent of the nation's retreading plants are owned and operated by small businessmen whose collective investment is roughly $1 billion. The remaining 5 percent of the firms are owned and operated by new tire manufacturers.

The retreading process in fact reverses part of the new tire manufacturing process by buffing the worn tread back to an optimum point safely above the body plies, but below the base where the new tread should begin. The recycling process then begins by vulcanizing new rubber to the prepared casing. When the tire tread is reduced to the federally required tread base, that is 2/32 of an inch for passenger vehicle tires and 4/32 of an inch for truck tires, sound casings can be recycled, or retreaded, to perform and wear usually as good as a new tire.

A flowchart to highlight this process could look like:

USED TIRES
↓
RECEIVING AND SORTING
↓
BUFFING
↓
CLEANING
↓
MEASURING
↓
RUBBER CEMENT ⟶ RUBBER CEMENT SPRAYING
↓

↓

TREAD RUBBER → TREAD WINDING

↓

CURING

↓

TRIMMING AND FINISHING

↓

INSPECTION AND SHIPPING

The basic steps in retreading are:

(1) The selection of a satisfactory tire (casing) to be retreaded.

(2) Selection of the proper matrix in which to cure it.

(3) The preparation of the tire by buffing to accept the new rubber.

(4) Measure the buffed tire to assure selection of proper matrix.

(5) The application of the correct amount and size of new rubber.

(6) Selection of proper rim and curing tube.

(7) Placing the tire in a proper mold or pressure chamber at the proper temperature and pressure for the correct amount of time to properly cure the tread that has been applied.

The recycling of tires is quite different from the remanufacturing of metallic automotive parts such as carburetors, valves, and distributors because materials used in tires are petrochemically based and are, in fact, oil derived.

Following important preliminary steps, the tread rubber is applied to the worn casings. This can be done either by the mold cure process, which involves applying tread rubber either manually or with an extruding device, or by the precured tread process, where the tread rubber is purchased as a pre-cured strip of rubber with the tread design. A tread design is molded into the rubber during the mold cure process when the tires are cured, depending on tread thickness, from 45 minutes to two hours in individual molds at temperatures of 295 degress to 310 degrees F. To provide molding pressure, air or steam is used at pressures upwards of 140 to 175 psi. Precured treads may be cured at lower temperatures, at about 200 degrees F., for hours in multiple unit heaters using a vacuum or pressure differential to adhere the tread to the casing. Retreading does not remove an energy product from the stream of recycling. It provides energy savings after which the solid waste (tire) can be recycled via cryogenic grinding or pyrolysis.

While an average new tire uses about 35 pounds of rubber, an average retread requires 12.5 pounds of new rubber compound, and could subsequently be driven for as many miles as a new tire. Truck tires are retreaded an average of 1.8 times, and many are retreaded five or more times. Commercial jet aircraft tires are commonly retreaded seven or more times, a noteworthy statistic in view of the high performance and safety demands placed on them.

7. Tire retreading recovers substantial amounts of rubber polymer.

The Department of Energy projects over the next seven years a significant increase in the number of passenger tires to be retreaded. By applying the economic limitations to the maximum technical limits of 105 million passenger retreads by 1987, DOE projects that the feasible limit to retreading is 63 million passenger tires. Adding that figure to their projected number of truck and bus retreads totals a projected number of retreads to be 90.2 million. This results in a substantial amount of rubber polymer.

The amount of polymer that is recovered when a tire is retreaded is equal to the amount contained in the tire casing after buffing and before new tread rubber is applied. DOE's projection for retreading is based on the following formula:

$$\text{Target} = \frac{\text{Total Polymer In Retread Casings}}{\text{Total Polymer in New Tires} + \text{Total Polymer in Retread Casings} + \text{Total Polymer in Tread Rubber for Retreads}} \times 100$$

A passenger tire casing has 11.5 pounds of compound and a truck tire casing has 28 pounds of compound. Based on these figures and projections for 1987, 311, 816 long tons of polymer will be recovered.

