American Road & Transportation Builders Association

# Analysis of the Obama Administration's FY 2014 Budget Proposal for Transportation

## Executive Summary

For months, President Obama has been talking about the importance of increased transportation investment, both to support the economic recovery and to strengthen the long-term outlook for the U.S. economy. The FY 2014 budget proposal for the federal government—submitted by the administration to Congress April 10 puts flesh to the rhetoric by proposing substantial funding increases for federal transportation investment in FY 2014 and beyond. However, the failure of the administration to recommend a realistic source of funds to support its investment proposals suggests that, beyond funding for the core transportation investment programs, the President's transportation budget requests will run into resistance in Congress.

The main proposals include:

- Immediate Transportation Investments. The budget proposes a one-time $50 billion appropriation for immediate transportation improvements in FY 2014, including $40 billion for "Fix-it-First" investments to improve existing infrastructure assets most in need of repair and $10 billion to help spur states and local innovation in infrastructure improvements. Similar proposals in the past have not been acted on by Congress.

- Federal Highway Program. In the Moving Ahead for Progress in the 21st Century Act (MAP-21), Congress enacted an obligation ceiling of $40.256 billion for the federal highway program for FY 2014 plus $739 billion of contract authority and emergency relief funding that is not subject to the limitation, for a total of $40.995 billion. The President's budget request is identical to MAP-21.

- Public Transportation. MAP-21 authorized a total of $10.695 billion for the public transportation program for FY 2014, including $1.907 billion for capital investment grants, also known as the New Starts Program. The budget requests $10.91 billion for the public transportation program, including $1.98 billion for the transit New Starts Program, which is slightly more than the amount enacted in MAP-21.

- Airport Improvement Program. The FAA Modernization and Reform Act of 2012 authorizes $3.35 billion for the Airport Improvement Program for FY 2014, which provides grants to airports for capital improvements to runways and related projects. The budget proposes to reduce this to $2.90 billion by eliminating funding for large hub airports and allowing these airports to increase passenger facility charges to finance their own airport improvements.

- Partnership to Rebuild America. In recent speeches, President Obama has proposed a "Partnership to Rebuild America" that calls for establishing a $10 billion National Infrastructure Bank, new "America Fast Forward (AFF) Bonds," expansion of the "Transportation Infrastructure Finance and Innovation Act" (TIFIA) and "Transportation Investment Generating Economic Recovery" (TIGER) programs, lifting the national cap and expand eligibility for "Private Activity Bonds" (PABs), and changing the tax treatment of foreign pension funds to attract increased investment.

- TIFIA. MAP-21 increased funding for the TIFIA program from $122 million in FY 2012 to $750 million in FY 2013 and $1 billion in FY 2014. The President's budget request includes the full $1 billion for FY 2014.

The following table summarizes the President's budget proposal for the core transportation investment programs for FY 2014.

| Program | MAP-21, FAA Act | Budget Request |
|---|---|---|
| Federal Highway Program Obligation Limitation | $40.256 billion | $40.256 billion |
| Highway Contract Authority Not Subject to the Limitation | $739 million | $739 million |
| Public Transportation Program, total | $10. 695 billion | $10.91 billion |
| Inc. Capital Investment Grants | $1.907 billion | $1.981 billion |
| Airport Improvement Program | $3.35 billion | $2.90 billion |
| Highway Safety Programs | $1.252 billion | $1.252 billion |
| TIFIA loan program | $1.0 billion | $1.0 billion |
| GF transfer to HTF | $12.6 billion | $12.6 billion |

## Immediate Transportation Investments

In a reprise of the one-time transportation investments included in the 2009 Recovery Act and similar recommendations in past budget submissions, the administration has requested $50 billion for Immediate Transportation Investments in FY 2014. This one-time appropriation would include $40 billion in "Fix-It-First" investments to improve existing infrastructure assets most in need of repair and $10 billion to help spur state and local innovation in infrastructure improvements.

