

GAO

Testimony

Before the Committee on Environment
and Public Works, U.S. Senate

For Release on Delivery
Expected at 10:00 a.m. EST
Wednesday, February 6, 2008

SURFACE TRANSPORTATION

Preliminary Observations on Efforts to Restructure Current Program

Statement of JayEtta Z. Hecker,
Director, Physical Infrastructure Issues





Highlights of [GAO-08-478T](#), a testimony before the Committee on Environment and Public Works, U.S. Senate

Why GAO Did This Study

The nation has reached a critical juncture with its current surface transportation policies and programs. Demand has outpaced the capacity of the system, resulting in increased congestion. In addition, without significant changes in funding mechanisms, revenue sources, or planned spending, the Highway Trust Fund—the major source of federal highway and transit funding—is projected to incur significant deficits in the years ahead. Furthermore, the nation is on a fiscally unsustainable path. Recognizing many of these challenges and the importance of the transportation system to the nation, Congress established The National Surface Transportation Policy and Revenue Study Commission (Commission) to examine current and future needs of the system and recommend needed changes to the surface transportation program, among other things. The Commission issued its report in January 2008.

This testimony discusses 1) principles to assess proposals for restructuring the surface transportation program and 2) GAO's preliminary observations on the Commission's recommendations. This statement is based on GAO's ongoing work for the Ranking Member of this Committee, the Chairman of the House Transportation and Infrastructure Committee, Senator DeMint, as well as a body of work GAO has completed over the past several years for Congress.

To view the full product, including the scope and methodology, click on [GAO-08-478T](#). For more information, contact JayEtta Z. Hecker at (202) 512-2834 or heckerj@gao.gov.

SURFACE TRANSPORTATION

Preliminary Observations on Efforts to Restructure Current Program

What GAO Found

GAO has called for a fundamental reexamination of the nation's surface transportation program because, among other things, the current goals are unclear, the funding outlook for the program is uncertain, and the efficiency of the system is declining. A sound basis for reexamination can productively begin with identification of and debate on underlying principles. Through prior analyses of existing programs, GAO identified a number of principles that could help drive an assessment of proposals for restructuring the federal surface transportation program. These principles include (1) defining the federal role based on identified areas of national interest, (2) incorporating performance and accountability for results into funding decisions, and (3) ensuring fiscal sustainability and employing the best tools and approaches to improve results and return on investment. GAO developed these principles based on prior analyses of existing surface transportation programs as well as a body of work that GAO developed for Congress, including its High-Risk, Performance and Accountability, and 21st Century Challenges reports. The principles do not prescribe a specific approach to restructuring, but they do highlight key attributes that will help ensure that a restructured surface transportation program addresses current challenges.

Principles For Evaluating Restructuring Proposals

- ✓ Define the federal role based on areas of national interest

- ✓ Incorporate performance and accountability for results into funding decisions

- ✓ Ensure fiscal sustainability and employ the best tools and approaches to improve results and return on investment

Source: GAO.

In its report, the Commission makes a number of recommendations for restructuring the federal surface transportation program. The recommendations include significantly increasing the level of investment by all levels of government in surface transportation, consolidating and reorganizing the current programs, speeding project delivery, and making the current program more performance- and outcome-based and mode-neutral, among other things. GAO is currently analyzing the Commission's recommendations using the principles that GAO developed for evaluating proposals for restructuring the surface transportation program. Although this analysis is not complete, GAO's preliminary results indicate that some of the Commission's recommendations appear to be aligned with the principles, while others may not be aligned. For example, although the Commission identifies areas of national interest and recommends reorganizing the individual surface transportation programs around these areas, it generally recommends that the federal government pay for 80 percent of project costs without considering whether this level of funding reflects the national interest or should vary by program or project.

Madam Chairman and Members of the Committee:

We appreciate the opportunity to present our preliminary observations about the recent report of The National Surface Transportation Policy and Revenue Study Commission (Commission).¹ The Commission was given a broad mandate that includes examining the current condition and future needs of the surface transportation system, identifying alternative revenue sources, and providing specific recommendations regarding changes to the surface transportation program's design and operations, federal policies, and legislation. The Commission's January 2008 report is the culmination of over 18 months of work to fulfill the mandate set by Congress, and we applaud the Commission's efforts.