8. Any increase to the FET on tread rubber discriminates against the less affluent segments of society.

It is evident that a significant percentage of retread tires are purchased by individuals who are in the lower income brackets. People in this income bracket must look for quality and safety, but primarily economy.

When considering price differential between new tires and retreads, it should be noted that manufacturers do produce low price tires that sell at prices near to retread prices. It can be argued that a quality retread is at least as safe as a lower priced new tire. Safety and economy together are building the retreader's business. If the retreader must add a tax to his service, then, even with a proportionate increase on new tires, he may be forced out of the safe but economical class.

One of the biggest users of passenger retreads is the taxi cab industry. Economy is essential to a profitable taxi cab operation. Taxi cab owners do not buy cheap new tires, but rely primarily on retreaded tires.

The American public is notably "new product conscious." Consumers avoid used or reconditioned items when new articles can be purchased for nearly the same price . Many consumers have been led to believe that a new, less expensive tire is equal to or superior to the retreaded tire.

In response to an article appearing in the July 1981 issue of Changing Times about the safety and economic features of retreads, we received over 5,000 telephone calls requesting information on local retread shops. Similarly, we are now receiving numerous calls requesting similar information in response to an article appearing in the October 1982 edition of Dollar Stretchers.

Any possible increase to the FET on tread rubber would not only adversely affect the retreader, it would have a direct impact on the consumer. According to an NTDRA study, a retread buyer is likely to be operating several cars, earning under $25,000 per year (54%), to be in the 18 to 34 year old category (51%), establishing a home, and 54% have no college eduction. With prices inflated by an additional tax, tire buying decisions will be postponed longer and a higher percentage of tire casings will be run beyond the point of retreadability or safety. This would also affect the number of casings available to the retreader as opposed to disposal by other costly, less productive methods.

In view of these considerations, rather than increase the tax rate on tread rubber, Congress should consider eliminating the tax. Such a move would provide a direct benefit to consumers, to the small business community, and would aid an important and struggling recycling program.

We are astounded that at this time this administration would put forth a highway program that could in effect put thousands of small businesses out of business. As you know, the success and the future of the American economy is critically dependent upon the preservation of real opportunity for small business. Small businesses have historically provided much of the growth in jobs and in innovation, as well as being the provider of services and the deliverer of goods.

In 1976, research conducted for the National Science Foundation revealed that small businesses had been a more prolific source of innovation per research and development dollar than medium or large businesses.

Most small business firms are labor intensive. Currently over half the nation's labor force is employed by small businesses. Small businesses continue to remain among the leaders in employment creation. Research conducted at the Massachusetts Institute of Technology concluded that between 1969 and 1976 more than 86 percent of new jobs were provided by small businesses employing less than 500 employees. Some 80 percent of the new jobs were provided by firms having 100 employees or less.

Statistics released by the House Small Business Committee indicate that the combination of high interest rates and a weakened economy have threatened the stability of the American small business community. In 1982, 17,043 small businesses went bankrupt, and more than 47,000 small businesses filed for bankruptcy. That is the highest yearly total of bankruptcies since World War II, and just 32 shy of the 1921 yearly record.

Committee Chairman Parren Mitchell (D-MD) noted that in the midst of this economic downturn, small businesses have been faced with record high interest rates. In 1978, the prime rate averaged 9.1 percent, with inflation running at 7.3 percent. In 1981, the prime averaged 18.9 percent, with inflation at 9.2 percent. The "real interest rate" is computed as the difference between inflation and the prime rate. In 1981, the "real interest rate" was 9.7 percent, nearly five times higher than the historical average.

Figures compiled for the House Small Business Committee by Dun and Bradstreet on economic trends reveal a substantial decline in the economic well-being of the small business community.

