Statement of

The Honorable Mary Fallin, Governor of Oklahoma
&
Chair, National Governors Association

before the

House Transportation and Infrastructure Committee

on

“Building the Foundation for Surface Transportation Reauthorization”

January 14, 2014

Chairman Shuster, Ranking Member Rahall and members of the House Transportation and Infrastructure Committee, thank you for inviting me to testify today on behalf of the nation's governors. As Chair of the National Governors Association (NGA), let me assure you that there is bipartisan support among governors to work jointly with our federal partners to build a foundation for surface transportation reauthorization.

On a personal note, as a T&I alumnus, it is a pleasure to be back at the Committee and to see my former colleagues.

Let me begin with several main points:

- Our nation's multi-modal transportation and related-infrastructure systems support and enhance the economic growth of states and the nation. Together, surface transportation and infrastructure help sustain quality of life and enable the flow of interstate and international commerce that underpins our nation's competitive position in the global economy.

- Over the years, previous surface transportation reauthorizations and their string of legislative extensions created uncertainty at the national level. This triggered necessary and pragmatic actions at the state level to maintain and develop our vital infrastructure, but, governors agree that successful state action does not justify federal disengagement or devolution.

- There is bipartisan support among governors that surface transportation requires both a long-term vision and funding stability to provide for our nation's diverse mobility needs. Surface transportation infrastructure also requires an intergovernmental partnership.

Surface Transportation's Effects on National and State Economies

Our nation's infrastructure systems provide the skeletal structure that promote the flow of commerce in our $14 trillion economy, sustain quality of life and enhance the economic growth of states and the nation.

Thanks to our investment in roads, rails, airports and waterways, Oklahoma is globally competitive.

Oklahoma's strategy for investing and improving our highway system is based on a rolling Eight Year Construction Work Plan that includes an outline of expected progress with respect to state and federal funding projections. The results of previously stagnant investment can be seen across the state in our structurally deficient bridges and highways, but with this aggressive plan Oklahoma is now accelerating improvements to our bridge infrastructure. Carefully created, the state funded modernization project will return our transportation infrastructure to a manageable condition and reverse the toll taken by years of overlooking this important need.

A continued federal investment is necessary to leverage our improvement efforts and create a cohesive transportation system across the nation. States must make efforts to manage federal structures within individual jurisdictions. However, the burden of maintaining the nation's entire transportation network cannot be left only to the states. Both governments must partner to invest in quality infrastructure and meet our nation's transportation needs.

Well managed dollars committed to infrastructure improvements directly impact our economy and enhance the ability of our industries to transport goods and provide services. Investing today in transportation is investing long term in our economic viability and the safety of our citizens.

I will leave it to economists, business leaders and academics to make their case with numbers and data for the level of sufficient investment in surface transportation infrastructure. But, governors as the "CEOs" of our states understand the fundamental importance of surface transportation to economic competitiveness and job growth because we practice it daily.

Last year, in 32 of the 50 "State of the State" addresses delivered by governors, investing in infrastructure was a central theme, behind only educational reform (90 percent) and job growth (84 percent).[1] What did governors say? Let me offer some examples:

- *Many studies show that you can't build a good economy without good infrastructure. Rhode Island is the second-most densely populated state…and our infrastructure takes a beating. Maintenance of our roads and bridges is critical. Make no mistake: strengthening our infrastructure is an integral part of improving our economic competitiveness*. Rhode Island Gov. Lincoln Chafee [January 16, 2013]

- *I'm also asking the Legislature to pass jobs-creating infrastructure projects…for water systems, roads, and dam repair. These types of projects create immediate jobs to kick-start our economy, while also building the infrastructure necessary for long-term economic development.* New Mexico Gov. Susana Martinez [January 15, 2013]

- *Government is no substitute for the private sector…But government has a role to play in helping our citizens help themselves. That's why we invest and why investing in education and infrastructure – together, through government – is so important to generating private sector growth. But in our schools and in transportation, there is unfinished work*. Massachusetts Gov. Deval Patrick [January 16, 2013]

- *In addition, we provided $18 million over two years to ensure that all Hoosier workers have the skills to find a job in today's economy. And since roads mean jobs, we're investing nearly $347 million in excess reserves on Indiana's roads, bridges, and infrastructure*. Indiana Gov. Mike Pence [January 22, 2013]

Let me also take a moment and commend this Committee for its successful bipartisan work to advance H.R. 3080, the Water Resources Reform and Development Act of 2013. More than five years have passed since Congress enacted the last water infrastructure authorization. WRDA reauthorization remains an NGA priority.

[1] "State of the State" Addresses, Loop Capital Markets, March 2013

Last year, governors recommended guiding principles for WRDA reauthorization to Congress. These principles for federal public works projects include, for instance:

- Ensure long-term certainty and stability;
- Implement more streamlined engagement and direct communications with governors;
- Promote intergovernmental collaboration in the regions and states where federal projects are planned;
- Apply systems-based approach to water resource management; and,
- Allow states to develop and leverage private resources to operate water infrastructure currently considered a federal responsibility only, and ensure that Harbor Maintenance Trust Fund and Inland Waterways Trust Fund receipts are equitably allocated and dedicated for their intended purpose.

Governors believe that responsible stewardship of important water infrastructure resources is vital to the safety, environmental protection and economic development of state and local economies. As the second session of the 113th Congress begins, NGA urges House and Senate conferees to complete their work as soon as possible, and Congress to pass a bipartisan WRDA reauthorization.

Governors recognize that our nation's infrastructure systems are multi-modal and, in many cases, interconnected. Ports and waterways that are "state-of-the-art," however, are hamstrung without a nimble national freight strategy or highways, transit and rail systems that meet a baseline "state-of-good-repair.