The Commission's report comes at a time when our nation has reached a critical junction with the current surface transportation program.² For example, the Highway Trust Fund was created in 1956 to finance the construction of the interstate highway system. That system is now complete. However, the federal highway program's financing and delivery mechanisms have not substantially changed, and the program's continued relevance in the 21st century is unclear. The federal role in surface transportation has also grown over the years, and the Highway Trust Fund now funds a variety of highway, transit, and even some rail programs. In addition, without significant changes in funding mechanisms, revenue sources, or planned spending, the Highway Trust Fund is projected to incur significant deficits in the years ahead. As a result, in 2007, we added financing the nation's transportation system to GAO's High Risk List.³ Furthermore, the growing demand has outpaced the capacity of the

¹Congress created The National Surface Transportation Policy and Revenue Study Commission in 2005 under section 1909(b) of the Safe, Accountable, Flexible, Efficient Transportation Equity Act—A Legacy for Users (SAFETEA-LU), Pub. L. No. 109-59, §1909(b), 119 Stat. 1471 (Aug. 10, 2005).

²In this statement, we use the term "surface transportation program" to refer collectively to the various surface transportation programs, such as the federal highway, safety, rail, maritime, and transit programs.

³GAO's audits and evaluations identify federal programs and operations that, in some cases, are high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement. In recent years, we also have identified high-risk areas to focus on the need for broad-based transformations to address major economy, efficiency, or effectiveness challenges. Since 1990, we have periodically reported on government operations that we have designated as high risk. In 2007, we added financing the nation's transportation system to the High Risk List. See, GAO, *High-Risk Series: An Update*. [GAO-07-310](#). Washington, D.C.: January 2007.

transportation system over the past several decades. The result is apparent: increasing number of hours spent inching along clogged roads and highways, especially at rush hours and other times of peak demand. The economic implications are significant, ranging from wasted fuel and time as cars idle in traffic to increased costs for businesses as the system grows more unreliable. In addition to burdening the economy, congestion can harm the environment and health of the nation's citizens.

Addressing these challenges is complicated by the breadth of the nation's surface transportation network—encompassing highway, transit, and rail systems and ports that are owned, funded, and operated by both the public and the private sectors. Moreover, surface transportation policy decisions are inextricably linked with aviation, economic, environmental, and energy policy concerns. In addition, the federal government's financial condition and fiscal outlook are worse than many may understand.⁴ Specifically, the federal budget is on an imprudent and unsustainable path—heightening concern about the solvency of the Highway Trust Fund because other federal revenue sources may not be available to help solve the nation's current transportation challenges. Addressing these challenges requires strategic and intermodal approaches, effective tools and programs, and coordinated solutions involving all levels of the government and the private sector. Yet in many cases, the government is still trying to do business in ways that are based on conditions, priorities, and approaches that were established decades ago and are not well suited to addressing 21st century challenges. Consequently, we have called for a fundamental reexamination of the nation's transportation policies and programs.⁵

My remarks today focus on (1) principles to assess proposals for restructuring the surface transportation program and (2) our preliminary observations on the Commission's recommendations. My comments are based on our ongoing work for the Ranking Member of this Committee, the Chairman of the House Transportation and Infrastructure Committee, Senator DeMint, as well as a body of work that we have completed over

⁴GAO, *Long-Term Fiscal Outlook: Action Is Needed to Avoid the Possibility of a Serious Economic Disruption in the Future*, [GAO-08-411T](#) (Washington, D.C.: Jan. 29, 2008) and *Fiscal Stewardship: A Critical Challenge Facing Our Nation*, [GAO-07-362SP](#) (Washington, D.C.: January 2007).

⁵See GAO, *Performance and Accountability: Transportation Challenges Facing Congress and the Department of Transportation*, [GAO-07-545T](#) (Washington, D.C.: Mar. 6, 2007) and *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: February 2005).

the past several years for Congress.⁶ We conducted our work on the Commission's recommendations in January and February 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In Summary

We have called for a fundamental reexamination of the nation's surface transportation program because, among other things, the current goals are unclear, the funding outlook for the program is uncertain, and the efficiency of the system is declining. A sound basis for reexamination can productively begin with identification of and debate on underlying principles. Through our prior analyses of existing programs, we identified a number of principles that could help drive an assessment of proposals for restructuring the federal surface transportation program.⁷ These principles include (1) defining the federal role based on identified areas of national interest, (2) incorporating performance and accountability for results into funding decisions, and (3) ensuring fiscal sustainability and employing the best tools and approaches to improve results and return on investment. We have also developed a series of illustrative questions that can be used to determine the extent to which restructuring proposals are aligned with each principle. We developed these principles and illustrative questions based on prior analyses of existing surface transportation programs as well as a body of work that we have developed for Congress, including GAO's High-Risk, Performance and Accountability, and 21st Century Challenges reports. The principles do not prescribe a specific approach to restructuring, but they do provide key attributes that will help ensure that a restructured surface transportation program addresses current challenges.