BUSINESS FAILURES:

	1978	1979	1980	1981
Number	6,619	7,564	11,742	17,043
Change from previous year	-1,300	+945	+4,178	+5,301
% change from 1978		+14%	+77%	+157%

SOLE PROPRIETORSHIP INCOME: (Business & Professional):

	1978	1979	1980	1981	1982(est.)
Income-Billions (Constant 1972 $)	$60.7	$61.9	$60.4	$58.1	$54.8
% change from 1979			-2.4%	-6.1%	-11.6%

Given our nation's economic and unemployment difficulties, the Congress would be negligent to ignore the resources and potential contributions of small business enterprises. Their innovative spirit, their flexibility to meet new challenges, are crucial to our economic progress. The employment and entrepreneurial opportunities presented by the small business sector are too important to be less than fully realized. The bottom line is that America needs small business formation and growth.

In March 1982 President Ronald Reagan issued a report on the State of Small Business. Recognizing the importance of small business, and responding to economic needs and demands of this sector, the President asserted: "This Administration is committed to assuring unrestrictive access for small business to all segments of our economy" (p.4). He further states that ". . . this Administration is establishing an economic environment conducive to small business formation and growth" (p.5). Now, this Administration is setting forth a proposal that could literally wipe out a small business recycling industry.

Summary

We present our position to Congress as a matter of survival. NTDRA has historically supported the Highway Trust Fund and the methods of collection of the revenues that go into that fund. But the proposal to sharply increase the tax on heavy duty truck tires would result in significant, administrative and financial burdens on small independent distributors who hold the tires in inventory and who must collect the tax from the consumer under a variety of payment plans. And the proposal to increase the tax on tread rubber by 400 percent is so astounding that it could seemingly put many retreaders out of business.

The National Tire Dealers and Retreaders Association thus supports and is working for Congressional approval for a modified tax payment schedule which recognizes and responds to the inventory problems inherent and the tax collection problems of small business tire distributors throughout the United States. The Association supports the adoption of a federal excise tax payment schedule which would delay the payment of the amount of the tax by the dealer to the manufacturer to 120 days after the last day of the month in which the tire is sold. We also urge Congress to eliminate the FET on tread rubber to be used in the retreading process.

Our petition is most sincere, particularly because it involves our very survival.

FACT SHEET ON RETREADED TIRES

1982

1. Over 43 million retreaded tires were sold in the U.S. during 1981.
   ... 30 million passenger and light truck retreads.
   ... 12 million medium and heavy truck retreads
   ... 1 million aircraft, off-the-road, industrial and specialty retreads

II. There are about 3,000 independent retreaders in the U.S., the vast majority of them small businesses.

III. Between 45,000 and 50,000 people are employed in retreading in the U.S. Combined payroll exceeds $1,000,000,000 minimum.

IV. Retreading saves 400 million gallons of oil every year; a retread requires 2½ gallons in manufacture while a comparable new tire requires 7 gallons.

V. Over 150,000,000 passenger and light truck tires are replaced every year; retreading recycles 30,000,000 of these.

VI. Retreads are sold to consumers for between 50 and 60% of the cost of a new tire; this is a savings of approximately 2 billion to consumers.

VII. Tread rubber used in passenger retread is between 5 and 7 pounds (180,000,000 pounds for 30 million retreads.) Tread rubber used in medium and heavy truck retreads is between 18 and 30 pounds. (288,000,000 pounds for 12 million retreads.)

VIII. The Federal Excise Tax on a passenger retread today might average 55¢. Increasing the rate by 400%, as is being discussed, would narrow the differential in price between retreads and new tires and further discourage the purchase of retreads at a time in which we should be encouraging their use, for both environmental and economy reason. For example, a new bias belted G-78-14 might retail for $48.73, plus $2.35 FET. A retread of the same type and size might retail for $31.95, plus 55¢ FET. This is a difference of $18.58 per tire. Increasing the tax rate on retreads while dropping it for new tires, would reduce the differential to $14.03. This would effectively add $4.50 to the price of each retread, further discouraging their purchase.