A national commitment to bring existing infrastructure into a state-of-good-repair and -- in targeted and strategic places -- construct new infrastructure, advances the ability of the United States to meet basic mobility and service delivery needs. It also advances our nation's global attractiveness and economic competitiveness.

MAP-21 Reauthorization: NGA Policy Priorities

The seeds of a renewed national commitment to surface transportation infrastructure were planted less than two years ago when Congress revised and authorized for 27 months current federal law for highways and transit by passing the Moving Ahead for Progress in the 21st Century Act, or MAP-21.

In advance of MAP-21, governors worked through NGA to inform congressional action. NGA also led an effort among national organizations representing state and local elected officials to develop guiding principles for Congress.

As Congress begins work to reauthorize MAP-21, those principles remain relevant today. They are also the basis of NGA's current surface transportation policy.

- *Funding and Finance*. State and local elected officials support continuing the "user pays" principle to guide transportation funding, and placing all options on the table for evaluation.

- *Certainty and Stability*. State and local elected officials support federal funding mechanisms designed to maintain reliable, long-term funding certainty.

- *Program Reforms*. State and local elected officials support preservation of core federal surface transportation programs but recognize the need for program reforms, and support funding and program flexibility.

- *Project Delivery*. State and local elected officials encourage federal efforts to streamline project delivery.

- *Mobility Needs*. State and local elected officials support a strong federal role in funding equitable transportation solutions for metropolitan and non-metropolitan areas across the country.

- *System Performance*. State and local elected officials support outcome-oriented performance measures developed by states and localities that are clear, measurable and fair.

- *Safety and Security*. All levels of government must cooperate to improve the safety and mobility of the surface transportation system, protect the environment, and ensure the security of transportation assets throughout the country.

Governors appreciate that MAP-21 reflected many of our policy priorities. In particular, governors supported the preservation of innovative financing tools such as public-private partnerships and the expanded capacity of the Transportation Infrastructure Finance and Innovation Act (TIFIA) credit assistance program. The development of new infrastructure projects will need similar innovative project financing options, stable funding sources, intergovernmental partnerships and multi-state coordination.

States need federal funding stability and certainty to pursue long-term planning and project delivery. Governors also support state flexibility to make investments in infrastructure projects through existing and new self-sustaining financing mechanisms to help mitigate public funding shortfalls.

All funding options must be on the table for ongoing evaluation because existing revenue sources are no longer adequate to support the various federal trust funds that help finance surface transportation and infrastructure.

Infrastructure and Federal Tax Reform

There are risks facing infrastructure on other fronts such as federal tax reform. I am not referring to the gas tax debate, but risks to the well-known and mature $3.7 trillion tax-exempt bond market that helps finance infrastructure. Forty-four states and Puerto Rico issue general obligation or revenue bonds.

Funding infrastructure through taxes, tolls and other alternative mechanisms is different from *financing* infrastructure projects through debt and equity investments. For nearly 200 years, municipal bonds have assisted states, cities and counties in financing their infrastructure needs including roads, bridges, transit systems and other vital projects serving the public good. Since its inception in the early 20th century, the federal tax code included the exclusion from income for interest earned on municipal bonds. As the tax reform debate continues in Congress, driving factors include lowering tax rates through closing loopholes and reducing tax expenditures.

Ending or capping the federal exclusion from income for municipal bond interest would increase the cost of financing infrastructure projects. This would chill those projects, trigger higher taxes on citizens to cover the increase or some combination of both.

Last November, NGA and the Council of State Governments released a commissioned study prepared by Moody's Analytics that examined the macroeconomic effects from proposals to cap or eliminate the interest exclusion and state and local tax deductibility.

The study analyzed potential effects on jobs, economic growth and investments in infrastructure, and revealed that cap and repeal scenarios run a real risk, if enacted, of unintended consequences:

- **Repealing** federal tax provisions that most affect state and local budgets "would bring a net loss of approximately 417,000 jobs and $71 billion in real GDP" over the next 10 years.

- **Both** the cap and repeal scenarios would trigger higher interest rates for state and local issuers to finance infrastructure projects, raising borrowing costs by increasing the interest rate paid by state and local issuers at least 20 basis points.

The Moody's Analytics study also warned that "arbitrarily reducing the value of the municipal bond market" through either a cap or repeal could set a dangerous precedent, possibly causing permanent uncertainty about interest rates -- opening "a door that cannot be closed" and raising borrowing costs for states and local governments "in perpetuity." The mere discussion about altering the current tax treatment of municipal bonds injects uncertainty into bond markets and raises concern for investors who will demand risk premiums on future bond issues that finance infrastructure projects.

Federal laws and regulations, either directly or indirectly, should not increase the costs states incur to issue municipal bonds, or decrease investor appetite to purchase them.

Conclusion

Federal highway and transit programs and laws expire at the end of September 2014.

Over the years, previous surface transportation reauthorizations and their string of legislative extensions created uncertainty at the national level that triggered action at the state level. States can do a lot, and governors are leading the way, but states and local governments cannot do it all.

State action is not an invitation for federal devolution.

As Congress and the administration move forward to refine the national vision for surface transportation, many credible and influential voices will offer counsel and advocate for particulars. State and local governments, however, are the owners and operators of 97 percent of the nation's interconnected surface transportation systems. We contribute nearly 75 percent of the annual cost to operate and maintain those systems. With our elected partners at the federal level, moreover, state and local elected officials serve the same constituencies.

Infrastructure requires an intergovernmental partnership – and all levels of government have a crucial role to play to achieve overall success. The nation's governors look forward to working with Congress and the administration as work begins to reauthorize MAP-21.

Thank you for the opportunity to testify. I would be happy to answer questions.

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