The Commission's report makes a number of recommendations designed to restructure the federal surface transportation program. The

⁶The previous performance audits were conducted in accordance with generally accepted government auditing standards. See "Related GAO Products" at the end of this testimony statement.

⁷These principles were developed as part of our ongoing review of the evolution of the surface transportation program, which is expected to be issued in March 2008.

recommendations include significantly increasing the level of investment by all levels of government in surface transportation, consolidating and reorganizing the current programs, speeding project delivery, and making the current programs more performance- and outcome-based and mode-neutral, among other things. We are currently analyzing the Commission's recommendations using the principles that we have developed for evaluating proposals to restructure the surface transportation program. Although our analysis is not complete, our preliminary analysis indicates that some of the Commission's recommendations appear to align with the principles, while others may not. For example:

- Although the Commission identifies areas of national interest and recommends reorganizing the individual surface transportation programs around these areas, it generally recommends that the federal government pay for 80 percent of project costs without considering whether the national interest varies by program or project.
- The Commission emphasizes the need to make the program more performance- and outcome-based, but does not directly link overall project funding to performance.
- Although the Commission encourages the use of alternative financing tools, including tolling, congestion pricing, and public-private partnerships, it also places a number of restrictions on these mechanisms. It is unclear how these restrictions would affect the proposed expansion and potential benefits of such tools.

Background

Transportation programs, like other federal programs, need to be viewed in the context of the nation's fiscal position. Long-term fiscal simulations by GAO, the Congressional Budget Office, and others all show that despite a 3-year decline in the federal government's unified budget deficit, we still face large and growing structural deficits driven by rising health care costs and demographic trends. As the baby boom generation retires, entitlement programs will grow and require increasing shares of federal spending. Absent significant changes to tax and spending programs and policies, we face a future of unsustainable deficits and debt that threaten to cripple our economy and quality of life.⁸ This looming fiscal crisis requires a fundamental reexamination of all government programs and

⁸Additional information about GAO's simulations and the Nation's long-term fiscal challenge can be found at <http://www.gao.gov/special.pubs/longterm/>.

commitments. Although the long-term outlook is driven by rising health care costs, all areas of government should be re-examined. This involves reviewing government programs and commitments and testing their continued relevance and relative priority for the 21st century. Such a reexamination offers an opportunity to address emerging needs by eliminating outdated or ineffective programs, more sharply defining the federal role in relation to state and local roles, and modernizing those programs and policies that remain relevant. We are currently working with Congress to develop a variety of tools to help carry out a reexamination of federal programs.⁹

The nation's surface transportation programs are particularly ready for reexamination. This would include asking whether existing program constructs and financing mechanisms are relevant to the challenges of the 21st century, and making tough choices in setting priorities and linking resources to results. We have previously reported on the following factors that highlight the need for transformation of the nation's transportation policy.

- **Future demand for transportation will strain the network.** Projected population growth, technological changes, and increased globalization are expected to increase the strain on the nation's transportation system. Congestion across modes is significant and projected to worsen.
- **National transportation goals and priorities are difficult to discern.** Federal transportation statutes and regulations establish multiple, and sometimes conflicting, goals and outcomes for federal programs. In addition, federal transportation funding is generally not linked to system performance or to the accomplishment of goals or outcomes. Furthermore, the transportation program, like many other federal programs, is subject to congressional directives, which could impede the selection of merit-based projects.
- **The federal government's role is often indirect.** The Department of Transportation (DOT) implements national transportation policy and administers most federal transportation programs. While DOT carries out some activities directly, it does not have control over the vast majority of the activities it funds. Additionally, DOT's framework of separate modal

⁹GAO, *A Call for Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21st Century Challenges*, [GAO-08-93SP](#) (Washington, D.C.: December 2007).

administrations makes it difficult for intermodal projects to be integrated into the transportation network.

- **Future transportation funding is uncertain.** Revenues to support the Highway Trust Fund—the major source of federal highway and transit funding—are eroding. Receipts for the Highway Trust Fund, which are derived from motor fuel and truck-related taxes (e.g., truck sales) are continuing to grow. However, the federal motor fuel tax of 18.4 cents per gallon has not been increased since 1993, and thus the purchasing power of fuel tax revenues has eroded with inflation. Furthermore, that erosion will continue with the introduction of more fuel-efficient vehicles and alternative-fueled vehicles in the coming years, raising the question of whether fuel taxes are a sustainable source of financing transportation. In addition, funding authorized in the recently enacted highway and transit program legislation is expected to outstrip the growth in trust fund receipts. Finally, the nation’s long-term fiscal challenges constrain decision makers’ ability to use other revenue sources for transportation needs.

