Written Testimony

Of

The Honorable Sean T. Connaughton, Secretary of Transportation

Commonwealth of Virginia

Before

The Committee on Transportation and Infrastructure

Panel on 21st Century Freight Transportation

United States House of Representatives

On

Funding the Nation's Freight System

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Mr. Chairman and distinguished members of the Panel, thank you for the opportunity to appear before you today to discuss funding the nation's freight system and what states, such as the Commonwealth of Virginia, are accomplishing in this arena.

Introduction

As home to one of the largest seaports on the East Coast, four major cargo airports, two Class I freight railroads, and some of the nation's most heavily traveled truck corridors, freight transportation plays a tremendous role in the Commonwealth of Virginia's economic prosperity. However, like all states, and the nation as a whole, the Commonwealth must continue to take the steps necessary to adequately plan for and invest in our freight infrastructure. Virginia's efforts in this area are paying dividends. The initiatives and projects implemented during the McDonnell Administration are helping ensure that Virginia's burgeoning manufacturing, distribution, and other business sectors have the infrastructure necessary to grow, create jobs, and maintain the Commonwealth's position among the most business friendly states in the nation.

Freight in Virginia

Centrally located along the East Coast of the United States, the Commonwealth of Virginia is within a one day drive of 40 percent of the U.S. population and a two day drive of 70 percent of the U.S. population. Fifty-five percent of the U.S. population resides within a 750 mile radius. This central location plays a critical role in the impact freight transportation has on the overall Virginia economy.

Each year, Virginia's multimodal freight transportation system handles around 900 million tons of freight valued at approximately $2 trillion. Much of, but certainly not all of, this impact is generated due to Virginia's central location and the Port of Virginia. The Port of Virginia, which will be discussed in greater detail below, makes Virginia a gateway to international trade and helps support much of the economic impact generated through freight transportation.

For example, Virginia is home to over 6,000 manufacturing establishments, which exported over $18.1 billion in goods in 2011. These manufacturing facilities ship and receive their goods into and out of the Port of Virginia through a global logistics network that supports over 68,000 jobs. Each year global logistics supports approximately 20,200 jobs in trucking, 19,300 jobs in warehouse, and 14,600 jobs in transportation support. Global logistics related activities in Virginia have a direct economic output of $8.6 billion and support an additional $6.6 billion in indirect output.

Looking at the broader impacts of freight on Virginia's economy, roughly 50 percent of Virginia's output, 28 percent of our gross state product, and 34 percent of our employment are generated through freight-related industries. Economic estimates forecast that this impact is projected to grow tremendously over the next 30 years with freight industry output projected to increase by 100 percent, freight industry gross state product by 70 percent, and freight industry employment by 20 percent. Further, freight tonnage is projected to grow by 113 percent, with international container trade and air cargo trade each projected to grow by more than 200 percent.

Virginia's freight industry is supported by the third largest state-owned highway network in the U.S., the third largest seaport on the East Coast, two Class I national freight railroads, nine short line railroads, and four international cargo airports. Over the past decade, Virginia has advanced several major infrastructure projects to improve our freight-related infrastructure. Several key examples include completion of the Norfolk Southern Heartland Corridor, which provides double-stacked rail access from the Port of Virginia to the Midwest; completion of Phase I of CSX Railroad's National Gateway, which was celebrated here in Washington earlier this week; widening Route 58 to four lanes between Virginia Beach and I-77 in southwest Virginia; completion of the Route 164 median rail line, which improved rail access to APM

Terminals in Portsmouth, the most technologically advanced marine cargo terminal in the United States; and expanding use of the James River Barge Service's 64 Express to transport containers to and from the Port of Virginia.

Additionally, several major projects designed to enhance our freight transportation network are also underway. Examples include the I-564 Intermodal Connector in Hampton Roads, new truck climbing lanes and safety improvements on I-81, and widening I-64 from Newport News to Williamsburg. While these projects are all tremendous steps to improving not only our freight-related infrastructure but also our transportation networks in general, Virginia, like all states and the nation as a whole, must continue to take innovative steps to better plan for and fund the future infrastructure necessary to support projected demand in freight transportation, attract new economic development opportunities and create jobs.

