TAX TREATMENT OF TRANSPORTATION INFRASTRUCTURE

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

JULY 25, 2000

Serial 106–109

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

71–648 DTP WASHINGTON : 2001

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

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TAX TREATMENT OF TRANSPORTATION

TUESDAY, JULY 25, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, D.C.

The Subcommittee met, pursuant to call, at 2:07 p.m., in room B–318 Rayburn House Office Building, Hon. Amo Houghton (Chairman of the Committee) presiding.

[Advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE Contact: (202) 225–7601
June 14, 2000
No. OV–20

Houghton Announces Hearing on Tax Treatment of Transportation Infrastructure

Congressman Amo Houghton (R–NY), Chairman, Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee has rescheduled the hearing on the tax law treatment of transportation infrastructure. **The hearing will take place on Tuesday, June 21, 2000, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 3:00 p.m.**

Oral testimony at this hearing will be from invited witnesses only. Witnesses will include representatives from organizations with expertise in the various modes of transportation. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The transportation sector of the economy includes trains, motor vehicles, aircraft, and shipping. These various modes of transportation play a critical role in the operation of our economy. The demands on transportation industries have grown over time in step with the growth in the population and with the growth in the economy.

One feature shared by all modes of transportation is that they are capital intensive. For example, the railroad industry must build and maintain the tracks upon which its trains travel as well as the expensive rolling stock required to operate a rail system. The motor vehicle industry is continually challenged to produce more fuel efficient and safer vehicles, while governmental units are called upon to expand and improve our highway system.

The tax law historically has recognized the unique character of the transportation industry and has been tailored to address its special circumstances. For example, the tax law imposes an excise tax on motor fuel and aviation fuel, the proceeds of which fund improvements in highways and airport facilities respectively. Likewise the tax law provides tax-exempt bonding authority to high-speed intercity rail facilities, as well as special rules for the treatment of railroad repair expenditures and for the depreciation of railroad rolling stock.

In announcing the hearing, Chairman Houghton stated: "Despite the popular attention given to the new "dot-com" industries, the transportation industry remains the backbone of an expanding economy. Without the efficient movement of people and products, the continued growth in our economy could be jeopardized. I want to explore how the tax law affects the national transportation infrastructure and the transportation industries' ability to serve the public."

FOCUS OF THE HEARING:

The hearing will focus on how the tax law treats the transportation industry and how it can promote better transportation infrastructure for the various modes of transport, such as railroad, motor vehicle, aircraft, etc.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should *submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, with their name, address, and hearing date noted on a label,* by the *close of business,* Wednesday, July 5, 2000, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Oversight office, room 1136 Longworth House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, typed in single space and may not exceed a total of 10 pages including attachments. **Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.**

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3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at "http://waysandmeans.house.gov".

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

NOTICE-HEARING POSTPONEMENT

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE Contact: (202) 225–7601
June 16, 2000
No. OV–20-Revised

Postponement of Subcommittee Hearing on Tax Treatment of Transportation Infrastructure

Congressman Amo Houghton (R–NY), Chairman of the Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee hearing on the tax law treatment of transportation infrastructure, previously scheduled for Wednesday, June 21, 2000, at 3:00 p.m., in the main Committee hearing room, 1100 Longworth House Office Building, **has been postponed and will be rescheduled at a later date** (See Subcommittee press release No. "ov–20.htm">OV–20, dated June 14, 2000.)

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE Contact: (202) 225–7601
July 18, 2000
No. OV–22

Houghton Announces Rescheduling of Hearing on Tax Treatment of Transportation Infrastructure

Congressman Amo Houghton (R–NY), Chairman, Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee has rescheduled the hearing on the tax law treatment of transportation infrastructure. **The hearing will take place on Tuesday, July 25, 2000, in room B–318 Rayburn House Office Building, beginning at 2:00 p.m.**

Oral testimony at this hearing will be from invited witnesses only. Witnesses will include representatives from organizations with expertise in the various modes of transportation. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The transportation sector of the economy includes trains, motor vehicles, aircraft, and shipping. These various modes of transportation play a critical role in the operation of our economy. The demands on transportation industries have grown over time in step with the growth in the population and with the growth in the economy. One feature shared by all modes of transportation is that they are capital intensive. For example, the railroad industry must build and maintain the tracks upon which its trains travel as well as the expensive rolling stock required to operate a rail system. The motor vehicle industry is continually challenged to produce more fuel efficient and safer vehicles, while governmental units are called upon to expand and improve our highway system.

The tax law historically has recognized the unique character of the transportation industry and has been tailored to address its special circumstances. For example, the tax law imposes an excise tax on motor fuel and aviation fuel, the proceeds of which fund improvements in highways and airport facilities respectively. Likewise the tax law provides tax-exempt bonding authority to high-speed intercity rail facilities, as well as special rules for the treatment of railroad repair expenditures and for the depreciation of railroad rolling stock.

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The hearing will focus on how the tax law treats the transportation industry and how it can promote better transportation infrastructure for the various modes of transport, such as railroad, motor vehicle, aircraft, etc.

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Chairman HOUGHTON. Good afternoon, ladies and gentlemen. The hearing will now come to order.

This is a hearing on transportation infrastructure. The transportation section of our economy, as you all know, includes railroads, motor vehicles, aircraft, and shipping. These all play an essential role in the operation of our economy.

Furthermore, demands on the transportation industry have grown in step with the growth of the population and the growth in the economy. All modes of transportation are capital-intensive. The railroad industry must install and maintain tracks upon which its trains travel, as well as the expensive rolling stock required to operate the system.

The motor vehicle industry is regularly challenged to produce more fuel-efficient and safer vehicles, while government is called upon to expand and improve our highway system.

The tax law historically has sought to address the special needs of the transportation sector, but it has not always provided uniform assistance. Regrettably, there is an imbalance in how Federal law addresses the unique needs of the various modes of transportation.

For example, the tax law imposes an excise tax on highway motor fuels, the proceeds of which are then deposited into the Highway Trust Fund. The Highway Trust Fund provides a stable, long-term source of funding for highway infrastructure improvements.

In a similar manner, the excise tax on aircraft fuel is deposited in the Airport and Airway Trust Fund. This provides a stable source of long-term funding for infrastructure on the aircraft sector.

However, there is no comparable source of stable, long-term Federal support for the infrastructure related to passenger rail service. The various modes of transportation should try to operate evenly. If the current tax law does not treat all transportation modes fairly, then we should point out where an imbalance may exist and explore how to correct it.

Without the efficient movement of people and products, continued growth in our economy will increasingly be in jeopardy. As a result, it is right for the Committee on Ways and Means today to explore how the tax law could be improved to help the private sector meet the transportation infrastructure needs of the next century.

I welcome our witnesses today, and I look forward to hearing their testimony.

Chairman HOUGHTON. I would like to recognize the Ranking Democrat Mr. Coyne for his opening statement.

Mr. COYNE. Mr. Chairman, thank you. I, too, welcome today's oversight hearing on tax incentives for transportation infrastructure.

The witnesses appearing before us today will provide valuable insight into the present law and rules on tax-exempt financing, capital cost recovery, capital construction, and the net operating loss carry-back for Amtrak.

In addition, I look forward to discussing the bill to facilitate Amtrak's high-speed rail financing sponsored by Chairman Houghton as a cosponsor of this bill, H.R. 3700, the High Speed Rail Act of 2000, which would provide for tax-exempt bond financing of high-speed rail construction and improvements with the use of Federal tax credits in lieu of interest payments.

This financing method has proven to be successful in other areas and merits serious consideration for the long-term development of high-speed rail throughout many parts of the United States.

The federally designated high-speed rail corridors throughout the Nation should be funded in an efficient and timely manner. Amtrak's service and ridership in Pennsylvania is impressive. Amtrak operates more than 100 trains daily in Pennsylvania. The constituents that I represent know very well the services of the Capital, Limited, the Pennsylvania, and Three Rivers.

High-speed rail is an important component of our national transportation infrastructure that should be fully supported, and I thank the Chairman for holding a hearing on the entire package of tax incentives of assistance to transportation systems and infrastructure.

Thank you, Mr. Chairman.

Chairman HOUGHTON. Thank you, Mr. Coyne.

Ladies and gentlemen, Jim Oberstar, a Member of Congress from Minnesota, was going to be here first. He is not here, I don't see him, and therefore we will try to blend him in a little later on.

I would like to call the first panel, Hon. Tommy G. Thompson, Governor of Wisconsin, Chairman of the Amtrak Reform Board, and, Tommy, it is great to have you here; David King, Deputy Secretary of Transportation, North Carolina Department of Transportation in Raleigh; and Dr. Catherine L. Ross, a director of Georgia Regional Transportation Authority, Atlanta, Georgia. I am sure that John Lewis is going to be furious that I have already introduced you, but he can do it a little later on.

Chairman HOUGHTON. Governor Thompson.

STATEMENT OF HON. TOMMY G. THOMPSON, GOVERNOR OF WISCONSIN, AND CHAIRMAN, AMTRAK REFORM BOARD, NATIONAL RAILROAD PASSENGER CORPORATION

Governor THOMPSON. Thank you very much, Mr. Chairman, thank you, Mr. Coyne, both of you; you for sponsoring the bill, and Mr. Coyne for being a cosponsor.

I want to thank you for holding this hearing. I really appreciate it.

As both Chairman of the Amtrak Reform Board and Governor of one of the 36 States that are currently pursuing high-speed rail, I am absolutely honored to appear before your Subcommittee today, Mr. Chairman, to discuss the innovative ways through which the Federal Government can help finance high-speed rail. I am going to focus on the High-speed Rail Investment Act, H.R. 3700, which I believe is truly a creative and historic piece of legislation.

Mr. Chairman, there is a rationale for an innovative Federal role in developing high-speed rail to help Amtrak and the States do what needs to be done, what we are attempting to do, but what it cannot do nearly so well without the Federal Government's involvement and their assistance.

The simple truth is that our Nation's transportation system is in serious trouble. One of the clearest statements of the nature of the trouble appeared last December in a Los Angeles Times editorial. With your permission, Mr. Chairman, I would like to read a brief excerpt of that editorial:

"California faces the millennium with its transportation stuck in the freeway-mad jet-age sixties. The State that pioneered the instantaneous connections of e-mail and e-commerce stands on the verge of a broadband revolution that promises to pipe feature movies into homes in seconds. But residents still pack themselves into automobiles that travel at Eisenhower-era speeds for most innercity journeys, or into shuttle jets that spend more time waiting for takeoff and circling their destinations than en route." .

What is true of California is absolutely true of the rest of the Nation. No wonder Governors, public policymakers, business, and labor leaders are all coming to appreciate the benefits that passenger rail can provide.

Even before the recent rises in oil prices, the National Governors' Association has unanimously voiced its strong collective support for Amtrak and high-speed rail corridor development. Amtrak also enjoys strong support from the National Conference of State Legislators, the U.S. Conference of mayors, the National League of Cities, as well as many other influential organizations. Most recently a brandnew organization, States for Passenger Rail, has been formed to support high-speed rail funding.

What are the benefits that high-speed rail offers? Improved mobility, greater dependability, increased safety, lower travel costs due to increased competition, and yes, a reduced need for expensive and politically difficult construction of new airports.

Mr. Chairman, these are the benefits of high-speed trains in absolute terms, but to fully understand the critical importance of high-speed rail to our Nation's future, it is necessary to examine the benefits of investing in high-speed rail in relative terms. Once you do that, one fact is glaringly obvious: The costs of building new highways and airports are going way up. The costs of adding to our rail capacity are coming way down.

To put it plainly, you get more bang for your buck by investing your transportation dollars in passenger rail than by investing that same dollar in new highway or airport construction. That is why 36 States are working with Amtrak on passenger rail projects and demonstrating a real commitment to high-speed rail on the part of the States. But States will be limited in how much they can do because of the regional nature of passenger rail systems.

If we truly want, which I believe we do—want a national railroad system that we can really justly be proud of and that is economically competitive, we have to muster the will and national commitment to pay for it.

That is precisely what your bill, H.R. 3700, does. It authorizes Amtrak to issue $1 billion annually in bonds for 10 years, the proceeds of which would primarily support the development of high-speed rail corridors. Twenty percent of these funds would be set aside in escrow, as you know, to guarantee the repayment of the bonds. States would then be required to match the Amtrak investment in a particular project by 20 percent, thus making the $1 billion whole for investment.

Amtrak would not be allowed to invest bond receipts without the State partnership. The Federal Government would provide tax credits to bondholders in lieu of interest payments. The cost to the Federal Government would be minimal. The Joint Committee on Taxation places it at $762 million over 5 years and $3.3 billion over 10 years.

But as I have already explained, the benefits to this country would be phenomenal. The private market guarantees these bonds, so there is no risk to the Federal Government.

Already this bill enjoys broad support from a range of interests. With your permission, I would like to introduce for the record a complete set of endorsements for the bill.

I would also like to quickly note that just today the U.S. Conference of mayors joined us by endorsing the bill at a hearing in the Senate Finance Committee.

Mr. Chairman, for the past half century or so I think it is fair to say that passenger railroads have been virtually relegated to the dustbin of history. It has gotten to the point where last year, in 1 year, the Federal Government spent more than $33 billion in highways, $33 billion, more than $11 billion in aviation, which will rise to $14 billion this year, and I don't criticize them for getting the money, more than $6 billion on mass transit, while we at Amtrak have really been Cinderella, the poor stepchild. We have had to fight for $500 million in Federal funds, like dogs for table scraps.

But the tide is beginning to turn, thanks to you. Americans are beginning to realize that our national railroad system is a precious treasure that was unwisely neglected for decades. They have also begun to recognize what the cost of not investing in high-speed rail comes to: More gridlock in our interstates, more air pollution in our cities, and a highway construction bill that dwarfs the cost of upgrading the rails.

Americans have also become aware of something else: Amtrak is here to stay. Our high-speed rail projects make us competitive with other modes of intercity transportation. We are highly recognized as a powerful engine for economic growth in cities as well as States across the Nation.

I just want to quickly tell you that I am so happy about these figures, that last month Amtrak had its highest ridership in the past 9 years, and we set an all-time record, all-time record for ticket revenues of more than $100 million in 1 month. That is amazing for Amtrak.

The third quarter ridership and revenue results are running a full 8 and 13 percent higher respectively than a year ago. Importantly, automated ticket sales in just the past several weeks, spurred in good measure by the recently announced satisfaction guarantee—we are guaranteeing everybody will be satisfied—up by 16 percent. Thanks to the demand generated by the satisfaction guarantee, we expect revenue and ridership to continue to grow and grow strongly.

In the long run, meeting that demand will mean delivering on our promise, the promise of America for high-speed rail.

In short, we have a crucial role to play in the transportation industry, Mr. Chairman and Members, in the economy of the 21st century. We respectfully, please, ask you, the distinguished Members of this Subcommittee, to help us play that role and be successful by giving us the tools, the innovative funding mechanism we need to do our job. That mechanism is your bill, H.R. 3700.

Thank you, Mr. Chairman and all the Members, for your leadership on this very important issue for Amtrak, but, more importantly, for America.

Chairman HOUGHTON. Thank you very much, Governor Thompson. You are great to fly in to give this testimony.

[The prepared statement follows:]

Statement of Hon. Tommy Thompson, Governor of Wisconsin, and Chairman, AMTRAK Reform Board, National Railroad Passenger Corporation

Mr. Chairman:

As both Chairman of the Amtrak Reform Board and as a Governor of one of the 36 States currently pursuing high-speed rail, I am honored to appear before your Subcommittee to discuss innovative ways through which the federal government can help finance high-speed rail. I'll be focusing on the High Speed Rail Investment Act—H.R. 3700—which I believe is a truly creative and historic piece of legislation. But I'd like to preface my remarks with a few words about the role of the federal government in promoting the general welfare.

As you know, I'm a Republican—and proud of it! I believe that the government's role in our nation's life should be limited. That was clearly what our Founders intended, and that's what we Republicans have fought for over the years.

But believing in *limited* government is very different from not believing in any government at all. Where the public interest is served by federal action, Republicans recognize that such action is warranted. As the father of our party, Abraham Lincoln, put it 146 years ago, "**The legitimate object of government is to do for a community of people whatever they need to have done, but cannot do at all, or cannot so well do for themselves—in their separate and individual capacities.**"

There, Mr. Chairman, is the rationale for an innovative federal role in developing high-speed rail: to help Amtrak and the states do what needs to be done—what we are, in fact, already attempting to do—but what we cannot do nearly so well without the federal government's involvement and assistance.

Like most Republicans, I look to the example of Abraham Lincoln for inspiration and guidance. In 1862, Congress passed a measure that President Lincoln had long championed—the Homestead Bill. Giving enterprising Western farmers 160 acres of public land for a nominal sum, the Homestead Bill, in historian Paul Johnson's words, was "one of the most important laws in American history"—a law that caused a tremendous burst of economic growth and led to the rapid settlement of the West.

The Homestead Bill was a remarkable—and highly original—piece of legislation. As Johnson puts it, after the Homestead Bill, "it may be said [that] the United States no longer just allowed farming to 'happen'—it had a policy for it." That policy can be summarized as expanding economic opportunity for all Americans by providing incentives that promoted greater choice.

Unfortunately, in the area of transportation policy, Americans have lost sight of Lincoln's vision. As with farming in the pre-Lincoln era, we have just allowed transportation to "happen"—and the results have been appalling: massive gridlock on our highways, growing congestion at our airports, and a dangerous and growing dependence on a handful of OPEC tyrants.

Most alarmingly, we have permitted matters to reach the point where Americans are increasingly forced to use automobiles whether they want to or not. If I may say so, Mr. Chairman, this is a form of "transportation slavery" that violates everything America stands for.

It's time to reverse these dangerous trends—and that's what H.R. 3700 proposes to do. It will emulate Lincoln's Homestead Bill by offering economic incentives to promote economic growth and restore freedom of choice. The purpose of this landmark legislation is to promote the modernization of our passenger rail infrastructure and the creation of new high-speed rail corridors. H.R. 3700 will increase America's productivity, protect our environment, enhance our safety, create more jobs, and promote "smart growth" through the economic development of our downtown urban centers. It will reduce congestion on our roads and in our skies.

The simple truth is that our nation's passenger transportation system is in serious trouble. One of the clearest statements of the nature of the trouble appeared last December in a Los Angeles Times editorial. With your permission, Mr. Chairman, I'd like to read a brief excerpt from that editorial:

"**California faces the millennium with its transportation stuck in the freeway-mad, jet-age 1960s. The state that pioneered the instantaneous connections of e-mail and e-commerce stands on the verge of a broadband revolution that promises to pipe feature movies into homes in seconds. But residents still pack themselves into automobiles that travel at Eisenhower-era speeds for most intercity journeys. Or into shuttle jets that spend more time waiting for takeoff and circling their destinations than en route.**"

What's true of California is true of the rest of the nation, as well. Indeed, a study issued by the Texas Transportation Institute last year points to the fastest and most pervasive growth in highway congestion that we've ever experienced. Meanwhile, our nation's aviation system is likewise becoming increasingly congested—especially in our larger cities. In 1991, for example, 23 airports experienced annual flight delays in excess of 20,000 hours. Today there are 27 airports with at least that amount, and that number is expected to grow to 31 before the end of the decade.

No wonder governors, public policymakers, business and labor leaders are all coming to appreciate the benefits that passenger rail can provide. Even before the recent rise in oil prices, the National Governors' Association unanimously voiced its strong collective support for Amtrak and high-speed rail corridor development. Amtrak also enjoys strong support from the National Conference of State Legislatures, the U.S. Conference of Mayors, the National League of Cities, and many other influential organizations. Most recently, a new grassroots organization—States for Passenger Rail—has been formed to support high-speed rail funding.

What are the benefits that high-speed rail offers? A study conducted for the Coalition of Northeastern Governors listed five distinct gains:

- Improved mobility, due to the diversion of passengers from highways to high-speed rail;
- Greater dependability, as rail operations are least affected by inclement weather relative to road or air travel;
- Increased safety—the study estimated a reduction of nearly 1,000 accidents in the Boston to New York Corridor alone;
- Lower travel costs, since the existence of a strong new competitor in the travel marketplace will serve to keep all travel prices down;
- And a reduced need for expensive and politically difficult construction of new airports by freeing up gate and arrival/departure slots for long-distance flights.

The Governors' study also dealt with the environmental benefits of high-speed rail. For example, it estimated that the introduction of high-speed rail in the Boston to New York Corridor will save 20 million gallons of jet fuel alone each year, resulting in a reduction of 511 tons of carbon monoxide, 123 tons of hydrocarbons, and 270 tons of nitrogen oxide. Savings from fewer automobile trips were placed at 4.5 million gallons of gasoline annually.

Additionally, investment in high-speed rail has an unusually powerful impact on the entire economy. An analysis prepared by the Center for Urban Transportation Research at the University of South Florida demonstrated that the economic benefits of an investment in high-speed rail are greater than an equivalent investment in the manufacturing, communications or service industries, in all categories but job creation, where high-speed rail is roughly equivalent. High-speed rail yielded, on average, $3.2 in output for each dollar invested, compared to manufacturing, communications and services, which generate $1.8, $1.9, and $2.1 of output per dollar of investment, respectively.

Finally, I should point out that although I have been talking about the benefits of investment in passenger rail, the upgrading of our underutilized passenger railroad network will simultaneously bring with it a radical improvement in the capacity of freight railroads to transport their cargo. That's because in most areas of the United States today, passenger and freight trains share the same track. But because high-speed passenger rail infrastructure is used most extensively during the day and evening, an additional benefit of investment in high-speed rail is an improved infrastructure useable for carrying freight at night, or sometimes concurrently with passenger operations. In other words, when you invest in high-speed rail, not only do you help passengers by relieving gridlock and "winglock"—you're also helping business by unclogging the arteries of our nation's commerce.

Mr. Chairman, so far I have talked about the economic, environmental, safety and mobility benefits of high-speed rail mainly in absolute terms. But to fully understand the critical importance of high-speed rail to our nation's future, it is necessary to examine the benefits of investing in high-speed rail in relative terms, as well—that is, as compared to making investments in new highways and airports. And once you do that, one fact is glaringly obvious: the costs of building new highways and airports are going way up; the costs of adding to our rail capacity are coming way down. You don't need to be a rocket-scientist to figure out that as the marginal cost of highway and airport construction rises, while the marginal cost of increasing our passenger rail capacity falls, rail becomes cost-effective relative to other transportation modes. To put it plainly, you get more "bang for your buck" by investing your transportation dollar in passenger rail, than by investing that same dollar in new highway or airport construction.

There are many ways I could illustrate this point, but let me provide just one telling comparison. A supply of highway salt that would cover this country's needs for 12 winter months costs $1.2 billion, which is about what it costs to build the entire high-speed rail infrastructure from New York to Boston. Think about it: 115 miles of continuous welded rail, 6.5 miles of additional track to accommodate commuter traffic, 487,000 tons of ballast, 455,000 concrete ties, 115 bridge locations, a new signal system, 25 electric power stations, 14,000 foundations, 12,000 poles, 1,500 miles of wire for the overhead catenary system, 21 miles of new fencing, and a new Route 128 Station, all for about the price of three winters' worth of highway salt. And when the rail infrastructure is complete, you've got a high-speed rail service that will spark extraordinary economic growth throughout the Northeast. It seems to me that's worth a heck of a lot more than a big puddle of salt water.

As I said, Mr. Chairman, you don't need to be a rocket—scientist to figure all this out. Even politicians like myself get it. That's why 36 states are working with Amtrak on passenger rail projects. California, for example, plans to invest $700 million out of a $5 billion infrastructure bill expected to be earmarked for intercity passenger rail investment next year. Also, as part of the $5 billion Midwest Regional Rail Initiative, Illinois plans to spend $140 million; Michigan spent $25 million; and my own state, Wisconsin, plans to spend $60 million. The state of Washington has invested $125 million, New York will invest $100 million and both North Carolina and Pennsylvania are investing $75 million in high-speed rail projects. Virginia recently approved $75 million in new spending for the Richmond-Washington high-speed rail corridor, and Georgia recently approved $200 million out of $2 billion planned for investment in high-speed rail and commuter rail in that state.

What's so significant about these investments is not simply that they are happening, but that they are taking place without a federal guarantee of funding. That indicates a real commitment to high-speed rail on the part of the states. But states will be limited in how much they can do because of the regional nature of passenger rail systems. Like with the genesis of the interstate highway system, the federal government must lead the way with vision and financial assistance.

For our part, Amtrak is working closely with the states to help meet the growing demand for high-speed rail. We would like to do a lot more, and if H.R. 3700 is adopted and long-term capital funding becomes available for high-speed rail—the way it now is for highways, airports and mass transit—believe me, Mr. Chairman, we will do a lot more. In the 21st century, we envision a national passenger railroad system consisting of regional high-speed rail networks linked by market-responsive long-distance service. This national system will empower Americans to choose the fastest, safest, most efficient, and most convenient way to reach their destinations. It will give travelers more options—including the option not to travel by car if they choose not to. Fundamental to the success of our vision will be the fostering of mutually-beneficial partnerships with states, with the freight railroads, with other commercial enterprises, and yes—with the federal government.

Mr. Chairman, the truth of the matter is that a modern national railroad doesn't come cheap. Germany, for example, spent more than $7.5 billion to develop the 215-mile Hanover-Frankfurt corridor, and is planning to spend about $70 billion on its railroad system over the next decade. France spent over $12 billion on its TGV (Train a' Grande Vitesse) system and plans to spend even more. The European Community is planning to link key cities by a 12,000-mile high-speed rail network to cost, when completed, $100 billion. If we want a national railroad system that we can be proud of and that is economically competitive, we have to muster the will and national commitment to pay for it.

That is precisely what H.R. 3700 does. It authorizes Amtrak to issue $1 billion in bonds annually for ten years, the proceeds of which would primarily support the development of high-speed rail corridors. Twenty percent of these funds would be set aside in escrow to guarantee repayment of the bonds. States would then be required to match the Amtrak investment in a particular project at 20 percent thus making the $1 billion whole. Amtrak would not be allowed to invest bond receipts without state partnerships—thereby ensuring that these funds will take into account both the more easily measured financial benefits as well as the more difficult to measure public benefits so critical to states. The federal government would provide tax credits to bondholders in lieu of interest payments. The cost to the federal government would be minimal—the Joint Committee on Taxation places it at $762 million over 5 years, and $3.2 billion over 10 years—but as I have already explained, the benefits to the country would be phenomenal and the private market guarantees these bonds, so there is no risk to the Federal Government.

Mr. Chairman, as you and your colleagues well know, Congress gave Amtrak a mandate to achieve operational self-sufficiency by 2003. I think the record-breaking ridership and revenue numbers we've achieved demonstrate the considerable progress we've already made in turning this company around. There is no doubt in my mind, however, that having a stable source of capital funding would help Amtrak do the long-term planning necessary to reach, maintain and surpass our goal of operational self-sufficiency.

Mr. Chairman, for the past half-century or so I think it's fair to say that passenger railroads have been virtually relegated to the dustbin of history. The passage of the 1956 Interstate Highway Act brought America's love affair with great passenger trains like the "Empire Builder" and the "Twentieth Century Limited" to an abrupt end. Once it became possible to "see the USA in your Chevrolet" Americans did precisely that, and railroad ridership plummeted. It has gotten to the point where, last year—in one year—the federal government spent more than $33 billion on highways, more than $11 billion on aviation, more than $6 billion on mass transit, while we at Amtrak have had to fight for $500 million in federal funds like dogs for table scraps.

But the tide is beginning to turn. Americans are growing increasingly tired of spending billions to build more highways and airports—and still getting stuck in gridlock and winglock. They're beginning to realize that our national railroad system is a precious treasure that we've unwisely neglected for decades. They've started to understand that better utilization of our railroads could free our highways and airports to better fulfill their potential roles. They've also begun to recognize what the cost of not investing in high-speed rail comes to: More gridlock on our interstates, more air pollution in our cities, and a highway construction bill that dwarfs the cost of upgrading the rails.

Americans have also become aware of something else: Amtrak is here to stay. Our high-speed rail projects make us competitive with other modes of intercity transportation. We are widely-recognized as a powerful engine for economic growth in cities and states across the nation—a way to get cars off of our gridlocked highways and to open up badly-needed slots at our congested airports. In short, we have a crucial role to play in the transportation industry of the 21st century—and we respectfully ask the distinguished Members of this Subcommittee to help us play that role by giving us the innovative funding mechanism we urgently and desperately need to do the job: H.R. 3700.

Thank you, Mr. Chairman, and thank you for your leadership on this issue.

Chairman HOUGHTON. Just a couple of things. I don't know whether anybody has an opening statement.

John, do you have an opening statement, or Wes?

Mr. LEWIS OF GEORGIA. Mr. Chairman, I don't have an opening statement, but I would like to take this opportunity to welcome a friend and a longtime leader in the area of transportation and planning, Dr. Catherine Ross from the State of Georgia, who is doing a wonderful job; a former professor at Georgia Tech, and now she is heading up the whole transportation planning for the State of Georgia, and doing a great job to try to do something about our transportation problem in metro Atlanta and all over the State of Georgia.

Ms. ROSS. Thank you, Congressman.

Mr. LEWIS. Welcome, and we look forward to your testimony.

Chairman HOUGHTON. Thanks very much, John.

Wes, do you have any remarks?

Mr. WATKINS. No comments.

Chairman HOUGHTON. Dr. Ross, if you and Mr. King would bear with us for a minute, Congressman Oberstar has come here. I know that you are a very busy guy.