IX. Any possible increase to the FET on tread rubber would not only adversely affect the retreader, it would have a direct impact on the consumer. According to an NTDRA study, a retread buyer is likely to be operating several cars, earning under $25,000 per year (54%), to be in the 18 to 34 year old category (51%), establishing a home, and 54% have no college education. With prices inflated by an additional tax, tire buying decisions will be postponed longer and a higher percentage of tire casings will be run beyond the point of retreadability or safety. This would also affect the number of casings available to the retreader as opposed to disposal by other costly, less productive methods.

NATIONAL TAXPAYERS UNION

A NONPARTISAN, NONPROFIT ORGANIZATION DEDICATED TO THE PUBLIC INTEREST

325 PENNSYLVANIA AVENUE SOUTHEAST WASHINGTON, DISTRICT OF COLUMBIA 20003 TELEPHONE AREA CODE (202) 543 1300

STATEMENT OF

DAVID L. KEATING, EXECUTIVE VICE PRESIDENT

SUBMITTED TO

THE COMMITTEE ON FINANCE

UNITED STATES SENATE

ON THE

PROPOSED MOTOR FUEL TAX INCREASE

DECEMBER 1, 1982

The National Taxpayers Union, representing 450,000 family members who live in all fifty states, opposes the proposed increase in motor fuel taxes. The proposal is poorly designed and will not reduce unemployment nor will it efficiently repair our nation's roads.

Let's look at what this bill will not do. First, it will not create jobs. Economists have indicated that the best that can be hoped for is a wash, that is, as many jobs will be created as will be destroyed. Martin S. Feldstein, Chairman of the Council of Economic Advisors, estimates that as many as 20,000 jobs could be lost.

This increase in unemployment caused by the gas tax increase flows from several factors. Consumers will have less money to spend on other consumer items if the price of gasoline and motor fuels goes up. As consumer spending declines in those areas, jobs will be lost. These jobs will be quickly lost because the gas tax would go into effect immediately, while jobs created

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by highway projects may take several years. Even if there is no net effect on total employment, jobs serving consumers would be destroyed before jobs building highways would be created.

Fewer jobs will be created because of the Davis-Bacon prevailing wage guidelines. According to Barry Bosworth, an economist at the Brookings Institution, "to build highways will put a lot of people to work for wages higher than those earned by two-thirds of the American work force." These artificially high wages force contractors to hire fewer workers.

Finally, the sharp, sudden increase in the gasoline tax will also cause some dislocation in the automobile industry. With higher gasoline prices, more car buyers will switch to more fuel efficient imports.

The proposal is not a repair bill. Two-thirds of the monies from the tax increase are targeted for new projects rather than actual repair and upgrading of existing roads. In addition, one cent is earmarked for urban mass transit.

There are severe problems with roads in some states. However, the Department of Transportation's report, The Status of the Nation's Highways: Conditions and Performance, concludes that by and large the system is in good shape. Those states that have poorly maintained roads should address their problems at the state level. It makes no sense that people who live in states where roads are in good condition should subsidize people in other states who have let their roads deteriorate.

Finally, the proposed motor fuel tax increase is not a user fee. True user fees are based on the costs of providing a public service. High volume users would pay more, while those who use the service less would pay less. The largest deviation from the user fee concept is the fact that the proposal does not do enough to distinguish between vehicles that cause heavy damage and those that do not. For example, a 50,000 lb. and an 80,000 lb. truck will consume approximately the same amount of fuel, but the heavier truck can cause six times more damage.

Other problems are caused by the exemption for gasohol, and differences in fuel efficiency between older and newer trucks. Of course, the portion of the gas tax increase that will pay to subsidize mass transit is obviously not a user fee.

Congress should reject the proposed motor fuels tax increase, and move to defederalize the nation's highway program. States are experimenting with new and innovative ways to finance highways. These experiments can only continue if the federal government reduces, rather than increase, its role.

PRIVATE TRUCK COUNCIL of AMERICA, Inc.