Recognizing many of these challenges and the importance of the transportation system to the nation, Congress established The National Surface Transportation Policy and Revenue Study Commission (Commission) in the Safe, Accountable, Flexible, Efficient Transportation Equity Act—A Legacy for Users (SAFETEA-LU).¹⁰ The mission of the Commission was, among other things, to examine the condition and future needs of the nation’s surface transportation system and short and long-term alternatives to replace or supplement the fuel tax as the principal revenue source to support the Highway Trust Fund. In January 2008, the Commission released a report with numerous recommendations to place the trust fund on a sustainable path and to reform the current structure of the nation’s surface transportation programs. Congress also created the National Surface Transportation Infrastructure Financing Commission in SAFETEA-LU and charged it with analyzing future highway and transit needs and the finances of the Highway Trust Fund and recommending alternative approaches to financing transportation infrastructure.¹¹ This Commission issued its interim report this past week, and its final report is expected by spring of 2009. In addition, various transportation industry associations and research groups have issued, or plan to issue in the

¹⁰Pub. L. No. 109-59, §1909(b), 119 Stat. 1471.

¹¹Pub. L. No. 109-59, § 11142(a), 119 Stat. 1961.

coming months, proposals for restructuring and financing the surface transportation program.

Principles to Assess Proposals for Restructuring the Surface Transportation Program

Through our prior analyses of existing programs, we identified a number of principles that could help drive an assessment of proposals for restructuring the federal surface transportation programs. These principles include (1) defining the federal role based on identified areas of national interest, (2) incorporating performance and accountability for results into funding decisions, and (3) ensuring fiscal sustainability and employing the best tools and approaches to improve results and return on investment.

Define Federal Role Based on Identified Areas of National Interest

Our previous work has shown that identifying areas of national interest is an important first step in any proposal to restructure the surface transportation program. In identifying areas of national interest, proposals should consider existing 21st century challenges and how future trends could have an impact on emerging areas of national importance—as well as how the national interest and federal role may vary by area. For example, experts have suggested that federal transportation policy should recognize emerging national and global imperatives, such as reducing the nation’s dependence on foreign fuel sources and minimizing the impact of the transportation system on global climate change. Once the various national interests in surface transportation have been identified, proposals should also clarify specific goals for federal involvement in the surface transportation program as well as define the federal role in working toward each goal. Goals should be specific and outcome-based to ensure that resources are targeted to projects that further the national interest. The federal role should be defined in relation to the roles of state and local governments, regional entities, and the private sector. Where the national interest is greatest, the federal government may play a more direct role in setting priorities and allocating resources as well as fund a higher share of program costs. Conversely, where the national interest is less evident, state and local governments, and others could assume more responsibility. For example, efforts to reduce transportation’s impact on greenhouse gas emissions may warrant a greater federal role than other initiatives, such as reducing urban congestion, since the impacts of greenhouse gas emissions are widely dispersed, whereas the impacts of urban congestion may be more localized.

The following illustrative questions can be used to determine the extent to which proposals to restructure the surface transportation program define the federal role in relation to identified areas of national interest and goals.

- To what extent are areas of national interest clearly defined?
- To what extent are areas of national interest reflective of future trends?
- To what extent are goals defined in relation to identified areas of national interest?
- To what extent is the federal role directly linked to defined areas of national interest and goals?
- To what extent is the federal role defined in relation to the roles of state and local governments, regional entities, and the private sector?
- To what extent does the proposal consider how the transportation system is linked to other sectors and national policies, such as environmental, security, and energy policies?

Incorporate Performance and Accountability into Funding Decisions

Our previous work has shown that an increased focus on performance and accountability for results could help the federal government target resources to programs that best achieve intended outcomes and national transportation priorities. Tracking specific outcomes that are clearly linked to program goals could provide a strong foundation for holding grant recipients responsible for achieving federal objectives and measuring overall program performance. In particular, substituting specific performance measures for the current federal procedural requirements could help make the program more outcome-oriented. For example, if reducing congestion were an established federal goal, outcome measures for congestion, such as reduced travel time could be incorporated into the programs to hold state and local governments responsible for meeting specific performance targets. Furthermore, directly linking the allocation of resources to the program outcomes would increase the focus on performance and accountability for results. Incorporating incentives or penalty provisions into grants can further hold grantees and recipients accountable for achieving results.