Mr. Chairman, if you would like to give your testimony, stick around for questions, or else whatever you think is appropriate, and then I will go into the others.

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. OBERSTAR. Thank you very much for your courtesy. I apologize for not getting here at the outset. My other hats have held me up this afternoon on other matters.

Thank you for taking the lead and working together with me to initiate this legislation, for holding this hearing, for your sense of looking over the horizon. It has been my pleasure to serve with you for many years in this body, and also on the Canada-U.S. Interparliamentary Group, where you have, again, shown the way to look at problems from a different perspective. This is what we really need here.

I also want to express my appreciation to Senator Lautenberg for cosponsoring a companion bill, S. 1990, over in the Senate.

Mr. Chairman, this legislation puts us on the threshold of a bold new era in transportation, one that has been preceded in its significance only by the mobility given us by the Highway Trust Fund and the Interstate Highway System, and the speed and world access given us by the Aviation Trust Fund and our aviation program.

Moving on high-speed rail for relatively short distances, for intercity trips, is the answer to the congestion and the Armageddon of gridlock that lies ahead of us in America.

I will not go into all the specifics of the bonding authority to acquire rolling stock, rights-of-way, and signal systems, or the State match in funds and the overall financing. Those are all made clear in the legislation. You have probably already discussed in your opening remarks.

The question that we have to address is not so much the how, but the why and whether we have the will. For the first time outside of the Northeast Corridor, we would have the ability to finance systems of 500 to 700 miles in length of high-speed rail and to actually build them, instead of continuing to support a cottage industry of consulting firms that have grown up around this issue.

Numerous studies have been undertaken over the past 30 years. We don't need more studies, we need to move forward and began to build them. This legislation gives, I think, the most practical and realistic and effective means of doing it. It also provides for partnerships between States and private firms.

The whether questions, whether we can and whether we should, ought to be answered by the example of other countries. The Japanese in the sixties began a commitment to high-speed rail with the Shinkanshen, which I have ridden and probably others in this room have also. The bullet train between Tokyo and Osaka, a distance of 322 miles, reduced the travel from 8 hours to 2–1/2 hours. The Japanese now have a 25-mile long test track for a maglev train that had been operating on a 12-mile track. The expanded maglev test track has allowed them to travel at speeds of well over 300 miles an hour.

Similarly, in Germany maglev technology proceeded almost to the point of deployment when they had a change of government which rethought the strategy, but will come back to it, I am sure. They would have moved passengers between Hamburg and Berlin, a distance of 288 miles, in just over an hour carrying some 15 to 20 million passengers a year, according to their studies. They are ready to do it.

In France, there is the TGV, that has achieved under test conditions speeds of 300 miles an hour. TGC regularly travels at 175 to 185 miles an hour, depending on which of the five networks you are using. The French invested $12 billion in the TGV, and now you can travel between Paris and Brussels at about 50 minutes. When I traveled from Paris to Bruxelles on a train as a graduate student, it took a good 6 hours. Now you do it in under an hour. It takes you less time to go to London by train than it does to fly.

In Germany, the Intercity Express Train, the ICE, is achieving the same speeds as the French have achieved with the TGV on high-speed rail service. The German plan to invest $70 billion in their rail system much of it on them ICE system.

Contrast that with the United States, in which 94 percent of paid intercity travel is by air. Only forty percent of paid intercity travel in Europe is by air. Most of the rest is by train.

We hear the argument time and again. Oh, the Americans' love affair with the automobile will never allow them to move from the car to the train. But, people fail to realize that the most popular places for tourism in America are rail history museums. Go to Sacramento where they have the most expansive, detailed, and exciting rail history center. It is flooded with people. Go to Scranton, Pennsylvania, to Steamtown, USA. It too, is flooded with visitors; to Duluth, Minnesota, to the Rail History Center, and it is flooded with visitors year round, the city's most popular travel stop; and in St. Paul, the same thing.

There is a love affair by Americans with travel by rail, but they don't love traveling at slow speeds, at uncertain times, and on risky rail beds. We have to completely rebuild much of our rail metwork and reformulate our thinking about intensity travel.

The policy in France is that for distances of under 500 kilometers or less, rail gets the preference for public investment dollars. For distances between 500 and 750 kilometers, it is a toss-up between rail and air, but rail has usually won. Between 750 and 1,000 kilometers or longer, there is a preference for investment in air services.

In Europe there are limits on the number of operations that can be handled at airports, the type of aircraft that can serve the airport, on the noise the airports' neighbors will tolerate, and on about emissions of NOX and other emissions from aircraft.

We are now in a duel with the European community over whether American D.C.-97 or B–727 reengineered and hush-kitted aircraft can be sold to other countries and permitted to fly into the European community airspace. They don't want the noise.

At Charles DeGaulle, FedEx opened a $250 million cargo hub. In exchange for the increased noise at night from these operations, the airport had to agree to an overall limitation of 250,000 operations a year at Charles DeGaulle Airport, limiting its capacity and limiting the number of passengers, unless you use more wide-bodied aircraft.

The limits that the Europeans have had to face are now coming to America. In the congested East Coast Corridor, it makes no sense to fly the average flight stage of 300 miles. It makes no sense to fly. Train serves you better.

The other question is, can we do it? Of course we can. We have the capacity. We have the funding. Governor Thompson has just cited the billions of dollars we are spending on our highway system; the transit systems, and on our aviation system. Can not we afford the dollars to make an investment that will improve the quality of life and the access of people and preserve our highly level of mobility in this country?

Let me tell you how it was done in France. In 1968, President Charles DeGaulle commissioned a study of a high-speed train. A year later the Commission reported to DeGaulle and his Cabinet. After the presenter concluded his remarks, the Minister of Finance of the (French expression) said, (French sentence), "That is impossible, France cannot spend this much." the Minister of Defense said (French expression), "No, we can't do this, this is going to hurt the defense of the Motherland," and on it went through every Cabinet officer.

And DeGaulle said, simply, (French expression), "Is there another country in the world that has this technology?" and the answer was no. And DeGaulle said, (French expression), "Then France will be the first." and they were.

And now America is a distant second. With your bill, we can be first. Thank you, Mr. Chairman.

Chairman HOUGHTON. Thank you very much, Jim.

[The prepared statement follows:]

Statement of Hon. James L. Oberstar, a Representative in Congress from the State of Minnesota

Mr. Chairman, Ranking Member Coyne, and Members of the Subcommittee, thank you for holding this important hearing on the tax treatment of financing of our Nation's transportation infrastructure.

I welcome this opportunity to testify today on HR 3700, a bill to create a new source of funding for developing the infrastructure for high-speed rail passenger service. I would like to thank Chairman Houghton for his leadership on this issue, and as the principal sponsor of this legislation in the House. I would also like to recognize Senator Lautenberg for sponsoring the companion bill in the Senate, S1900. Both bills offer an innovative approach to financing the construction of high-speed rail systems.

Pursuant to ISTEA and TEA–21 a number of corridors around the Nation have been designated as high-speed rail corridors eligible for federal assistance. Amtrak, or any other organization willing and able to build such systems, would, under our bill, have the authority to issue bonds to help finance them.

HR 3700 authorizes $10 billion in bonding authority between FY2001 and FY2010. These funds could be used, for example, by Amtrak to acquire rolling stock and to make improvements to rail rights of way and signal systems to allow 100+ mile per hour (mph) operations on a major Midwest route, such as between Chicago-St. Louis. In order to ensure that the monies go to projects with the most potential for success, the states are required to provide a 20 percent match that would be deposited in a trust account. These funds and the interest they draw would be used to redeem the bonds. Requiring the states to provide the match also helps ensure that only projects with substantial support receive funding.

Bondholders, instead of receiving interest payments, would be eligible for a federal tax credit equivalent in value to what they would have received in interest. This tax credit would be transferable in cases where the bondholder could not make use of the credit. The cost to the U.S. Treasury for our proposal would be much less than an equivalent amount in grant money.

For the first time outside the Northeast Corridor, sufficient funds would be available to do more than merely study the potential for high-speed rail service. Over the years, countless studies of the potential economic, energy, and environmental benefits of high-speed rail passenger operations have been conducted for different proposed projects scattered around the Nation. A virtual cottage industry of consulting firms has grown up to undertake these analyses. But, even when the consultants identify significant economic potential, the financial resources haven't been there to carry out the project. Our proposal seeks to rectify that problem. By partnering with the states and private firms, the revenues from the bond sales will leverage sufficient resources to actually build high-speed rail systems.

Around the world, other advanced industrial nations have long recognized the need for a balanced system of intercity transportation and have invested heavily in high-speed rail. They continue to do so.

In the 1960s, the Japanese made the world's first major commitment to high-speed rail by building the famous Shinkansen, or "bullet" train between Tokyo and Osaka, a distance of 322 miles. These trains, operating over a dedicated right-of-way, reduced the travel time between these two cities from 8 hours to 2½ hours. The service proved so successful that the Japanese have built additional lines. Nor have they rested on their laurels. Today, the Japanese are at the forefront in developing Maglev technology—a technology, I might add, that was invented here in the United States.

The French were quick to emulate the Japanese. Beginning in 1981, the French began operating the *Train a Grande Vitesse* (TGV) between Paris and Lyon. These trains cruise along at nearly 200 miles-per-hour (mph) and have demonstrated the capability, under test conditions, to travel faster than 300 mph. The French have spent $12 billion on a network of TGV trains that now stretches for more than 800 miles, and they plan to invest more. The Germans followed suit in the 1980's with their Intercity Express trains (ICE). Over the next decade Germany will invest $70 billion in its railroad network, much of it on high-speed rail service. At the same time, Germany is continuing to research and develop the Maglev technology at its test facility in Emsland in Northern Germany. Spain, Italy, and other European nations are also investing heavily in high-speed rail.

Some have argued that the European and Japanese experiences are not relevant to the United States. They claim that demographic and geographic differences make high-speed rail more workable in Europe and Japan than in the U.S. They also point to the enormous investments we have made in our highways and in our aviation system and claim that most Americans simply prefer to drive or fly. However, what these critics often fail to realize is that travel choices are greatly influenced by public policy choices. The governments of Europe and Japan made conscious policy decisions to provide high-speed rail for short and intermediate distance trips while reserving scarce airport and airway capacity for long-distance (primarily international and intercontinental) travel. They have developed multi-modal and intermodal solutions to meet the travel needs of their citizens. They provide the mode of transportation best suited to the type of trip.

In fact, following the introduction of both the *Shinkansen* in Japan and the TGV in France, there were dramatic declines in airline traffic between Tokyo and Osaka and Paris and Lyon respectively. Airport slots and other facilities that had been taken up by these short-distance, feeder operations were now available to accommodate the flights serving longer distance markets. This is simply good economics—reserving scarce resources for their highest and best uses.

I have spent nearly all my 25 years in the Congress working on transportation-related issues. I have been especially involved in the aviation area, serving as Chairman of the Aviation Subcommittee between 1989 and 1994. Never have the nation's airports and airways been as congested as they are today. Nightmarish delays are becoming an almost nightly feature on the evening news. Recently the Congress enacted the Aviation Investment and Reform Act for the 21st Century (AIR21) and that legislation will help the nation meet its future aviation infrastructure needs, but it will not completely solve the problem of demand outpacing supply.

Europe and Japan have long faced serious aviation system capacity constraints. We in the United States have generally not had the same aviation system capacity problems as the Europeans and Japanese. Only a few of our airports were capacity constrained. But now, our nation's airports and airways are becoming more and more congested. It is very difficult to expand system capacity by building new airports or new runways. Except for the New Denver Airport, which opened 5 years ago, no new airport has been constructed in the past quarter century. Noise considerations limit our ability to shift more flights to off peak periods. Land use considerations make it difficult to build whole new facilities or even add new runways.

Therefore, we need to allocate scarce air system capacity to where it is most needed—primarily long haul domestic and international operations. Intercity trips of 400–500 miles or less by high-speed rail can be time competitive with air. We need to begin to invest in high-speed rail systems so that this option is available to the traveling public.

In addition, we need to embrace intermodalism. The concept of intermodal transportation is central to modern logistics management. Those responsible for shipping freight organize their use of the modes of transport to get the best service at the lowest cost. We need to do the same for passenger travel. A high-speed train between Detroit and Chicago, for example, that served O'Hare Airport could eliminate the need for many short distance feeder flights as well as much air travel between Chicago and Detroit. This would free up space at O'Hare to handle the types of traffic that must go by air.

Investing in high-speed rail transportation now is essential if we are to preserve for future Americans our precious right to mobility. Our bill is a downpayment on America's future freedom to travel.

Again, thank you, Mr. Chairman, for your leadership on this issue and I look forward to working with you in the hope of seeing HR 3700 enacted this fall.

Chairman HOUGHTON. Now I am going to call on David King, deputy secretary of transportation for North Carolina.

STATEMENT OF DAVID D. KING, DEPUTY SECRETARY FOR TRANSPORTATION, NORTH CAROLINA DEPARTMENT OF TRANSPORTATION, RALEIGH, NORTH CAROLINA

Mr. KING. Mr. Chairman, this is patently unfair, having me follow Representative Oberstar. We pronounce TGV somewhat differently in North Carolina. After those two eloquent speakers, I am humbled, but I do join them—in their enthusian for rail transportation and this bill.

Chairman HOUGHTON. Can you say something in French?

Mr. KING. Like my two predecessors, I appreciate the fact that you have taken the lead on this and have called us here. This legislation is something I have been waiting an entire career for.

As you said in your opening statement, there is a giant void in our transportation programs nationally, and it is in intercity rail. The Federal partner in intercity rail has been missing.

I am here today representing the coalition of States for Intercity Passenger Rail, ably led by Governor Thompson's Secretary of Transportation Terry Mulcahy. We have 18 members. Our only objective is to try to help find a way to get capital funding into intercity rail service.

I have submitted my comments for the record, but I want to make just a very few points in my brief time. The most important point is that I would hope that you and your colleagues look at this bill not as an Amtrak capital program, but as a intercity rail capital program for States.

We expect to work with Amtrak. We will look to them for their expertise and experience, particularly in operating trains and in buying train sets. But States are good at major transportation capital projects. We simply have never had a Federal partner with which to work on the intercity rail side. But with this bill, including a means of selecting projects that ensures that we select the most meritorious projects across the country, and that those selections are equitable and give the dozen or so high-speed rail corridors we have in this country an opportunity to make incremental progress, we believe that the very sort of scenario that Congressman Oberstar just painted will, in fact, come to pass.

In North Carolina, our Governor for the last 8 years, Governor Jim Hunt, has been pushing us to connect Raleigh and Charlotte with 2-hour service. Right now we average 46 miles an hour and the schedule is 3 hours and 45 minutes. But with relatively modest investments, and I say that with respect to the kinds of investments we make every day in highways, that time can be 2 hours. It takes you 2 hours and 45 minutes to drive it. We believe that reduced trip times will make a significant difference in the number of people who choose the mode of intercity rail.

We as a Department of Transportation in North Carolina awarded $1.25 billion in highway projects last year, so we know how to build major transportation projects. Our two major Class 1 railroads in North Carolina are Norfolk Southern and CSX. We have developed relationships with both of those railroads that will allow them, we believe, to work with us on a positive basis to get this work done, to do it expeditiously, to do it honoring the planning processes that we must follow when we build major highway projects, to get public involvement, to be conscious of grade crossing protection and community impacts and all the sorts of things we have to do when we manage our highway projects.

We look forward to working with Amtrak and calling on their vast expertise, but we want you to consider this a State program. I think it gets colored the wrong way, frankly, when it is characterized as an Amtrak capital program, when in fact we intend to build infrastructure with and in partnership with Amtrak, but in partnership with Class 1 railroads and other entities as well, including local and regional transit providers who are also sharing these corridors and, in many cases, sharing the stations that serve these corridors. State funds will satisfy the 20% match requirements, not Amtrak funds.

So that is the single most important point, Mr. Chairman, that I would bring to your attention. I hope that this bill will be considered by this Committee, and the others in this Congress who are looking at these bills, as a State government-based DOT capital program for intercity rail, filling that void that you mentioned in your opening statement, Mr. Chairman.

We have a more stable and larger Federal program for bicycle transportation in my Department than we do for intercity rail. We need a Federal partner.

The final point I would make is that we feel a sense of urgency. I hope that there will be a way to move your bill this year. We are ready to go. Our partners up and down the East Coast, from Georgia, South Carolina, North Carolina, and Virginia, who are working together, those four States are ready to go.

We have projects that are ready to go. We have match money for our 20 percent match that is ready to go. We are ready to move. We do feel a sense of urgency. We have serious air quality concerns as do others. We believe this is a very real way to begin to address that problem.

Mr. Chairman, I look forward to any questions you and your colleagues may have, but I do commend you for your leadership on this. We really hope this bill will meet with some success this year.

Chairman HOUGHTON. Thank you, sir, very much, Mr. King.

[The prepared statement follows:]

Statement of David D. King, Deputy Secretary of Transportation, North Carolina Department of Transportation, Raleigh, North Carolina

Mr. Chairman, my name is David King. I serve as the Deputy Secretary for Transportation of the North Carolina Department of Transportation. My responsibilities include highways, ferries, aviation, bicycles and pedestrians, public transportation and rail.

I testify today on behalf of the States for Intercity Passenger Rail. States for Intercity Passenger Rail is a grass roots organization of state departments of transportation. North Carolina is one 18 of states in the group ably chaired by Secretary Terry Mulcahy of the Wisconsin DOT. Our growing membership is drawn from around the country and includes states with existing passenger rail service as well as those in the implementation stages. From large states and small states, we span the political persuasion continuum with varied interests and geography. We are quite a diverse group and we are a national group. Our strength is initiative created and supported by states which share a common goal. It is refreshing to characterize our state-based transportation group as national after the fractious, regionally based alignments that characterized the TEA–21 debate.

Five basic principles provide the foundation of States for Intercity Passenger Rail:

First, intercity passenger rail complements existing intercity passenger and freight systems. Those systems, mainly road and air, are saturated to the point that safety and reliability are compromised. The states and the private sector are meeting the challenge by investing record amounts of money in those systems. We have made the business decision that we receive a greater return on investment by increasing the capacity of passenger rail rather than by making alternative investment decisions. An example is the cost of adding a lane of interstate is more expensive than improving a segment of rail.

Second, because intercity passenger rail trips tend to be 100 to 500 miles in length, many of the corridor planning, analysis, and construction management tools routinely used at the state level apply. States can and do plan, build and maintain interstate transportation corridor systems. We meet a myriad of environmental, planning, and safety standards. These projects require massive investments and we deliver them every day.

Third, improved intercity passenger rail is attractive to states because it is incremental. Our programs are publicly funded to deliver public services, and states must make prudent investments. We recognize that new transportation infrastructure cannot be built overnight, but we need to start where we are today and work to improve those systems. Our stockholders, the citizens of our various states, have very high expectations.

Fourth, states recognize the importance of partners in this process. Because railroading is both a capital and labor intensive business, we must have the full participation of the freight railroads, existing shippers, and labor. The freight railroads own most of the assets outside the Northeast Corridor. Publicly and privately held railroad assets are currently shared in part by commuter agencies. Our emphasis will be to assure that nothing we do to improve rail passenger service diminishes the ability of the freight railroads to provide safe, reliable freight service. All workers have a right to expect equitable compensation and decent working conditions. The burden is on the states to learn and work with our partners effectively.

Fifth, the federal government has a role to play in intercity passenger rail because financial investment is in the national interest. Beyond the interest of the individual states and groups of states in nearly a dozen corridors, it is in the interest of the Nation to have series of vibrant, well built, well operated intercity rail corridors. These corridors contribute to a national commitment to improve mobility and the social and economic quality of life for all our citizens. They anchor an integrated system of public transportation services including local and regional transit and access to major airports. States, however, cannot accomplish this laudable goal alone or even collectively; transportation federalism dictates a need for a federal partner.

Capital formation is an essential role for the national government in transportation federalism.

The federal government fulfills a vital role in highway, public transportation, aviation and inland water transportation by creating a series of excise taxes and fees, placing them in trust funds, and allocating those resources.

We need a federal partner that provides a stable, dedicated, long-term financial commitment. Further, these financial resources must expand the overall level of financial commitment to all modes of transportation. The lack of progress nationally in improving intercity rail passenger service is directly attributable to the lack of a meaningful federal partner.

More specifically:

The complex, long-term nature of corridor development dictates a multi-year tool. The federal government, through the tax code, can provide useful means of organizing larger amounts of investment capital. States are currently investing in intercity passenger rail. These funds can be used as match for federal investments. In fact, the issue of matching funds deserves a more thorough and complete examination. States are creatively using a broad array of public and private resources to provide improved rail service. A broadening of the sources of eligible matching funds should be encouraged. The combination of federal, state and other funds can help achieve both economies of scale and funding levels attractive to investors.

Further, we need to increase investment in transportation infrastructure. States are responsible for delivering a broad array of transportation services. This requires program stability and a reliable and predictable source of revenue. In large measure this stability is derived from the latest multi-year surface transportation bill "The Transportation Equity Act of the 21st Century of 1998" or "TEA–21."

States for Intercity Passenger Rail do not want to re-open TEA–21. Rather, we wish to draw upon a major strength of the bill—its commitment to financial innovation and equity. The Transportation Infrastructure Finance and Innovation Act (TIFIA) is especially instructive. It is encouraging to note that one of the first TIFIA investments was Pennsylvania Station in New York City, which is in part an intercity passenger rail facility.

HR 3700: "The High Speed Rail Investment Act" is a highly significant financial innovation for states and their partners.

The structure of HR 3700 benefits all levels of transportation federalism. For the federal partners it provides significant additional capital without unduly straining budget resources and the appropriations process. On the state side it provides a stable, long-term, source of financial resources.

HR 3700 maintains the integrity of TEA–21. By capping the amount of funding any single corridor can receive, it is more likely that an equitable distribution of the funds will occur.

States for Intercity Passenger Rail support enactment of HR 3700 as amended.

I believe three areas merit perfecting language:

1. Project development: What constitutes a worthwhile project? Characteristics of an appropriate project need to be described in greater detail.

2. Project selection: Is there a more effective means of ensuring that the most meritorious projects move forward?

3. Project management: States should manage the projects.

We do not believe that these are insurmountable problems. Individually and collectively we are eager to work with the committee, the subcommittee and others to clarify language to strengthen the bill.

Clarification can promote the success of the bill. A clear understanding of the roles and responsibilities of the partners will lead to prompt implementation. All the partners should focus on the strengths and experiences they bring to the effort.

In this regard we view Amtrak as a partner whose strength is to operate passenger rail services as well as mail and express business. This bill should not be seen in any way as an alternative for Amtrak funding. Our National Railroad Passenger Corporation has a continuing need for capital investment at the levels provided in authorizing legislation.

We value our partnership with Amtrak but we believe that giving states a choice of providers and partners will lead to a stronger and more efficient Amtrak.

North Carolina is ready to move forward, now.

Based on Governor Jim Hunt's unwavering support for intercity rail over the past eight years, North Carolina is ready to implement this legislation now. Two years ago we invested over $72 million to acquire control of the North Carolina Railroad. We have invested nearly $40 million in train stations around the state. We are poised to invest another $48 million in track and signal improvements this year. Our high-speed rail corridor forms an integral part of North Carolina's freight and passenger rail network and will serve all North Carolinians.

We feel a sense of urgency from our citizens who perceive correctly that despite our record levels of investment in transportation infrastructure, congestion and air quality continue to be problematic. We look forward to working with you on this critical project. Thank you for allowing me the opportunity to testify before you today.

Chairman HOUGHTON. Dr. Ross.

STATEMENT OF CATHERINE L. ROSS, EXECUTIVE DIRECTOR, GEORGIA REGIONAL TRANSPORTATION AUTHORITY, ATLANTA, GEORGIA

Ms. ROSS. Thank you, Mr. Chairman. I want to commend yourself and the panel for your leadership in this arena. Leadership not only matters, it is critical. A particular thank-you to Congressman Lewis, who has made such an outstanding contribution not only to the citizens of the State of Georgia, but to the citizens of the United States of America. Again, thank you.

I am particularly pleased to have this opportunity to bring you a perspective on how a State agency views the High-Speed Rail Corridor Investment Act, H.R. 3700, in terms of innovative infrastructure financing.

First, let me tell you a bit about the Georgia Regional Transportation Authority, or, as it is better known in Atlanta, as GRTA. We are a very unique agency. GRTA was established by the Georgia legislature to deal with the problems of the 13-county region of metropolitan Atlanta in reaching conformity with the Clean Air Act. We can plan, finance, and operate transportation systems, cause counties to build transportation facilities, and generally implement regional solutions to traffic congestion and poor air quality.

Frankly, there are few transportation choices in Atlanta. Ironically, Atlanta, which was founded as a railroad terminus, now only has the two-county MARTA heavy rail station, and a twice-a-day Amtrak service via the Southern Crescent.

For too long, our solution to congestion was another highway lane. But that was the last century. We now have a Governor and legislature and, I believe, most of the people of the region who are committed to alternative forms of transportation.

In acknowledging that passenger rail transportation in Georgia needs a new focus, Governor Barnes proposed that the Georgia Department of Transportation, the Georgia Rail Passenger Authority, and the Georgia Regional Transportation Authority form a program management team comprising two members from each agency.

I am speaking today on behalf of the Georgia Rail Passenger Program Management Team whose chairman, Walter Deriso, is also vice chairman at GRTA. This team is now in charge of developing a rail passenger network in the State.Seven of these rail lines under study would link up in downtown Atlanta and provide key commuter rail service in the region. Two routes, Atlanta to Athens and Macon to Atlanta, could open as early as 2004.

Let me pause for a moment to thank Representative Mac Collins, a member of the Ways and Means Committee, for his help in moving the Macon-to-Atlanta line along. The Congressman provided the State $30 million in TEA–21 funding for the Macon corridor.

I also want to thank Representative John Lewis, a Member of this Subcommittee, and Senator Max Cleland, who provided a combined $20 million to help construct an intermodal passenger terminal in downtown Atlanta. Their efforts provided an extraordinary boost to our commuter rail program.

But, Mr. Chairman, we cannot count on those earmarks in the future. The total estimated cost of Georgia's intercity rail service is $1.5 billion. Georgia is now beginning to "flex" highway dollars into commuter rail, and the 3-year transportation improvement program for the Atlanta region has programmed $230 million in State and Federal funds for rail passenger service, but we are still a long way off from reaching $1 billion.

That is why the High-Speed Rail Corridor Investment Act is so important to our future. We need more investment tools if we are going to establish a rail passenger network. The currently designated Southeast High-Speed Rail Corridor from Charlotte to Atlanta follows Amtrak's Southern Crescent route. The corridor itself extends to Macon and would follow our planned commuter rail connection. Eventually, we would like to see the corridor designation extend to the coast, where it would link up with Amtrak's Eastern Seaboard trains.

Railroads were popular in the 1800s and early 1900s for one simple reason: They were the fastest form of transportation available to most people at that time. If we expect people to ride trains today, we have to make them as fast as we feasibly can.

But if we want to provide rail service in the 21st century, we cannot offer 20th century service. Nostalgia isn't going to get the job done. Additional funding that could be provided under H.R. 3700 would allow us to improve safety at grade crossings, provide modern signaling systems, realign track, and cut about 20 minutes off the travel time along the Atlanta-to-Maconline.

The Southeast High-Speed Rail Corridor will be the backbone of our State's rail network and will link our system to a national rail passenger network. That is why this bill has been endorsed by the Georgia Department of Transportation, the Georgia Passenger Rail Authority, and the Georgia Regional Transportation Authority.

I believe it is important that we seek Federal assistance as provided under H.R. 3700. The State of Georgia will pay its share and will meet the 20 percent match required under H.R. 3700.

However, we could not hope to finance this system if we have to come to our congressional delegation each year seeking Federal funding. That is a heavy burden when we are already seeking help for our regional transportation solutions. We need desperately an innovative investment strategy, and the bonds program as provided in H.R. 3700 would be precisely the kind of tool we envision.

The modernization of our rail infrastructure and the creation of high-speed rail corridors will improve the efficiency of our overall transportation system and reduce congestion on our roads. Innovative financing is critical if we are to provide the transportation investment we need if Georgia—and our Nation—is to remain economically competitive. Thank you very much.

[The prepared statement follows:]

Statement of Catherine L. Ross, Executive Director, Georgia Regional Transportation Authority, Atlanta, Georgia

Thank you, Mr. Chairman.

I appreciate the opportunity today to bring you a perspective on how a state agency views the High-Speed Rail Corridor Investment Act, H.R. 3700, in terms of innovative infrastructure financing.

First, let me start off by explaining that the Georgia Regional Transportation Authority is a unique agency. GRTA was established by the Georgia Legislature to deal with the problems of the 13-county region of metropolitan Atlanta in reaching conformity with the Clean Air Act. We can plan, finance and operate transportation systems, cause counties to build transportation facilities and generally implement regional solutions to traffic congestion and poor air quality.

Frankly, there are few transportation choices in Atlanta. Ironically, Atlanta, which was founded as a railroad terminus, now only has the two-county MARTA heavy rail system, and a twice-a-day Amtrak service via the Southern Crescent. For too long our solution to congestion was another highway lane. But that was the last century. We now have a governor and Legislature, and I believe most of the people in the region, who are committed to alternative transportation.

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However, we could not hope finance this system if we have to come to our congressional delegation each year seeking Federal funding. That is a heavy burden when we are already seeking help for our regional transportation solutions. We need an innovative investment strategy and the bond program as provided in H.R. 3700 would be the kind of tool we need. The modernization of our rail infrastructure and the creation of high-speed rail corridors will improve the efficiency of our overall transportation system and reduce congestion on our roads. Innovative financing is critical if we to provide the transportation investment we need if Georgia—and our nation—is to remain economically competitive.