1101 SEVENTEENTH STREET, N.W., WASHINGTON, D. C. 20036
(202) 785-4900

Richard D. Henderson, Executive Vice President
Joseph M. [illegible], Executive Assistant

November 29, 1982

The Honorable Robert Dole
Chairman, Committee on Finance
2213 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Dole:

This is to advise that the Private Truck Council of America supports the proposal to increase the fuel tax in order to undertake the necessary rebuilding of our highways and encourage the resulting stimulus of jobs in the private sector of our economy.

The Private Truck Council of America, Inc., is the only independent national organization representing private corporate truck fleets in the Nation.

Our support of the fuel tax increase is contingent upon:

1. meaningful productivity relief -- uniform width and length standards in all of the states -- 48 feet length for trailers and 102" width along with use of twin trailers;

2. immediate and timely drawdown of Highway Trust Fund monies which has not been the case in recent years; this would assure more rapid achievement of the goal of this legislation which is to get the road renovation underway as soon as possible and stimulate employment in that private sector of our economy as soon as possible;

3. a more efficient manner of collecting the vehicle use tax at the state level contingent upon vehicle registration issuances; this would also enhance the objective of the legislation by solving the delinquent tax collection problem and ensuring that every dollar legally due the Highway Trust Fund goes into it upon collection.

On the matter of the various excise taxes and truck user charges, there is no way we can support any increase without corresponding uniform truck weight relief. Our analysis of the new proposals indicates unfortunately that the schedule of increases is based on a cost allocation study that was improperly conducted.

continued....................

The Honorable Robert Dole
Page 2
29 November 1982

It is upon such a study that a more than 2000% increase in heavy truck taxes is proposed along with a 150% increase in such items as truck tire excise taxes. We also question how a truck part excise tax can be relegated to trucks at a precise weight level. It would be totally impractical to administer.

Therefore, unless such excise and truck use taxes can be brought to a more reasonable level of increase, we respectfully request that they not be considered a part of this legislation in the current session of Congress, but rather be deferred to the new Congress along with the truck weight issue.

Sincerely,

Richard D. Henderson

Richard D. Henderson
Executive Vice President

RDH/cls

PRIVATE TRUCK COUNCIL of AMERICA, Inc.

1101 SEVENTEENTH STREET, N.W., WASHINGTON, D. C. 20036
(202) 785-4900

Richard D. Henderson, *Executive Vice President*
Joseph M. Normandy, *Executive Assistant*

December 1, 1982

Mr. Charles Swinburn
Deputy Asst. Secretary for
Policy & International Affairs
U.S. Department of Transportation
Office of the Sec'y of Transportation
400 Seventh Street, S.W.
Washington, D.C. 20590

Dear Charlie:

We respectfully submit an amendment to the Private Fleet Proposal submitted to you at this morning's meeting which is:

We would support retaining the present $3.00 per thousand pounds level of federal highway use taxes on trucks from 26,000 lbs. to 54,000 lbs. in an effort to sustain the revenue levels desired from the federal highway use taxes.

Attached, then, is our revised proposal which we are now in the process of submitting to key Congressional members.

I do belive our meeting this morning was fruitfull and productive, thanks again for coming.

Sincerely,

Dick

Richard D. Henderson
Executive Vice President

RDH/cls
Enclosure

PRIVATE TRUCK COUNCIL of AMERICA, Inc.
1101 SEVENTEENTH STREET, N.W., WASHINGTON, D. C. 20036
(202) 785-4900
Richard D. Henderson, Executive Vice President
Joseph M. Harmondy, Executive Assistant

PRIVATE FLEET PROPOSAL

A. Support Fuel Tax

B. Support Truck Use Tax at this level:

- from 26,000 - 54,000 - retain present \$3.00 per 1,000
- from 55,000 - 70,000 - flat \$ 800
- from 70,000 - 80,000 - flat \$1,200

We want: 1) S. 1402 Length (48 ft. trailers) and Width (102" mandatory) and twin trailer provisions;

2) Mandatory 80,000 lbs.;

3) Grandfather Rights - provision;

4) Provisions that the size and weight relief measures go into effect as soon as possible.