The following illustrative questions can be used to determine the extent to which proposals to restructure the surface transportation program incorporate performance and accountability mechanisms.

- Are national performance goals identified and discussed in relation to state, regional, and local performance goals?
- To what extent are performance measures outcome-based?
- To what extent is funding linked to performance?

-
- To what extent does the proposal include provisions for holding stakeholders accountable for achieving results?
 - To what extent does the proposal create data collection streams and other tools as well as a capacity for monitoring and evaluating performance?

Ensure Fiscal Sustainability and Employ the Best Tools and Approaches to Improve Results and Return on Investment

We have previously reported that the effectiveness of any overall federal program design can be increased by incorporating strategies to ensure fiscal sustainability as well as by promoting and facilitating the use of the best tools and approaches to improve results and return on investment. Importantly, given the projected growth in federal deficits, constrained state and local budgets, and looming Social Security and Medicare spending commitments, the resources available for discretionary programs will be more limited—making it imperative to maximize the national public benefits of any federal investment through a rigorous examination of the use of such funds.¹² The federal role in transportation funding must be reexamined to ensure that it is sustainable in this new fiscal reality. A sustainable surface transportation program will require targeted investment, with adequate return on investment, from not only the federal government, but also state and local governments, and the private sector. The user-pay concept—that is, users paying directly for the infrastructure they use—is a long-standing aspect of transportation policy and should, to the extent feasible and appropriate, remain an essential tenet as the nation moves toward the development of a fiscally sustainable transportation program. For example, a panel of experts recently convened by GAO agreed that regardless of funding mechanisms pursued, investments need to seek to align fees and taxes with use and benefits.¹³

A number of specific tools and approaches can be used to improve results and return on investment including using economic analysis, such as benefit-cost analysis in project selection; requiring grantees to conduct post-project evaluations; creating incentives to better utilize existing infrastructure; providing states and localities greater flexibility to use certain tools, such as tolling and congestion pricing; and requiring maintenance of effort provisions in grants. The suitability of the tool and approach used varies depending on the level of federal involvement or

¹²GAO, *Freight Transportation: National Policy and Strategies Can Help Improve Freight Mobility*. [GAO-08-287](#) (Washington, D.C.: Jan. 7, 2008).

¹³GAO, *Highlights of a Forum: Transforming Transportation Policy for the 21st Century*. [GAO-07-1210SP](#) (Washington, D.C.: September 2007).

control that policymakers desire for a given area of policy. Using these tools and approaches could help surface transportation programs more directly address national transportation priorities and become more fiscally sustainable.

The following illustrative questions can be used to determine the extent to which proposals to restructure the surface transportation program ensure fiscal sustainability and employ the best tools and approaches to improve results and return on investment.

- To what extent do the proposals reexamine current and future spending on surface transportation programs?
- Are the recommendations affordable and financially stable over the long-term? To what extent are the recommendations placed in the context of federal deficits, constrained budgets, and other spending commitments and to what extent do they meet a rigorous examination of the use of federal funds?
- To what extent do the proposals discuss how costs and revenues will be shared among federal, state, local, and private stakeholders?
- To what extent are recommendations considered in the context of trends that could affect the transportation system in the future, such as population growth, increased fuel efficiency, and increased freight traffic?
- To what extent do the proposals build in capacity to address changing national interests?
- To what extent do the proposals address the need better to align fees and taxes with use and benefits?
- To what extent are efficiency and equity tradeoffs considered?
- To what extent do the proposals provide flexibility and incentives for states and local governments to choose the most appropriate tool in the toolbox?

Preliminary Observations on the Commission's Recommendations

The Commission makes a number of recommendations designed to restructure the federal surface transportation program so that it meets the needs of the nation in the 21st century. The recommendations include significantly increasing the level of investment by all levels of government in surface transportation, consolidating and reorganizing the current programs, speeding project delivery, and making the current programs more performance- and outcome-based and mode-neutral, among other things. We are currently analyzing the Commission's recommendations using the principles that we have developed for evaluating proposals to restructure the surface transportation program. Although our analysis is not complete, our preliminary results indicate that some of the Commission's recommendations address issues included in the principles.

For example, to make the surface transportation program more performance-based, the Commission recommends the development of outcome-based performance standards for various programs. Other recommendations, however, appear to be aligned less clearly with the principles.