Thank you.

Chairman HOUGHTON. Thank you, Dr. Ross.

We have been joined by Mr. Portman, and also Mr. Hulshof down here.

Gentlemen, do you have any opening statements you would like to make?

Mr. HULSHOF. No, sir.

Mr. PORTMAN. No, thank you.

Chairman HOUGHTON. We will go to questions. I will turn to Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Governor, I wonder if you could expand a little bit on why tax-exempt bond financing is critical to Amtrak's development process.

Governor THOMPSON. As you know, we are under the Accountability Act that was passed by Congress. We have to be self-sufficient operationally by 2003. We are on a glide path to do that. The first year we were up by $500,000. Last year we exceeded our glide path by $800,000. This year we are going to fall short because the high-speed trains have not been able to get on board as soon as expected, but as soon as they are, that will generate about $180 billion in additional profit. So we are on our glide path. We are going to be able to follow the congressional law that we will be self-sufficient.

But capital, we are so short on capital and we don't have any way to finance new equipment, improve our railbeds, and be able to develop the high-speed corridors. This is our answer. This is our way of getting the capital to really establish high-speed corridors and be able to do it.

The tax credit way is cheaper for Congress. Over 5 years, the financing, the mark-down is about $700 million. Over 10 years it is $3.3 billion. We know we cannot come and get the amount of money we need for capital even though we need it. So this is one way we can finance it. The tax credits gives us the opportunity to go into the private sector and get the money for it.

The 20 percent set-aside will help us repay it at the end so there will not be any liability to the United States government.

Mr. COYNE. Thank you, Mr. Chairman.

Chairman HOUGHTON. Mr. Watkins?

Mr. WATKINS. Thank you, Mr. Chairman.

In your statement, I would like to just reemphasize—because I like to find equity, especially in the Plains area, in Oklahoma. We just recently got Amtrak not too long ago.

Governor THOMPSON. It is doing well, much better than we anticipated, Congressman.

Mr. WATKINS. Thank you, Congressman. We do exist in this great United States—Oklahoma.

Mr. THOMPSON. Yes, we recognize that, Congressman. That is why we put the rail in there.

Mr. WATKINS. I enjoy the Eastern Corridor, but they forget our area. Mr. Chairman, we don't get even our tax dollars back to the Highway Trust Fund. We don't get the portion we are supposed to or we send back in.

Mr. Chairman, I would like to make sure everyone heard the Chairman's statement. We have to have equity if we are going to really participate in this. If not, it is hard for me to go back and sell it to the people.

The Chairman said the tax-exmpt status helps to address the special needs of the transportation sector, but has not always provided uniform assistance. I take that, when I read that, that it has not provided uniform assistance geographically. I know we have not had it maybe in the highways, rail, or airfields; but when I read that, that touches me real closely, because we have not had that equity.

I would just ask, Mr. Thompson, you have done a great job as Governor of your State, and have done a great job now of trying to make sure we have equity, so some of us, we are enthusiastic about this type of legislation. I basically would be in favor of it. But as we look at it, how do we make sure some of these States—I think one of the worst votes I have ever cast was the deregulation of airlines.

For instance, the hubs do not—they discriminate against States like Oklahoma. I don't want to vote for anything else that is going to discriminate against my home State. We don't even have a lot of the things coming in by air. It is ridiculous. It is crazy, what we have done in this country with our airlines.

That is part of the reason why we also, in the Chairman's statement, hear about all of the problems in the airways and all of the things that are at the top of the agenda this very day over in the Senate.

What kind of assurance can I go back and tell my people that we will have if this is passed; that Oklahoma will be able to participate with equity in the program, have the right kind of equity in the program?

Governor THOMPSON. Congressman, I applaud you for asking the question. It is the same question that I ask myself. When you were talking about Oklahoma being somewhat shortchanged in all these formulas, I can only think of my own State.

Mr. WATKINS. Yes.

Governor THOMPSON. We are ranked 49th. We are treated even more shabbily than you are, Congressman, in Wisconsin. We only get—we are the 49th poorest State as far as getting money back from the Federal Government.

I know what you are talking about, and I can assure you as Chairman of Amtrak and as Governor of the State of Wisconsin, that we want to grow Amtrak. We want to make sure that Oklahoma and Wisconsin, North Carolina, Georgia, and every State in America gets service.

There is also a limitation on this bill, H.R. 3700, that the maximum amount of 30 percent could only go into the Northeast Corridor. We wrote that in to assure that the rest of the country could be assured of getting some of this extra money.

We have put Amtrak rail service now in into Oklahoma, and, as I said, it is doing much better than anybody had anticipated. We had a market survey done of all of our Amtrak rails across America. What we are trying to do as an Amtrak board and management, we are trying to grow Amtrak. We want every State covered by Amtrak service, and we want to expand rail service. We don't want to curtail and cut back, we want to expand. That is going to include Oklahoma.

So I can give you my assurance as chairman of the board that we are going to make sure that Oklahoma and Wisconsin and every other State gets their just due.

Mr. WATKINS. I will bet Wisconsin is not at the bottom by the time you get through.

Governor THOMPSON. I will not be doing my job if it is.

Mr. OBERSTAR. Mr. Watkins, if I might supplement the Governor's statement, Mr. Chairman——.

Chairman HOUGHTON. Mr. Oberstar.

Mr. OBERSTAR. The idea of this legislation is not necessarily to achieve geographic balance by directing funds to one or another part of the country, but, rather, to assure that those projects with the greatest promise of success will get the funding.

The way you do that is to ensure the State match, so we want States to be up front partners. They are required to have a 20 percent match that would be deposited in a trust account. Those funds and the interest they draw would be used to redeem the bonds. What we are looking at here is a grassroots-up initiative. Those areas of the country like your State of Oklahoma—and if you think you are left out, we don't have—Minnesota and Wisconsin do not have the world's greatest rail service either, but with the improvements that are being made in Amtrak, it is getting better.

But that is the way you achieve the objective, is to get the States in at the first rung, at the ground floor to develop the plans, provide the match, and assure that those projects that have the best chance for success will get the priority funding.

Mr. WATKINS. I appreciate that, Mr. Chairman.

Let me say, I really appreciate the kind of commitment that I have heard here today. I am an enthusiastic believer and rider of Eurail when I go to Europe—or Britrail. It is a tremendous way to travel. I get there with all the college students, and I get out there and really have a good time.

Chairman HOUGHTON. OK. Thanks very much.

Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman. Mr. Chairman, I would like to piggyback, I guess I could use that phrase; piggyback, one of those transportation things, with my colleague, the gentleman from Oklahoma. I think we have some of the same problems, Governor Thompson, in the South and in the Southeast.

All of the Census data, all of the projections, tend to show this movement of the population to the Sunbelt, to the heart of the South, and the Southwest. But under this legislation, I think Dr. Ross testified to the fact that in a city like Atlanta that we consider the capital of the South, this growing international city with a major airport, the busiest commercial airport maybe in the world, that we have three interstate highways running through the heart of the city, but at the same time we only have twice-a-day Amtrak service.

You have to arrange to get on the train before. People have to make reservations far in advance. Is there some way that some of these resources from H.R. 3700 can serve to help North Carolina, and say to Georgia, to Alabama, to Tennessee, that we are going to have improved service?

Governor THOMPSON. That is the reason for the capital. That is the reason for H.R. 3700. We don't have the capital to expand our purchase of new rolling stock. We don't have the capital in Amtrak right now to improve the railbeds. What we need is an infusion of capital, and H.R. 3700 gives us the opportunity to do that.

We are setting up high-speed corridors across America, with no money to implement them. The South has one of those. The Crescent comes in there, but we would like to have a high-speed corridor so Atlanta could be serviced. We would like to have a high-speed corridor up in Wisconsin and Minnesota serviced, so the hub would be Chicago. Atlanta would be the hub in the South. We want to make sure our high-speed trains get up and running in the Northeast Corridor.

What we are trying to do is grow Amtrak. Just to give some idea, we are spending $33 billion a year on highways, I don't begrudge them at all, and $14 billion on airports, and I don't begrudge them for getting that, and $6 billion on mass transit. We are only spending $521 million on Amtrak.

What we are trying to do is just trying to get some parity. We are trying to be able to get some new rolling stock so we can show America that we can have high-speed corridors developed and have good, modern equipment placed on there to really service all of America.

That is what we are trying to do. We won't be able to service every State, but we want to be able to start getting high-speed corridors in the densely populated areas where they can be profitable and where we can show America that we can move the population.

Mr. LEWIS. Thank you very much, Governor.

Dr. Ross, are you interested in commuter rail, in high speed? Are you more interested in moving people in and out of Atlanta, or are you interested in both?

Ms. ROSS. Both.

Mr. LEWIS. Do you have a priority?

Ms. ROSS. We do. Atlanta to Macon and Atlanta to Athens in terms of commuter service, we are looking at those two lines.

The Governor has basically—Amtrak had their board meeting in Atlanta not long ago, and our Governor addressed the board and made a commitment at that point in time to Georgia doing its share in regard to the match, if this bill passes and we have something to match, so that we can look at the development of a comprehensive system, with Atlanta being the place we envision jump-starting such service, but then spreading it out to eventually look at the high-speed corridor from Atlanta to Charlotte and to eventually Macon, perhaps.

So we have taken a comprehensive approach. That is why he established this oversight Committee, responsible for all of rail transportation in the State of Georgia, where we are simply starting to begin to look at Atlanta.

We have coined a phrase, I know you are all familiar with the term, "in-filled housing." I think in a way, nationally, regionally, locally, we are beginning to do in-filled transportation planning. What is the difference? We are not so much looking at new frontiers, we are saying how do we go back, invest in systems, take opportunities or missed trains, if you will, opportunities we should have put in place, service we should have been committed to?

We did make that commitment, and now it is really at a critical juncture in terms of air quality, in terms of alternative transportation, in terms of the new millenium and the kind of preparedness a region and the country has to address to continue to be competitive.

So we have taken a very comprehensive approach. Our Governor is very, very much committed to it. He is doing a lot of political work so he can do his financial planning, if you will, to make sure that when these opportunities present themselves, we are well positioned to take advantage of them.

Mr. LEWIS. Mr. King, would you agree with Dr. Ross that in cities like Atlanta, Raleigh, Durham, Charlotte, that we need to find ways to make it easier for people to move between the cities, get them out of their cars, have cleaner air, bring in cities and communities and neighborhoods closer together?

Mr. KING. We in North Carolina, as you may have heard us say before, looking at Atlanta, it is where Charlotte may be in a couple of years, and hope to learn some lessons and be like the Atlanta that is good, and avoid those things that have not turned out so well. And congestion and air quality are two of them.

So absolutely, the marriage of high-speed intercity and regional rail, where you knit your surrounding communities that are 40 to 50 miles away and form the commutershed of the economic engine, in your case Atlanta, in our case Charlotte and the Triangle, and then local bus service and connections to airports, all of that needs to work together.

The spine, in our case, the Southwest Corridor from Atlanta to Washington, pairing up with the Northeast Corridor here in Washington, is what all of that hangs on. Without it you are missing the strategy piece of the integrated transportation puzzle. So I think our situation is very analogous to Atlanta.

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

Chairman HOUGHTON. Thank you.

Mr. Hulshof.

Mr. HULSHOF. Thank you, Mr. Chairman. I thank all of you for being here.

Governor Thompson, I appreciate your passion. In your last remarks you mentioned the different trust funds. You mentioned the Highway Trust Fund and the amount of priority that we put as far as the amount of money.

I accept your point. But I think it also then goes to what my friend, Wes Watkins said, is that as far as the Highway Trust Fund and the billions of dollars that are committed to the Highway Trust Fund, there are highways all across the United States, whereas Amtrak is not available throughout the United States.

So I think there is a little bit of caution that needs to be used as far as comparing the amount of money that we commit to highways. And even, too, in Missouri, Mr. Watkins, we think Oklahoma is flyover country.

Just kidding. I am just kidding.

Mr. OBERSTAR. There you go.

Mr. HULSHOF. I am just kidding.

Mr. OBERSTAR. So much for your hub.

Mr. HULSHOF. On a serious note, regarding the tax-exempt financing available through H.R. 3700, I have had a running commentary on a different matter, but somewhat related with the United States Treasury Department regarding similar financing instruments on Qualified Zone Academy Bonds. They are called QZABs.

I am not going to go into that today, but my general questions that I ask of Treasury, let me ask to anybody on the panel: How do you believe or how does Amtrak believe that the private financial community would find bonds created under H.R. 3700 an attractive investment? Because we haven't seen that with QZABs as far as Qualified Zone Academy Bonds and school construction. There are various ways to talk about school construction. That is sort of the premise of my question. But the private financial community has not seen fit as far as QZABs to find them an attractive investment.

What would be the difference here?

Governor THOMPSON. So far, Congressman, we have discussed it with Wall Street, many different bonding houses. Everybody has indicated that this would be very easily placed. It is something that we need.

We cannot expand and do what America needs and have a national rail passenger service without capital. We can limp along and meet the obligations of the congressional law of being operationally self-sufficient. I know that you have big concerns, Congressman, about tax credits. Sometimes I applaud your position, but not in this case.

It is one way that we can become more private. It is one way in which we can go to the market with tax credits and tell the market that we have a way to pay these things back by the 20 percent set-aside by the States. We have the tax credits there to enhance them, that they have indicated is what they need in order to buy the bonds and give us the capital so we can expand, so we can give the kind of rail passenger service that America wants and needs.

So it is basically the most reasonable way for the Federal Government to help us out. It gives us the opportunity to go to the market and be more like a private company, which Congress wants us to do. We can pay it back without any difficulty whatsoever. That is why this financing is so important to us—and the beauty of this financing.

Mr. HULSHOF. What assurances—and maybe it is in the legislative language; and Jim, I may ask you this question, too, but what guarantees would we have to make sure that the bond proceeds would not be used to pay for, say, operating expenses? You mentioned capital investment.

Governor THOMPSON. The language is in there, Congressman.

Mr. OBERSTAR. There is protective language to ensure that.

Mr. HULSHOF. Is it strong enough, Jim? Are you satisfied that it creates a firewall that we don't have to be concerned about?

Mr. OBERSTAR. We fought this fight over Amtrak reauthorization 3 years ago; that none of the new capital provided should go to operating expenses for Amtrak in providing the unused tax credits from the predecessor railroads to finance the capital investments for Amtrak. So the language that is included in this legislation is built on that, against that background.

Mr. HULSHOF. OK. The other question that I have in the remaining minutes, Mr. Chairman, I am told that about 2 or 3 weeks ago, a new public relations campaign called Service Guarantee——.

Governor THOMPSON. That is correct.

Mr. HULSHOF. Under the program, I am told, "You are satisfied, or the ride is free." i AM looking forward to my Amtrak ride on Sunday to the City of Brotherly Love.

Governor THOMPSON. Philadelphia. I will be there to meet you, Congressman.

Mr. HULSHOF. I hope the city is ready for us, Governor. I hope it is the City of Brotherly Love when we get there.

How is the program going? I know it has just been a couple of weeks. Does anybody want to comment on that?

Governor THOMPSON. Our ridership has been up by 16 percent. This past month is the first month we have ever, in Amtrak's history—and you will like this, Congressman. We went over $100 million in revenue, the first time in our history. Our ridership is up. Our guarantee is working 99.6 percent. We are expecting it to 99.9 percent.

I will be there after you get off. If you are not satisfied, we will give you a free trip back, Congressman.

Mr. HULSHOF. Thank you all.

Thanks, Mr. Chairman. I yield back.

Chairman HOUGHTON. I have just one question.

Jim, what is it going to take to make us number one?

Mr. OBERSTAR. The last thing I said in my opening remarks is political will: The vision to see what is needed and the will to undertake it. That is what DeGaulle provided, that is what was done by President Eisenhower when he initiated the interstate highway system.

It was, again, President Eisenhower who saw a need to finance airports, and in 1958 launched the beginnings of our national airport system, an integrated system of airports across the United States that needed the investment of Federal funds to get started. Until then, it was cities that financed airports. It took a national vision to do this.

When I was a graduate student in Bruge and traveled from Parhelion, Lyons the second largest city of France. It was a 4–½ hour trip in 1957. I came back a few years later, as staff director of the Committee on Public Works and Transportation, to look at an air track cushion-suspended light rail train system they were developing in France at the time. The trip then had improved. It was then 4 hours instead of 4–½ hours.

In 1989, as Chair of the Aviation Subcommittee, in pursuit of aviation security issues in Paris, I said, I want to try the TGV, which had now been operating for just a few months.

American Airlines had opened a hub in Lyons and a pair-city arrangement in the United States. There were 3 million air passengers between Paris and Lyons and 500,000 rail passengers. But with the TGV, the trip, instead of 4–½ hours, now took 2 hours and 1 minute. Within 6 months, American pulled down their hub.

There are now 5 million rail passengers a year between Paris and Lyons and 500,000 air passengers. The TGV system not only is paying back the $12 billion capital investment made by the French government, it is also subsidizing the rest of the French rail system, including freight rail.

Now, that took vision. That took political will to launch this system. But today we have a track record on which to build. I think that that is the essential ingredient. In these densely populated corridors where air traffic is congested, where speed and mobility are important, if we do not move some people off the highways and out of the airways, then the vision of Apocalypse will not be fire raining down upon the Earth, it will be all of us sitting in our cars on America's highways, firmly gripping the steering wheel while we run out of gas.

Mr. WATKINS. Mr. Chairman, may I inquire?

Chairman HOUGHTON. Yes.

Mr. WATKINS. We talk about vision. What is a master plan and what is a vision for all of America, not just this corridor, but for all of America?

Mr. OBERSTAR. That is the idea, is to move out, move out of the East Coast Corridor.

Mr. WATKINS. Show me the master plan. We will help you get a will. We have to build a will.

Governor THOMPSON. We have a master plan. We would love to sit down and talk to you about it, Congressman.

Mr. OBERSTAR. There are high-speed rail corridor plans all across the country, but no money to implement them.

Mr. WATKINS. All of America, not just the high-density area. If we are at the tail end of it, we never get served. So we have to be included, just what you are saying about the French. It supports all the rest of the area. If you just take the one area, then you run out of the rest of it.

Excuse me, Mr. Chairman.

Mr. OBERSTAR. To the gentleman from Oklahoma, I just want to say there is a reason I am supporting this legislation. It moves us beyond the East Coast Corridor.

Chairman HOUGHTON. We will have to get at the overall plan somehow. I think it will be helpful.

You were suggesting you would like to sit down and explain to us what it is. I think it would be helpful if we could sometime. You have a piece of your skin in this, and so do we. We would like to know more about it.

Thank you very, very much. I certainly appreciate your being with us.

Governor THOMPSON. Could I just have 15 seconds, Mr. Chairman?

We have moved our board to a different location across the country. We are in Atlanta. We were out in California. I just would like to give you one figure. We were in California and one of the speakers came up and said, by the year 2020, California will have 18 million more people living in the State of California. That means 45 million people. There is no way that California can survive by building enough highways or siting enough airports. The only solution is high-speed rail for all America.

Chairman HOUGHTON. Thank you very much. Now we are going to have our second panel.

Mr. Gillespie is Manager of government Relations of ALSTOM Transportation, Inc.; Mr. George, Senior Vice President of Parsons Transportation Group, on behalf of the American Road & Transportation Builders Association; Timothy Stowe, Vice President, Transportation and Planning, Anderson & Associates Inc., on behalf of the American Consulting Engineers Council.

I hope you can all hear me.

James Query is the Principal, Public Finance, Morgan Stanley Dean Witter. We have Mr. Gillespie, Mr. George, Mr. Stowe. We are delighted to have you here. Thank you for your patience.

Chairman HOUGHTON. Mr. Gillespie.

STATEMENT OF TIM GILLESPIE, MANAGER, GOVERNMENT RELATIONS, ALSTOM TRANSPORTATION, INC., CHEVY CHASE, MARYLAND

Mr. GILLESPIE. Thank you, Mr. Chairman. I appreciate you inviting us to appear before the Committee today to talk about H.R. 3700, the High-Speed Rail Investment Act. We appreciate your leadership and sponsorship of this bill.

My name is Tim Gillespie. I represent ALSTOM Transportation, a manufacturer of rail passenger equipment. ALSTOM is also a member of the Railway Supply Industry, the Railway Progress Institute, and the American Passenger Rail Coalition. We are also supporters of this legislation.

As you know, ALSTOM has a strong interest in the development of high-speed rail in the United States. I know you have visited the facility in Hornell, Mr. Chairman, and are familiar with the fact that ALSTOM took over that facility a few years ago, with 50 employees. There are now about 800 employees, and with plans to expand by another 350 people in the not too distant future, with the support of the State of New York, I might add.

Frankly, had it not been for the high-speed rail project in the Northeast Corridor, ALSTOM probably would not have a facility in the United States, but as you know, they are a partner with the Acela project, with Bombardier, and that is working well.

I am here today, Mr. Chairman, as a representative of business, and specifically of the passenger rail supply industry, to tell you that in addition to the obvious benefits of increasing the efficiency of our transportation system and producing environmental benefits, the development of high-speed rail in the United States under this legislation is good public policy because it will also provide economic benefits.

Investments in passenger rail directly create jobs in the construction, engineering, manufacturing, and service industries, and indirectly in the local economies where increased commerce takes place because of the existence of improved transportation options.

After a summer of headlines about delays in air traffic and traffic congestion on the highways, and heightened airline passenger frustration and high gas prices, this legislation is good news because it would help put more balance in our transportation system and provide an alternative for short-distance intercity travelers looking for ways to avoid delays being experienced at airports and on our highways.

Mr. Chairman, H.R. 3700, the High-Speed Rail Investment Act, is critical to the success of high-speed rail. Unfortunately, the cold reality is that the transportation appropriations process is not capable of assisting in the development of high-speed rail service in this country.

Mandatory spending programs in transportation have reduced the ability of Congress to provide the funds necessary for high-speed rail development through the transportation appropriations bill. About 85 percent of the resources in the bill, the DOT appropriations bill, are for guaranteed spending programs, but there are no guarantees for rail passenger service. As a result, there is very little available for high-speed rail projects within the remaining 15 percent of discretionary funding in transportation. That 15 percent is usually used for things like Coast Guard, FAA, and transportation safety programs.

As you know, H.R. 3700 allows for the sale of $10 billion in bonds over a 10-year period, and provides the bondsholder with a tax credit in lieu of interest payments. It also requires participating States to provide at least a 20 percent match.

Because the full faith and credit of the Federal Government is not pledged, there is no risk to the Federal Government. The Joint Committee on Taxation has scored the cost of the program at a modest $13 million for the first year and $762 for over 5 years.

We think that H.R. 3700 is exactly the kind of tax policy that is good for taxpayers, good for the economy, good for the environment, and good for American businesses. Apparently, so do many Members of Congress. To date, over 130 House Members and half the Senate are cosponsors of this legislation.

As Congress struggles to assemble legislation that represents a tax policy acceptable to Congress and the administration, H.R. 3700 would be an attractive addition to consider as part of any tax package that Congress passes this year. This bill would bring a significant amount of support to the table at a very low cost, enhancing the prospects of enacting an overall tax bill that would be good for all Americans.

As you know, this legislation will encourage the development of high-speed rail projects for States who are interested in relieving congestion, enhancing the environment, and improving the economy. Because we can no longer depend on traditional transportation infrastructure funding for rail, this Committee should be commended for taking the initiative on such a creative funding alternative, particularly because it limits the exposure of the taxpaying public and involves private sector funding.

Mr. Chairman, many States have already begun to take the initiative on developing high-speed rail projects through planning and engineering studies. We are ready to begin implementation of the infrastructure improvements necessary for high-speed rail, and as Mr. Oberstar said, we just need to do it. Once enacted, the United States can again count itself among the leaders of the world that provide high-quality balanced transportation for its citizens, and as we approach the end of the second session of the 106th Congress, it is critical that this Committee do everything that it can to include this legislation in the appropriate vehicle that will get enacted this year.

H.R. 3700 is the last opportunity in this Congress to ensure that States will be able to progress their plans for high-speed corridor development.

Mr. Chairman, again I want to thank you and the Members of the Committee today for the opportunity to appear here and for your leadership on this important issue.

Thank you, sir.

Chairman HOUGHTON. Thank you very much.

[The prepared statement follows:]

Statement of Tim Gillespie, Manager, Government Relations, ALSTOM Transportation, Inc., Chevy Chase, Maryland

Mr. Chairman, my name is Tim Gillespie, ALSTOM Transportation Inc., Government Relations.

ALSTOM is among the world's leaders in manufacturing rail equipment. As you know, ALSTOM has a facility for manufacturing and re-building railroad passenger equipment in Hornell, New York. We have a significant interest in high-speed rail development in the United States and are a part of the consortium responsible for building the high-speed rail equipment for the Northeast Corridor. Frankly, without the Northeast Corridor high-speed rail project, ALSTOM would not be in the United States.

We were pleased to have you and Governor Pataki participate in the recent ground breaking ceremony in Hornell for the first phase of our expansion. When ALSTOM took over the facilities in Hornell a few years ago, there were less than 50 employees. Today we employ nearly 800 workers and with our plans for expansion we expect the employment level to grow by another 350 people over the next few years.

If we are to continue and sustain the employment growth at our facility in Hornell, the American passenger rail industry must grow. And the only way for this to happen is for federal government to make a commitment to help develop a transportation financing mechanism for high-speed rail in the United States. The bill before this committee today would do just that.

I am here today as a representative of business, and specifically, of the passenger rail supply industry, to tell you that in addition to the obvious benefits of increasing the efficiency of our transportation systems and producing environmental benefits, developing high speed rail corridors in this country will provide significant economic benefits, especially in job creation. Investments in passenger rail creates jobs directly in the construction, engineering, manufacturing, and service industries, and indirectly in the local economies where increased commerce takes place because of the existence of improved transportation options.

The high-speed project in the Northeast Corridor provides an excellent example of increased employment through development of passenger rail. Our story of moving from 50 to 800 employees in Hornell in just a few years is just one of many similar stories. The Acela project, with 70% Buy America participation overall, created contracts with over 70 suppliers in 23 states. In the process, over 10,000 construction and manufacturing jobs were created. Spending from these jobs provides businesses an opportunity to grow and enhances the financial health of the communities in which they are located.

I am delighted that, as our home-town representative in Congress, you are the sponsor of H.R. 3700, the High Speed Rail Investment Act, and that you are taking the time to hold a hearing on this important legislation. Your active support for this bill demonstrates your knowledge of the value of this legislation to your district and the nation.

Today, highways, transit and airports all have dedicated sources of federal funding that are guaranteed to those entities in law under "contract authority," but passenger rail does not. As a result, obtaining the funds necessary for high-speed rail development will be very difficult. As you know, Amtrak has had to struggle in a very competitive federal funding environment for limited capital resources. Under current law, it is very difficult for the Appropriations process to provide the type of funding necessary to meet Amtrak's basic capital needs and almost impossible to obtain the funding necessary for the development of high-speed rail. That is why I applaud your efforts to support such an innovative funding concept that allows the development of high-speed rail, minimizes the amount of federal outlays, and involves the states as funding partners for these critical infrastructure improvements.

As you know, under this bill states must provide at least a 20 percent match, and bondholders would get federal tax credits rather than interest payments. The 20 percent state payments would go directly to the projects. An interest earning escrow account would be established with $200 million of the proceeds of the original bond sale, which would be managed by an independent trustee, and this would be used to pay off the principal. Because the full faith and credit of the Federal government is not being pledged, there is no risk to the Federal government. The Joint Committee on Taxation has scored the cost of the program—providing $10 billion over ten years to develop high speed corridors nationwide—at a modest $13 million for the first year, $762 million over five years, and $3.2 billion over ten years.

We think that H.R. 3700 is exactly the kind of tax policy that is good for taxpayers, the economy and American businesses. It is this type of legislation that will encourage the development of high-speed rail where states are interested in relieving congestion, enhancing the environment and improving the economy. Americans cannot continue to rely on traditional transportation infrastructure funding to accomplish these goals. This committee should be commended for taking the initiative on creative funding alternatives that limit the exposure of the tax paying public and, at the same time, provide improvements to its overall transportation infrastructure.

Mr. Chairman, even in the absence of federal support for high-speed rail, the states have begun to initiate high-speed rail projects. They are ready, Amtrak is ready and the industry is ready to begin the task of implementing the infrastructure improvements required for high-speed rail. But, to meet the growing demand for high-speed rail, a federal role is necessary. Once that support is forthcoming, the United States can once again count itself among the leaders in the world that provide high-speed rail service for its citizens.

As we approach the end of the Second Session of the 106th Congress, it is critical that this committee do everything that it can to include this legislation in any tax bill that Congress moves prior to the end of the session. It is clear that the restraints within the Department of Transportation Appropriations bill will not permit the level of funding necessary to allow for high-speed rail development. The bill before you today is the last opportunity in this Congress to ensure that states will be able to progress their plans for corridor development.

Thank you for the opportunity to appear before this committee and for your leadership on this important matter.

Chairman HOUGHTON. Mr. George.

STATEMENT OF WILLIAM H. GEORGE, SENIOR VICE PRESIDENT, PARSONS TRANSPORTATION GROUP, ON BEHALF OF THE AMERICAN ROAD & TRANSPORTATION BUILDERS ASSOCIATION

Mr. GEORGE. Mr. Chairman, Members of the Subcommittee, good afternoon. I am William H. George, Senior Vice President of Parsons Transportation Group, which is headquartered here in Washington, D.C. Our company specializes in the planning, design, engineering, and program management of transportation projects in all modal areas.