Of the total: $27 billion would be for highway restoration, repair and construction projects; $9 billion for transit; $5 billion for passenger rail; $4 billion for discretionary grants and credit assistance; $3 billion would go to airports; and $2 billion to stimulate innovations. Financing would come from the general fund and the administration claims the $50 billion would be fully offset but provided no details. The $50 billion for the proposed Immediate Transportation Investment initiative would be in addition to FY 2014 funding core transportation investment programs. The Obama Administration has made similar proposals in the past but they have not been acted on by Congress.

## Highway Program

The federal highway program pays 80 percent of the cost of improvements to the nation's core highways and funds almost half of all highway improvements in the United States each year. The current law authorizing federal investment in highways is the Moving Ahead for Progress in the 21st Century Act (MAP-21), under which Congress enacted a total obligation ceiling of $40.256 billion of federal funds for highway, bridge and related improvements in FY 2014. In addition, the law provides $639 million of spending that is not subject to the obligation ceiling plus $100 million for emergency relief.

The President's budget request for FY 2014 conforms to the amounts enacted for highway improvements in MAP-21. The House and Senate have approved separate budget resolutions that also include full MAP-21 funding for the highway program in FY 2014.

## Public Transportation Program

The federal public transportation program has two parts. The largest involves formula grants to public transit agencies for capital improvements, bus purchases and, in some instances, operating expenses. Formula grants are funded from the Mass Transit Account of the Highway Trust Fund and thus do not require an annual appropriation. The second part is the Capital Investment Grant program, also known as the "New Starts" program, which provides grants for construction of subway and light rail systems. These grants are funded from the general fund and require an annual appropriation.

MAP-21 enacted a total of $10.695 billion for the public transportation program for FY 2014, an increase of just over $100 million from the $10.578 billion enacted in MAP-21 for FY 2013 and about $200 million more than the final FY 2013 funding level after sequestration (the recent government-wide spending cuts). For FY 2013 and 2014, MAP-21 authorized $1.907 billion for the New Starts program (the sequestration, however, reduced FY 2013 New Starts investment by $96 million).

The President's budget for FY 2014 requests slightly more than the amounts enacted in MAP-21 for both the transit formula and New Start programs. Total funding proposed by the administration would be $10.91 billion, compared to $10.69 billion in MAP-21, while the New Starts program would be funded at $1.981 billion rather than $1.907 billion in MAP-21.

## Transportation Trust Fund Proposal and HTF Outlook

The budget for FY 2014 reiterates the administration's unsuccessful FY 2013 proposal to expand the Highway Trust Fund (HTF) into a Transportation Trust Fund which would finance not only highway and public transportation improvements, as under current law, but federal investment in intercity passenger rail as well.

In recent years, Congress has had to make transfers from the general fund into the Highway Trust Fund to pay for all authorized federal investment in highway and bridge improvements. The need for transfers resulted from the 2007-09 Great Recession, which led to less truck freight traffic on the nation's highways and a precipitous drop in new truck sales, thus reducing diesel fuel tax receipts and receipts from the taxes imposed on heavy trucks. There was also a decline in personal highway travel and revenues from the federal excise tax on gasoline, although the decline was smaller than that related to truck traffic.

To finance the highway and transit investment levels set in MAP-21, Congress authorized a transfer of $6.2 billion from the general fund into the HTF in FY 2013, which the March 2013 sequester cut to $5.88 billion, and another $12.6 billion transfer in FY 2014. The President's budget requests the full $12.6 billion transfer authorized in MAP-21 for FY 2014.

The real concern with the President's budget, however, is that it does not adequately address the need for additional revenues into the HTF to support federal highway and transit investment in the years after FY 2014. The Congressional Budget Office calculates that revenues in FY 2015 would allow no more than $100 million of new highway investment that year, in effect wiping out the federal highway program. The transit program would also support no new spending.