Preliminary Observations on the Commission's Recommendations As They Relate to the National Interest and Federal Role

In its report, the Commission identifies eight areas of national interest and recommends organizational restructuring of DOT to eliminate modal stovepipes. In particular, the report notes that the national interest in transportation is best served when (1) facilities are well maintained, (2) mobility within and between metropolitan areas is reliable, (3) transportation systems are appropriately priced, (4) modes are rebalanced and travel options are plentiful, (5) freight movement is explicitly valued, (6) safety is assured, (7) transportation decisions and resource impacts are integrated, and (8) rational regulatory policy prevails. We and others have also identified some of these and other issues as possible areas of national interest for the surface transportation program. For example, at a recent forum on transportation policy convened by the Comptroller General, experts identified enhancing the mobility of people and goods, maintaining global competitiveness, improving transportation safety, minimizing adverse environmental impacts of the transportation system, and facilitating transportation security as the most important transportation policy goals.¹⁴ The Commission report also recommends restructuring DOT to consolidate the current programs and to eliminate modal stovepipes. We have also identified the importance of breaking down modal stovepipes. Specifically, we have reported that the modal structure of DOT and state and local transportation agencies can inhibit the consideration of a range of transportation options and impede coordination among the modes.¹⁵ Furthermore, in the forum on transportation policy, experts told us that the current federal structure, with its modal administrations and stovepiped programs and funding, frequently inhibits consideration of a range of transportation options at both the regional and national levels.¹⁶

¹⁴[GAO-07-1210SP](#).

¹⁵GAO, *Intermodal Transportation: DOT Could Take Further Actions to Address Intermodal Barriers*. [GAO-07-718](#). Washington, D.C.: June 20, 2007) and [GAO-07-1210SP](#).

¹⁶[GAO-07-1210SP](#).

Some of the Commission’s recommendations related to the national interest and the federal role also raise questions for consideration. Although consolidating and reorganizing the existing surface transportation programs, as the Commission recommends, could help eliminate modal stovepipes, it is not clear to what extent eliminating any of the existing programs was considered. Given the federal government’s fiscal outlook, we have reported that we cannot accept all of the federal government’s existing programs, policies, and activities as “givens.” Rather, we have stated that we need to rethink existing programs, policies, and activities by reviewing their results relative to the national interests and by testing their continued relevance and relative priority.¹⁷ It is not clear from the Commission’s report that such a “zero-based” review of the current and proposed surface transportation programs took place.

The Commission also recommends an 80/20 cost sharing arrangement for transportation projects under most programs—that is, the federal government would fund 80 percent of the project costs and the grantee (e.g., state government) would fund 20 percent. In addition, the Commission recommends that the federal government should pay 40 percent of national infrastructure capital costs. These proposed cost share arrangements suggest that the recommended level and share of federal funding reflects the benefits the nation receives from investment in the project—that is, the national interest. However, the report offers no evidence that this is the case. Rather, the proposed cost share arrangements appear to reflect the historical funding levels of many surface transportation programs without considering whether this level of funding reflects the national interest or should vary by program or project. For example, the Commission recommends that the federal government pay for 80 percent of the proposed intercity passenger rail system. However, we have found that the nation’s intercity passenger rail system appears to provide limited public benefits for the level of federal expenditures required to operate it,¹⁸ raising questions as to whether an 80 percent federal share is justified.

¹⁷GAO-05-325SP.

¹⁸GAO, *Intercity Passenger Rail: National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures*. GAO-07-15 (Washington, D.C.: Nov. 13, 2006).

Preliminary Observations on the Commission's Recommendations As They Relate to Performance and Accountability

The Commission proposes to make the surface transportation program performance- and outcome-based, and its recommendations include several performance and accountability mechanisms. In particular, the Commission recommends the development of national outcome-based performance standards for the different federal programs. The Commission recommends that states and major metropolitan areas also be required to include performance measures in their own transportation plans, along with time frames for meeting national performance standards. To receive federal funding, projects must be listed in state and local plans, be shown to be cost-beneficial, and be linked to specific performance targets. In addition, the Commission recognizes the importance of data in measuring the effectiveness of transportation programs and overall project performance and recommends that an important goal of the proposed research, development, and technology program be to improve the nation's ability to measure project performance data.