Today I am representing the American Road and Transportation Builders Association, or ARTBA. I am president of ARTBA's Planning and Design Division and chairman of its Railroad and Public Transportation Advisory Council.

ARTBA, founded in 1902, represents all sectors of the transportation construction industry. Our members are on the frontlines of building, designing, and managing transportation infrastructure projects.

I would like to commend Chairman Houghton and other Members of the Subcommittee for convening today's hearing. A safe and efficient transportation network is critical to the nation's economy, public health, and quality of life. This Committee plays a key role in ensuring that the necessary financial resources are available to build and maintain it.

One of the core principles underlying U.S. transportation policy is the imposition of Federal transportation excise taxes, or user fees, to generate the revenue necessary for improving the safety and efficiency of the nation's transportation infrastructure. It is a principle that ARTBA wholeheartedly supports.

This policy directly links Federal transportation capital improvement programs and Federal tax laws. The transportation user fee financing concept has been a clear success, but the nation still has a long way to go to meet its transportation capital needs.

One conspicuous hole in transportation capital financing is the lack of a dedicated funding source for intercity passenger rail capital improvements. The Federal Government currently invests general fund revenue in passenger rail through the annual appropriations process. I cannot overemphasize the importance of reliable Federal investment for all modes of transportation. Transportation infrastructure projects, by their nature, are highly capital-intensive and often require multiple years to plan, design, and construct. Funding uncertainty at the Federal level can disrupt and delay the delivery of transportation projects.

Congress has moved decisively to minimize such uncertainty in Federal highway, mass transit, and airport investment by enacting TEA–21 and AIR–21. We strongly recommend enactment of a similar reliable funding mechanism for intercity passenger rail.

For that reason, ARTBA is pleased to endorse H.R. 3700, introduced by Chairman Houghton earlier this year. This measure would provide $10 billion in bonding authority for high-speed rail projects over the next 10 years. H.R. 3700 also recognizes the key role that public-private partnerships can play in financing the development of transportation facilities.

These partnerships, which are becoming more widely accepted and used across the nation, provide a crucial supplement to traditional financing mechanisms. Enactment of H.R. 3700 would also help minimize unproductive conflicts between modal advocates over how to pay for passenger rail improvements. For example, some now propose using Federal Highway Trust Fund revenues to support intercity passenger rail. Such proposals force policymakers to make a false choice between transportation solutions. As the saying goes, it is robbing Peter to pay Paul. ARTBA vigorously opposes this approach because the nation has enormous unmet highway and bridge capital needs, not because we oppose rail improvements.

Mr. Chairman, that leads me to the final point I would like to make today. Just as highway and aviation users pay Federal user fees to finance capital improvements for those modes of travel, so should rail passengers pay a Federal user fee to help support capital improvements for Amtrak and high-speed rail. There should be a Federal rail passenger ticket tax, like there is a gasoline tax and an aviation ticket tax.

Intercity and high-speed rail are expensive propositions. They are also critical to meeting the nation's future mobility needs. We should not be shy in saying we need to raise money as a nation for these endeavors, and users should pay their fair share. That has been a successful formula for other transportation modes. It can be successful for passenger rail, as well.

Thank you, Mr. Chairman, for inviting us to participate in this hearing.

Chairman HOUGHTON. Thanks very much, Mr. George.

[The prepared statement follows:]

Statement of William H. George, Senior Vice President, Parsons Transportation Group, on behalf of the American Road & Transportion Builders Association

Chairman Houghton, members of the subcommittee, thank you for convening this hearing of the Subcommittee on Oversight to review transportation-related federal tax law and for allowing the American Road & Transportation Builders Association (ARTBA) to take part in this important dialogue.

My name is William H. George. I am senior vice president of the Parsons Transportation Group, which specializes in the planning, design, construction engineering, and program management of transportation projects from concept through construction. Our company maintains offices in 21 states, the District of Columbia, and 17 countries.

I am appearing today as a representative of the American Road and Transportation Builders Association. I am honored to serve as the as president of the ARTBA Planning and Design Division and chairman of the association's Railroad and Public Transportation Advisory Council. ARTBA, founded in 1902, is the only national association that exclusively represents the collective interests of all sectors of the U.S. transportation construction industry before the White House, Congress and federal agencies.

ARTBA supports the development and maintenance of a safe and efficient, multimodal U.S. transportation network that allows Americans to choose their mode of travel.

The U.S. transportation construction industry, which ARTBA represents, generates more than $175 billion annually in U.S. economic activity and provides employment for more than 2.2 million Americans.

Transportation and Tax Law

Mr. Chairman, the imposition of federal transportation excise taxes—or user fee—to generate revenue for improving the safety and efficiency of the nation's transportation infrastructure is one of the core principles underlying U.S. transportation policy. It is a principle ARTBA wholeheartedly supports. This policy directly links federal transportation capital improvement programs and federal tax laws. The user-fee concept distinguishes the transportation programs from other federal programs in that they are largely self-financing.

The 1998 "Transportation Equity Act for the 21st Century," or TEA–21, established a direct linkage between federal highway user fee revenue collections and federal highway investment. This landmark provision of TEA–21 has led to dramatically increased investment for the federal highway and transit capital programs.

Congress and the Clinton Administration earlier this year enacted the "Aviation Investment and Reform Act for the 21st Century," or AIR–21. Like TEA–21, AIR–21 ensures that revenues generated by user fees paid by air travelers will be invested to improve the safety and efficiency of the nation's aviation system. This legislation will increase airport capital investment more than 60 percent.

The user fee concept to finance transportation programs has been a clear success. In poll after poll, Americans indicate their support for paying user fees to improve the nation's transportation network. Despite the effectiveness of this policy, our nation still has a long way to go to meet its transportation system needs.

Passenger Rail

One conspicuous hole in transportation capital financing is the lack of a dedicated funding source for intercity passenger rail. The federal government currently invests general fund revenue in passenger rail through the annual appropriations process. It has also provided occasional infusions of capital resources, such as the Amtrak provision in the "Taxpayer Relief Act of 1997." Unlike federal highway, transit and airport infrastructure programs, however, intercity passenger rail does not enjoy a reliable, dedicated funding source for capital improvements.

Mr. Chairman, I would like to take a moment to emphasize the importance of reliable federal investment for all modes of transportation. Transportation infrastructure projects, by their nature, are highly capital intensive. They frequently require multiple years to complete the necessary environmental approvals, design work and construction. Developing an effective national transportation infrastructure is also a long-term, ongoing process that requires continual attention.

Clearly, uncertainty about the level of federal investment for any transportation facility can be disruptive for project owners, such as Amtrak and state departments of transportation, and the construction industry that is charged with developing these facilities. The inevitable fluctuations that occur from year-to-year in the appropriations process can impede or delay needed transportation projects.

Congress moved decisively to minimize the volatility of federal transportation investment in the highway and aviation areas by enacting TEA–21 and AIR–21. As a result, states, transit authorities and airports now have a predictable level of federal transportation infrastructure investment they will receive through 2003. We strongly recommend that Congress enact similar reliable funding mechanisms for intercity passenger rail.

In that regard, the American Road and Transportation Builders Association is pleased to endorse the "High-Speed Rail Investment Act of 2000," (H.R. 3700) introduced by Chairman Houghton earlier this year. H.R. 3700 has 130 bipartisan cosponsors from all regions of the United States. Senator Frank Lautenberg has introduced a similar measure, S. 1900, in the Senate that has 49 bipartisan cosponsors. The diversity of support for these bills demonstrates the key role of passenger rail service as part of the nation's transportation network. The broad interest in these bills also again showcases the unifying role of transportation infrastructure as a means to improve thequality of life for all Americans.

H.R. 3700 would provide $10 billion in bonding authority for high-speed rail projects over the next 10 years. These bonds would be used exclusively for capital projects to improve existing high-speed rail lines and develop new ones. Through the use of this innovative financing mechanism, the federal government would be able to leverage its investment in passenger rail to generate $1 billion per year for high-speed rail capital projects.

The funding mechanism in H.R. 3700 also capitalizes on the increasing trend of federal, state and private sector partnering that is being utilized in all modes of transportation to meet the nation's growing transportation infrastructure needs. ARTBA's Public-Private Ventures Division, which consists of financial professionals, has been a leading proponent of new innovative transportation financing techniques and increased private sector involvement in the development of transportation capital projects. Innovative financing proposals, like H.R. 3700, are critical supplements to the core federaltransportation programs and will play a key role in future federal transportation policy initiatives. Consequently, we urge this subcommittee to continue to explore other tax measures that will encourage the use of innovative financing for transportation projects.

A final observation about the merits of H.R. 3700 is that this measure could help to prevent unproductive conflicts between the various modes of transportation. The lack of a dedicated funding source for intercity passenger rail has led some to propose allowing the use of Highway Trust Fund revenues for high-speed rail. Given the nation's enormous highway and bridge capital needs, ARTBA opposes this.

Proposals that attempt to "rob Peter to pay Paul" forcepolicy makers to make false choices between transportation solutions.

Mr. Chairman, given this situation and the nation's passengerrailway needs, we also believe it is time that Congress seriouslyconsider the imposition of a federal rail passenger user fee to helpfinance capital improvements. Just as the users of the highway andaviation systems help finance the infrastructure they use, so shouldrail passengers.

When one travels from Washington, D.C., to New York City by auto,they are paying federal and state gasoline taxes and tolls inMaryland, Delaware, New Jersey and New York. Most of this collectedtax revenue is put back into roadway improvements.

When one flies between Washington, D.C., and New York City by air,they are investing eight percent of their ticket price in the federalAirport and Airway Trust Fund. On a $400 round-trip ticket, that is$32 that is going to support the air traffic control system andairport improvements.

When one travels between Washington, D.C., and New York City viaAmtrak, however, not a penny is collected by government that could bededicated toward Amtrak capital investments. That is not right. And weurge the Ways and Means Committee to address this issue.

Again, this approach would lessen, if not eliminate, the pressureat the state level to seek money for passenger rail at the expense ofroad and bridge improvements.

Other Tax Issues Impacting Transportation

Mr. Chairman, as I have previously mentioned, the concept behindthe Highway Trust Fund and the imposition of a federal tax on motorfuels is simple: those who drive should contribute to the developmentand upkeep of the nation's road and bridge system in a mannercommensurate with their use of the system. The more motor fuel youuse, the more you contribute—through motor fuel excises-to theHighway Trust Fund.

A car operating on gasohol causes as much wear and tear on ourroadways and bridges as does a car operating on gasoline. But thegasohol/ethanol user is not now paying his or her fair share to theHighway Trust Fund.

The motorist using gasoline contributes 18.3 cents per gallon tothe Highway Trust Fund through the federal gas tax—15.44 cents pergallon to the trust fund's Highway Account and 2.86 cents per gallonto the fund's Mass Transit Account. (An additional 0.1 cents pergallon is contributed to the Leaking Underground Storage Tank TrustFund.)

The motorist using gasohol (with 10 percent ethanol), however, isonly contributing 9.8 cents per gallon to the Highway Trust Fundthrough federal excises—6.94 cents per gallon to the trust fund'sHighway Account and 2.86 cents per gallon to the Mass Transit Account.

It is also worth noting that 3.1 cents of the federal per gallonexcise on 10 percent gasohol and 2.5 cents of the tax on less than 10percent gasohol is deposited in the federal General Fund.Consequently, not only are ethanol fuels not paying their fair shareto improve the nation's roadways and bridges, but also ethanol'scurrent tax status returns the favor to the federal government byproviding over $400 million per year to the federal General Fund.During these times of escalating federal budget surpluses, there is nojustification for a portion of a federally imposed highway user fee tobe dedicated to the federal General Fund.

The computations below in Table 1, based on 1998 ethanol use datareported in the Federal Highway Administration's "1998 Highway Statistics Report," show *federal tax policy toward ethanol supported motor fuels costs the nation's highway improvement program nearly $1.1 billion per year!*

Table 1

10 percent gasohol usage: 10,487,912,000 gallons
5.4 cents per gallon subsidy: $566,347,248
3.1 cents per gallon to the general fund:$325,125,272
Highway Trust Fund shortage: $891,472,520
Less than 10 percent gasohol usage: 3,490,851,000 gallons
3.1 cents per gallon subsidy:$108,216,381
2.5 cents per gallon to the general fund: $87,271,275
Highway Trust Fund shortage: $195,487,656

Total Highway Trust Fund shortage: $1,086,960,176

This highway robbery is occurring at the same time the U.S.Department of Transportation reports 58.7 percent of the nation's roadmiles are in need of repair and 29.6 percent of the nation's bridgesare structurally deficient or functionally obsolete. The same reportfinds available highway and bridge investment from all levels ofgovernment falls short of the amount necessary to improve theseconditions by $45.3 billion each year!

Given these staggering needs, we suggest federal tax subsidies forethanol is poor public policy. If promotion of ethanol use in motorvehicles is intended to provide federal support to agriculturalinterests, it should be financed, like all other discretionaryagriculture programs, through the General Fund. At a minimum, we urgethis subcommittee to explore why current federal tax law supports aportion of the ethanol excise being used to contribute to the budgetsurplus instead of improving the safety and efficiency of the nation'sroadways.

In a related matter, ARTBA also urges repeal of the 4.3 cents pergallon federal motor fuels tax on diesel fuel that is currently paidby freight railroads. The revenue from this excise is deposited in thefederal General Fund for deficit reduction purposes. Much like theportion of the ethanol tax that is directed to the General Fund, thegrowing federal budget surplus eliminates the need for the railroadsto pay a federal fuels tax that generates revenue fornon-transportation infrastructure purposes.

The revenue from the 4.3 cents per gallon federal motor fuels taxpaid by highway users that previously went to the General Fund wasredirected to the Highway Trust Fund by the Taxpayer Relief Act of1997. Congress included a provision repealing the 4.3 cents per gallontax paid by the railroads as part of a larger tax bill in 1999 thatwas vetoed by President Clinton. We urge the Ways and Means Committeeto continue pursuing the elimination of this unwarranted tax.

Conclusion

In conclusion, Mr. Chairman, the American Road & TransportationBuilders Association greatly appreciates the opportunity to appearbefore your subcommittee. As my testimony indicates, there arenumerous critical issues that impact the nation's transportationinfrastructure network that fall within the jurisdiction of the HouseWays and Means Committee. We hope you and other committee members willcontinue to review these important matters. We also look forward toworking with you and the other supporters of H.R. 3700 to see thislegislation enacted.

Thank you again for the opportunity to testify today and I would behappy to answer any questions regarding my testimony or other issues.

Chairman HOUGHTON. Mr. Stowe.

STATEMENT OF TIM STOWE, VICE PRESIDENT, TRANSPORTATION AND PLANNING, ANDERSON & ASSOCIATES, INC., ON BEHALF OF THE AMERICAN CONSULTING ENGINEERS COUNCIL, BLACKSBURG, VIRGINIA

Mr. STOWE. Good afternoon, Mr. Chairman, Members of the Subcommittee. My name is Tim Stowe and I am representing the American Consulting Engineers Council today. We strongly support H.R. 3700.

I am Vice President of Transportation and Planning for Anderson & Associates, a consulting engineering firm located in Blacksburg, Virginia. I also serve as chairman of the Committee on Transportation and Infrastructure for ACEC. I am delighted to have this opportunity to address you on behalf of ACEC, the largest, oldest organization representing engineering firms. We have a membership of about 5,700 engineering firms that represent 250,000 design professionals, and about 77 percent of our firms are small businesses with 30 or less employees. I would also note that we are primarily engineers who do design work. We are not qualified to drive trains.

ACEC members are deeply involved with every aspect of our Nation's transportation systems, designing roadways, bridges, railroads, transit systems, airports, runway facilities. We have a sense of environmental stewardship and public safety, and we regularly provide infrastructure projects, designs and plans for infrastructure that improve the safety and capacity of our Nation's transportation systems.

In recent years, we have enjoyed a tremendously vibrant economy here in our country. There have been numerous opportunities for businesses and individuals to grow as part of our economic growth. For example, in the growth of our economy, it has been possible for businesses to move into new facilities, to expand, and for their employees to also expand into new homes and new facilities.

But an important part of this vibrant economy that sustains all levels is a strong transportation system. As our Nation's growth has occurred, our members have witnessed significant increases in demands that are placed on our Nation's transportation infrastructure.

One system experiencing this significant increase in demand is our Nation's highway systems. The Congress recognizes this and, through the passage of the TEA–21 legislation about 2 years ago, provided substantial resources in order to address some of the shortcomings that have been recognized in the highway system.

Another highly overworked transportation system is our air transportation. Congestion relief in our airways and traveler safety was a major concern on the minds of Members of this body when Congress passed the Aviation Investment and Reform Act for the 21st century earlier this year.

These two pieces of legislation have provided a significant flow of resources to our highway and air systems, but not anything for the high-speed rail system infrastructure.

Within the United States, there are a number of densely populated travel corridors in which the highways and airports are chronically congested. In these densely developed areas, the costs and impacts of providing highway improvements is extraordinary and, many locations, not practical at all. It is in these areas that we feel significant benefits can be recognized and lessons can be learned and can be expanded out into other parts of the country as well.

Having a self-sufficient alternative mode of transportation that is fast, efficient, and environmentally friendly would be a very appealing alternative to thousands of stranded highway travelers. As our Nation's population and numbers of travelers continues to grow, we will see more and more demands being placed on this transportation infrastructure.

We see one of the benefits of H.R. 3700 not only lies with Amtrak, although the investment would be with Amtrak and their rolling stock and in their systems, but much of the railroad that Amtrak operates on is also owned by other freight railroads. We see some spinoff benefits that those systems would recognize, thereby providing an overall improvement in the rail transportation system, not just for Amtrak. We think that is a significant benefit for the country as we look at this program.

However, all of this cannot happen without a funding source for the intercity rail program. As I mentioned previously, TEA–21 provided resources for highways, AIR–21 provided resources for our air system, and we see a definite need for the dedicated revenue source needed for the air travel as well.

We at ACEC strongly support H.R. 3700, which provides authorization for the sale of $10 billion worth of bonds for the purposes of infrastructure, rolling stock, and other necessary improvements and upgrades in the high-speed rail corridors. We see this initiative as a catalyst that is needed to boost the rail system to the level where it would be a viable travel mode alternative throughout a number of geographic regions in our country.

We also see the benefits associated with the tax-exempt status of the bonds, very similar in nature to another piece of legislation being considered in this Committee, which is the Highway Innovation and Cost Savings Act. We see a lot of parallels between these two packages.

We frequently see news about doc-com companies and e-commerce, but most of this e-commerce would not occur without a strong infrastructure, a transportation network in place to deliver the merchandise and goods being sold over the Internet. Adequately funding and maintaining all parts of this transportation system is paramount to sustaining a vibrant economy in this country. We applaud the leadership of this Committee and Subcommittee to seek and create tools by which the needs for our rail systems can be addressed.

Thank you, Mr. Chairman.

Chairman HOUGHTON. Thanks very much.

[The prepared statement follows:]

Statement of Tim Stowe, Vice President, Transportation and Planning, Anderson & Associates, Inc., on behalf of the American Consulting Engineers Council, Blacksburg, Virginia

Good Morning, Mr. Chairman and members of the subcommittee, my name is Tim Stowe, I'm representing the American Consulting Engineers Council and we strongly support HR 3700.

I am Vice President of Transportation and Planning for Anderson and Associates, a consulting engineering firm in Blacksburg, VA. I also serve as Chairman of the Transportation Committee for the American Consulting Engineers Council. I am delighted to have the opportunity to address you on behalf of ACEC, the largest and oldest organization representing engineering firms. The American Consulting Engineers Council (ACEC) is the largest national organization of engineers engaged in the independent practice of consulting engineering. ACEC has more than 5,700 member firms employing nearly 250,000 professional engineers, land surveyors, scientists and technicians who design over $150 billion in construction projects annually. More than 77 percent of these firms are small businesses with fewer than 30 employees each. In accordance with the terms of rule XI, clause 2(g)(4), of the Rules of the House of Representatives, neither myself nor ACEC has received, any federal grant, contract or subcontract in the last two years.

ACEC members are deeply involved with virtually every aspect of our nation's transportation system, designing roads, bridges, transit and rail systems, and airport and runway facilities in every state. Our member firms have a strong sense of environmental stewardship and public safety, and regularly provide engineering solutions that improve the safety and capacity of our nation's transportation systems.

Mr. Chairman, in recent years we Americans have enjoyed a tremendously vibrant economy that has provided numerous opportunities and benefits for our businesses and citizens. The growth of our economy has made it possible for business to grow into new facilities, and for the employees of these businesses to grow into new homes. An important part of maintaining a vibrant economy is having an efficient and balanced transportation system. This system must be made up of all modes of travel including highway, air, rail and transit services.

As our nation's economic growth has occurred, our members have witnessed significant increases in the demands placed on our Nation's infrastructure systems. One such system is our highway system. Through the passage of the Transportation Equity Act for the 21st Century, Congress (TEA–21) provided $128 billion for our highway and transit systems.

Another highly overworked infrastructure system is our air transportation system. Congestion in our airways and traveler safety were major considerations earlier this year when Congress passed the Aviation Investment and Reform Act for the 21st Century (AIR–21) which provided a $10 billion increase in the nation's aviation system.

These two pieces of legislation have provided a significant flow of resources to our highway and air systems, but not for high-speed rail.

Within the United States there are a number of densely populated travel corridors in which the highways and airports are chronically congested. In these densely developed areas the cost and impacts of providing highway improvements is extraordinary, and in many locations not practical at all. It is in these areas that we at ACEC feel significant benefits can be recognized from investments in the inter-city rail program. Providing a self-sufficient alternative mode of transportation that is, fast, efficient and environmentally friendly would be a very appealing to thousands of stranded highway and air travelers.

As our nation's population and number travelers grows we will see more and more demands being placed on our transportation infrastructure. Having modal choices in travel will serve to balance travel demand among those modes thereby alleviating overcrowding and congestion of a single mode.

There will be a broad-based set of benefits to the overall railroad community. A majority of infrastructure improvement work will occur on freight lines. This program will now improve those tracks which means freight will receive indirect benefits. This translates into a better overall transportation program.

However, all of this cannot happen without a funding source for the inter-city passenger rail program. As I mentioned previously, TEA–21 provided resources for our highways and AIR–21 provided resources for our air system. A dedicated revenue source is needed for rail travel as well. We at the American Consulting Engineers Council support HR 3700, which provides authorization for the sale of $10 billion dollars of bonds for the purpose of infrastructure, rolling stock and other necessary improvements and upgrades in high-speed rail corridors. This initiative will provide the catalyst that is needed to boost the rail system to a level where it will be a viable travel mode alternative throughout a number of geographic regions.

I also want to reiterate ACEC's support of the Highway Innovation and Cost Savings Act. This bill, sponsored by Congresswoman Dunn, would help increase the private sector's role in delivering highway and bridge projects and eliminates the disincentive that exists in the tax law.

Under current law tax exempt financing is available for projects built and operated by the federal government and non-highway public-private partnerships. We encourage Congress to pass this legislation.

Conclusion

We frequently see news about DOT COM companies and E-Commerce, but most of the E-Commerce would not occur without a strong transportation network in place to deliver the merchandise being sold over the Internet. Adequately funding and maintaining all parts of this transportation system is paramount to sustaining a vibrant economy in this country and we applaud the leadership of this Committee to seek create tools by which the needs of our rail systems can be addressed.

At the appropriate time, I'd be happy to answer any of your questions.

RESOLUTION OF THE AMERICAN CONSULTING ENGINEERS COUNCIL (ACEC) TRANSPORTATION COMMITTEE

Relating to Intercity High Speed Rail

WHEREAS, an improved, efficient balanced transportation system, including highway, air, rail and transit services, is vitally important to the mobility of American businesses and citizens as we enter the twenty-first century; and

WHEREAS, the federal Transportation Equity Act for the 21st Century, commonly known as TEA 21, included significant increases in dedicated funding for highway and transit programs; and

WHEREAS, the Congress passed and the President recently signed the reauthorization of the federal aviation program, commonly known as Air 21, that includes significant increases in dedicated funding for aviation programs; and

WHEREAS, neither TEA–21 nor AIR–21 includes significant dedicated federal funding to support existing or future capital needs of a high density intercity rail passenger corridor program; and

WHEREAS, legislation has been introduced in the United States Congress as Senate Bill'S 1900 and House Bill HR 3700 providing $10 billion in bonding over 10 years for high-speed passenger rail infrastructure, without impacting existing highway, transit or aviation funding sources; and

WHEREAS, there exist in the United States several high density intercity travel corridors with chronically congested airports and highways that cannot be reasonably expanded, and where high speed rail would provide a choice for improved mobility and congestion relief; and

WHEREAS, high speed rail services in the appropriate corridors can provide excellent mobility benefits while conserving energy and resulting in low pollution, and with operating revenue covering operating costs; and

NOW, THEREFORE, the ACEC Transportation Committee supports a significantly increased dedicated capital funding program to be applied to intercity high speed rail projects, and supports Senate Bill'S 1900 and the companion House Bill HR 3700.

Chairman HOUGHTON. Mr. Query.

STATEMENT OF JAMES B. QUERY, PRINCIPAL, PUBLIC FINANCE, MORGAN STANLEY DEAN WITTER, PHILADELPHIA, PENNSYLVANIA

Mr. QUERY. Mr. Chairman, distinguished Members of the Subcommittee, my name is James Query. I am a Principal in the Public Finance Department at Morgan Stanley Dean Witter. We are an international investment banking firm. I presently serve as manager for the firm's efforts as financial advisor and underwriter for surface transportation and transit agencies nationally.

I have worked in public finance for more than 15 years, and our firm has been fortunate enough to work with a number of the country's largest transit and transportation agencies. I thank you for the opportunity to appear before this Committee to testify for Amtrak on transportation financing for intercity passenger rail, and specifically speak to the benefits to be realized from the proposed High-Speed Rail Investment Act, H.R. 3700.

I would like to address two basic questions in my time this afternoon. Both of them are from the perspective of a participant in the private capital markets.

The first question is, is there a need for innovative capital funding proposals for high-speed rail of the sort provided by H.R. 3700; and second, can the funding mechanism that has been proposed by H.R. 3700 be an effective approach to meeting a portion of the capital needs faced by intercity passenger rail over the next several years? The answer to both questions in my view is, without question, an emphatic yes.

The need for innovative capital funding by government for high-speed rail can be demonstrated in a number of ways. When we look at the transportation industry among all the different types of industry that need to finance themselves in the capital markets today, without question, transportation is one of the most capital-intensive industries. We recognize this as a basic fact of transportation.

It depends upon large-scale sustained capital support of the major infrastructure that supports it. This is true for all the many different segments of the passenger transportation industry that you have talked about this afternoon, including rail, highways, and air transportation.

Each of these sectors depends upon reliable, ongoing governmental support for much of the basic capital infrastructure which supports the system. This is true not only across transportation modes, but across governmental jurisdictions around the world as well.

We are aware of no major provider of rail passenger transit service, here or in any other country, that does not rely upon significant ongoing governmental support to meet its capital funding needs for infrastructure. This long-term, reliable, governmental support is a necessary part of any dependable, efficient transit service, irrespective of how well managed the system may otherwise be or whether service is provided by public or private corporate entities.

I just want to underscore that again. From the market's perspective, it is not a question of how well the agency is run. It should be run well and we certainly will look for evidence of how well it is run. But in addition, the market looks for the ongoing support for basic infrastructure needs that is part of any successful system.

Amtrak has been very successful in recent years in relying upon the private capital markets in a variety of ways to meet its capital financing needs. It has used the lease market to provide financing for rolling stock; it has used the taxable and tax-exempt fixed income markets to meet other infrastructure needs, and it has called upon major financial institutions such as ourselves to provide direct lending support. Through these efforts, Amtrak has established itself as a creditworthy institution, recognized by independent credit rating analysts as being of investment grade quality. Amtrak's management team, its financial management team, has established considerable credibility with both investors and private market analysts.

The major question in the minds of the private capital market participants such as ourselves at this point in Amtrak's history is whether or not the Federal Government will continue to provide the long-term ongoing capital support needed for infrastructure investment that all transit systems everywhere rely upon.

Passage of legislation such as that provided by H.R. 3700 would provide the evidence of long-term Federal support that private investors would find of greatest value. As a result, H.R. 3700 not only provides direct capital assistance that Amtrak needs, but in addition, by demonstrating that Federal support, it can strengthen Amtrak's ability to use the capital markets independently and more cost-effectively as well.

To address the second question quickly, the innovative tax credit bonds proposed by H.R. 3700 can be a very effective capital funding tool for intercity passenger rail needs. It has several elements which I believe can be of great value.

First, the requirement for State matching funding contributions recognizes the partnership approach that characterizes many, if not most, infrastructure projects underway in the country today. As has been true of many recent Federal efforts, such as the Transportation Infrastructure Finance and Innovation Act, this legislation leverages limited governmental transportation dollars as effectively as possible.

As we have heard already this afternoon, many States are eager to invest their transportation dollars in such projects. What they are looking for is a viable source of investment funds from legislation such as this to create an effective partnership.

Second, H.R. 3700 benefits from recent legislative efforts to expand the use of tax credit bonds for infrastructure needs. There has been significant discussion by capital market participants of various tax credit proposals, such as the Qualified Zone Academy Bonds authorized by the Taxpayer Relief Act of 1997; the proposed Qualified School Modernization Bonds, and Better America Bonds. H.R. 3700 takes advantage of reactions made to these earlier proposals by allowing for some very important features which will improve upon the funding mechanism here versus what has been seen to date.