Virginia's Freight Plan

Recognizing the importance of freight's role in transportation planning, the Commonwealth recently completed the Virginia Statewide Multimodal Freight Study. This study, which began in the mid-2000's and culminated with a final report in 2010, serves as the foundation for freight planning in Virginia. Phase I of the study focused primarily on collecting data and inventorying conditions and needs, while Phase II focused on identifying both short and long-term projects and strategies for improving freight transportation in Virginia.

The study concluded that, while Virginia's transportation planning process has historically done a good job of accounting for future congestion, it did not connect the growth trends of trade and business to transportation demand, nor did it assign impact or value to the freight transportation industry in terms of growing congestion or planned transportation improvements. To remedy this situation, the study made findings and recommendations, aside from identifying potential freight related projects, to address these issues: to prescribe an effective freight transportation policy; to make more accurate statements to decision-makers and the freight community as to what the Statewide Transportation Plan does for freight mobility; and provide tools to Virginia's transportation planners to evaluate recommendations and make decisions based on collaborative transportation goals that impact, not only freight transportation providers, but every consumer that pays for their service.

Today, not only are many of the projects identified in the freight study underway or programmed for the near-term, but freight plays a central role in Virginia's long-term transportation planning process. The Virginia Multimodal Freight Plan, set to be complete by December 2013, develops policy recommendations for freight which reflect stakeholder input from the Virginia Freight Transportation Advisory Committee (VFTAC), the Virginia Freight Transportation Technical Committee (VFTTC), and the VTrans performance based planning process; organizes and supplements information from the 2010 Multimodal Freight Study to meet new Federal requirements for state freight plans introduced in Moving Ahead for Progress in the 21st Century (MAP-21); provides recommendations for strategies and projects types to achieve the goals of MAP-21; and identifies policy initiatives that can be translated into project recommendations at the agency level. The Virginia Multimodal Freight Plan not only serves as a key input to VTrans, Virginia's long-range transportation plan, but also fulfills new Federal requirements that states identify major freight needs within statewide freight plans in order to qualify for increased Federal funding for freight projects.

Rail Funding

Virginia has also long recognized the importance rail infrastructure plays in the Virginia economy and freight transportation network. In recognition of this importance, the Virginia General Assembly has created and funded three separate funds geared towards funding our rail infrastructure: the Rail Enhancement Fund (REF), the Rail Industrial Access Fund (RIAF), and the Rail Preservation Fund (RPF). Through the REF, the Commonwealth helps fund up to 70 percent of the costs of major rail infrastructure projects. Examples of such projects include the Heartland Corridor and the National Gateway as referenced above.

The Rail Industrial Access Program helps connect businesses to freight rail service by funding the construction or improvement of railroad tracks and facilities to serve industrial or commercial sites where freight rail service is currently needed. This grant program supports localities, businesses, or industries seeking to provide freight rail service, through Virginia's shortline railroads, between the actual site of an existing or proposed facility and common carrier railroad tracks. The RPF also provides grants to improve shortline railroad infrastructure.

Port of Virginia

The Port of Virginia is one of the Commonwealth's most important economic assets. According to an economic impact report compiled by the Mason School of Business at the College of William and Mary, the port annually supports over 343,000 direct and indirect jobs and generates $41 billion in revenues, over $13 billion in payroll, and $1.2 billion in state and local taxes. In calendar year 2012, the Port handled over 2.1 million TEUs, the second highest cargo volume in its history, and it is on pace to exceed that number this year.

As the only East Coast port currently capable of docking post-Panamax class vessels, the Port of Virginia is poised to undergo tremendous growth over both the short and long-term. Today, the Port is the only port on the East Coast with the 50 feet deep channels necessary for today's larger vessels, and Virginia's facilities have both the existing and planned terminal capacity to accommodate significant growth. Additional advantages include the lack of overhead restrictions in shipping lanes, access to two Class I railroads, good labor relations, and Virginia's overall business climate.

Pursuant to state law, the Virginia Port Authority receives 4.2 percent of Virginia's Transportation Trust Fund. This funding, which amounts to approximately $39 million per year, is dedicated to the Commonwealth Port Fund (CPF). These CPF funds are the principle dedicated source of revenues for port related capital expenses, and are typically used to fund debt service on port bonds. The VPA receives no general fund revenue, and operations are funded through terminal operating revenues. A portion of terminal operating revenues are also used to support port related capital expenditures.

