

Statement of Francis Ziegler
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Regarding
Federal Transportation Infrastructure Investment Issues for North Dakota
Before the
Committee on the Budget
United States Senate
Minot, North Dakota
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Mr. Chairman:

Good Morning. I am Francis Ziegler, Director of the North Dakota Department of Transportation. Thank you for the opportunity to present the perspective of a rural state like North Dakota on the increasingly important issue of federal investment in transportation infrastructure. Before I begin, I would like to take a moment to thank you, Senator Conrad, for your leadership in transportation activities and your support for transportation projects throughout North Dakota.

In my comments today, I will focus on the following points:

- Short term transportation funding issues facing Congress
- National benefits of federal investment in transportation in rural states
- Continued Federal Highway Program funding for Interstates, NHS, and other major collectors
- Funding and financing considerations
 - Rural states face serious obstacles
 - Geographically large
 - Some contain large tracts of federal lands
 - Low population densities
 - Extensive highway networks
 - Tolls are not a viable option in rural states
 - Inflation
- Structure of federal program

Over 50 years ago, President Eisenhower had a vision when he established the concept of a National Defense Highway System. This resulted in the development of the Interstate highway system that has connected all Americans to services throughout the country, whether they live on a farm in the Midwest or in a city on the east or west coast. Eisenhower's vision of an interconnected transportation system is vitally important in today's world. The federal aid highway system is the backbone of our nation's transportation system. The nation needs a strong interconnected surface transportation system that safely moves people and commodities, and promotes our nation's economic competitiveness in the global economy.

Transportation infrastructure plays a key role in supporting the growing economic needs of the business industry and traveling public throughout the country. Some of our major economic competitors (China and India) are making major investments in their transportation systems.

Before turning to a more detailed presentation of these points, let me begin with some brief comments on transportation infrastructure investment issues that Congress is facing in 2008.

Short Term Issues: Action in 2008 Can Help Set the Stage for Effective Transportation Infrastructure Legislation in Future Years

As you noted, Mr. Chairman, in statements presenting the Budget Resolution, there is a projected shortfall in the Highway Account of the Highway Trust Fund (HTF) in FY 2009. Estimates of the size of the shortfall vary. Depending on the source of the projections, the shortfall estimates range from \$1.0 billion to \$4.3 billion. If the shortfall approaches \$4.0 billion, there could be a negative impact on North Dakota of up to \$100 million in FY 2009.

Moreover, as high fuel prices put downward pressure on the revenue into the HTF, the projected revenue shortfall could grow.

We do not want to see a cut in federal highway funding for North Dakota at a time when there is a need for increased infrastructure investment. But, that could happen if there is not a fix to the projected shortfall in the Highway Account.

We also urge that the fix be consistent with providing a highway obligation limitation of at least \$41.2 billion for FY 2009, as called for in SAFETEA-LU. We recognize that the budget resolution passed by the Senate earlier this month would facilitate taking care of the shortfall in the Highway Account, and funding the highway program in FY 2009 with an obligation limit of \$41.2 billion.

Furthermore, there have been discussions in Congress on the possibility of legislation that would provide additional infrastructure funding, including highway funding as an economic stimulus package. I want to assure you that North Dakota will have sufficient highway projects ready to go that would put to good use North Dakota's share of any additional federal transportation funding, should Congress decide to provide additional funds.

From those comments on short term issues, Mr. Chairman, let me return to the reasons why, for the **long term**, it is critically important for the federal government to provide a strong level of investment in transportation in rural states, including North Dakota.

The Nation Benefits from Federal Transportation Investment In and Across Rural States

There are a number of reasons why it is essential to the nation to maintain and improve a strong highway and surface transportation system in large rural states like North Dakota.

Bridge States Serve a National Connectivity Interest for People and Business

Highway transportation between metropolitan areas is simply not possible without excellent roads that bridge those vast distances. This connectivity benefits the citizens of our nation's large metro areas because air or rail frequently will not be the best option for moving people or goods across the country. The many commercial trucks on our rural Interstate highways demonstrate every day that people and businesses in the major metropolitan areas benefit from the nation's

investment in highways in rural states.

The most recent FHWA data on tonnage origins and destinations shows that just over 59 percent of the truck traffic using North Dakota's highways does not either originate or terminate within the state. This is well above the national average of about 45 percent.

So, there is a NATIONAL interest in facilitating Interstate commerce and mobility that requires good highways in and connecting across rural areas. Many of our roads that service this national traffic need, or soon will need, expensive reconstruction.

This bridge state and connectivity interest is not limited to the Interstate System, but encompasses the entire network of federal aid highways. This is in accord with the recently released report of the National Surface Transportation Policy and Revenue Study Commission, which recommended a continued commitment to the entire network of federal aid highways (see e.g., pages 7 and 17 of that report).