Some of those features include the strippability of the tax credit and the underlying debt instrument so that the tax credit aspect of this financing vehicle can be separated from its investment component; and second, features such as matching of quarterly credit dates to generate improved cash flow benefits for investors.

Perhaps most importantly, by providing that the State match be used to fund an escrow for the repayment of principal on the bonds at maturity, H.R. 3700 will create a high credit quality financial instrument that should find greater investor appeal.

At this point, questions necessarily remain. It is not clear how large the market for investors for these high-speed rail bonds will be at this point in time. Every market clearly grows with use. The proposal is extremely well structured to begin the process of market development.

Mr. QUERY. This program is large enough to provide some investor liquidity, which has been sorely missing from programs such as the QZAB program to date, and it is also flexible enough to attract tax credit investors. We are confident that there will be a ready market for investors for these securities.

There are a few questions of implementation that would be helpful to address. It would be helpful to make it clear, for example, that States can use tax-exempt debt to fund their State match requirements with appropriate exemptions from arbitrage restrictions, and it is important that the regulations establishing the interest rate on which the credit will be based are keen and sensitive to the market rate of returns that will be necessary to have this investment vehicle hold its own among others.

Overall, let me say that H.R. 3700 will not answer all the capital funding challenges faced by Congress, Amtrak, the States, transit authorities, and private investors as they jointly face the financing needs of infrastructure for intercity high-speed rail. This legislation, however, represents a significant commitment of governmental support at a particularly important time that will sustain and accelerate the research and development and effort that has already been put into place.

These efforts will benefit all who depend on a transportation system that clearly is growing increasingly complex, expensive, and interdependent among its various modes.

Thank you very much. I welcome any questions you might have.

[The prepared statement follows:]

Statement of James B. Query, Principal, Public Finance, Morgan Stanley Dean Witter, Philadelphia, Pennsylvania

Chairman Houghton, Distinguished Committee Members:

My name is James Query. I am a Principal in the Public Finance Department of Morgan Stanley Dean Witter, an international investment banking firm. I presently serve as manager for the Firm's efforts as financial advisor and underwriter for surface transportation and transit agencies nationally. I have worked in the public finance industry for more than 15 years. Our Firm has worked with a number of the country's largest transit and transportation agencies. I thank you for the opportunity to appear before this distinguished committee to testify for Amtrak on transportation financing for intercity passenger rail and specifically on the benefits to be realized from the proposed High Speed Rail Investment Act, HR 3700.

Mr. Chairman, I would like to address two basic questions in my testimony today. First, is there a need for innovative capital funding proposals for high-speed rail of the sort provided by HR 3700? Second, can the funding mechanism proposed in HR 3700 be an effective approach to meeting a portion of the capital needs faced by intercity passenger rail over the next several years? The answer to both questions, in my view, is an emphatic yes.

The need for innovative capital funding by government for high-speed rail can be demonstrated in a number of ways. First, transportation is a capital-intensive industry; it depends upon large scale, sustained capital support of major infrastructure. This is true for the many different segments of the passenger transportation industry including rail, highways and air transportation. Each of these sectors depends upon reliable, ongoing governmental support for much of the basic capital infrastructure which supports the system. This is true not only across transportation modes but across governmental jurisdictions around the world as well. I am aware of no major provider of rail passenger transit service, here or in any other country, that does not rely upon significant governmental support to meet its capital funding needs for infrastructure. This long-term, reliable, governmental support is a necessary part of any dependable, efficient transit service irrespective of how well-managed the system may otherwise be or whether service is provided by public or private corporate entities.

Amtrak has been successful in recent years in relying upon the private capital markets in a variety of ways to meet its capital financing needs. It has used the lease market to provide financing for rolling stock; it has used the taxable and tax-exempt fixed income market to meet other infrastructure needs and it has called upon major financial institutions to provide direct lending support. Through these efforts, Amtrak has established itself as a creditworthy institution recognized by independent credit rating analysts as being of investment grade quality. The major question in the minds of private capital market participants at this point in Amtrak's history is whether or not the federal government will continue to provide the long-term, ongoing capital support needed for infrastructure investment that all transit systems rely upon. Passage of legislation such as that provided by HR 3700 would provide the evidence of long-term federal support that private investors would find of greatest value. As a result, HR 3700 can provide not only direct capital assistance for Amtrak, but it can strengthen Amtrak's ability to use the capital markets independently and cost-effectively as well.

To address the second question, the innovative tax-credit bonds proposed by the HR 3700 can be a very effective capital funding tool for intercity passenger rail needs. It has several elements which I believe can be of great value:

First, the requirement for state matching funding contribution of 20% recognizes the partnership approach that characterizes many, if not most, infrastructure projects currently. As has been true of many recent federal efforts such as the Transportation Infrastructure Finance and Innovation Act (TIFIA), this legislation leverages limited governmental transportation dollars as effectively as possible.

Second, HR 3700 benefits from other recent legislative efforts to expand the use of tax-credit bonds for infrastructure needs. There has been significant discussion by capital market participants of various tax-credit proposals such as the Qualified Zone Academy Bonds (QZABs) authorized by the Taxpayer Relief Act of 1997, the proposed Qualified School Modernization Bonds (QSMBs) and Better America Bonds (BABs). HR 3700 takes advantage of reactions made to earlier proposals by allowing for features including:

- strippability of the tax credit and the underlying debt instrument
- quarterly credit dates to generate improved cash flow benefit for investors.

Perhaps most importantly, by providing that the state match be used to fund an escrow for the repayment of principal on the bonds at maturity, HR 3700 will create a high credit quality financial instrument that should find greater investor appeal.

Questions necessarily remain. It is not clear how large the market of investors for these high-speed rail bonds will be. Every market grows with use. The proposal is well structured however, to begin the process of market development. In expanding the usefulness of this measure, it would be helpful to address certain implementation issues. For example, it would be useful to make it clear that states can use tax-exempt debt to fund their state match requirement.

Overall, let me say that HR 3700 will not answer all of the capital funding challenges faced by Congress, Amtrak, the states, transit authorities and private investors as they jointly face the financing needs of infrastructure for intercity high speed rail. However, this legislation does represent a significant commitment of governmental support that will sustain and accelerate the investment and effort that has already been made.

These efforts will benefit all who depend on a transportation system that grows increasingly complex, expensive and interdependent.

Thank you.

Chairman HOUGHTON. I would just like to make a statement before I turn to Mr. Coyne.

I think the point that you make about the States and their having bonding capacity is really important. We do not have that in the bill, and I think we probably ought to add that. Thanks very much.

Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Query, what is your understanding of who would be liable for the debt of the tax-exempt bond structure that is proposed by Amtrak?

Mr. QUERY. As we have looked at the bill, our reaction is basically to look at it in its two components: Who will pay the interest on this debt, and how will principal be repaid.

The interest on the debt, inasmuch as it is coming in the form of a tax credit from the Federal Government, when it comes to the individual investor, they have great comfort that, in fact, the Federal Government will make good on that promise of the tax credit over time. So with regard to its interest rate payments, the investor is fully protected and comfortable.

From the question of who will repay principal on this debt, they will be looking to this escrow once again established by the State match contribution. We anticipate that that escrow would be of the highest possible credit rating, similar to the types of escrows that you would see for refunding of securities in the tax-exempt market today. As a result, it would again carry the highest possible credit rating.

That is one of the primary differences that we see between this type of tax credit vehicle and some of the others that have been structured to date. Many of the investor concerns with regard to the nature of the credit quality of this investment vehicle will be answered, put to rest, and investors can concentrate simply on the rate of return for this particular instrument and understanding how it works.

Mr. COYNE. In your testimony, you point out H.R. 3700 will create a high credit quality financial instrument that should find greater investor appeal.

Mr. QUERY. Right.

Mr. COYNE. Are you talking about AAA, or AA——.

Mr. QUERY. AAA, based upon the nature of the securities in the escrow, with the assumption that the securities themselves are AAA quality, which, again, is achieved in other markets by using a variety of Treasury securities or agency securities, or triple-A-rated guaranteed investment contracts of one form or another. We should be able to achieve that type of rating level.

Mr. COYNE. Also in your testimony you point out that, and I quote, "It is not clear how large the market of investors for these high-speed rail bonds will be." .

Could you expand on that a little bit?

Mr. QUERY. I can expand on it to this point: I thought it was important to recognize the fact that this is an important new investment vehicle. In that regard, we are building a new market. QZABs have been an experiment in that market, but given the fundamental nature of that program, the limitations they have put on investors, it hasn't been a very clearcut demonstration of exactly what the market potential is.

We think the size of this program gives important liquidity for investors. It also gives a focus for investors who clearly understand the single purpose for which this investment vehicle is intended, and they can clearly understand the single type of credit that is being dealt with.

As a result, we are quite comfortable that the dollar volumes that are being looked to for this program are very achievable. It is the perfect way to, in fact, start the introduction of a tax credit vehicle such as this. I can't think of a better way.

Mr. COYNE. Thank you.

Chairman HOUGHTON. Thank you.

Mr. Watkins?

Mr. WATKINS. Just a quick question.

Mr. Query, you indicated the interest would be backed up by tax-exempt bonds; Federal, like a lot of tax-exempt bonds that exist out there today, but also the principal would be backed up by the States. So these will be limited and issued just from State to State and will not be from the entire system? That is a point that I want to try to make sure that I make here.

Mr. QUERY. Representative Watkins, as I have understood the program, since it is structured in such a way to ensure a partnership approach between the provider of intercity rail service and the State trying to introduce high-speed rail service in conjunction with this larger program, the 20 percent State match again is contributed to an escrow in order to fund the principal at repayment. The investor dollars that are raised for the other 80 percent, if you will, are going to build the bricks and mortar, if you will pardon the expression because it does not really apply to rail, but the rail and rolling stock necessary to support the rail service.

So it is up to the States, if you will, to find the revenues necessary to make their State match contribution.

I think it is just important to recognize that as States go about finding their match, just as is the case for highway and for other transportation priorities in a State, they look to a variety of funding sources. Sometimes it is straight gas tax moneys; sometimes it is other funds available to the State general fund. Frequently it is debt issued by the State and supported by the State.

I just think it is very important to make sure this bill allows States to fund it in that way.

Mr. WATKINS. Let me ask a follow-up with this. We have a cap of 30 percent for a certain area, for a State——.

Mr. HULSHOF. Corridor.

Chairman HOUGHTON. Northeast Corridor.

Mr. WATKINS. What is the minimum, the floor? Do you have a minimum floor?

Mr. QUERY. I'm sorry?

Mr. WATKINS. A minimum floor that we could expect in a rural populated area of the Nation?

Mr. QUERY. I think I understand the question: How small an issue might be acceptable to the marketplace; is that the question?

Mr. WATKINS. Well, we are going to cap the high populated areas. What can we expect that we would get in the rural areas of the country?

Mr. GILLESPIE. Mr. Watkins, I think there is a provision in the bill that allows up to 10 percent of the funds available to be used for nondesignated corridors, so an area like Oklahoma, if it had its 20 percent match, may be able to apply with Amtrak to use some of the revenues generated by the bonds to put into that service in Oklahoma. I think—I believe it is up to 10 percent.

Mr. QUERY. Representative Watkins, one thing that I thought was particularly interesting about this bill basically was that by setting it up so that the States were required to put up this 20 percent matching contribution, essentially it allowed a State like the

State of Oklahoma to place high-speed rail within its own transportation priorities. So it actually had the opportunity to say, this is how important an investment it is to us. And to the extent that you reach the determination that it is extremely important to you, and you make that investment, you have the opportunity then to——.

Mr. WATKINS. I was just trying to see if there would be anything left when it gets around to Oklahoma.

Mr. QUERY. I understand.

Mr. WATKINS. Let me say this, I want to be for this. Like I say, I enjoy Eurail, I enjoy Britrail. I spent quite a bit of time on those. I have not learned how to speak French out of it all, like Oberstar, but in my area I'm trying to figure out how I can be for this. I want to be for it.

I want to be able to get up on the floor and speak for this type of legislation, because we look around and we realize we do not have this. I think it could be of great assistance for transportation.

I got on three different airlines yesterday trying to get back here. Let me tell you, I know we have a mess out there in the airlines. I was on American, Midway, and finally USAir trying to get back here.

I want to be for it, and I want to work with the Chairman, but I have to make sure that when we get down, that the bucket is not empty. We want to try to have some help. Ten percent is not very much for undesignated areas when there is a huge undesignated area out across America right today.

Thank you, Mr. Chairman.

Chairman HOUGHTON. Thank you.

Mr. Hulshof?

Mr. HULSHOF. Mr. Chairman, if this were the game show Jeopardy, I would say, I will stay with Mr. Query for $800.

Mr. Chairman, I say this as nonconfrontationally as I can be.

I respect the last part of your statement, Mr. Query, about you cannot think of a better way or a better goal. Perhaps Mr. Rangel and Mrs. Johnson from this Committee might disagree. They have a similar idea about school construction, and using similar instruments for that priority as well.

You have anticipated some of my questions. I looked through your testimony before you got up here. This is just from memory. I think when Treasury was before us in the Full Committee, back with the Taxpayer Relief Act of 1997, I think we authorized about $800 million in bonding authority for QZABs. I think over the last 2 years we have asked Treasury to update us, and their most recent figure was less than $300 million in bonds have been allocated.

I respect your point, and let's talk a little about it. In the Chairman's bill we are talking about $10 billion of bonding authority over 10 years, so it is roughly $1 billion a year.

You say that under the Chairman's bill that we take advantage of reactions made to these earlier proposals. You talk about strippability or salability of a tax credit and the underlying debt instrument.

I guess the quarterly credit dates, that is also to provide some more liquidity, built-in liquidity?

Mr. QUERY. That is correct.

Mr. HULSHOF. When we talked to Treasury about QZABs, one of the things they had to acknowledge was that many of these bonds are sold below par. How can we be assured that in this instance—I guess there are really no guarantees, but what would you say regarding that factor; that, OK, maybe we address the liquidity, but how do we ensure that these bonds are not sold below par, at least substantially below par?

Mr. QUERY. Right. A few quick differentiations between this structure and the QZAB structure.

We have already talked about the size difference. I cannot overemphasize how important liquidity is to the marketplace to allow investors in this new instrument the opportunity to basically get out. The more liquid this investment is, the more readily we can attract investors into the market as well.

The size of this program is a fundamental improvement over the size of the individual QZAB issues that we have been looking at, which typically have been less than $5 million individually. Infrequently they have been more than $10 million. So while Treasury may estimate $300 million in total, my guess is that that represents somewhere north of 50 individual issues, often more, and it is frankly very, very difficult for individual investors to deal with that amount of complexity, each one of them being, frankly, a different form of credit related to the individual school district that may be issuing the QZAB.

The second and perhaps most fundamental barrier, from our perspective, to attract ready investment is the requirement for a 10 percent private business contribution. It is not that it is a bad idea, it simply creates an obstruction to finding the right match between someone who is in a position to invest and someone who is also in a position to make that private business contribution.

There is an explicit limitation on the type of investors in the QZAB legislation. It specifically addresses banks, insurance companies, and other lenders. Obviously, by eliminating those types of restrictions, you are just broadening the market. We would think that for this type of tax-advantaged investment, you would find a ready market among corporations as well as individuals.

Last, there is credit quality itself. Rather than dealing with that diverse body of credit quality, here you have AAA credit quality.

As for the significant discount, in fact, I think one of the attractions, if you will, of the QZAB program, even though it may be a disappointment from certain perspectives, the discount has allowed that instrument, in spite of all the limitations, to find a home, if you will. So I think allowing for that discount is a very important market feature, but I think you are absolutely right to try to design the program in such a way that that discount is minimized.

That is for a couple of different reasons. One is the budgetary costs that imposes on the user of that vehicle, if you will. Second, as well, it just means that the right attention has been paid at the time of drafting and regulations to the amount of tax credit that is intended to be given to investors in the first place.

Mr. HULSHOF. Not to switch trains here, but how conversant are you with the school construction piece, and how does H.R. 3700 compare as far as some of the specifics, such as—in this country there are QZABs, but I am talking about the Rangel-Johnson idea on school construction. How does this bonding authority compare with that?

Mr. QUERY. I would say that the advantages that that bill offers as compared to QZABs have been incorporated into this bill in the form of both strippability and the more close matching of cash flows from investors——.

Mr. HULSHOF. But as far as school construction and this, are these essentially the same?

Mr. QUERY. I would say the fundamental difference between the two is the credit quality of the two instruments. Again, I think this is a preferable vehicle from a market perspective because the credit will actually be more readily understood.

Mr. HULSHOF. Thank you, Mr. Chairman.

Thank you, Mr. Query.

Chairman HOUGHTON. Thank you.

I don't think I have a question, but I do think that this has enormous ramifications. I don't think there has been anything like this in years. It is really a turning around of the railroad industry.

Obviously, this has an impact as far as you are concerned, Mr. Gillespie, in terms of an old railroad town that is now a railroad town in a different way, coming from zero employment up to, what are you, 1,200 now?

Mr. GILLESPIE. It is 800 now, sir, and with the anticipated growth, another 350 in the next few years.

Chairman HOUGHTON. That is very important, and also what this is doing to increase land value and what it is doing to station development and intermodal transportation within cities. It is very, very important.

So I appreciate your being here. Thank you for your testimony. We will look forward to talking to you further. Thanks very much.

We will have the next panel.

The next panel is Mr. Gutschewski, vice president and tax counsel of Union Pacific; and Mark Dysart, president of the High Speed Ground Transportation Association; and Jean Godwin, executive vice president and general counsel of the American Association of Port Authorities.

Ken, would you like to introduce Mr. Gutschewski?

Mr. HULSHOF. We are glad to have him. Go ahead, Mr. Chairman.

Chairman HOUGHTON. All right.

All right, Mr. Gutschewski. Please begin your testimony.

STATEMENT OF BERNARD R. GUTSCHEWSKI, VICE PRESIDENT, TAXES, UNION PACIFIC CORPORATION, ON BEHALF OF THE ASSOCIATION OF AMERICAN RAILROADS, OMAHA, NEBRASKA

Mr. GUTSCHEWSKI. Good afternoon, Mr. Chairman, and Members of the Subcommittee. My name is Bernie Gutschewski. I am Vice President of Taxes of Union Pacific Corp. I am testifying today on behalf of the Association of American Railroads, a trade association representing major freight and passenger railroads.

The AAR appreciates the opportunity to discuss key infrastructure tax issues impacting the railroad industry, and we wholeheartedly support your objective of attaining equity between the different transportation modes.

As I explained in my written statement, the tax laws impose several major burdens on our industry and place us at an unfair disadvantage compared to our chief competitors and other modes of transportation. Should Congress create a level playingfield, individual railroad companies would be better able to obtain the capital necessary to build and maintain their infrastructure, which clearly advances the public's desire and need for a growing railroad industry.

The most immediate tax inequity facing our industry is the discriminatory deficit reduction fuel tax that continues to be imposed on railroads. The AAR urges Congress to promptly repeal this tax. The current tax structure imposes an inequitable deficit reduction tax on the railroad industry. The transportation industry was singled out to pay this tax because it is based on fuel consumption. Today within the transportation industry only railroad and barge companies continue to pay such a tax.

The deficit reduction fuel tax places the railroad industry at a significant economic disadvantage compared to its chief competitor, the trucking industry. More than 2 years ago Congress determined that all revenues from fuel taxes paid by the truckers should be directed into the Highway Trust Fund, to be used for improvements and maintenance of highway infrastructure, a direct benefit to the trucking industry. Therefore, while railroads continue to contribute to the financing of a nonexistent deficit, the truckers are merely funding their own infrastructure improvements. Meanwhile, the railroad industry builds and maintains its own private transportation network. In 1999 alone, freight railroads spent $7.7 billion maintaining and improving their own infrastructure.

Further, Congress should reject suggestions that the railroads' fuel tax be transferred into a government-administered railroad trust fund. Under the proposed scenarios, the beneficiaries of the funds, while having contributed little or nothing, would profit from a cross-subsidy from the large freight railroads. We believe cross-subsidies are bad public policy, and the fuel tax revenues paid by freight railroads are needed to meet their own significant infrastructure needs.

Moreover, large railroads do not care to finance their own infrastructure needs by inefficiently sending funds to Washington, D.C., simply to be returned to them minus administrative and overhead costs.

Other tax laws also burden the railroad industry, which is the most capital-intensive component of the industrial sector of the U.S. Economy. These burdens are more fully explained in my written statement.

Very briefly, the existing capital recovery rules require railroads to capitalize and depreciate the vast majority of their infrastructure costs. In contrast, the vast majority of trucking infrastructure costs are paid in the form of fuel taxes, which are immediately deductible. This competitive advantage enjoyed by trucking under the income tax laws is further exacerbated by the advantage heavy trucks obtain by paying less than two-thirds of the infrastructure damage costs they generate.

Other taxes on the industry, like the $453 million of annual property taxes paid by railroads on their privately owned right-of-ways, and sales taxes paid on infrastructure materials, are not paid by trucking companies and further magnify the disparate infrastructure cost comparison.

Finally, railroads' payroll taxes are substantially higher than any other industry.

In summary, the AAR urges Congress to eliminate the tax inequities that competitively disadvantage the railroad industry and that unnecessarily burden our customers and hamper their international competitiveness.

The AAR urges the prompt enactment of H.R. 1001 repealing the deficit reduction fuel tax as a first step in this area. Beyond this first step, the AAR strongly recommends that Congress eliminate all the inequities in current tax laws, thereby leveling the tax playingfield and allowing railroads better access to additional sources of capital to enhance the industry's ability to more efficiently and safely meet the freight transportation requirements of a growing economy.

Thank you.

Chairman HOUGHTON. Thank you.

[The prepared statement follows:]

Statement of Bernard R. Gutschewski, Vice President, Taxes, Union Pacific Corporation, on behalf of the Association of American Railroads, Omaha, Nebraska

Good afternoon, Mr. Chairman and members of the subcommittee, my name is Bernard R. Gutschewski, and I am Vice President—Taxes of Union Pacific Corporation. I am testifying as a representative for the Association of American Railroads (AAR). The AAR is a trade association representing major freight and passenger railroads.[1] The AAR appreciates the opportunity to present its members views regarding key tax issues impacting the railroad industry. After providing you background information about the railroads, I will use this opportunity to address how the tax laws impose major burdens on our industry and place us at an unfair disadvantage compared to our chief competitors and other modes of transportation. This competitive disadvantage arises under federal excise, income, and employment tax laws, as well as under state and local tax laws. Should Congress create a level playing field, individual railroad companies would be better able to make the much-needed capital investments in their infrastructure, which clearly advances the public's desire and need for a growing railroad industry.

Railroads Play a Vital Role in Today's Economy

Freight railroads move just about everything—from lumber to vegetables, from coal to orange juice, from grain to automobiles, from chemicals to scrap iron—and connect businesses with each other across the country and with markets overseas. They carry 40 percent of the nation's inter-city freight—more than trucks, barges, pipelines, airplanes or automobiles; 70 percent of vehicles from domestic manufacturers; 64 percent of the nation's coal; and 40 percent of the nation's grain. In 1999, railroads hauled 18 million carloads of freight, plus over 9 million trailers and containers, nearly tripling the intermodal volume of 1980.

The U.S. freight railroads directly contribute $13 billion a year to the U.S. economy in wages and benefits to more than 200,000 employees; U.S. rail employees are among the very best compensated and most productive in all of U.S. industry. Beyond this, railroads spend several billion dollars every year to purchase materials,

[1] AAR's membership includes freight railroads that operate 75 percent of the line-haul mileage, employ 91 percent of the workers, and account for 93 percent of the freight revenue of all railroads in the United States; and passenger railroads that operate almost all of the nation's intercity passenger trains and provide commuter rail service.

equipment and services. The railroad industry pays significant taxes. In 1999 alone, Class I railroads [2] paid $3 billion in taxes *in addition* to federal income taxes:

- $2.1 billion in federal payroll taxes
- $453 million in property taxes on their privately-owned right-of-way;
- $164 million in federal fuel taxes[3] and
- $260 million in other taxes.[4]

All of these facts are evidence of how integral the railroads are to the continued vitality of the U.S. economy.

The ability of the U.S. railroads to continue to provide the transportation services that the country needs has been, in large part, dependent upon the nature of regulation to which it is subject. I will not belabor the history of how pervasive and intrusive economic regulation almost destroyed the private sector U.S. freight rail industry prior to 1980. The troubles of the rail industry at that time, when railroads owning almost one-quarter of the nation's rail trackage were in bankruptcy and many others were teetering on the edge, are well documented. The freight railroads overall have become much sounder financially in the nearly 20 years since enactment of the Staggers Rail Act of 1980, which provided much-needed regulatory reform. Moreover, deregulation has benefited railroad customers as well. On average it costs 28 percent less to move freight by rail now than it did in 1981 and 57 percent less in inflation-adjusted dollars.

In order to continue to satisfy the country's demands for safe and efficient railroad transportation, the industry must find the capital funds needed to make critical infrastructure improvements. Funding of these infrastructure improvements while operating on an uneven playing field is among the most critical challenges now facing the industry.

The Deficit Reduction Tax Imposed on the Railroads Creates Competitive Inequities

The most immediate tax inequity facing our industry is the discriminatory deficit reduction fuel tax that continues to be imposed on railroads. AAR urges Congress to promptly repeal this tax that adds to other tax burdens already imposed on the railroads—burdens that extend well beyond those imposed on our chief competitors. The transportation industry was singled out to pay this deficit reduction tax because it is based on fuel consumption. Moreover, within the transportation industry, **today only railroad and barge companies continue to pay such a tax.** The deficit reduction fuel tax rate has varied over time, and currently stands at 4.3 cents per gallon on diesel fuel consumed. Since inception of the tax in 1990, freight railroads have paid nearly $1.6 billion in deficit reduction fuel taxes. The inequities of the current tax structure affect railroads directly, but also unnecessarily burden our customers and hamper their international competitiveness.

The deficit reduction fuel tax places the railroad industry at a significant economic disadvantage compared to its chief competitor, the trucking industry. More than two years ago, Congress determined that all revenues from fuel taxes paid by the truckers should be directed into the Highway Trust Fund to be used for improvements and maintenance of highway infrastructure—a direct benefit to the trucking industry. Therefore, while railroads continue to contribute to the financing of a non-existent deficit, the truckers are merely funding their own infrastructure improvement.

Even though trucking companies pay various federal and state fuel and other taxes that are dedicated to highway construction and maintenance, heavy trucks on average pay less than two-thirds of the cost of the damage they cause to the national highway system. In effect, a substantial portion of the cost of building and maintaining the trucking industry's infrastructure is subsidized through fuel taxes paid by general public highway users.

By contrast, none of the deficit reduction fuel tax paid by railroads is used for rail infrastructure; instead, the railroad industry builds and maintains its own private transportation network. In 1999 alone, freight railroads spent $7.7 billion maintaining and improving their own infrastructure. Other taxes, like the $453 million of annual property taxes paid by railroads on their privately owned right-of-ways, and sales taxes paid on infrastructure materials, are not paid by trucking companies and further magnify the disparate infrastructure cost comparison.

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[2] The Surface Transportation Board defines a Class I railroad for 1999 (latest available) as any railroad earning annual operating revenues of $258.5 million or more.

[3] This figure includes both the deficit reduction fuel tax and the LUST tax.

[4] FORTUNE 500 Annual Survey of Assets to Revenue (April 2000). See also U.S. Department of Commerce Bureau of Census Annual Survey of Manufacturers (1996) for capital expenditures as a percent of sales.

The chart below illustrates the inequity of the current tax structure:

Tax Comparisons by Transportation Sector

	Railroads	Trucks	Barges	Pipelines	Aviation
			Non-Infrastructure Fuel Taxes (cents/gal)		
General Fund	4.3	None	4.3	None	None
LUST Fund	0.1	0.1	01	None	0.1
			Infrastructure (Right of Way) Costs:		
Paid By	**Industry**	Government Subsidized	Government Subsidized	**Industry**	Government Subsidized
Method of Funding	Private Capital	24.3 Cent Fuel Tax	20.0 Cent Fuel Tax	Private Capital	21.8 Cent Fuel Tax
Tax Recovery Period (exclusing repairs)	**7–50 Years**	1 Year	1 Year	15 Years	1 Year
AMT Exposure Due to Infrastructure	Yes	No	No	Yes	No
Property and Sales Taxes on Infrastructure	Yes	No	No	Yes	No

AAAAAAANote: Information in bold indicates the sector at a competitive disadvantage when compared to the other sectors.

Congress has recognized the inequity of the current tax structure, and the elimination of the unfair fuel tax imposed on railroads and barges is widely supported. The Taxpayer Refund and Relief Act of 1999, passed by Congress on August 5, 1999, acknowledged the current inequity and included repeal of this tax.

(The Act was vetoed for reasons other than the repeal of the fuel tax.) Moreover, other entities have supported the railroads' efforts to seek the repeal of the unfair tax. The U.S. Chamber of Commerce and the American Road and Transportation Builders Association have adopted policies in support of repealing the 4.3-cent deficit reduction fuel tax. Numerous agriculture groups, including the American Farm Bureau Federation, American Soybean Association, National Association of Wheat Growers, and the National Corn Growers Association, are also on record supporting the repeal of this tax.