The budget addresses the revenue shortfall by proposing to transfer $214 billion over six years into the proposed Transportation Trust Fund "to maintain trust fund solvency and pay for increased outlays associated with the administration's rail and surface transportation reauthorization proposals." The administration claims the $214 billion would permit a 25 percent increase in funding for surface transportation investment in the next reauthorization bill. However, the administration's long-term budget projections show only inflation-adjusted increases for the federal highway and transit programs through FY 2023. Most of the 25 percent increase thus represents funding for the administration's proposed five-year passenger rail authorization rather than increases in federal funding for highway and transit investment.

The administration proposes to offset the proposed $214 billion general fund transfers by savings derived from reductions in overseas military operations. Similar proposals in the past have not been acted on by Congress and, given the current focus on deficit reduction, it seems highly unlikely Congress would take this approach. But the budget does not include recommendations for new HTF revenues.

## Airport Improvement Program

The FAA Modernization and Reform Act of 2012 provides $3.35 billion annually for the Airport Improvement Program for each of the four fiscal years, FY 2013-16, covered by the bill.

In its budget for FY 2014, the administration proposes to reduce AIP funding to $2.90 billion by eliminating passenger and cargo entitlement funding for large hub airports. The administration proposes to focus federal grants on smaller commercial and general aviation airports that do not have access to additional revenue or other outside sources of capital and allow all commercial airports to increase the non-federal Passenger Facility Charge, which would let airports generate their own revenue. The administration has made similar proposals numerous times in the past, but they have not been acted on by Congress.

The budget also proposes an additional one-time investment of $2.0 billion for airports as part of its Immediate Transportation Investments initiative. Airports of all sizes would be eligible to compete for grants.

## Partnership to Rebuild America

In addition to on-going federal transportation investment programs, the President in recent months has advocated a "Partnership to Rebuild America" that would expand on or develop new sources of innovative financing for infrastructure improvements. Most elements are discussed in the budget although the budget does not include funding details for all of them. Among the components of this initiative are:

- National Infrastructure Bank. The President has proposed creating a $10 billion National Infrastructure Bank (NIB) to finance projects backed by a dedicated revenue stream. According to the budget, interest rates on loans issued by the NIB would be indexed to U.S. treasury rates, and the maturity could be extended up to 35 years, giving the NIB the ability to be a "patient" partner side-by-side with state, local, and private co-investors. To maximize leverage from federal investments, the NIB would finance no more than 50 percent of the total costs of any project.

- America Fast Forward and Private Activity Bonds. The President has proposed creation of America Fast Forward (AFF) Bonds, which would be an alternative to traditional tax-exempt bonds for state and local government. Under the proposal, AFF Bonds would be conventional taxable bonds but the federal government would make direct payments to issuers equal to a 28 percent subsidy, which is equivalent to the current Federal tax loss on tax-exempt bonds. Proceeds from AFF Bonds could be used for governmental capital projects as well as for any activity that can currently be financed through private activity bonds. The administration also proposes to increase the total volume of private activity bonds that can be issued for highway or surface freight transfer facilities from the current

$15 billion to $19 billion and increase the amount that can be used for land acquisition from 25 percent to 35 percent.

- TIGER grants and TIFIA. In addition to $1 billion for the TIFIA program as enacted in MAP-21 for FY 2014, the administration's Immediate Transportation Investments proposal includes a $4 billion component for credit assistance and grants on a competitive basis for projects across all surface transportation modes that will have a significant national or regional impact. In recent speeches, the President has said these funds would be used to expand the TIFIA program and the U.S. Department of Transportation's discretionary TIGER program. It is important to note the FY 2013 loan authority of the TIFIA program was expanded approximately six-fold in MAP-21, but the Federal Highway Administration has yet to distribute any credit assistance using those funds.