The Port of Virginia is not without its challenges, both internally and externally. Over the course of the past three years, the McDonnell administration has strived to create new efficiencies and reduce the costs associated with port operations. This effort culminated in this year's reorganization of the operating structure between the Virginia Port Authority (VPA) and its operating arm, Virginia International Terminals, principally in an effort to eliminate redundancies and reduce operating costs. As the reorganization and other reforms are implemented, the cost savings for the port will help generate additional revenues that can be

utilized to fund additional on dock infrastructure improvements and to help fund off-dock highway and rail projects.

A major external challenge facing the Port of Virginia is the movement of containers into and out of its cargo facilities in Hampton Roads. Over two-thirds of the containers moving into and out of the port move via truck. Because of the port's location in Hampton Roads, truckers hauling containers to and from the port must pass through one of several major bottlenecks at the region's bridge-tunnels and fight congestion on I-64 or travel rural Route 460 to connect to other major arteries. These bottlenecks are among some of the most congested infrastructure facilities in the Commonwealth and cost shippers time and money.

To combat this congestion, the Port of Virginia has over the years initiated a number of projects to reduce truck traffic on Virginia's highways. For example, the VPA owns and operates an intermodal facility at the Virginia Inland Port in Front Royal. This facility enables truckers traveling from the Midwest and Northeast to offload their containers and put them on rail for the remainder of the trip to Hampton Roads. Additionally, the VPA leases and operates the Port of Richmond, which is served by the James River Barge Service. The 64 Express has grown from one weekly trip to two trips per week, and will soon expand to three trips per week. This service enables truckers to offload their containers in Richmond to avoid the congested I-64 corridor. Finally, the Commonwealth is working with Norfolk Southern to construct the new Elliston Intermodal facility in Montgomery County. However, despite these intermodal successes the Commonwealth and the VPA must address the bottlenecks referenced above for the port to utilize its advantages and achieve its projected growth.

Freight Projects

Addressing the port's highway related bottlenecks has been among the McDonnell Administration's top transportation priorities. Not only do these bottlenecks hurt the port's future competitiveness, but they also negatively impact the daily lives of those citizens living and working near the port. However, because the Hampton Roads region is surrounded by water, these projects cost many billions of dollars. Addressing these bottlenecks alone – both to generally improve our transportation infrastructure and help the Port of Virginia grow – will cost well over $10 billion.

The Virginia Department of Transportation is currently undertaking two projects in the Hampton Roads region through partnerships with the private sector. These projects – the Downtown Tunnel/Midtown Tunnel/MLK Extension Project ("Midtown Tunnel") and the Route 460 Corridor Improvement Project ("Route 460") – are both utilizing innovative financing mechanisms to make otherwise unaffordable projects affordable, and will not only improve freight transportation, but significantly reduce congestion for commuters and truckers alike. By partnering with the private sector, not only is Virginia leveraging a limited state investment to complete billions of dollars worth of infrastructure, but these projects will be completed much sooner than if the state funded them entirely on their own.

The $2.1 billion Midtown Tunnel Project, which is being constructed by Elizabeth River Crossings, will lead to the refurbishment of the existing Downtown Tunnel, a new two-lane tunnel next to the existing Midtown Tunnel, and an extension of the Martin Luther King Expressway to provide greater interconnectivity between the two facilities. The Downtown Tunnel is the most congested facility east of the Mississippi River, and the Midtown Tunnel provides a critical connection for truck traffic to and from the port, as it provides access to Route 58 and Route 460 for truckers connecting to Interstates 85 and 95. The additional tube at the Midtown Tunnel will provide much needed additional capacity as the port continues to grow, and the MLK extension will enable both commuters and truckers to more easily choose between the two tunnels based on incidents and other congestion.

The Route 460 Project, while not a traditional P3 project, demonstrates how innovative approaches to transportation projects not only help the freight industry, but can also improve emergency preparedness, reduce congestion, attract economic development, and create jobs. The existing Route 460 is a four-lane rural road running through several small towns and communities. It is not designed to accommodate significant truck traffic, and is frequently prone to flooding and major delays from incidents. However, because of the corridor's proximity to the port and a CSX rail line, many of the local governments throughout the corridor are undertaking aggressive economic development campaigns to attract the manufacturing companies, distribution centers, and intermodal facilities that will support future growth at the Port of Virginia.