Other Tax Laws Also Burden The Railroad Industry

Income Taxes

Railroads—the most capital-intensive component of the industrial sector of the U.S. economy[5]

—are further disadvantaged vis a vis their competitors by existing capital recovery provisions of the income tax laws. For income tax purposes, railroads must capitalize and depreciate, over a period of years, the costs incurred in building new or expanding their existing infrastructure. In addition, the Internal Revenue Service argues that railroads must capitalize many of the costs of repairing and maintaining that existing infrastructure. In contrast, the fuel taxes paid by trucking companies (used for both new capital expenditures and highway repair and maintenance) can be deducted immediately. As a result, trucking companies obtain an economic advantage for each infrastructure dollar they spend. For example, $100 capitalized by railroads produces depreciation deductions with a net present value of only $26, resulting in a $74 true economic cost. In contrast, $100 of fuel tax paid by trucking companies produces a $35 immediate tax benefit, resulting in a $65 true economic cost. If a railroad is subject to the Alternative Minimum Tax (AMT), the disparity in the true economic cost of capitalized infrastructure investment is further exacerbated, since accelerated depreciation deductions are a preference item for calcu-

[5] Tier I of Railroad Retirement, which is functionally equivalent to social security (both in terms of rates and benefits), is financed by a 7.65 percent payroll tax (including the Medicare portion) on employees and employers. Railroad employers and employees pay an additional 21 percent payroll tax (16.1 percent employer and 4.9 percent employee) into Tier II of Railroad Retirement, which is the only industry retirement plan in which contributions and benefits are regulated and administered by the federal government.

lating the AMT but fuel tax deductions are not. This economic advantage enjoyed by trucking companies under the income tax laws is in addition to the economic advantage heavy trucks obtain by paying less than two-thirds of the infrastructure damage costs they generate.

Employment Taxes

Railroads' payroll taxes are higher than any other industry. Railroad employees are covered by the Railroad Retirement System, which is significantly more expensive than the Social Security System, further disadvantaging the freight railroads' ability to compete. In total, rail employers and employees pay retirement payroll taxes of 36.3 percent compared with 15.3 percent paid by their competitors.[6] Over and above the social security equivalent, railroad employers annually contribute some $2.0 billion and railroad employees contribute $560 million into the railroad retirement system. Rail employers also fund a government-administered supplemental pension plan for railroad workers; this additional obligation cost the industry over $141 million in fiscal year 1999. Moreover, government imposed investment restrictions on railroad retirement funds significantly limit their returns, making the system more expensive for the industry.[7]

State and Local Taxes

Railroads historically have been subject to discriminatory state and local taxes, so much so that in 1976, Congress passed legislation intended to prohibit future discriminatory taxation of railroads by states. In recent years, however, the United States Supreme Court has been expanding states rights in many areas. This expansion threatens the protection from predatory state taxation provided to the industry by the 1976 legislation.

Relieving the Railroad Industry of Inequitable Tax Treatment Would Facilitate Much-Needed Investment by the Industry in its Infrastructure

A prompt leveling of the playing field would be the most effective means to correct the competitive inequity caused by the current structure and to facilitate much-needed railroad infrastructure investment. Since 1980, major freight railroads have spent more than $260 billion to maintain and improve their infrastructure and equipment. Despite such enormous investments, over the next 20 years the railroad industry will need to make new expenditures equal to the cost of rebuilding that infrastructure twice over to meet the country's transportation needs. Elimination of the inequities in current tax laws would help provide railroads with access to additional sources of capital to enhance the industry's ability to more efficiently and safely meet the freight transportation requirements of a growing economy.

Trust Funds Are Not the Answer

Congress should reject suggestions that the railroads' fuel tax be transferred into a government-administered railroad trust fund. Several proposals to use the 4.3 cents per gallon deficit reduction fuel tax paid by the railroads and barges have been made, including the creation of new government trust funds to finance short-line/regional railroad improvements, inter-city or commuter passenger rail needs, and highway-rail crossing traffic control devices. In these scenarios, the beneficiaries of the funds, while having contributed little or nothing, would profit from a cross-subsidy from the large freight railroads. Large freight railroads oppose contributing to a trust fund that could be used to finance infrastructure improvements of competing railroads, and it is inappropriate to expect the large railroads to provide additional funding support for passenger rail, short-lines, or highway-rail traffic control devices. Cross-subsidies are bad public policy, and the fuel tax revenues paid by freight railroads are needed to meet their own significant infrastructure needs. Finally, large railroads do not care to finance their own infrastructure needs by inefficiently sending funds to Washington, D.C., simply to be returned to them, minus bureaucratic administrative and overhead costs.

Conclusion

As the first step toward eliminating the tax law inequities that competitively disadvantage the railroad industry, the AAR urges Congress to eliminate the unfair

[6] For example, average annual returns on the railroad retirement Tier II account were 9.1 percent compared with 15.2 percent for large multi-employer plans and 16.3 for large single employer plans.

[7] For example, average annual returns on the railroad retirement Tier II account were 9.1 percent compared with 15.2 percent for large multi-employer plans and 16.3 for large singel employer plans.

tax burden imposed on the railroad industry by the deficit reduction fuel tax. The AAR urges the prompt enactment of H.R. 1001 repealing the 4.3-cent deficit reduction fuel tax. This unfair tax increases the tax burdens already imposed on railroads, burdens that already extend well beyond those imposed on our chief competitors. The elimination of this unfair tax would contribute toward increased infrastructure spending by railroads, thus encouraging a growing and prospering railroad industry, consistent with sound public policy. Beyond this first step, the AAR strongly recommends that Congress eliminate all of the inequities in current tax laws thereby leveling the tax playing field and allowing railroads better access to additional sources of capital to enhance the industry's ability to more efficiently and safely meet the freight transportation requirements of a growing economy.

Chairman HOUGHTON. Mr. Dysart?

STATEMENT OF MARK R. DYSART, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HIGH SPEED GROUND TRANSPORTATION ASSOCIATION

Mr. DYSART. Thank you, Mr. Chairman. I am Mark Dysart, president of the High Speed Ground Transportation Association. We are honored to have the opportunity to appear before this Committee to speak in support of H.R. 3700.

The HSGTA is now in its 18th year as a trade association with a very broad-based membership that includes engineering firms, railcar and locomotive manufacturers, railway equipment suppliers, Federal, State, and local transportation agencies, academia, other transportation associations, and organized labor. Our membership represents or employs nearly 3 million American citizens.

HSGTA engages in advocacy on three major issues: One, the expansion of intercity passenger rail through incremental upgrades such as the Northeast Corridor, Pacific Northwest and the Midwest Regional Rail Initiative; two, the development of a world-class high-speed rail as we have seen in Japan and Europe over the past 25 years and presently envisioned in California and elsewhere; and three, we represent and advocate for the new promising magnetic levitation technology, generally known as maglev.

The intercity passenger rail industry is at a turning point. H.R. 3700 will provide an opportunity to develop high-speed rail in this country. If we allow this chance to slip away, it will be years before it comes by again.

Many States have taken advantage of the provisions of TEA–21 to do extensive investigation of high-speed rail corridors. There is not only tremendous enthusiasm generated from these studies, there is also intense financial commitment in the various States. By my reckoning, over $1.3 billion so far has been spent or committed to high-speed rail and intercity passenger rail by the States of this Nation.

ISTEA and TEA–21 established federally designated corridors that are eligible to receive Federal funding for high-speed rail development. Unfortunately, no mechanism has been established to fund these corridors. H.R. 3700 will do just that.

In addition to the conventional rail approach, there are seven State and regional projects vying to become the first to build a, magnetically levitated ground transport system capable of moving travelers at over 300 miles per hour, as Congressman Oberstar mentioned. There is more interest in intercity passenger rail and maglev at this time than we can ever recall.

I must say that I have been with this association since day 1 for 18 years, and this is a very exciting day to know that we may actually reach our goal of seeing high-speed rail and intercity passenger rail in general put on an even keel, in some ways at least, with highways and transit.

It is fair to say that in a very short time, the States have moved past the Federal vision in their plans for high-speed rail. The transportation community at the State level simply has the best grasp of their future options, and the realization is quickly sinking in that the only real untapped source of intercity transportation capacity at this point lies with the rail system.

In our view, it is no longer a question of whether the Federal and State governments move toward utilization of passenger rail, it is really a question of when and how. Our airways and highways are at or past capacity and need relief. Intercity passenger trains can and will provide that relief as a complement to our national transportation system. Intercity ground transportation will add an alternative mobility we badly need to sustain our economy and protect our environment. Intercity passenger rail is the missing element in our Nation's intermodal passenger transportation system.

Technology is advancing quickly to ensure safer and more efficient rail service. The only real impediment to moving forward at this time is the political will to find an acceptable financing methodology for capital improvements. To this end, we believe that H.R. 3700 provides the best alternative available to meet this need.

The up front commitment of the 20 percent match will compel States to choose the most economic and responsible projects before the bonding process moves forward. The HSGTA is confident that taxpayers will get their money's worth with H.R. 3700.

The United States Department of Transportation has an already established due diligence process to deal with capital programs financed by credit instruments. Such as TIFIA projects like the Alameda Corridor.

The Federal Government's leverage is large; $3.2 billion of tax expenditure yields $10 billion of rail improvements. This does not include the downstream revenue generation from the taxes yielded by the goods produced, nor does it include the benefits yielded to the overall transportation system in general in terms of congestion mitigation, cleaner air, and less dependence on imported oil.

H.R. 3700 will provide a long-term source of funds for rail that is currently only available to highways and transit. The yield in dollars from H.R. 3700 is very much like a penny from the gas tax. The equitable distribution of dollars is a necessary prerequisite to good tax legislation. I wish Mr. Watkins were still here, because H.R. 3700 does ensure that benefits are equally distributed geographically. There is ample evidence to show that real improvement needs are very widespread around the country.

The High Speed Ground Transportation Association, Mr. Chairman, thanks you for your leadership in exploring how the tax laws affect the national transportation infrastructure and the transportation industry's ability to serve the public. We thank you for the opportunity to testify in favor of H.R. 3700, and look forward to working with the Committee and its staff as this legislation moves forward.

Chairman HOUGHTON. Thank you very much.

[The prepared statement follows:]

Statement of Mark R. Dysart, President and Chief Executive Officer, High Speed Ground Transportation Association

I am honored to have the opportunity to appear before this committee to speak in support of H.R. 3700 on behalf of the members of the High Speed Ground Transportation Association. The HSGTA, now in its 18th year, is a trade association with a broad-based membership and an equally broad advocacy agenda. The HSGTA's membership includes engineering firms, railcar and locomotive manufacturers, railway equipment suppliers, Federal, State and local transportation agencies, academia, other transportation associations, organized labor and individuals. Our membership represents or employs nearly 3 million citizens. We engage in advocacy for three major issues:

1. The expansion of intercity passenger rail through incremental upgrades such as in the Northeast Corridor, Pacific Northwest and the Midwest Regional Rail Initiative.
2. The development of world class high-speed rail as in operation in Europe and Japan over the past 25 years and presently envisioned for California.
3. The new, highly promising magnetic levitation technology known generally as maglev.

The intercity passenger rail industry is at a turning point. H.R. 3700 will provide an opportunity to develop high-speed rail in this country. If we allow this chance to slip away, it will be years before the opportunity will be available again.

Many states have taken advantage of the provisions of TEA–21 to do extensive investigation of high speed rail corridors. There is not only tremendous enthusiasm generated from these studies, there is also financial commitment showing up in numerous states for various projects. For example; California plans to invest $700 million over the next year on intercity passenger rail, Illinois $140 million, Wisconsin $60 million, New York $100 million, North Carolina, Virginia and Pennsylvania $75 million each, and Georgia $200 million for commuter and intercity rail. Michigan has spent $25 million and the state of Washington $125 million. In all, 36 states are pursuing expanded intercity passenger rail. This is real commitment.

ISTEA and TEA–21 established Federally designated corridors that are eligible to receive Federal funding for high-speed rail development. Unfortunately no mechanism has been established to fund these corridors. H.R. 3700 will fill that need.

In addition to the conventional rail approach, there are seven state and regional projects vying to become the first to build a magnetically levitated ground transport system capable of moving travelers at 300 miles per hour as part of the Federal Railroad Administration's Maglev Deployment Program. There is more interest in intercity passenger rail and maglev at this time than we can ever recall. The need is there, the desire by States to build more ground transport systems is there, but we need the Federal Government to provide the funding catalyst and program the development of interstate commerce. H.R. 3700 and its Senate companion S. 1900 will provide that catalyst.

It is fair to say that in a very short span of time, the individual states have moved past the federal vision at this point in their plans for high speed rail. The reasons for this are quite clear. Self-interest is at the heart of the matter. The transportation community at the State level simply has the best grasp of their future options; and the realization is quickly sinking in that the only real untapped source of inter-city transportation capacity at this point lies with the rail system. As highway and air routes continue to become more congested (and by inference more expensive to the consumer and the general economy), this realization will become more and more apparent over time.

In our view, it is no longer a question of whether the Federal and State governments move toward utilization of passenger rail, it is really a question of when and how. Our airways and highways are at or past capacity and need relief. Intercity passenger rail in its many forms can and will provide that relief as a complement to our national transportation system. Intercity ground transportation will add an alternative mobility we badly need to sustain our economy and protect our environment. Intercity passenger rail is the only missing link in our nation's funded transportation system.

Technology is advancing quickly to ensure safer and more efficient rail service. The only real impediment to moving forward at this time is the political will to find an acceptable financing methodology for capital improvements. To this end, we believe that H.R. 3700 provides the best alternative available to meet this need.

The upfront commitment of the 20% match will compel states to choose the most economic and responsible projects before the bonding process moves forward. The HSGTA is confident that taxpayers will get their money's worth with H.R. 3700. Along with the State's internal project review process the U. S. Department of Transportation will have oversight ensuring the viability of projects before applicants projects are approved. The U.S. DOT has an already established due diligence process to deal capital programs financed by credit instruments. TIFIA capital program financed projects such as the Alameda corridor and Penn Station rehabilitation are recent examples.

The Federal government's leverage is large. Under H.R. 3700, $3.2 Billion of tax expenditure yields $10 Billion of rail improvements. This does not include the downstream revenue generation from the taxes yielded by the goods produced. Nor does it include the benefits yielded to the overall transportation system in general in terms of congestion mitigation, cleaner air and less dependence on imported oil.

H.R. 3700 will provide a funding mechanism for rail that is currently only available to highways and transit. (The yield in dollars from the bonds is just under what would be generated by 1 penny of the gas tax) The bonding mechanism proffered by H.R. 3700 has a long and historical relationship with transportation projects. In just one example, airports such as Dulles International and Reagan National have taken advantage of the process.

The bonding program will necessarily be reviewed three years from now in the TEA–21 reauthorization process. If necessary, adjustments in program implementation can be made at that time.

The High Speed Ground Transportation Association favors the language in H.R. 3700 that allows for State DOT's and other rail carriers to receive these funds.

The equitable distribution of tax dollars is a necessary prerequisite to good tax legislation. The HSGTA favors the provisions in H.R. 3700 that ensure benefits are equitably spread around the country. There is ample evidence to show that rail improvement needs are very widespread around the country. The High Speed Ground Transportation Association thanks you for your leadership in exploring how the tax law affects the national transportation infrastructure and the transportation industries' ability to serve the public.

We thank you for this opportunity to testify in favor of this innovative legislation, and would appreciate the chance to work with the Committee and its staff as the legislation progresses.

Chairman HOUGHTON. Ms. Godwin.

STATEMENT OF JEAN GODWIN, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL, AMERICAN ASSOCIATION OF PORT AUTHORITIES, ALEXANDRIA, VIRGINIA

Ms. GODWIN. Thank you, Mr. Chairman. It is hard being the last witness on a long afternoon. I notice the room is a little emptier, so I will try to be brief.

We also appreciate the opportunity to testify this afternoon on behalf of our 83 U.S. public port members on the tax treatment of port infrastructure development.

Currently more than 95 percent of all U.S. foreign commerce flows through the ports along our Nation's coastlines and the Great Lakes. Deep-draft commercial ports in the U.S. handle more than $600 billion a year in international trade. Our ports serve as key import/export links to other transportation infrastructure, such as rail, trucking, barge, and pipeline operations that transport goods to all 50 States.

In announcing this hearing, you said, and I quote, "Without the efficient movement of people and products, the continued growth in our economy could be jeopardized." That is really the statement that I would like to focus on while we are testifying here, because a variety of Federal tax policies can really make or break the efficiency of the waterborne transportation system.

The message that I want to leave with you today is that by the year 2010, the value of the international trade is expected to double. By the year 2040, some forecasts have indicated that imports and exports will increase eightfold. These numbers are very dramatic. The increase will impact not only ports, but also the other transportation modes that carry cargo from the ports, such as rail, truck, and waterways. This growth will just increase congestion if improvements and alternatives are not provided.

One number that struck me recently is that on the east coast alone, that level of growth could mean more than 1,100 more rail containers and 10,000 more trucks along the I–95 Corridor every day. That is a truck every 270 yards between Miami and Boston, a very significant growth.

The question of whether or not this country will be ready to absorb that kind of growth really, again, depends on some of the tax policies that you have before you in this Committee. The health of our Nation's ports depends on a strong and longstanding partnership between the local public port authorities that we represent and the Federal Government.

Unfortunately, the Federal Government appears less and less willing to uphold its end of the partnership. My members are State and local agencies which are already making significant investments to try to handle these increased volumes. In 1998 alone, they spent $1.5 billion, and they plan to spend another $9.1 before 2002.

The use of bonding authority has been very important in being able to come up with the local capital needs. In 1998, revenue bonds accounted for nearly 41 percent and general obligation bonds more than 5 percent of the total investment our members made. We have also sought simplification of arbitrage rebate regulations and looked for an acceleration of the increase in private activity bond caps to try to facilitate more capital for our members, to make more financing alternatives available.

Despite the significant local financial investment over the years, we have had to continue to fight for money in appropriation cycles. The Federal Government has slowly and continually shifted away from its financial responsibilities for funding dredging. These are issues that will come before this Committee. Prior to 1986, the Federal Government paid for all dredging, including new construction and maintenance dredging. In 1986, the funding was changed by instituting the Harbor Maintenance Tax on goods to fund maintenance dredging and requiring our members, the local sponsors, to cost-share the construction projects. While the export portion of the Harbor Maintenance Tax has been declared unconstitutional, the remainder of the tax has been subject to challenge by our trading partners before the WTO. This issue will come squarely before this Committee, probably in the near future.

While the administration has proposed to remedy the situation by imposing nearly $1 billion in new taxes on ocean carriers, that proposal would allow the Federal Government to completely abdicate its financial responsibility for dredging, including the Federal cost share for new projects. We are very pleased that Congress rejected that proposal during this year's budget debate.

We spent a number of years looking at this issue as the case went through the Supreme Court. We have come to the conclusion that there is no user fee that can really equitably raise revenues in reasonable relation to the distribution of benefits to the Nation, because the difficulty we had coming up with the proposal in eighties we still face today. You cannot allocate a flat user fee without hurting our low-value exports. At the same time increasing fees can cause diversion of cargo to non-U.S. ports, a concern to our members.

We support H.R. 1260, which Mr. Oberstar, who was here, sponsored along with Congressman Borski, to repeal the Harbor Maintenance Tax and return to the original system of authorizing general revenues to pay for maintenance dredging. We believe this industry is already very heavily taxed. The GAO report last year showed there were 124 Federal fees and assessments on maritime commerce that collected over $22 billion in 1998, with about $20 billion of that going directly into the General Treasury. Some folks have looked at the Customs-related fees and said, maybe we should look at that to fund dredging. Again, either of those types of alternatives would require PAY–GO.

These are issues on your horizon. I know they are not on the agenda at the present time. We do ask you to start looking at these issues and consider some of the tax policies that do affect the movement of freight in this country. We would be a happy to come back and participate in any other discussions you have on these issues.

Chairman HOUGHTON. Thank you.

[The prepared statement follows:]

Statement of Jean Godwin, Executive Vice President and General Counsel, American Association of Port Authorities, Alexandria, Virginia

Good afternoon. I am Jean Godwin, Executive Vice President and General Counsel for the American Association of Port Authorities (AAPA). I am testifying today on behalf of the 83 U.S. public port members of AAPA. Founded in 1912, AAPA represents virtually every U.S. public port agency, as well as the major port agencies in Canada, Latin America and the Caribbean. AAPA members are public entities mandated by law to serve public purposes—primarily the facilitation of waterborne commerce and the generation of local and regional economic growth.

Mr. Chairman, we are pleased to come before you today to discuss tax treatment of port infrastructure. Ports are critical links in this nation's ability to internationally transport goods and people. Since colonial times, waterborne commerce has stimulated the economic growth and vitality of this great nation.

A modern, world-class, well-maintained port system is essential to our nation's competitiveness, international trade, and national security. A large measure of this country's unprecedented economic growth is due to the increased productivity of the American economy and foreign trade. In order to remain competitive in the global marketplace, U.S. businesses must have an efficient and reliable transportation system. Ports provide just that. Currently, more than 95 percent of all U.S. foreign commerce flows through ports along our nation's coastlines and the Great Lakes. Deep-draft commercial ports in the U.S. handle more than $600 billion in international trade. Ports serve as key import/export links to other transportation infrastructure such as rail, trucking, barge, and pipeline operations that transport goods to all 50 states. Principal commodities carried by marine transportation include petroleum and petroleum products, coal, farm products, chemical and allied products, forest products (wood, chips, pulp and paper), crude materials (sand, stone, iron and non-ferrous ore, scrap, sulphur, clay and salt) and other manufactured goods. Ports also provide the gateway for the cruise industry—serving over five million U.S. passengers a year.

Foreign trade is an increasingly important part of the U.S. economy, accounting for over 27 percent of the Gross Domestic Product in 1999. U.S. manufacturers increasingly rely on multinational products; retailers similarly source and sell globally. More than 11.5 million U.S. jobs now depend on exports. Significantly, wages for jobs supported by exports are 13 to 17 percent higher than non-export-related jobs.

U.S. exports and imports currently represent about $1.7 trillion worth of goods. By the year 2010, the value of international trade is expected to more than double, and by the year 2040 forecasts indicate that imports and exports will increase eightfold. The demand on port services to meet this growth in international trade is already being felt and will be even greater as we move toward the opening of international markets. Between 1998 and 2010, liner trade growth is projected to increase 95 percent in terms of the volume of cargo carried. This increase will impact not only ports, but other transportation modes that carry cargo from the port such as rail, truck, and waterways. Such growth will increase congestion if improvements and alternatives are not provided—on the East Coast alone such growth could mean 10,000 more trucks in the I–95 corridor (or one truck every 270 yards between Boston and Miami) and 1,100 more rail containers per day.

Ports are already making significant investments to develop the landside infrastructure to handle these increased volumes. In 1998 alone, local investment in port facilities was nearly $1.5 billion; an additional $9.1 billion of non-Federal investment is expected before 2002. The use of bonding authority, including tax exempt bonds, is a significant factor in generating revenue for much-needed port development. In 1998, revenue bonds accounted for nearly 41 percent, and general obligation bonds more than five percent, of the total investment. Locally, ports are responding to the service challenges presented by their customers and providing economic development opportunities for their communities by upgrading existing terminals and investing in new, more flexible equipment and technology. They are installing larger cranes, building on-dock rail, and improving rail and truck grade separations. Because of the importance of industrial development bonds, AAPA supports implementing a full increase of the private activity bond volume cap to the greater of $75 per capita or $225 million. This will provide state and local authorities with the additional resources necessary to support one of the economic development community's most successful public-private partnership programs. Under current law this change will not become effective until 2007.

Paying for maintenance and improvement of port infrastructure is a challenge. While the Federal government currently spends nearly $35 billion per year on surface transportation projects, less than $1 billion is spent by the Federal government on harbors. The health of our nation's ports depends on the strong and long-standing partnership between local public port authorities and the Federal government. Navigation channels are our nation's highways to the international marketplace and the world. We must continue to work together to strengthen the partnership between local public port authorities and the Federal government to ensure that the United States has the most efficient, safe, and environmentally responsible marine transportation system in the world.

As called for in the Constitution, the Federal government has sole jurisdiction over this nation's navigational waterways—a function primarily delegated to the U.S. Army Corps of Engineers but paid for by specialized Federal taxes, and other Federal, state and local money. Local port authorities and industry provide funding for land infrastructure. Port authorities are also responsible for dredging berthing areas and access channels connecting port facilities to the Federal navigation channels, and providing required cost-sharing financing of dredging. Local, state, and Federal government funds are also used to support intermodal landside access to ports, some of which is paid through the Highway Trust Fund.

Despite the significant local financial investment, over the years, the Federal government has slowly and continuously shifted its financial responsibilities for funding dredging to others. Prior to 1986, the Federal Government paid for all construction, operation and maintenance of Federal navigational channels. In 1986, Congress changed the funding mechanism by instituting the Harbor Maintenance Tax on goods and passengers, and by requiring a local sponsor to cost share construction and some operation and maintenance for deeper channels. In 1991 this tax was tripled to 0.125 percent on the value of the cargo in order to pay for 100 percent of operation and maintenance of these Federal channels.

While the export portion of this tax was declared unconstitutional, the current tax is still a significant burden on shippers and it increases the possibility of diversion of goods to Canadian ports. (Goods that are off-loaded at Canadian ports and then transported to the U.S. are not subject to the Harbor Maintenance Tax.) The ports most hard hit by this increase are those in close proximity to Canada—the North

East, North West, and Great Lakes. The latest attempt to transfer the financial burden for navigational channels is the Administration's proposal to establish a Harbor Services Tax that would allow the Federal government to completely abdicate its financial responsibility including the Federal cost share for new construction projects by imposing $1 billion in new taxes on ocean carriers. We commend Congress for rejecting this poorly crafted proposal during this year's budget debate.

There are several other problems with the Harbor Maintenance Tax that Congress will need to address in the future. First, the balance of the trust fund has continued to grow because Congress has not appropriated the entire amount collected due to overall Congressional spending limits. The most recent report from the Corps of Engineers shows that the surplus for FY 1999 exceeds $1.9 billion. This surplus comes at the same time that the Corps of Engineers projects an operation and maintenance backlog of $180 million within the deep-draft area.

Perhaps the biggest driver for change is the U.S. Supreme Court decision in 1998 that declared the export portion of the law unconstitutional and repealed the application of the tax on exports. The Constitution prohibits a tax on exports, the Court found, although user fees are allowable. Due to the fact that there was a surplus in the trust fund and that there was not a close correlation between what shippers pay in and what they get out, the Court also found that the Harbor Maintenance Tax was not a true "user fee." Therefore, the tax is currently being collected only on domestic and imported goods. However, the import portion of the tax is expected to be brought to the World Trade Organization as an unfair trade practice, and Congress and this Committee need to respond by repealing the complete tax.

AAPA has spent three years looking at possible alternatives to the Harbor Maintenance Tax. In that process, AAPA identified four criteria that U.S. ports believe must be addressed in any alternative user fee, and we urge the Committee to use these criteria as well as it considers possible options.

- There should be equity among ports so that each port gets a reasonable return for fees paid on cargo moving through it;
- The fee should not add to the price of the nation's bulk or breakbulk export products (e.g., grain, coal, paper products), making these commodities uncompetitive in international markets;
- The fee should not alter the competitive position among U.S. ports or induce the diversion of cargo from U.S. ports to non-U.S. ports; and,
- The fee should meet the constitutional test set out by the Supreme Court that it should be reasonably related to the service provided.

During our study, we were unable to identify any user fee that can equitably raise revenues in reasonable relation to the distribution of benefits to the nation. Therefore, AAPA endorses H.R. 1260, the "Support for Harbor Investment Program" Act (The SHIP Act) sponsored by Representatives Borski and Oberstar to repeal the Harbor Maintenance Tax and return to the original system of authorizing general revenues to pay for operating and maintaining our Federal navigational channels. The commercial maritime industry already pays significant fees directly into the General Treasury. A study last year from the General Accounting Office concluded that there are 124 Federal fees and assessments on maritime commerce that collected $22 billion in 1998, with approximately $20 billion of this going directly into the General Treasury. Most of this money is from Customs-related fees, therefore, some have recommended setting aside a portion of the Customs receipts for harbor dredging since most are collected from users of ports. The biggest problem to these solutions is the revenue off-set rules applied to the budget. Since this tax is broken, however, we hope that Congress will forgo the "pay-go" rules to address this issue.

In summary, let me thank you for allowing me to testify today to brief the Subcommittee about the vital role ports play in the transportation system in the United States and the Federal taxes that impact this infrastructure. To ensure our nation's continued international competitiveness, it is now more important than ever to continue to invest in an improved and efficient water transportation system.

Chairman HOUGHTON. Mr. Hulshof?

Mr. HULSHOF. I do, Mr. Chairman, briefly, and again a comment, Mr. Gutschewski. It has been a busy day for you. It has been a good day for you, because I note, number one, in your conclusion of your written testimony on page 9, you say you urge the prompt enactment of H.R. 1001, and about 6 hours ago we did that, so you are a very powerful man. I do appreciate you being here today.

Also, as one of really the chief authors of H.R. 1001, I want to thank Mr. Coyne and Mr. Houghton and you for cosponsoring that legislation.

While we did not spend a lot of time with it in the Full Committee today, while I have a chance to get you on the record and maybe help develop the record a little bit more, let me say, first of all, I think we need to make sure that everyone understands that a repeal of the 4.3 cent deficit reduction tax on diesel fuel for your industry, for the barge industry, does not take any money out of transportation funds. Is that true?

Mr. GUTSCHEWSKI. That is correct.