Although the Commission emphasizes the need for a performance- and outcome-based program, it is unclear to what extent some of the Commission's recommendations are aligned with such principles. For example, the Commission recommends that overall federal funding be apportioned to states based on state and local transportation plans, rather than directly linking the distribution of funds to state and local governments' performance in meeting identified national transportation goals.¹⁹ In addition, although the Commission recognizes the importance of data in evaluating the effectiveness of projects, the Commission does not recommend the use of post-project, or outcome, evaluations. Our previous work has shown that post-project evaluations provide an opportunity to learn from the successes and shortcomings of past projects to better inform future planning and decision making and increase accountability for results.²⁰

¹⁹The Commission does recommend giving the National Surface Transportation Commission, a proposed independent body recommended by the Commission to oversee development of a national strategic plan for transportation investment and to recommend appropriate revenue adjustments to the Congress, authority to increase the federal share for particular activities as an incentive and to reduce the federal share of funding when performance objectives are not met.

²⁰See GAO, *Highway and Transit Investments: Options for Improving Information on Projects' Benefits and Costs and Increasing Accountability for Results*, [GAO-05-172](#) (Washington D.C.: Jan. 24, 2005).

Preliminary Observations on the Commission's Recommendations As They Relate to Fiscal Sustainability and the Use of the Best Tools and Approaches

The Commission recommends a range of financing mechanisms and tools as necessary components of a fiscally sustainable transportation program. These mechanisms include an increase in the federal fuel tax, investment tax credits, and the introduction of new fees, such as a new fee on freight and a new transit ticket tax. Experts at our forum on transportation policy also advocated the use of various financing mechanisms, including many of the mechanisms recommended by the Commission, arguing that there is no “silver bullet” for the current and future funding crisis facing the nation’s transportation system.²¹ The Commission also recognizes that states will need to use other tools to generate revenues for their share of the recommended increase in investment and to manage congestion. Therefore, the Commission supports fewer federal restrictions on tolling and congestion pricing on the interstate highways system and recommends that Congress encourage the use of public-private partnerships where appropriate. In addition, the Commission recognizes the growing consensus that, with more fuel-efficient and more alternative-fuel vehicles, an alternative to the fuel tax will be required in the next 15 to 20 years. To facilitate a transition to new revenue sources, the Commission recommends that Congress require a study of specific mechanisms, such as mileage-based user fees.

It is unclear, however, whether some of the Commission’s recommendations are fiscally sustainable—both over the short and the long-term—and encourage the use of the best tools and approaches. For example, the Commission recommends a substantial investment—specifically, \$225 billion per year—in the surface transportation program by all stakeholders. However, the level of investment called for by the Commission reflects the most expensive “needs” scenario examined by the Commission,²² raising questions about whether this level of investment is warranted and whether federal, state, and local governments can generate their share of the investment in light of competing priorities and fiscal constraints. In addition, while much of the increased investment in the

²¹GAO-07-1210SP.

²²The Commission examined various scenarios that incorporate packages of transportation policy options. These scenarios have been used to identify ranges of potential investment that would be expected to achieve different performance impacts at various points in time in the future. While the investment needs presented in the Commission report were developed using some of the same analytical tools utilized in previous reports by DOT, such as the Highway Economic Requirements System, these tools were customized to meet the requirements of the Commission and supplemented using additional analytical approaches developed specifically for this study.

surface transportation program would come from increased fuel taxes and other user fees, some funding would come from general revenues. Such recommendations need to be considered in the context of the overall fiscal condition of the federal government. Finally, while the Commission recommends enhanced opportunities for states to implement alternative tools such as tolling, congestion pricing, and public-private partnerships, it also recommends that Congress place a number of restrictions on the use of these mechanisms, such as requirements that states cap toll rates (at the level of the CPI minus a productivity adjustment), prohibit the use of revenues for non-transportation purposes, avoid toll rates that discriminate against certain users, and fully consider the effect tolling might have on diverting traffic to other facilities. The potential federal restrictions must be carefully crafted to avoid undermining the potential benefits.

Concluding Observations

In conclusion, the magnitude of the nation's transportation challenges calls for an urgent response, including a plan for the future. The Commission's report offers one way forward. Over the coming months, other options to restructure and finance the surface transportation program will likely be put forward by a range of transportation stakeholders. Ultimately, Congress and other federal policymakers will have to determine which option—or which combination of options—best meets the needs of the nation. There is no silver bullet solution to the nation's transportation challenges and many of the options, such as reorganizing a large federal agency or allowing greater private sector investment in the nation's infrastructure, could be politically difficult to implement both nationally and locally. The principles that we identified provide a framework for evaluation. Although the principles do not prescribe a specific approach to restructuring, they do provide key attributes that will help ensure that a restructured surface transportation program addresses current challenges. We will continue to assist the Congress as it works to evaluate the various options and develop a national transportation policy for the 21st century that will improve the design of transportation programs, the delivery of services, and accountability for results.