Essential Service to Agriculture, Natural Resources, Energy

A significant portion of the economy in our region is based on agriculture, energy production, and natural resource extraction. Agriculture is one sector of the economy where the United States has consistently run an international trade surplus, not a deficit. Over the last two decades roughly 30 percent of all U.S. agricultural crops were exported.

There is a strong national interest in ensuring that agricultural and resource products have the road network that is needed to deliver product to markets, particularly export markets. In 2007, North Dakota led the nation in the production of wheat, barley, oats, canola, sunflowers, flaxseed, all dry edible beans, pinto beans, navy beans, dry edible peas, lentils, and honey. North Dakota is the fastest growing export state in the nation. A key part of that road network is the roads below the National Highway System, where export crops begin their journey from point of production to destination.

In addition, the growing ethanol and alternative fuel industry, as well as oil, natural gas, and coal reserves, are located in our state. In fact, North Dakota is currently eighth in the nation in oil production. These industries are an important part of the national effort to reduce dependence on foreign oil.

Our road network needs to be adequate to serve agriculture, resource and energy industries.

Tourism Access

Without a strong road network in rural states, access to many of the Nation's great National Parks and other scenic wonders would be limited. Tourism is vital to the economy of North Dakota. Tourism is our second largest industry, with an estimated \$3.6 billion spent in 2005. Moreover, investment in such highways also helps ensure that American and international tourism dollars are spent in America. Clearly, providing quality highway access to such attractions warrants federal funding support.

The Federal Highway Program Should Continue to Provide Funding for Interstates, the NHS, and other Major Collector Routes.

Under this long-standing approach, approximately 24 percent of the nation's over four million miles of public roads are eligible for federal aid. This strikes a good balance, focusing the federal program on the more important roads, but not on so few roads that connectivity and rural access are ignored. While we believe that the importance of investment in the Interstate and other National Highway System (NHS) routes is beyond doubt, we emphasize that non-NHS federal aid roads are also an important part of the network of federal aid routes. These roads make up approximately 20 percent of total road miles in the nation and carry over 40 percent of the traffic nationwide. These routes provide an important link between the NHS and local roads and streets.

Attachment A is a map that shows the huge gaps between NHS routes in North Dakota and our neighboring states to the south and west. This map illustrates the importance of the current federal aid network, including routes in addition to the NHS, to ensure connectivity and access in vast rural states like North Dakota.

Over the last two or three decades tens of thousands of rural rail branch lines have been abandoned nationwide. Over that time, Class I railroads have shed over 100,000 route miles. In North Dakota, since 1980, just over 1,500 miles of railroad branch lines have been abandoned. The reduced reach of the rail network means that many areas, particularly rural areas, must rely more heavily on trucks for important commerce needs. In turn, that means the road network has become even more important in meeting those needs, such as delivering crops to grain elevators or moving raw products to, or finished products from, ethanol production facilities.

In addition, we have seen data from the U.S. Bureau of Economic Analysis indicating that manufacturing and retail trade grew relatively faster in non-metro areas than in metro areas during the 1990s. From 2000 to 2006, North Dakota was one of only three states in the nation to experience growth in the manufacturing sector.

For these and other reasons, now is not a time to reduce the extent of the road network eligible for federal funding.

Safety Needs

There has been increased attention in recent years to the national interest in improving safety on rural roads. More than two-thirds of all roads in the U.S. are located in, or near, areas with populations of less than 5,000. Approximately 70 percent of federal aid highway lane miles are in rural areas. In 2002, 60 percent of highway fatalities in the U.S. occurred on rural roads. In North Dakota, in 2007, 87 percent of the fatalities occurred on rural roads. The most important of these rural roads are eligible for federal funding. It is important to continue to provide federal funding to improve and address deficiencies on these routes.

Federal Lands

There are huge parcels of federally owned land in many western states. Development or use of such lands is either prohibited or limited, and state and local governments can't tax them. Yet the nation's citizens and businesses want a reasonable opportunity to cross and have access to these lands. A major part of the Federal Lands Program of special interest to North Dakota is the Indian Reservation Roads Program. There are needs for additional funding to maintain and improve roads on our reservations. The continuation of the Federal Lands Program is essential to assist in meeting needs on Indian reservations and other federal lands.

National Defense. One of the original reasons for the Interstate System was to support prompt movements of military personnel and supplies. In addition to the Interstate System, the Strategic Highway Corridor Network is essential for emergency mobilization and peacetime movement of military assets. In North Dakota, many military installations such as missile sites are located on major collector routes and local roads.

Public Transportation. Public transportation also plays a role in the surface transportation network in rural states. The northern tier Amtrak service, the "Empire Builder," provides an important option for long distance travel to some of our nation's isolated communities.