## Rail Programs

The administration's FY 2014 budget proposes a five-year, $40 billion reauthorization of the Passenger Rail Investment and Improvement Act of 2008. Specifically, the budget calls for overall rail investment of $6.6 billion in FY 2014, a roughly 70 percent increase from current levels of approximately $1.8 billion. The request would create two broad programs—"Current Passenger Rail Service" and the "Rail Service Improvement Program"—which roll up several existing investment line items. For example, the proposed $2.7 billion "Current Passenger Rail Service" program would include $675 million for the Northeast Corridor, $300 million for state rail corridors, $800 million for long-distance Amtrak routes, and $925 million for improvements like putting Positive Train Control on Amtrak trains and bringing stations into compliance with various federal requirements. Further, the administration proposes $3.7 billion for the "Rail Service Improvement Program" in FY 2014 to create or improve passenger corridors, including high-speed rail, freight rail networks and intermodal facilities.

The plan tacks along the same lines as the administration's FY 2013 budget proposal which would have increased Federal Railroad Administration budget authority in similar magnitudes. Investment in existing infrastructure through the "Current Passenger Rail Service Program" would decline in later years as the administration's plan would ramp up investment in the "Rail Service Improvement Program" to develop new rail infrastructure, including high-speed infrastructure. Below is a chart of investments contained in the administration's proposed reauthorization plan for rail:

| *(Amounts are in millions of dollars)* | FY '14 | FY '15 | FY '16 | FY '17 | FY '18 |
|---|---|---|---|---|---|
| Safety and Operations | 185 | 190 | 194 | 198 | 202 |
| Railroad Research and Development (R&D) | 35 | 36 | 37 | 37 | 38 |
| Current Passenger Rail Service | 2,700 | 3,225 | 2,550 | 2,650 | 2,075 |
| Rail Service Improvement Program | 3,660 | 4,820 | 5,150 | 5,900 | 6,870 |
| Railroad R&D and Technology | 55 | 43 | 43 | 38 | 38 |
| **Total** | 6,635 | 8,314 | 7,974 | 8,823 | 9,223 |

Additionally, the President's $40 billion "Fix it First" initiative would include $3 billion for capital improvements to existing intercity passenger rail services or to develop new intercity passenger rail corridors and $2 billion for Amtrak to repair, rehabilitate, or upgrade assets and infrastructure including equipment. The administration again proposes to pay for the rail reauthorization by "utilizing savings from ramping down overseas military operations"—specifically by transferring money from the federal general fund into the new "Rail Account" of the restructured and renamed "Transportation Trust Fund."

## Highway Safety Programs

The administration's budget request also fully complies with MAP-21 investment levels for the motor vehicle and behavioral safety programs. Specifically, the administration recommends $572 million in FY 2014 for the Federal Motor Carrier Safety Administration (FMCSA)—a $12 million increase from the amount provided in FY 2013. FMCSA funds are used to improve commercial motor vehicle safety, largely by enforcing truck and bus safety regulations, conducting compliance reviews and roadside inspections, and improving state oversight of Commercial Driver's Licenses.

The administration requests $680 million for the National Highway Traffic Safety Administration (NHTSA) in FY 2014—an $11 million increase from FY 2013. NHTSA focuses on improving highway safety through research and dissemination of information, as well as through grants supporting state efforts to enforce highway safety laws governing activities such as impaired driving and seat belt use.

## Ports and Waterways

The President's budget proposes $4.7 billion for the U.S. Army Corps of Engineers Office of Civil Works, which oversees construction and maintenance of our nation's ports, levees, dams and waterways. This amount is roughly the same as was provided in FY 2013. The Corps of Engineers also received an additional $5 billion in FY 2013 to aid in recovery efforts following "Superstorm Sandy."

Of the $4.87 billion requested for FY 2014, $1.35 billion would go towards construction in the main mission areas of the Corps: flood and storm damage reduction, commercial navigation and aquatic ecosystem restoration. This is a reduction from the $1.57 billion provided in in FY 2013. For the operations and maintenance of harbors and inland waterways, the Corps budget request by the Obama Administration is $2.59 billion—an increase of $300 million over the FY 2013 level of $2.29 billion. The budget proposal also calls for a new 'per vessel' user fee to increase revenues for the Inland Waterways Trust Fund. The new user fee would charge each vessel using the system and would increase or decrease over time as improvements to the system are needed.