C. Immediate and timely drawdown of Trust Fund monies.

D. A moving up if possible of the January 1985 date of having states tie use tax collection to vehicle registrations in order to solve delinquency problem.

* * * * *

December 1, 1982

RMA
RUBBER MANUFACTURERS ASSOCIATION
1901 PENNSYLVANIA AVE., N.W. • WASHINGTON, D. C. 20006 • (202) 828-7700

STATEMENT

OF

DONALD G. BROTZMAN, PRESIDENT
RUBBER MANUFACTURERS ASSOCIATION

ON THE
FINANCING OF THE HIGHWAY TRUST FUND

SUBMITTED TO THE
COMMITTEE ON FINANCE
U.S. SENATE

December 1, 1982
Washington, D.C.

Mr. Chairman, members of the Committee, I am Donald G. Brotzman, president of the Rubber Manufacturers Association ("RMA"). The RMA is the national trade association of the tire and rubber industry with a membership of more than 200 companies which produce about 40,000 products. Thirteen of our member companies manufacture tires and account for some 90 percent of all the passenger and truck tires sold in the United States.

The tire industry today is in a severely depressed condition, along with other segments of the automotive industry. Only three years ago, in 1979, the U.S. passenger tire market was approximately 215 million units. In 1982 it will be approximately 165 million units. The drop in other types of tires has been just as dramatic. Since the beginning of 1973, a total of 23 tire plants have been closed, and over 30,000 people have lost their jobs.

While our industry experts believe the worst is over, we are still in a critical turnaround period. Any new factor which discourages tire buying by millions of motorists can give our industry a new shock, and delay recovery for months longer.

In the interest of time, I will limit my formal remarks to two issues: 1) the legislative recommendations for financing the Highway Trust Fund as they pertain to tires and 2) an amendment to the Internal Revenue Code which would adjust the time for payment of the manufacturers excise tax on tires, tubes and tread rubber. The latter is contained in S. 1496, a bill which has already been referred to this Committee (Appendix A).

1. Because we have had the proposals from the Senate and the Administration for less than a day, my comments must necessarily be brief. However, I do wish to stress that the tire manufacturing industry has historically supported the Highway Trust Fund and the RMA wishes to reaffirm that position, and expresses general support for the highway bills. Without debating the "pros" and cons" of each provision, the RMA believes it is vitally necessary to maintain the roads and bridges supported by the Fund. As a desirable byproduct, this proposal will

also create jobs.

As to the specific provisions affecting tires, the RMA endorses the provisions which would eliminate the current taxes on tires under 100 pounds as well as the tax on inner tubes. As you know, this is one of the few manufacturers taxes on a basic consumer product.

It is RMA's estimate that if this proposal is adopted, it will result in a savings to consumers and will also relieve the manufacturer of a significant administrative and economic burden in the collection and payment of the excise tax on these tires.

As to the increase of the tax on tires weighing 100 pounds or more, the RMA maintains that an increase on the tire excise tax should be offset by an adjustment in the time for payment of the tax.

2. Presently, tire companies must pay the tax to the Treasury on a semi-monthly schedule, by the 9th and 24th of the month. The normal commercial practice in the industry is to allow approximately 90 days credit to the customers, including the amount of tax on the product. Thus, tire manufacturers pay the excise tax approximately 90 days before they have received the tax from their customers, many of whom are small businesses. Thus, the manufacturers have to bear the cost of financing that money for a three month period. With the tax generating about $644,000,000 in 1981 and with interest at the current prime rate of 11.5%, this imposes a direct cost on the industry of approximately $18,500,000 in additional interest expense. In effect, tire manufacturers are not only required to pay the excise tax, but they must also borrow money for the privilege of paying that tax. Even with the repeal of the tax on tires under 100 pounds, this inequity will remain for manufacturers of tires over 100 pounds.