The Federal Transit Program includes a program of apportionments for rural transit. Transit service is an important, sometimes vital link for citizens in small towns to get to the hospital or clinic, as well as to work or other destinations. Some rural areas are experiencing an increase in the age of the population and public transit enables senior citizens to meet essential needs without moving out of their homes. In short, federal public transportation programs must continue to include funding for rural states and not focus entirely on metropolitan areas.

Funding and Financing Considerations

I would also like to discuss several points related to highway funding and financing.

Rural States Face Serious Obstacles in Preserving and Improving the National Highway and Surface Transportation Network

Rural states face a number of serious obstacles in preserving and improving the Federal-aid highway system within their borders. These states:

- are very rural,
- are geographically large,
- often contain large tracts of Federal lands,
- have low population densities, and
- have extensive highway networks.

This means that our large road network has very few people per lane mile to support it. In North Dakota there are about 16 people per lane mile of federal aid highway. The national average is approximately 128 people per lane mile. Our per capita contribution to the Highway Trust Fund

also exceeds the national average. The per capita contribution to the Highway Account of the Highway Trust Fund attributed to North Dakota is \$161 compared to the national average of \$109 per person. In addition, rural states generally have per capita incomes below the national average.

These factors make it very challenging for rural states to provide, maintain, and preserve a modern transportation system that connects to the rest of the nation.

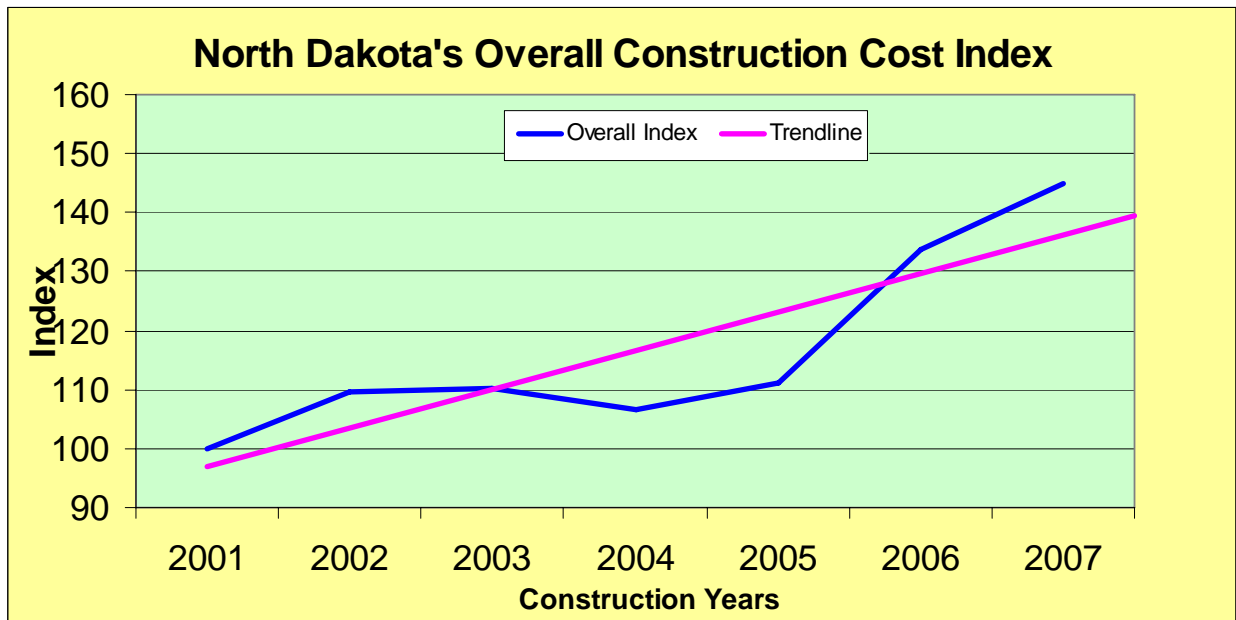
Tolls Are Not a Viable Option for Funding Transportation Needs in Rural States

We have observed a lively debate about the role of public private partnerships and tolling in meeting the nation's transportation needs. Rural states do not have the traffic densities to make tolling a viable option. Therefore, tolling in rural areas would not be an efficient or an effective means of raising revenue for roads.

Inflation Has Made it Much Harder to Meet Our Needs

Inflation continues to be one of the greatest challenges facing the transportation industry. In the past couple years, the NDDOT continued to experience major price increases in oil-based materials, steel, concrete, equipment, and building materials. Inflation in transportation construction has greatly exceeded increases in the consumer price index. Figure 1 shows that North Dakota's overall construction cost index increased about 45 percent from 2001 to 2007. Even more dramatic was the increase from 2005 to 2007 which was about 34 percent

Figure 1



Federal and state revenue sources have been relatively flat and have not kept pace with these rising costs. Therefore, adjustments to the construction and maintenance program delaying some projects must take place. These project delays will impact the long-term performance of the highway network.