The Route 460 Project is a new 55 mile, four-lane, limited access tollway that will run parallel to the existing Route 460. To fund the project, VDOT has established a 63-20 corporation to issue $216 million of tax-exempt bonds, with VDOT providing $930 million in funding and the Virginia Port Authority providing $250 million, pending a determination on a TIFIA loan. From a freight standpoint, the new 460 will provide faster access to Interstates 85 and 95 for those trucks that currently travel existing Route 460, while providing a more timely alternative for those truckers that currently choose to travel through the tunnels and up Interstate 64. Also, the new roadway will significantly enhance emergency preparedness by serving as a new evacuation route from Hampton Roads, and will generally serve as an additional artery for the hundreds of thousands of tourists and vacationers visiting the region each year.

Perhaps more importantly, because of its key location near the Port of Virginia, the new Route 460 will help attract thousands of jobs and countless economic development opportunities from companies looking for direct, easy access to the port and surrounding intermodal facilities. A 2012 economic impact study conducted by Chmura Economics projected that once complete, the direct and indirect benefit of the new Route 460 and related growth at the Port of Virginia could result in as many as 25,000 new jobs and nearly $14 billion in economic impact.

These two projects are emblematic of the types of investments that must be made to enhance our nation's freight infrastructure, and they demonstrate the type of innovative partnerships that must be utilized in the face of constrained financial resources. Public-private partnerships – whether traditional partnerships for road construction, innovative new financing mechanisms like that utilized for the Route 460 partnership, or shared investments with railroads – must play a critical role in the future funding of freight infrastructure throughout the nation.

MAP-21

For the first time ever in federal transportation policy, Moving Ahead for Progress in the 21st Century (MAP-21) recognized the importance of freight transportation and the role the efficient movement of commercial goods plays to growing the United States' global competitiveness. MAP-21's freight related provisions include the designation of a National Freight Network, the development of a national freight strategic plan, prioritization of projects to improve freight movement, encouraging states to form state freight advisory committees and

establish freight plans, and the implementation of national performance measures for assessing freight movement on the interstate system.

In Virginia, we welcome recognition of the importance of freight in federal surface transportation policy. As noted above, Virginia previously created a freight advisory committee and freight plan, and we are currently in the process of updating our plan to comply with the provisions of MAP-21. Additionally, the enhanced funding opportunities for projects on the National Freight Network are a welcome addition to federal surface transportation policy.

As the Chairman of the American Association of State Highway and Transportation Officials Special Committee on Intermodal Transportation and Economic Expansion, I can also say collectively that the new importance placed on freight transportation at the federal level is a tremendous step forward. However, as with any new policy, I believe there are certain areas where we still must improve as Congress begins to look toward a reauthorization. Specifically, the National Freight Policy should recognize the importance of moving goods between population centers and rural areas, as well as the multimodal and intermodal nature of freight transportation. Additionally, Congress should provide enhanced eligibility for states to undertake multi-state planning initiatives and projects given the inter-state nature of freight transportation. A further consideration should also be expanding the National Freight Network. The initial 30,000 mile cap is too restrictive and does not adequately recognize the differences between states in designating Critical Rural Freight Corridors. Lastly, as we work in partnership with the federal government to implement the new performance measures, it is imperative that Congress not make changes so states have an opportunity to assess their effectiveness.

Conclusion

Freight transportation is a critical component of the Commonwealth of Virginia's and the nation's overall economic prosperity. Both states such as the Commonwealth and the federal government are making tremendous progress in recognizing this importance and beginning to adequately plan for future growth in freight transportation. As we continue our efforts, it is imperative that we continue to maintain the long-standing partnership between the states and the federal government on transportation policy. The federal government must continue to provide states with the flexibility and tools contained in MAP-21, while fully funding the Highway Trust

Fund, and states must continue to look for innovative new solutions to solving transportation funding at the state level.

Mr. Chairman, distinguished members of the panel, thank you again for the opportunity to be here today. I look forward to our continued partnership as we work to build the 21st Century freight networks necessary to ensure our continued economic prosperity.