Under S. 1496, manufacturers would be permitted to pay the excise tax on tires, tubes and tread rubber 90 days after the month of sale. Such a change would bring the excise tax payment schedule more nearly into balance with the financial realities of the tire industry. The tire industry is not seeking a subsidy from the Treasury, but only the elimination of the inequitable burden of paying an excise tax to the government before receipt from customers of the funds with which to make payment. This proposed change would be of immediate benefit to each and every manufacturer in this distressed automotive-related industry.

I wish to thank the Committee for this opportunity to testify and would be pleased to respond to your questions.

II

97TH CONGRESS
1ST SESSION

S. 1496

To amend the Internal Revenue Code of 1954 to adjust the time for payment of manufacturers excise tax on tires, tubes, and tread rubber.

IN THE SENATE OF THE UNITED STATES

JULY 17 (legislative day, JULY 8), 1981

Mr. GLENN (for himself and Mr. BOREN) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To amend the Internal Revenue Code of 1954 to adjust the time for payment of manufacturers excise tax on tires, tubes, and tread rubber.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. IN GENERAL.—Section 6302 of the Internal Revenue Code of 1954 (relating to mode or time of collection of taxes) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

"(d) TIME FOR PAYMENT OF MANUFACTURERS EXCISE TAX ON TIRES, TUBES, ETC.—The tax imposed by section 4071(a) (relating to manufacturers excise tax on tires, tubes, and tread rubber) shall be due and payable 90 days after the last day of the month in which the manufacturer, producer, or importer of articles subject to tax under that section sells such articles.".

SEC. 2. EFFECTIVE DATE.—The amendments made by the first section of this Act shall apply to tires, tubes, and tread rubber sold on or after the first month beginning after the date of enactment of this Act.

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Travel and Tourism
Government Affairs
Policy Council

1899 L Street, N.W.
Washington, D.C. 20036
Telephone 202-293-5407

James E. Gaffigan
Executive Director

December 3, 1982

The Honorable Robert Dole
Chairman, Senate Finance Committee
United States Senate
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Dole:

In anticipation of proposals to raise the federal gas tax in order to fund the repair and rehabilitation of the nation's highway system, the Travel and Tourism Government Affairs Policy Council would like to present its views for the record.

The Policy Council is the new national organization representing the unified travel industry viewpoint on legislative and regulatory issues of common concern. The travel industry is now the second largest retail industry in the United States, having generated (in 1981) $191 billion in receipts, $15.6 billion in federal, state and local tax revenues and directly employed 4.6 million American workers, or some 5% of total employment.

Inasmuch as surface land transportation accounts for 86% of all travel away from home, the travel industry has a justifiable and continuing interest in a well-maintained and structurally sound highway system. Less than one-third of our roads and streets, however, are rated "good" by the U.S. Department of Transportation and two of every five of the nation's 500,000 bridges require major repairs or replacement. The Department has also estimated that unless remedial action is taken, 83 percent of the interstates alone will be in "poor" condition by 1995.

It is for these reasons that the Council intends to support legislative proposals calling for a moderate increase in the current four cents per gallon federal gas tax, with monies earmarked for highway improvement.

It is never easy for any industry to seek and support a tax increase. With respect to this issue, however, the user is called upon to finance a service which confers upon him a specific and identifiable benefit. This is conceptually and practically distinct from, for example, an oil import fee which is imposed for the purpose of increasing general revenues. The travel and tourism industry has consistently and adamantly opposed the oil import fee, in large part because identification of the ultimate beneficiary is obscure. While we understand and appreciate the negative implications of mounting federal deficits, we believe that measures intended to enhance general revenues should affect all U.S. industries, including travel and tourism, fairly and equitably.

Moreover, the repairs and improvements comtemplated by raising the gas tax are already long overdue and further delays can only be expected to substantially increase costs as well as risks to public safety.

We trust that the foregoing indicates the depth and scope of our commitment to a safe and efficient highway system. If we can provide you with additional information, or be of assistance to you in any way, please do not hestitate to contact us.

Sincerely,

James E. Gaffigan
Executive Director

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