Indications are that the trend of increasing construction costs will continue. We all recognize that the price of oil has gone up dramatically this past year and that will put upward pressure on the cost of oil-based products that is not yet reflected in this data. Table 1 provides an overview of crude oil prices from 2005 to March 2008. In August 2005 -when SAFETEA- LU was signed into law- the price of crude oil was \$59 per barrel. On January 11, 2008, it was almost \$93 per barrel, and on March 18, 2008, it was over \$107 per barrel. Unless the price of crude oil drops substantially from today’s levels, we anticipate that the price of oil-based products will continue to increase.

Table 1
Crude Oil Prices
U.S Energy Information Center

Date	Price/Barrel
August 2005	\$59.00
August 2006	\$71.45
August 2007	\$73.81
January 11, 2008	\$92.82
March 18, 2008	\$107.39

Preserve Highway Trust Fund Dollars for Transportation Investment

In considering approaches to meeting the nation’s surface transportation investment needs, we see continuing the Highway Trust Fund (HTF) and the current sources of revenue into the HTF as a baseline. Those revenue streams should be continued and not diminished.

In addition to traditional Highway Trust Fund revenue streams we realize there is a need to look at other options for supporting the trust fund. We would be interested in other proposals – as long as they would provide an equivalent portion of the funding to rural states like North Dakota.

Structure of the Federal Program

In January of 2008, the National Surface Transportation Policy and Revenue Study Commission released their report with recommendations for the “future transportation program.” The report recommends major changes to the existing program. There are some positive elements within the report and several areas of major concern to rural states like North Dakota.

Some of the positive elements of the Commission Report include:

- Support for a larger overall program
- Continue a strong federal role
- Streamline and speed up the project delivery process

Concerns with the Commission Report include:

- Would end current allocation formula process and replace it with a distribution of funds on a cost-to-complete basis
- Programs appear to focus on non-rural states
- Heavy focus on congestion
- National performance measures
- Projects must have positive cost/benefit ratios; costs and benefits not defined
- Use of tolls, public private partnerships, and congestion pricing as a means for states to increase funding.

The future federal highway program should continue to distribute the vast majority of funds to the states. States should continue to deliver the program and select projects within their respective borders based on their knowledge of needs within their borders. This is a partnership that has worked well. In the future, the percentage of overall federal highway program funds apportioned to the states should be increased, and the percentage of overall program funding directed to the core programs should be increased.

Reduce Regulatory and Program Burdens

The federal highway and transit programs are not simple. An enormous amount of planning is required to deliver actual projects and programs. We are confident that the overall program can be made more flexible and that project delivery time can be reduced. We encourage streamlining to expedite project delivery processes and reduce program overhead.

It is also important to avoid any new program complications. We note with interest that the Policy and Revenue Study Commission report made reference to new federal “performance” standards or measures. We all want to perform well and, frankly, we have to. But we are concerned that “performance measures” could, in practice, become federal regulations that would restrict state choice and efficiency in implementing the program.

The Policy and Revenue Study Commission also advanced the idea of a requirement for cost beneficial investment. We do not know what would be entailed in determining whether an investment in a surface transportation asset is more beneficial than it costs. That is not defined and could be very difficult and contentious to define and apply.

We operate in an environment where we are highly accountable to many important entities, including our Governor and state legislature, as well as the traveling public and various stakeholders. We have to pursue effective and beneficial use of scarce funds all the time. We are concerned that this suggestion could become an additional federal regulatory requirement that could handicap federal investment in rural areas.

It is imperative for the next highway bill to significantly increase funding for highways and other surface transportation investments, particularly including highways in rural states. We see that as essential to meeting the national interest requirement that our nation preserve and maintain, as well as improve, an interconnected national highway and surface transportation system.

Conclusion

For all of the reasons presented, we consider it essential that the Congress, through the reauthorization process, recognize that significantly increased federal investment in highways and surface transportation in rural states is, and will remain, important to the national interest. The citizens and businesses of our nation's more populated areas, not only residents of rural America, benefit from a good transportation network in and across rural states like North Dakota.

We believe that strong federal funding leadership, significantly increasing funding for highways, and other surface transportation investments, is essential to maintaining and improving a national highway and surface transportation network that meets the needs of our nation's people and business, particularly in rural states like ours.

Thank you for the opportunity to appear before the committee today. At the appropriate time, I would be pleased to respond to any questions.

Attachment