Mr. HULSHOF. Second, even as we were having our hearing today in the Full Committee on Ways and Means, you probably knew that one of the other Committees here on Capitol Hill was discussing the possibility of a railway trust fund.

Mr. HULSHOF. Now you indicate in your testimony, again, that that is not something that Union Pacific and I assume your industry, AAR, does not support; is that a fair statement?

Mr. GUTSCHEWSKI. AAR does not support the trust fund.

Mr. HULSHOF. Would you again—I know you touched on it briefly—but just reiterate again why you believe that is a bad idea.

Mr. GUTSCHEWSKI. We would rather administer the funds ourselves, as opposed to creating a trust fund, paying into the trust fund, sending it to Washington, D.C., and then have it flow back to us. We are a private enterprise system, and that is the way we prefer to operate.

Mr. HULSHOF. You mentioned not only the inefficient way of Washington collecting money and then doling it back to you, but also you mentioned cross-subsidies; and amplify that point for me again, if you would, of why these—or how there would be cross-subsidies were such a trust fund to be created.

Mr. GUTSCHEWSKI. Well, it is a function of who actually takes the money out of the trust—and who pays it in. The large freight railroads, being the major users of the fuel, would pay in the vast majority of the tax into the fund, and there is certainly no guarantee that we would get our fair share out of the fund. So we would rather get rid of the tax, not have the fund, and manage our own infrastructure.

Mr. HULSHOF. And let me amplify that point if I could, because in your testimony you talk about—in your written statement as well—you indicate, rightly so, that having this additional 4.3 cent excise tax that you pay, that the trucking industry does not, puts you and actually the barge industry at a competitive disadvantage, say, vis-a-vis the trucking industry; but even beyond that competitiveness, if you had the money, I mean, what would happen to infrastructure generally as far as your industry is concerned?

Mr. GUTSCHEWSKI. We have tremendous infrastructure needs, not much different than the discussion we heard earlier this afternoon about the public sector with their tremendous infrastructure needs. Since 1980 we have spent, I think, over $260 billion on our private interstate highway system, so to speak, for the freight railroads. In the next 20 years we will spend two times over the cost to replace that system.

So there are tremendous infrastructure needs, and they are funded privately by the freight railroads.

The difference between most of the testimony that has occurred today and what I am saying is the freight railroads in the private sector, operating without subsidies, and that is how we want to remain. We are not intending to advocate any changes to current law that would detrimental to other tranportation industries. Rather we appreciate the opportunity to be able to point out how we are disadvantaged by the tax laws as they impact to our ability to find capital to fund our infrastructure needs.

Mr. HULSHOF. And I think one other quick point, Mr. Chairman, if I may. My congressional district in Missouri has the Missouri River as part of its boundary and the Mississippi River forming the eastern boundary, and so, you know, river traffic is important as well. In the Inland Waterway Trust Fund, there are moneys that have accumulated in that trust fund that have not been put into infrastructure for the waterways. So my fear is—I echo what you say about creating a new railway trust fund—my concern is that suddenly you have a trust fund and then moneys accumulate and that money doesn't actually go into investment or modernization of infrastructure, and so I echo what you say.

And, Mr. Chairman, again I am appreciative that—I know this hearing had been set for some time and we were able to get the 4.3 cent deficit reduction included in the railroad retirement bill that passed our Full Committee today.I appreciate the fact that we had 36 of 39 members on the Ways and Means Committee who cosponsored the repeal of the deficit reduction tax, and I am hoping that the Senate will take this up and hopefully that the President would sign it into law.

So thank you for this opportunity, and thank for your testimony.

Chairman HOUGHTON. Thank you, Mr. Hulshof. Thanks so much for your leadership on H.R. 1011.

There are two money issues. One is the issue of taxes, both Federal and State, which hurts your operation, and the other is the issue in terms of infusion of money. And I assume, unless there is anything to the contrary, that the bonding mechanism has been pretty successful in a whole variety of ways, particularly in port authority; is that right?

Ms. GODWIN. Yes, sir, that is correct.

Chairman HOUGHTON. So in taking a look at this first cut here of the railroads, what we want to do is sort of take a larger look and then a larger and then a larger, to see what we can do really to make this an extraordinary operation and not just stop with this $10 billion funding.

What other things do you think we ought to do? What other taxes are terribly important to the operations of the railroads? Would you like to answer that?

Mr. GUTSCHEWSKI. I point them out in more detail in the written statement, but the deficit reduction fuel tax is key. Beyond that, for our basic infrastructure spending, as I said, we capitalize and depreciate over a period of years the substantial majority of the costs we spend. The trucking industry funds their infrastructure costs with fuel taxes, and they obviously thereby get an immediate deduction. So there is a significant disparity there. Further, because we own and maintain our own private interstate highway system in essence, we pay State property taxes on that. I do not know of anything that Congress can do about that. As a matter of fact, in 1976, Congress passed the 4–R Act which prevents discriminatory State taxation of railroads, nevertheless—we still pay $450 million a year in state property tax because we own our infrastructure. Most of our transportation competitors do not own the infrastructure upon which they operate.

What we wanted to point out were some of the issues that create inequities.

On the depreciation issue, that is a difficult question to answer because different freight railroads are in different taxpaying positions, and we don't have a single answer yet in the freight industry as to what final approach result we would want to use to address that inequity. But it is a significant disadvantage for the private freight railroads in terms of the tax treatment that their infrastructure dollars receive, versus the tax treatment of the fuel tax that the truckers pay.

Chairman HOUGHTON. I know in New York there have been extraordinary taxes on real estate, and it has been very hurtful for the railroads that operate there. And so you can have a great system in Pennsylvania and a great one in Vermont and New Hampshire, and you have to go through New York and it is very, very difficult. So that is of concern.

The other thing I think about is in terms of other financing needs. If we are really going to sort of leap ahead and take advantage of the technologies, whether it is high-speed rail, whether it is maglev, or whatever, I can see a whole series of other bonding opportunities coming along. Do you feel this way also?

Mr. DYSART. Absolutely. I think it seems apparent that some sort of trust fund or use of trust funds is not going to be politically acceptable at least at this point in time. So we have to find innovative ways to finance what we need to do. There is no doubt we have indeed—and yes, Mr. Chairman, I think indeed we will find some other things that need bonding and there will be opportunities for those that issue bonds and buy them.

Chairman HOUGHTON. Thank you. Ms. Godwin have you got any other comments that you would like to make?

Ms. GODWIN. I don't really have anything to add on the rail side, sir, but again there are a lot of different policies out there that increase costs in different places along the way, taxes on trade, in a variety of aspects. If you are all interested in looking at that, I would be happy to provide you with some more information.

Chairman HOUGHTON. Well, thank you very much to the panel. We appreciate your testimony, all the information. The hearing is adjourned.

[Whereupon, at 4:25 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of American Society of Civil Engineers

Mr. Chairman and Members of the Subcommittee:

The American Society of Civil Engineers (ASCE) is pleased to offer this statement for the record on the tax treatment of transportation infrastructure.

ASCE was founded in 1852 and is the country's oldest national civil engineering organization. The Society represents more than 125,000 civil engineers in private practice, government, industry and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a 501(c)(3) non-profit educational and professional society.

We have a longstanding interest in increased investment in our national transportation infrastructure as a proven method to enhance America's productivity and global competitiveness. America's public capital stock, which is the sum of the nation's existing public facilities, is the foundation on which the economy stands and grows. As the economy grows, so must the capital stock. Without increased infrastructure investment, the added burden of a larger economy will stress the existing infrastructure beyond its capacity to perform.

For this reason, ASCE has long supported the use of targeted federal tax policies as a means of supporting the required investment in all forms of infrastructure, especially that relating to transportation.

Since the inception of the Highway Trust Fund in 1956, ASCE has supported the use of federal excise taxes on gasoline and other motor fuels to raise the funds necessary to finance federal-aid highway construction projects. Indeed, the Society helped to lead the fight in Congress to enact the Transportation Equity Act for the 21st Century (TEA–21), Pub.L. 105–178, June 9, 1998, 112 Stat. 107. A key provision of the Act was the extension of the federal excise tax on gasoline and other fuels to support the Highway Trust Fund.

Similarly, ASCE supported passage of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR–21), Pub.L. 106–181, Apr. 5, 2000, 114 Stat. 61, which extended the federal excise tax on aviation fuel to finance the Airport Improvement Program (AIP).

The Need for Investment in the Transportation Infrastructure

ASCE strongly supports the concept of transportation infrastructure investment. Furthermore, we believe that this investment ought to come in the form of designated trust funds that are apart from the unified federal budget or have revenues that are segregated from other federal program revenues.

The lack of adequate investment in America's infrastructure has left us with a vast backlog of deteriorated facilities that no longer meet our nation's increasing demands. We reported in the *Report Card for America's Infrastructure* in 1998 that the nation will need to spend more than $1 trillion by 2003 to upgrade and modernize its entire infrastructure.

Moreover, we agree with the Congressional Budget Office that the federal government needs to better account for the costs of capital acquisition and improvements.

Under current [budgeting] practice, acquisition costs are frequently paid for by an account other than that of the user, and the holding costs of capital are almost never recognized. Purchases are often paid for by a funding source outside the program, such as a central capital account, an agency other than the user, or even a different level of government. And once an asset is acquired, neither the decline in its value from aging and use nor the interest on the public debt that could be retired if the asset was sold is recognized as a cost of the decision to retain and use that asset. In fact, the costs of acquiring and holding capital are reflected in the operating costs of the using entity only in the unusual case in which the asset is purchased by the program agency with funds borrowed from the Treasury.

June E. O'Neill, Director, Congressional Budget Office, Statement on Capital Budgeting before the President's Commission to Study Capital Budgeting (Apr. 24, 1998) <http://www.cbo.gov/showdoc.cfm?index=440&from=3&sequence=0>

Federal Tax Policies and the Infrastructure

A number of federal tax policies already have some impact on transportation infrastructure. The taxes have a variety of policy purposes; some are designed to assist in infrastructure funding and development, others to mitigate the environmental impact of an expanding infrastructure and still others to alter the transportation mix, which in turn affects infrastructure development policy choices. Among these policies are:

- A local tax on aviation fuel that may be levied as long as the local law requires all revenues to be used exclusively for capital or operating expenditures for an airport or for "any other local facility that is owned or operated by the... entity that owns or operates the airport. . ..".'
- A 10 percent tax credit (not to exceed $4,000) for any year in which a taxpayer places a "qualified electric vehicle" in service. The credit will be phased out, ending entirely in 2004 under current law.
- A federal excise tax (currently set at five percent) on any passenger vehicle that costs $30,000 or more. This tax will expire on December 31, 2002, under current law.

• An excise tax (currently set at 20 cents a gallon) on fuel used in commercial transportation on inland waterways to finance the Inland Waterways Trust Fund.

• An excise tax of 7.5 percent of the ticket price on all air travel to support the Airport Improvement Program. In addition, a tax of $2.50 is currently imposed for each flight segment on all domestic flights.

• An excise tax of $3 on each passenger who boards a passenger vessel in the United States.

ASCE supports stable funding for all transportation infrastructure systems, i.e., aviation, highways, harbors, inland waterways and mass transit. The revenues must be steady to provide orderly and predictable allocations to meet current and future demand. Each of the taxes discussed above satisfies some of the transportation infrastructure needs of the country and should be retained in substantially their present forms.

The Harbor Maintenance Trust Fund

A significant long-term transportation infrastructure funding issue still remains to be resolved by Congress. Before 1986, general funds from the U.S. treasury were used to pay 65 percent of the cost to operate ocean and inland ports and to maintain and deepen their channels. The other 35 percent was paid by ports, or by state or local governments.

Congress enacted the Harbor Maintenance Tax (HMT) in the Water Resources Development Act of 1986. Pub.L. 99–662, Nov. 17, 1986, 100 Stat. 4082. HMT revenues were to cover not more than 40 percent of the cost (i.e., what had been the local share) of maintaining U.S. ports and harbors. The balance came from the general fund. In 1990, Congress amended the law to eliminate the general fund and local shares entirely in order to have the tax on passengers and cargoes cover all of the costs of maintaining the harbors. See Water Resources Development Act of 1990, Pub.L. 101–640, Nov. 28, 1990, 104 Stat. 4604, 4641.

The HMT applied a uniform charge on the shipment of goods shipped from and arriving in U.S. ports. In 1998, the U.S. Supreme Court overturned the export provision of the HMT on constitutional grounds. See U.S. v. U.S. Shoe Corp., 118 S.Ct. 1290 (1998). The Supreme Court ruled that the Export Clause of the Constitution prohibits a tax on exports.[1]

In addition to the tax on cruise ship passengers, the HMT continues to be collected on imports arriving at U.S. ports and on domestic cargo shipped within the U.S. The HMT on passengers, domestic cargo and imports raised $551.3 million in fiscal year 1999. The Harbor Maintenance Trust Fund surplus totaled $1.6 billion in FY 1999.

In August 1998, the Clinton Administration proposed to replace the entire HMT (including the levy on imports and cruise passengers) with a tax on vessel cargo capacity. This Harbor Services User Fee (HSUF), which might—or might not—meet the Supreme Court's constitutional objections to an export tax, would raise about $1 billion a year and continue the requirement that the entire cost of port and waterway maintenance be borne by the shipping industry. This proposal is somewhat controversial and has not yet been enacted.

The Corps of Engineers predicts that the Harbor Maintenance Trust Fund surplus will grow to approximately $2.5 billion by fiscal year 2004 without any change in current tax law (in part because congressionally authorized expenditures from the Trust Fund in fiscal years 1999–2000 totaled only about $12 million together).

That otherwise rosy picture is clouded by a legal challenge from the European Union (EU) to the tax on imports, which accounts for about 60 percent of total Harbor Maintenance Trust Fund revenues. Europe views the import tax as a barrier to international trade. If successful, the EU challenge would drastically reduce revenues available for port and harbor maintenance.[2]

ASCE therefore supports efforts to preserve the financial integrity of the Harbor Maintenance Trust Fund. This may require innovative methods of financing infrastructure capital projects or the continued use of methods that have been proven successful in the past. These methods include:

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[1] In *Princess Cruises Inc.* v. *U.S.,* 201 F.3d 1352 (2000), however, the U.S. Court of Appeals for the Federal Circuit upheld the constitutionality of the HMT on passengers traveling on commercial cruise vessels ("'Articles' and 'goods' [under the Export Clause] relate to items of commerce, not people.").

[2] The EU filed a complaint with the World Trade Organization (WTO) in early 1998, alleging that the HMT on goods arriving in the United States violates the General Agreement on Tariffs and Trade (GATT) of 1994. The dispute remains unresolved. *See* European Commission, REPORT ON UNITED STATES BARRIERS TO TRADE AND INVESTMENT: 2000 19 (2000).

• Tax-exempt bond financing and related infrastructure funding strategies for establishing public-private partnerships, expanding state revolving loan funds, and creating a Federal Infrastructure Bond Bank.
• State infrastructure financing agencies supported in part by federal loans to provide low interest loans for new construction, rehabilitation or replacement.
• User fees for operation, maintenance, replacement or rehabilitation of transportation infrastructure.
• Development fees and impact fees to pay for new infrastructure construction.
• Dedicated user taxes and trust funds for specific classes of infrastructure such as highways, airport systems and ports and harbors.

We think that these methods, or a combination of them, would be appropriate to place the Harbor Maintenance Trust Fund on a secure long-term footing. In addition, Congress may wish to consider a tax on the draught of vessels or their dock capacity to relate the tax more closely to the benefit received from well-maintained port facilities. This would more closely resemble a classic user fee than would the cargo capacity tax proposed by the Administration.

Finally, Congress may wish to add a general fund component to the fiscal mix in order to spread the costs of the harbor and port maintenance program, which benefits all Americans.

Mr. Chairman, that concludes our prepared statement. Thank you for your interest in our concerns. If you have any questions, please contact Michael Charles of our Washington Office at (202) 789–2200 or by e-mail at "*mcharles@asce.org.*

Statement of Bond Market Association

The Bond Market Association appreciates the opportunity to comment on the effect of tax laws on the development of transportation infrastructure, and in particular, on issues related to innovative financing for public projects. The Bond Market Association represents approximately 200 securities firms and banks that underwrite, trade, and sell debt securities both domestically and internationally.

We are pleased Chairman Houghton has chosen to explore the use of innovative financing solutions to fund transportation infrastructure. The High-Speed Rail Investment Act (H.R. 3700) introduced by Chairman Houghton is an example of such a solution. The legislation would authorize issuance of tax-credit bonds, a new public financing structure that seeks to substitute tax credits for interest payments.

The Bond Market Association generally supports policy initiatives designed to leverage private capital and provide innovative financing solutions to policy issues. In this statement we focus on the structure of tax-credit bonds from a capital markets perspective, including for Qualified Intercity Passenger Rail Carrier Bonds (QIRB) and for other tax-credit bond proposals.

The Background of Tax Credit Bonds

In a traditional debt financing, bond investors (lenders) earn periodic interest income paid by bond issuers (borrowers). In contrast, buyers of tax-credit bonds earn the ability to claim federal income tax credits which are designed to be in lieu of interest payments by bond issuers. The amount of the credit is equal to a credit rate set daily by the Treasury Department times the amount of tax-credit bonds an investor holds. If tax-credit bonds work as designed, issuers should receive zero-cost financing on their borrowing. Theoretically, all the return earned by investors results from the tax credit. The Taxpayer Relief Act of 1997 authorized $800 million of tax-credit bonds over two years in the form of Qualified Zone Academy Bonds (QZABs). Congress later reauthorized and extended the program through 2001. QZABs are designed to subsidize borrowing by targeted public school districts to finance improvements to school infrastructure.

Tax-credit bonds, despite their limitations, have the potential to provide deep subsidies to state and local government borrowers. Although in most instances tax-credit bonds have not lived up to their promise of offering zero-cost financing, they provide a lower cost of capital for states and localities than any other available source except for direct grants. Still, the structure could be improved significantly by adopting several targeted changes.

Problems with Current QZABs

In order to be successful and offer states and localities the lowest possible cost of borrowing, tax-credit bonds for land conservation or greenspace preservation should be appealing to investors and other capital markets participants. The success of QZABs under current law has been hampered by several elements of their structure.

The timing of tax-credits may be mismatched.

A QZAB investor earns the ability to take an annual credit on the anniversary date of a bond's issuance. However, the credit becomes economically valuable to the investor only when it has the effect of reducing a tax payment, and that occurs only on a day when an investor is required to make a federal tax payment. For some investors, tax payment dates occur only once per year. The mismatch in timing between the time a credit is earned and the time it generates a cash flow for the investor can significantly reduce the value of the credit.

The program is small.

Congress has authorized only $400 million of QZAB issuance per year for four years, only a small portion of which has actually been used. This $1.6 billion amount is allocated among all the states, so any one state receives a relatively small allocation. The small size and short term of the program results in several problems. First, it is difficult for bond issuers, attorneys, underwriters, investors and others associated with municipal bond transactions to commit resources to developing expertise on a new and unknown financing vehicle when very little issuance will be permitted to take place. Second, the small issuance volume has resulted in no significant secondary market for QZABs. A lack of market liquidity discourages investors and raises costs for issuers.

Investors are limited.

Only three classes of investors are permitted to earn federal income tax credits by holding QZABs: banks, insurance companies and "corporations actively engaged in the business of lending money." Individual investors, a potentially strong source of demand for tax-preferred investments, are excluded as QZAB investors. Recently proposed changes to the program would open the market for QZABs to other investors, including individuals.

Changes to the Structure of Tax-Credit Bonds in H.R. 3700

The structure of the tax-credit bonds provided for in the High-Speed Rail Investment Act include a number of positive changes from the original QZABs program. Some key improvements in H.R. 3700 include:

Strippability.

Under H.R. 3700, it would be possible to strip the tax credit from the underlying debt instrument and market the tax credit separately. This change would help ensure that those investors who bought and held the credit would be those most likely to actually incur a tax liability over the term of the credit, and would help ensure that the credit is priced more efficiently. It would also permit the debt portions of tax-credit bonds to be sold to tax-exempt investors such as pension funds. A similar stripping provision applied to traditional tax-exempt bonds would improve pricing and efficiency in that market, as well.

Quarterly credit dates.

Under H.R. 3700, credit accrual dates would be quarterly and would be timed to match quarterly estimated tax payment dates. This would help minimize a mismatch in timing between when a tax credit accrues and when it generates a cash flow for an investor. H.R. 3700 places no limitations on how long the credits can be carried forward.

Transferability.

Under H.R. 3700, there would be no limit on the transferability of the credit through sale and repurchase. Moreover, an investor would need to hold a bond only on the allowance date in order to qualify for the credit that quarter. This would permit an investor who had no tax liability in a given period to "repo out" a tax-credit bond—sell the bond temporarily to another investor at a price that reflects the value of the tax credit—and still benefit from the credit.

Exemption from "arbitrage" restrictions.

Tax-credit bond issuers under H.R. 3700, would not be required to limit the return on the investment of bond proceeds. Issuers would not be required to rebate arbitrage earnings to the federal government as is the case with other tax-exempt bonds. (Arbitrage restrictions place limits on profits issuers of tax-exempt bonds can earn from investing the proceeds of the bonds.) This would substantially reduce the costs of projects financed with tax-credit bonds. Arbitrage restrictions applied to traditional municipal bonds have resulted in uneconomic incentives and have imposed significant compliance costs on states and localities.

No Limit on Investors

H.R. 3700 places no restrictions on who is able to hold a QIRB and claim the corresponding credit, thus effectively expanding the market for the bonds compared to other current law.

Additional Issues and Recommendations

Despite these significant improvements to the tax-credit bond structure in the High-Speed Rail Investment Act, there remain significant limitations that would erode the value of tax-credit bonds and increase costs to school districts and other issuers. These include:

Consequences of issuer violations

The bill does not address cases where an issuer fails to comply with the conditions of the program while bonds remain outstanding. The only remedy in such a case would be to rescind the ability of investors to claim credits for the bonds in question.

This provision would impose risks on investors and would hamper the success of tax-credit bonds. Similar risks exist for investors in tax-exempt municipal bonds. The tax risk for tax-credit bond investors, however, is greater than for tax-exempt bonds. With a tax-exempt bond, only a portion of an investor's after-tax return results from the tax preference. If the tax-exemption on a municipal bond issue were repealed, investors would still earn a cash flow from the bond's issuer, albeit at a much lower after-tax return than originally anticipated. For tax-credit bonds, all the return earned by investors results from the tax preference. If the tax preference were rescinded, investors' rates of return would fall to zero.

It is unreasonable to impose a penalty—the loss of tax credits—on investors who have no control over issuer compliance with the terms of the program. The tax-credit bond structure should be amended so that in cases of issuer violations of the terms of the program, the government's only course of remedy would be against bond issuers. Investors should not be subject to penalties for violations they did not commit.

Secondary market

The overall size of the QIRB program would result in relatively small and illiquid secondary markets. ("Secondary market" refers to the buying and selling of securities after they are issued. "Liquidity" refers to the ease with which an investor can buy or sell a bond on the secondary market.) The bill would authorize $1billion of QIRB issuance per year for 10 years. In the context of the capital markets overall, however, this is a relatively small volume of issuance, especially given the novelty of the financing structure.

In contrast, there are approximately $1.5 trillion of traditional municipal bonds currently outstanding. As in any market with a small total outstanding volume of securities, the relatively small size of the tax-credit bond market would ensure that little secondary market trading took place. Tax-credit bonds would be illiquid instruments. As a result, investors would demand a liquidity premium, or a higher rate of return from bond issuers to compensate for the risk and cost of illiquidity. Short of authorizing substantially higher levels of tax-credit bond issuance—an impractical policy—the ability to mitigate this effect is limited. One possible remedy would be to encourage states and localities to employ pooled financing arrangements in order to generate larger bond issue sizes.

Additional issues

Market participants have identified other limitations of pending tax-credit bond proposals that QIRBs share. The features would tend to limit their attractiveness to bond issuers. Many of these appear to be purposeful limitations designed to restrict or target the level of subsidy associated with tax-credit bonds. The following are three examples:

- The credit rate for QIRBs would be set on the day before the day of issuance and would be based on yields on corporate bonds rather than taxable municipal bonds. The interest rate should be continuously set to reflect as best as possible current conditions in the credit markets.

The maximum maturity for QIRBs would be limited to 20 years, whereas many public infrastructure projects currently are financed with debt up to 30 years in maturity and sometimes longer.

The tax-credit itself would be treated as taxable income, which would make the instruments less attractive to targeted investors.

Related Legislation

Another bill (H.R. 859) introduced in the House would also provide preferential tax treatment for the financing of transportation infrastructure. The legislation, introduced by Rep. Jennifer Dunn (R–WA), would permit on a pilot basis tax-exempt private-activity bond financing for highways and other surface transportation projects. The Bond Market Association fully supports this proposal.

The tax-exemption on municipal bonds is one of the most important sources of federal assistance to states and localities for investment in infrastructure. However, state and local issuance of tax-exempt bonds is subject to a complex set of federal regulations and restrictions, especially when the projects being financed involve more than a de minimis level of private participation. Some of the limits on state and local borrowing are reasonably designed to ensure that only worthy projects can benefit from the federal assistance inherent in the tax-exemption. Many of the restrictions, however, unreasonably limit the amount of public investment that states and localities can undertake and limit the financial flexibility of state and local governments in new infrastructure development, especially in utilizing public-private partnerships. One such restriction is the prohibition on tax-exempt bonds issued to finance highway projects that involve private concessions.

H.R. 859 would allow the Department of Transportation to approve a limited number of pilot highway projects that would be eligible for tax-exempt private-activity financing. The financing of private highway concessions in the tax-exempt bond market would permit such projects to be built faster, more efficiently and at a lower cost than if the projects were wholly public. The Bond Market Association also believes the proposal is entirely justifiable on tax policy grounds, since all the projects that are likely candidates for the pilot program would probably be undertaken by the public sector and financed with tax-exempt bonds anyway. Indeed, it is possible the pilot program would result in no net additional tax-exempt bond issuance—and, depending on the efficiencies inherent in utilizing private-sector involvement, perhaps even less issuance—than under current law.

Permitting the bonds to be issued outside of state private-activity bond volume caps, as H.R. 859 would allow, will make the pilot program more effective. Highway projects are so large that without an exemption from the volume caps, the pilot program would be of very limited usefulness. Many projects would simply exhaust too large a portion of a state's annual cap allocation.

There is no public policy justification for the current-law prohibition on private-activity, tax-exempt financing of highways. The Bond Market Association has long argued highways should be included as permitted "exempt facilities" under Section 142 of the Internal Revenue Code. H.R. 859 is a welcome move in that direction.

Conclusions and Recommendations

The Bond Market Association supports the use of creative financing mechanisms that allow states and localities to leverage the capital markets to address policy issues. In this respect, we believe that tax-credit bonds could potentially provide an attractive form of federal assistance to states and localities to help finance capital investment. Most important, tax-credit bonds could potentially give issuers a lower cost of capital than they could achieve with any other instrument. However, a key element of the proposal—the ability of the IRS to rescind the tax credit in cases of issuer violations—would impose undue risks on tax-credit bondholders. If Congress considers tax-credit bonds, we urge the adoption of an amendment to hold bondholders harmless in cases of issuer violations. In addition, we recommend that the proposal be amended with respect to the treatment of sinking funds under arbitrage limitations as specified above.

Statement of Ross B. Capon, Executive Director, National Association of Railroad Passengers

Thank you for the opportunity to submit this statement. Our non-partisan Association—whose members are individuals—has worked since 1967 towards development of a modern rail passenger network in the U.S. We strongly support H.R.3700 and greatly appreciate your initiative in sponsoring it.

The traveling public's thirst for high-speed rail is reflected in impressive ridership growth on today's trains, as reflected in the table below. With improvements such as this bill would permit, the growth will be even more impressive.

Ridership Growth in Selected Amtrak Corridors

	Empire Corridor (NY State)	Pacific North-west (1)	Chicago-Milwauke e	San Joaquin Valley	San Diego-Los Angeles-Santa Bar-bara
1975	652,600	244,900	....	63,040	353,600.
1993	....	226,000 (2)	....	....	.
FY 1999	1,262,700	565,100	413,000	674,900	1,540,200.
% change	+93%	+150%	+69%	+971%	+336% (3).

Note (1): Initially, Seattle-Portland only; now extends south to Eugene, Oregon, and north to Vancouver, B.C.

Note (2): First year of the Amtrak/State of Washington partnership.

Note (3): This understates growth of passenger rail in this corridor, because today's extensive commuter-rail service along most of this line did not exist in 1975.

Improved passenger rail service means a U.S. transportation system with more:

- Capacity to move people—a requirement for a growing economy;
- Reliability—since modern trains are less vulnerable to bad weather;
- Choices available to travelers;
- Energy efficiency—and thus less vulnerability to future energy crises; and
- Flexibility to use varied energy sources (where lines are electrified).

Thus far, federal funding for intercity passenger rail partnerships with states has been severely limited, primarily to those situations where a courageous state has had a program ready at one of those serendipitous moments when Amtrak had the ability to offer matching funds. I say "courageous" because it is tough for state rail people to explain to other state officials (including legislators) why rail investments are appropriate when those investments leverage little or no federal money, while highway and aviation investments usually leverage 80% federal funding.

Federal policy treats the aviation and highway trust funds essentially as "mode-specific money machines" which encourage investment in more road and aviation capacity even where rail could do the job better. With no indication of any near-term change in that philosophy, rail passenger progress depends on meeting the challenge to find other federal funding sources. The principle embodied in H.R.3700 and S.1900 appears to meet that challenge.