Madam Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Committee might have.

**GAO Contact and
Staff
Acknowledgement**

For further information on this statement, please contact JayEtta Z. Hecker at (202) 512-2834 or heckerj@gao.gov. Individuals making key contributions to this testimony were Elizabeth Argeris, Nikki Clowers, Barbara Lancaster, Matthew LaTour, Nancy Lueke, and Katherine Siggerud.

Related GAO Products

Long-Term Fiscal Outlook: Action Is Needed to Avoid the Possibility of a Serious Economic Disruption in the Future. [GAO-08-411T](#). Washington, D.C.: January 29, 2008.

Freight Transportation: National Policy and Strategies Can Help Improve Freight Mobility. [GAO-08-287](#). Washington, D.C.: January 7, 2008

A Call For Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21st Century Challenges. [GAO-08-93SP](#). Washington, D.C.: December 2007.

Highlights of a Forum: Transforming Transportation Policy for the 21st Century. [GAO-07-1210SP](#). Washington, D.C.: September 2007.

Public Transportation: Future Demand Is Likely for New Starts and Small Starts Programs, but Improvements Needed to the Small Starts Application Process. [GAO-07-917](#). Washington, D.C.: July 27, 2007.

Surface Transportation: Strategies Are Available for Making Existing Road Infrastructure Perform Better. [GAO-07-920](#). Washington, D.C.: July 26, 2007.

Highway and Transit Investments: Flexible Funding Supports State and Local Transportation Priorities and Multimodal Planning. [GAO-07-772](#). Washington, D.C.: July 26, 2007.

Railroad Bridges and Tunnels: Federal Role in Providing Safety Oversight and Freight Infrastructure Investment Could Be Better Targeted. [GAO-07-770](#). Washington, D.C.: August 6, 2007.

Intermodal Transportation: DOT Could Take Further Actions to Address Intermodal Barriers. [GAO-07-718](#). Washington, D.C.: June 20, 2007.

Performance and Accountability: Transportation Challenges Facing Congress and the Department of Transportation. [GAO-07-545T](#). Washington, D.C.: March 6, 2007.

High-Risk Series: An Update. [GAO-07-310](#). Washington, D.C.: January 2007.

Fiscal Stewardship: A Critical Challenge Facing Our Nation. [GAO-07-362SP](#). Washington, D.C.: January 2007.

Intercity Passenger Rail: National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures. [GAO-07-15](#). Washington, D.C.: November 13, 2006.

Freight Railroads: Industry Health Has Improved, but Concerns about Competition and Capacity Should be Addressed. [GAO-07-94](#). Washington, D.C.: October 6, 2006.

Highway Finance: States' Expanding Use of Tolling Illustrates Diverse Challenges and Strategies. [GAO-06-554](#). Washington, D.C.: June 28, 2006.

Highway Trust Fund: Overview of Highway Trust Fund Estimates. [GAO-06-572T](#). Washington, D.C.: April 4, 2006.

Highway Congestion: Intelligent Transportation Systems' Promise for Managing Congestion Falls Short, and DOT Could Better Facilitate Their Strategic Use. [GAO-05-943](#). Washington, D.C.: September 14, 2005.

Freight Transportation: Short Sea Shipping Option Shows Importance of Systematic Approach to Public Investment Decisions. [GAO-05-768](#). Washington, D.C.: July 29, 2005.

Highlights of an Expert Panel: The Benefits and Costs of Highway and Transit Investments. [GAO-05-423SP](#). Washington, D.C.: May 6, 2005.

21st Century Challenges: Reexamining the Base of the Federal Government. [GAO-05-325SP](#). Washington, D.C.: February 2005.

Highway and Transit Investments: Options for Improving Information on Projects' Benefits and Costs and Increasing Accountability for Results. [GAO-05-172](#). Washington, D.C.: January 24, 2005.

Federal-Aid Highways: Trends, Effect on State Spending, and Options for Future Program Design. [GAO-04-802](#). Washington, D.C.: August 31, 2004.

Surface Transportation: Many Factors Affect Investment Decisions. [GAO-04-744](#). Washington, D.C.: June 30, 2004.

Highways and Transit: Private Sector Sponsorship of and Investment in Major Projects Has Been Limited. [GAO-04-419](#). Washington, D.C.: March 25, 2004.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "E-mail Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, DC 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548