The popularity of rail is reflected not just in the ridership growth on trains that are slow by European and Asian standards, but also in the number of co-sponsors these bills have. What's more, the most common reasons we have heard for failure to co-sponsor are:

(a) fear that the legislator's corridor will not get a big enough share of the money; and

(b) lack of a corridor in the affected state or district.

There is little or no substantive opposition to improving passenger rail corridors.

Thank you very much for the opportunity to submit this statement.

Statement of Hon. Bud Shuster, Chairman, Committee on Transportation and Infrastructure, and a Representative in Congress from the State of Pennsylvania

Thank you, Mr. Chairman, for allowing me the opportunity to submit my views on a current proposal for assisting in the upgrade of rail passenger infrastructure. It is my understanding that H.R. 3700 will be discussed in some detail at this hearing.

H.R. 3700 deals extensively with Amtrak, and therefore affects not only implementation of the Amtrak Reform and Accountability Act of 1997, but also future federal policy toward rail passenger service and its infrastructure. I would like to offer some pertinent observations on Amtrak's situation and H.R. 3700. With your permission, I would also request that my remarks be included in the record of the Subcommittee's hearing.

H.R. 3700 Infrastructure Funding

The bill would authorize the issuance of $10 billion in bonds to be issued nominally by any rail passenger carrier. These bonds, instead of being marketed on the basis of the creditworthiness of the issuer and prevailing rates of interest, would carry a federal income tax credit calculated to equal the value of the prevailing interest rate on high-quality corporate bonds. The tax credits would also be saleable and transferable (page 12, lines 1–4 of the bill). To put the size of this fund in perspective, $10 billion is almost half of the entire cumulative federal spending on passenger rail since 1970.

The bond proceeds would constitute an infrastructure fund intended for various rail corridors that would be at least partially improved with a view to future high speed rail passenger service. States or groups of states could only access this fund for use on their respective rail corridors by providing a 20 per cent contribution, with the project funded from the bond/infrastructure fund.

I want to point to a very positive difference between H.R. 3700 and its counterpart in the other body, S. 1900. The House bill (p. 13, lines 16–20) affirms that any Amtrak-issued bonds are backed by Amtrak only, not the U.S. Treasury. This upholds the current state of the law, as reflected in two rulings of the Comptroller General in 1986 and 1997-that the federal government is not liable for any of Amtrak's corporate obligations.

Conflict with the 1997 Repeal of Amtrak's Former Monopoly

One concern I have with H.R. 3700 as introduced is that the ability to issue bonds appears, in practical effect, to be limited to Amtrak only. H.R. 3700 (p. 5, lines 5–6) permits the special bonds to be issued by any "intercity rail passenger carrier," and defines such a carrier (page 8, line 24 through page 9, line 4) as one meeting the definition in Amtrak's own statute (49 U.S.C. 24102(7)). Although such a "rail carrier" can include "a unit of state or local government," the definition adopted in the bill could well preclude direct hiring of non-Amtrak contract operators by a state or group of states, especially if such operators did not constitute "rail carriers" under the existing federal statutes.

A core element of the 1997 reform law was the elimination of Amtrak's former statutory monopoly over intercity rail passenger service. Although Amtrak alone still possesses compulsory access and eminent domain powers respecting the rail network owned by private freight railroads, the reform law sought to subject Amtrak to competitive market discipline and incentive by empowering new alternative operators to enter the market. (When the Interstate Commerce Commission was abolished in 1995, federal entry and exit regulation over rail passenger service was also eliminated.) Any measure that in practice makes Amtrak-or any operating company—the sole source of infrastructure assistance for future high-speed rail corridors directly contradicts that policy.

Direct and Delegated Decisions on High-Speed Rail Infrastructure Resource Allocation

H.R. 3700 also contains no statutory structure (other than that states contribute at least 20 percent of the cost of each project) establishing the respective roles of federal and state government in upgrading rail passenger infrastructure. Instead, the "intercity rail passenger carrier" is given control and discretion over the allocation of resources. To take but one extreme example, there is no assurance that a state that proffers the required 20 per cent contribution will receive any funding. The Secretary of Transportation would have to "approve" a project (page 5, line 13–15), but there are no criteria for such approval, and if the issuer-operator refused to seek DOT approval for a state-supported project, DOT could potentially play no role at all.

This contrasts with the statutes governing our existing infrastructure programs for airports, highways, and transit, under which the relationship between the Department of Transportation and state governments is spelled out clearly, along with the parties' respective rights and responsibilities.

I also have concerns about Amtrak's ability to manage such a large amount of capital funds. A report I commissioned from the General Accounting Office (GAO/RCED/AIMD–00–78, February 2000) concluded that Amtrak spent some 90 per cent of the examined sample for unauthorized purposes. More importantly, GAO found that Amtrak had no workable internal tracking or accounting procedures to assure that the money was properly spent in accordance with the Internal Revenue Code directives. Amtrak has also engaged in what is, in my view, the highly questionable practice of "borrowing" from the refund-statutorily limited to capital use-for other purposes. This practice has no sanction in the 1997 tax law.

Another area that requires further analysis is the distribution of project funds. On a broader level , H.R. 3700 provides only very general geographic limits on total expenditures. Specifically, the bill sets a $3 billion, or 30 percent, maximum for use of bond proceeds on the Amtrak-owned Northeast Corridor (page 8, lines 7–11). There is also a 10 percent, or $1 billion, cap on resources for all potential U.S. high-speed rail corridors other than the Northeast Corridor and those already designated by DOT under existing law (page 7, lines 7–14). By default, the corridors outside the Northeast already designated by DOT have unlimited access up to the full $10 billion limit.

I want to be sure that investments in corridors are made wisely and in a coordinated fashion. In TEA 21, we created a similar program to upgrade High Priority Highway Corridors. In that program, we required corridor management plans and other safeguards to ensure that corridor investments were made in a coordinated manner. I would like to see similar safeguards here.

I applaud efforts to arrange for a stable, long-term program of rail passenger infrastructure improvement. The use of bond-issuing technique itself may prove to be a viable method of channeling much needed resources into rail passenger

corridors. But any such effort must be consistent with the Congressional decisions embodied in the 1997 Amtrak reform law, and must reflect a comprehensive set of reasoned national priorities, formulated in cooperation with the states, and empowering the states to make many of the important end-use decisions.

Newest GAO Information on Amtrak Cost Structure and Capital Needs

I have recently released a report, completed by GAO at my request, on Amtrak. It is entitled Intercity Passenger Rail: Amtrak Will Continue to Have Difficulty Controlling Its Costs and Meeting Its Capital Needs (GAO/RCED–00–138, May 2000). I would like to share with you a few highlights of the report, to provide some context for evaluating Amtrak's current condition, management, and prospects. I will only touch on a few salient points, and recommend the entire report to your Subcommittee.

1. Costs Versus Revenues

GAO found that Amtrak's total operating costs have increased from 1995 to 1999 more than 12 percent above the rate of inflation (pp. 8, 18). As in its handling of the 1997 tax "refund," Amtrak apparently lacks an orderly internal accounting system to help it control these costs. For example, GAO found that Amtrak has no line-of-business measures of labor productivity, even though labor costs are half of total operating costs, and have been growing at 10 per cent above the rate of inflation, net of any productivity savings (pp. 22, 25). On commuter railroads, the comparable rate of increase was 1.5 per cent above inflation (p. 22, note 6).

On the other side of the ledger, Amtrak met its revenue targets in only 2 of these 5 years (p. 38). During the same five years, Amtrak's debt obligations more than doubled, from $890 million to $1.9 billion (p.29).

2. Amtrak's Capital Needs *Without* Additional High-Speed Rail Corridors

GAO concluded that Amtrak will require over $9.1 billion in capital through 2015-a period equal to only three-quarters of the life of the bonds created under H.R. 3700 (p. 40). The Northeast Corridor alone will require $1.4 billion by 2004, just to return it to a state of good repair (p. 41). Another $4.4 billion will be required there through 2015 (p. 52). In short, Amtrak is facing huge capital requirements, along with inadequately controlled costs, just with its existing routes and infrastructure-not a whole new network of high-speed corridors.

These figures represent GAO analyses of Amtrak data; amazingly, Amtrak has no long-term capital plan whatever, and for the last 3 years, has prepared capital plans with only a 1-year timeline (p. 58). According to GAO, without any long term plan, "Amtrak is incapable of ensuring effective use

of these funds" (pp. 5859). I would add that this is all the more reason not to make Amtrak the exclusive and unfettered conduit for federal resources to assist the development of high-speed rail corridors.

I hope that your Subcommittee will find this information useful in your hearing and any subsequent legislative action. Thank you again for considering my views and making them a part of your hearing record.

Statement of Jean-Pierre Ruiz, Chief Eexecutive Officer, Talgo, Inc.

Mr. Chairman. My name is Jean-Pierre Ruiz and I am the Chief Executive Officer of Talgo, Inc. with main offices in Seattle, Washington. I am very pleased to submit this testimony in support of HR 3700, the High Speed Rail Investment Act.

Talgo, Inc. is an American rail passenger car manufacturer, wholly owned by Patentes Talgo, S.A. (PTSA). PSTA has been building rail passenger cars on a unique design for over 50

years. In fact, the very first Talgo trains were build here in the United States in 1949. Our design permits us to build high speed passenger trains that tilt naturally—using mother nature instead of high technology to achieve a safe, smooth, comfortable, high speed ride on track that is not specifically designed for such traffic. And it can do that at less cost because it does not need to install or maintain costly computers and mechanical devices to achieve this end.

We wish to commend the provisions of HR 3700 to the Committee for a number of important reasons. But the main reason is that the time for efficient, timely, reliable Intercity Rail is **now**

Talgo America is a US company incorporated under the laws of the State of Delaware. Talgo America, and its US subsidiaries, design, manufacture and maintain intercity passenger railcars and locomotives. At present, four (4) Talgo passenger trainsets are being operated by Amtrak in the Pacific Northwest Corridor under the brand name: Amtrak Cascades. The Washington Department of Transportation ("WSDOT") owns two of these trainsets, and Amtrak owns another two. These trains operate between Seattle (WA) and Vancouver (BC), and between Seattle (WA) and Portland and Eugene (OR). Since the introduction of Talgo's equipment, this corridor has seen growth in excess of 150%.[1] </SPAN> In 1999, some 570,000 people rode the Cascades. More than 60% of the operating costs were covered by fare box revenues.[1] The entire corridor has been revitalized with an estimated 400 permanent jobs created.[1]

The success of the Amtrak Cascades is but an indication of the need for and the acceptance of intercity rail in America. Far from being competition to the automobile and the airplane, *efficient, timely, reliable Intercity Rail* will complement those other modes of transportation. In effect, intercity rail is the third leg of a three-legged stool. It is undeniable that a complete and efficient transportation network is the backbone of a strong economy and only by making each leg as strong as the other will America have such a network.

Independent statistics demonstrate the waste resulting from congested highways and airports. Furthermore, *Amtrak's* results, *in the corridors where it is* **allowed** to succeed, demonstrate the public's acceptance of this mode of transportation.

Not so long ago, America had the most efficient rail transportation network **in the world!** This was because it was the most efficient transportation mode of its time. Hence, in 1929 there were 20,000 passenger trains in the US. That number had dwindled to 11,000 by 1946, and 500 by 1970.[2]

When the US government began to actively subsidize the automobile and the airplane, shortly after World War II, rail was doomed. Initially, the results of such a shift in transportation thinking were favorable. At a time when Americans were beginning to travel extensively and businesses were becoming national vs. regional, the loss of rail was easily overcome. But as the volume increased, the lack of third leg on the three-legged transportation stool became noticeable. Hence, America is literally being paved over. We now have some 4 million miles of roada...enough to circle the planet more than 157 times, or go to the moon and back more than 8 times.[3] Between 1970 and 1995, passenger travel nearly doubled, growing by an average of 2.7% a year. Over the same period, passenger-miles per person increased from 11,400 to 17,200 miles per year. The rise in automobile use grew by 1 trillion passenger-miles, while air travel more than tripled from 118 billion to 415 billion passenger-miles (a 5% growth rate). As a result, in 1995, the average distance cars and lights trucks (mostly SUVs and pick-ups) were driven equaled a journey nearly halfway around the world. The total mileage was 2.2 trillion miles, or nearly 1/10 of the distance to the nearest star outside our solar system. And it's not likely to get any better. USDOT's Volpe Center estimates that miles traveled will continue to grow at an average annual rate of 2.2–2.7% between 2000 and 2030.[4] In fact, the Volpe Center also reports that vehicle miles traveled grew by 40% in only 7 years, between 1983 and 1990.[5]

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[1] Washington State Department of Transportation.

[2] A further 100 were in the process of discontinuance. "Off the track," D. Itzkoff, Greenwood Press (ed. 1985).

[3] USDOT, Bureau of Transportation Statistics.

[4] "Description of VMT Forecasting Procedure for 'Car Talk' Baseline Forecasts." Volpe Center, USDOT.

[5] "Travel Behavior Issues in the 1990s." National Personal Transportation Survey, USDOT (1992).

If all this travelling were efficient there would be little to comment on. However, transportation accounts for ⅔ of America's total oil consumption, with highway vehicles accounting for the largest share followed distantly by air transportation.[6]

In 1994 automobiles used 39% of all transportation energy, while light trucks (i.e., mini-vans, SUVs and pick-ups) used 20%, for a combined total of 59%. We Americans now spend approximately $100,000/minute to buy foreign oil for cars and trucks ($9B a year)![7] That's 6B gallons of gasoline each and every year.[8] </SPAN> Enough to fill 670,000 gasoline tank trucks. Or 134 super tankers. For each driver, that means 100 gallons wasted waiting in traffic each year. American households now spend more of their income on transportation than on any expense category other than housing.[9] And the situation is getting worse.

The *Energy Information Administration* estimates that imported oil will supply 60% of US oil demand by 2005.[10] Moreover, air pollution from automobiles hasten the death of some 64,000 Americans every year, while acidic air pollution from cars and trucks cause some $2–3B-worth of damage to agricultural crops every year.[11] Each year cars and light trucks cause nearly ⅔ of all CO2; ⅓ of all NO; and, nearly of all hydrocarbons. In 1994 some 3.4 million people were injured in motor vehicle crashes, of which some 428,000 were incapacitated, at a cost to the economy of some $150.5B. Lastly, it is estimated that we Americans waste some $65B in congested highways and airways (i.e., non-productive driving time).[12] Imagine if all that lost productivity could be "injected" into the economy!!!

Rail was and remains the most effective means of transportation in a circle of 100–400 miles. A single railroad track can carry as many people as a 10-lane highway at a fraction of the cost.[13] The success of European and Asian railways are sufficient testimony to this fact. However, we should not speak of "high-speed" rail in the USA. We are simply not ready. The infrastructure has been neglected and the transportation consumer needs to be reeducated. Rather, we should focus on *efficient, reliable, timely Intercity* Rail. This is a more logical, and less expensive, solution to gridlock and winglock. Hence, *efficient, reliable, timely Intercity Rail* is faster and safer than travel by automobile. It is more affordable than travel by air, and in some cases more affordable than travel by car. It is less prone to be adversely affected and is infinitely friendlier to senior citizens and handicapped travelers.

Let us also readily face the fact that the other two modes of transportation "thrive" because of governmental subsidies. Hence, between 1982 and 1994 **$145.3B** was spent by the government to construct, operate and maintain a national air traffic system and airport network.[14] This does not include the many direct cash subsidies as well as federal, state and local tax breaks received by the airline industry. Similarly, between 1982 and 1994, the government spend **$725.4B** for road construction (a $1Trillion since the 1920s). In 1956, the Highway Trust Fund was established ensuring a continuous flow of money for road building. Of course, this industry too received generous federal, state and local tax breaks. The passenger rail industry? Unfortunately, it received no tax breaks whatsoever or financial subsidies after the expiration of the land program in the 19th century. In fact, Amtrak is burdened with heavy property taxes on each of its passenger terminals! It is interesting to note that Amtrak's 1999 budget request of $571M was **smaller than the budget INCREASE granted to highways** for that same year.

Offered similar subsidies (i.e., let the federal government build the rail tracks as it builds the highways and the runways, along with building the train stations as it builds airport terminals and rest areas on highways, not to mention dispatch the trains as it does the airplanes through the FAA) and watch *Amtrak* succeed beyond the government's wildest hopes. However, burdened as it is, it is little surprise that *Amtrak* has not yet achieved self-sufficiency. In fact, it is a tremendous achievement on *Amtrak's* part to even attempt to be self-sufficient by 2003 under the present rules. The playing field is simply neither level nor fair. The result has become disastrous and continues to worsen. But there **is** hope!

Amtrak serves some 519 US cities and communities providing essential mobility for congested metropolitan areas and for hundreds of small urban and rural commu-

[6] USDOT. Bureau of Transportation Statistics.
[7] Union of Concerned Scientists.
[8] "Annual Mobility Report." Texas Transportation Institute (1999).
[9] "Our Nation's Travel." USDOT (1999).
[10] "Urban Mobility Study." USDOT (1999).
[11] Union of Concerned Scientists.
[12] "Annual Mobility Report." Texas Transportation Institute (1999).
[13] Rail tracks cost some $1.5–3.5M/mile, less than 1⁄10 that of highway construction.
[14] USDOT.

nities.[15] In 1997, more than 20 million passengers relied on *Amtrak* trains to get to and from work everyday. Without Amtrak, an additional 7,500 fully-booked 757 airplanes (over 20 a day) would fill the skies each year. Each year Amtrak purchases approximately $500 million in goods and services. All the while, it recovers more of its costs of operation than **any other passenger railroad in the world.** [15] But *Amtrak* can be so much more if given the chance.

The success of incremental rail in the State of Washington demonstrates amply what can be achieved. This is a partnership between Talgo, WSDOT, *Amtrak Wes and Burlington Northern Santa Fe.* The Seattle-Everett corridor ranks as the 2nd most congested urban area and with an average population growth of 9%. [16] Studies indicate that total traffic delay time will grow from some 0.8 billion-person-hours in 1990 to 4 billion-person-hours by 2020.[16] This would represent a productivity loss of $40B by 2020, up from $10B in 1990.[16] Average vehicle freeway speed would drop from some 27 mph in 1990 to less than 10 mph in 2020. The WSDOT embarked on 20-year, $2.1B incremental high-speed rail program to reduce congestion and pollution.[17] What that meant is that, instead of spending billions of dollars in building dedicated tracks and/or electrifying the corridor to provide service at 150 mph or above, WSDOT decided to progress by steps, with minimal investment at each step. That way, if the venture did not pan out, the loss would be kept to a minimum.

WSDOT began by leasing a *Talgo Pendular* trainset to provide service between Seattle (WA) and Vancouver (BC-Canada). Although this route had been abandoned some 10 years before, the introduction of new equipment and exceptional service from Amtrak's onboard personnel soon led to the service running at capacity. In fact, the venture was so successful that the lease was later renewed for a year and, in 1996, WSDOT and *Amtrak* purchased brand new equipment. Talgo's tilting feature allowed for the immediate reduction of travel time between the destination points without significant infrastructure expenditure. Hence, WSDOT literally could have ended the experiment at any time for a minor investment. Instead of believing that if they build it, people would come, as is the case with dedicated high-speed rail; they decided that if they build it and people came, they would build some more.

By 1999, the service known as the Amtrak Cascades had increased its ridership in excess of 150%, from 226,391 in 1993 to over 570,000. Fully 54% of the time, the trains rode at capacity (i.e., 198 days out of 365). Most telling, 98% of riders deemed themselves satisfied or very satisfied with the service (80% were very satisfied), and 84% of riders would ride the Cascades again.[17] As a result, the service diverted more than 30M miles of regional highway traffic while eliminating more than 690 tons of air pollution.[17] The service has created more than 400 permanent jobs; more than $18M in annual wages; and more than $3M of goods and services are purchased every year from local companies.[17] Revenues have increased in excess of 575%.[17] In 1998 alone, revenues increased by 31%, covering more than 60% of operating costs. It is predicted that revenues will cover 100% of operation costs by 2015.[17] All of this with only 4 trains ... and without the support of the federal government. Imagine the possibilities!!!

This indicates the *viability* of *efficient, reliable, timely Intercity Rail*. But does this mean that "high-speed" rail is not feasible. We do not believe so. But it is not feasible *today.* The vast sums of funds needed to create such a network are an unneeded burden upon the states and the federal governments. Particularly at a time when this resource is scarce and getting more so. Even more so for the uncertain financial returns that such a network may offer. However, once an *efficient, reliable, timely Intercity Rail* system is operational and accepted, the time will come to "graduate" to high-speed rail. *efficient, reliable, timely Intercity Rail* also counters suburban sprawl, pulling people, jobs and businesses back to urban centers and encouraging downtown development. It reduces commuter flights at congested airports, freeing gates for more cost-effective longer flights. It promotes tourism and intra-regional transfer of goods, while stations encourage economic development in generally economically challenged areas. It creates temporary jobs during construction and permanent jobs thereafter. In fact, studies reveal that each $1 invested in passenger rail creates 314 jobs the year after the investment is made, while businesses realize a gain in sales 3 times the investment capital (i.e., each $10M invested leads to a $32M increase in business sales).[18] Give a strong economy the chance to grow stronger. Listen to the states and the constituents. Give rail a chance to complement the other modes of transportation. Open the market to new technologies. Support the states, the regional initiatives and the FRA in their ef-

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[15] American Passenger Rail Coalition.
[16] Annual Mobility Report. Texas Transportation Institute (1999).
[17] Washington State Department of Transportation.
[18] Washington State Department of Transportation.

forts. Let Amtrak succeed. A well-integrated efficient, reliable, timely Intercity Rail can makes us stronger. A divided transportation network will fall upon itself.

Congress can begin to avoid that unnecessary disaster by passing HR 3700. The states will provide 20 percent match that will go directly into the projects, thus demonstrating the states' vital interests in this transportation mode. There is no risk to the Federal government because its "full faith and credit" is not being pledged. The escrow account that would be established under this bill would earn interest and be managed by an independent trustee. The principle would be repaid from this escrow account.

It is time for the United States to take full advantage of all its modes of transporting its citizens to where they need to go. No one mode meets every need with equal efficiency and convenience. But, neither can we achieve those important goals if any one mode is neglected. Rail passenger service has been neglected and we all have suffered consequences in our economy, environment and efficiency. HR 3600 leads us away for that oversight and to a full, flexible, versatile transportation system this great nation deserves.

Statement of Sid Morrison, Secretary of Transportation, Washington State Department of Transportation

Thank you Mr. Chairman and members of the Committee, for the opportunity to provide testimony for the record in support of House Resolution 3700 (HR 3700), the High Speed Rail Investment Act of 2000.

I am Sid Morrison, Secretary of Transportation for the Washington State Department of Transportation (WSDOT).

HR 3700 is vital to the states that are developing both high speed and conventional rail service as a viable method of moving our citizens. In Washington State, we believe that a balanced transportation system that provides mobility options to our citizens is the only way to ensure that we maintain our economic vitality. Many of our fellow states have reached a similar conclusion. It is anticipated that the Pacific Northwest region of eight million people will grow by 50% over the next 20 years, with intercity travel increasing by 75% during the same time period.

The Central Puget Sound is already considered the fourth worst congested area of the nation for highway travel. The fact is that we cannot accommodate our growth, nor can we hope to reduce the impacts of congestion by only building more roads. Our geography, pre-existing development, and environmental regulations make it virtually impossible, and cost prohibitive, to expand highway capacity in many areas. Even with highway and airport expansion, travel demand will outstrip capacity in the future. Rail provides a safer, environmentally superior, and cost effective method for increased travel capacity.

WSDOT, at the direction of our Governor, the Legislature, and our Transportation Commission, began developing the Pacific Northwest Rail Corridor in 1993. This corridor reaches 466 miles, from Vancouver, British Columbia, connecting with Seattle, Portland, and southward to Eugene, Oregon. It is one of the original federally designated high speed rail corridors to be developed. This effort is a partnership of the States of Washington and Oregon, the Province of British Columbia, Amtrak, the host freight railroads, our ports, and regional and local governments.

We are proud of the fact that the development of the Pacific Northwest Rail Corridor is a resounding success. We have received a great deal of attention nationwide as being a "blueprint" for developing rail passenger service. Our incremental approach to rail corridor development is now being pursued in at least 16 other states. Corridor ridership has increased more than 170% since 1993, with more than 560,000 riders last year. Double digit increases continue each successive month. We are the first corridor to introduce modern European style equipment—purchased with state funds—in regular service.

Our *Amtrak Cascades* service is continuously ranked the best in the entire United States for customer satisfaction. We have developed and begun a logical series of intercity rail capital and operating improvements. Washington State has invested more than $125 million to improve local Amtrak service between 1993–1999. Our partners invested more than $325 million during that same time period.

We have made wonderful progress in the Pacific Northwest. However, we have a very long way to go. Our vision includes hourly service in each direction between major metropolitan destinations, with travel times that are more than competitive with other modes of travel by 2018. We believe that proper and timely capital investment will allow for the operations in our corridor to eventually pay for themselves. HR 3700 is the key to our ability, as well as the ability of other regions of our nation, make the capital investment required to provide this cost-effective method of moving people that is desperately important to our future.

HR 3700 provides the states the main ingredient that has been missing in the development of high speed rail in the United States—a long term, dedicated source of capital funding. Because the funds will be generated by the sale of bonds, funding for highway, aviation and transit systems will not be impacted. These funds are critical to Washington, as well as other states, if we are going to make high speed rail a reality. In an era of uncertain state resources for transportation, it is vitally important that Washington and other states seize this opportunity to further leverage federal, state, regional and private investments.

Although the HR 3700 authorizes Amtrak to issue bonds, it is important to clearly understand that this is a bill for the States. In fact, we are willing to have third party administration of the program so long as Wall Street would not object, or penalize us with higher interest rates. One possibility would be through the office of the USDOT Associate Deputy Secretary for the Office of Intermodalism. Corridor development is performed at the direction of the States.

The primary use of the funds generated by these bonds would directly benefit the States. In our state, as well as nationwide, Amtrak is our contracted operator of service and has provided capital partnership opportunities when it has been available. Amtrak is an important partner, however, the states should continue to remain the senior partners of high speed rail development.

Further evidence of HR 3700 being a bill for the States is the bill language that limits the Amtrak owned and operated Northeast Corridor to no more than 30% of the funds made available over the life of the bill. The corridor states feel that such a cap is a prudent safeguard to protect the primary intent of the bill—the development of designated high speed rail corridors that are being developed at the direction of the states, throughout the country.

On behalf of Washington State, and other rail corridor states, I urge your support in the passage of HR 3700. The development of high speed rail passenger service is an increasingly important component of a balanced transportation system we need to ensure the mobility of our citizens and our nation's continued economic vitality.

Amtrak Cascades Ridership

How Many People Ride Amtrak in the Northwest and British Columbia?

In 1998 more than 550,000 people rode Amtrak within the Pacific Northwest Rail Corridor. This diverted more than 30 million miles of traffic from regional highways. Ridership growth continues in 1999, but has slowed. The WSDOT Rail Office currently estimates 1999 ridership growth will increase more than 3 percent to 571,000. Annual ridership has increased more than 150 percent since 1993. Sold-out trains during peak travel times; changes in seat availability, particularly during peak travel times; and increased ticket prices to maximize revenue all contribute to slowing ridership growth.

What Is the Average Ridership on Amtrak Cascades Trains?

Average ridership in January of 1999 was 97 per train. Average ridership in August of 1999 was 153 per train. Average ridership in October of 1999 was 99 per train. Average ridership varies by season. January is representative of off-season travel, August off-peak season travel and October off-shoulder season travel. Ridership also varies by day of week. Trains routinely sell out at peak travel times throughout the year, particularly Fridays and Sundays.

What Is the Average Ridership on Seattle-Portland Amtrak Cascades Trains?

Average ridership in January 1999 was 115 per train. Average ridership in August 1999 was 165 per train. Average ridership in October 1999 was 124 per train.

What is the Average Ridership on Seattle-Vancouver, BC Amtrak Cascades Trains?

Average ridership in January 1999 was 85 per train. Average ridership in August 1999 was 191 per train. Average ridership in October 1999 was 83 per train.

How Many Seats are on Each Train?

The number of seats per Amtrak Cascades Talgo train varies depending upon customer demand and train operations requirements. When feasible, seat capacity is adjusted to maximize ridership and revenue. Because Amtrak Cascades Talgo trains are articulated—adjacent cars share an axle—it is more difficult to adjust train capacity to customer demand than on other passenger trains. However, enhanced safety and reduced travel times are benefits of these articulated trains. The number of available seats can range dramatically, from slightly more than 100 to slightly less than 300. Trains have recently been reconfigured to add seats to more popular schedules and reduce available seats on less popular schedules.

Do Customers Like Amtrak Cascades Service?

Customer satisfaction remains among the highest in the nation. Convincing people to sample Amtrak Cascades service remains important. Ninety eight (98) percent of people who ride the Amtrak Cascades say they will recommend riding the Amtrak Cascades to family and friends. Eighty four (84) percent of people who ride the Amtrak Cascades say they will ride again during the next year.

How Often are Amtrak Cascades Trains Sold Out?

In Federal Fiscal Year 1999 (October 1998 through September 1999) at least one Amtrak Cascades train was sold out on 198 days. This means that on more than half of the days of the year at least one train is completely full and potential customers are being turned away. Fridays, Saturdays, Sundays, days surrounding holiday weekends and the summer are the most busy. At least one train was full on all but four days in August 1999.