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Obama's DOA Transportation Budget Proposal—and an Alternative

by Robert W. Poole, Jr.

While the mainstream media reported the President's FY 2014 transportation budget proposal as news, those of us who focus on transportation recognize it as basically the same old thing yet again. Replacing the Highway Trust Fund with a much larger Transportation Trust Fund, launching a National Infrastructure Bank, and jump-starting transportation spending with a one-time $50 billion stimulus have all been proposed several times before.

Transportation Weekly described the budget as "If at first you don't succeed; try, try again," noting three previous (nearly identical) proposals for one-time, $50 billion injections, two previous proposals for a Transportation Trust Fund, and four previous (and considerably varied) National Infrastructure Bank proposals. Editor Jeff Davis commented that "Given how prolonged and tortuous the negotiations over the MAP-21 and FAA bills were during the last Congress, the odds that Congress will choose to reopen those bills this year and have those fights all over again this year are low."

Other observers were equally critical. Politico's story was headlined "President Obama Punts on Transportation Pay-Fors," noting that the Administration's only vague suggestion of how to pay for the expanded funding (which includes increasing Federal Railroad Administration funding from $1.48 billion in FY13 to $11.64 billion in FY14) was to use the peace dividend from withdrawals of troops from Iraq and Afghanistan. And as the article noted, "Last year lawmakers relentlessly poked

LaHood for using the peace dividend as a pay-for." That is largely because those savings are already included in CBO's and OMB's 10-year baseline budget projections, both of which still show an annual budget deficit of nearly $1 trillion in FY23, and deficits totaling nearly $7 trillion over the next 10 years.

Some in the transportation infrastructure community have cheered the Administration's proposal for a new America Fast Forward (AFF) bond program, comparable to the now-expired Build America Bonds. Like the latter, these would be taxable bonds but with the interest paid directly by the Treasury to bond-holders. The reaction from the bond community has not been positive. The Bond Buyer's story, headlined "Obama's Infrastructure Plan Not Seen Gaining Traction," quoted several bond experts pointing out newly appreciated political risk to potential AFF bond-buyers. "Issuers have (finally) realized that any planned stream of direct payments by the federal government can—and likely will—be adjusted to suit the political and policy needs of future Congresses."

After reading through the entire budget proposal, I can find only one element to support: increasing the cap on tax-exempt Private Activity Bonds for surface transportation infrastructure from the current $15 billion to $19 billion. While I'd prefer to have the cap abolished, an additional $4 billion would help finance another good-sized number of sensible projects.

What is the alternative to this kind of fanciful transportation program? On April 24, I gave invited testimony at the House Budget Committee's hearing on the future of the Highway Trust Fund. I began with the premise that because the federal budget—not just the Trust Fund—is approaching insolvency, the near-term priority should be to match the Trust Fund's spending to its revenue. Since polls consistently show strong public opposition to increasing federal fuel tax rates, that means constraining Trust Fund expenditures. Using federal baseline budget projections over the next 10 years, I pointed out that projected highway user tax revenues are very close to the baseline highway program expenditures. So current federal highway spending levels could be maintained if the Trust Fund were limited to highways only.

Mathematically, that means that the projected general-fund bailout could be used to fund the federal transit program directly. In addition, since the transit program is increasingly focused on smart growth and community economic development (as evidenced by the Federal Transit Administration's recent revision of New Starts cost-effectiveness criteria to permit easy approval of low-speed, low-capacity streetcars), it might be a better fit to move FTA to the Department of Housing & Urban Development, where it began life several decades ago as the Urban Mass Transportation Administration.

But even with a highways-only Trust Fund, how could the projected $40 billion per year be invested more productively? To this end, I suggested narrowing the scope of the Trust Fund. Instead of applying to the entire current one-million-mile federal-aid highway system, it could be refocused on major highways linking the states together—the 47,000 miles of Interstates and a portion of the other 112,000 miles of the National Highway System. That focused investment could lead to a significant increase in modernization of those critically important corridors. And that would be consistent with sorting out what functions are truly federal in nature (interstate commerce), state in nature (most highways), and local in nature (streets, sidewalks, bikeways, and transit).

A change of that magnitude would shift responsibility for a much larger share of highway and transit spending to state and local governments. That's not as radical as it may sound, given the lack of progress over more than 20 years in getting any increase in federal fuel tax rates compared with numerous successful state and local measures to increase transportation funding during that same period. In addition, I recommended that in the 2014 reauthorization, Congress provide more tools for states and metro areas to make their transportation dollars go further. Among those tools are (1) allowing states to implement all-electronic tolling for the purpose of reconstructing and modernizing any federal-aid highway, including the Interstates, (2) removing the cap on tax-exempt PABs for PPP projects, and (3) further expanding TIFIA to provide gap-closing credit support for sound projects with investment-grade ratings. I also encouraged continued federal support for state efforts to research and test various forms of mileage-based user fees.

To be sure, the Budget Committee does not have direct jurisdiction over surface transportation. But to the extent that it provides the overall framework for spending programs, it will be a larger player transportation in the coming era than it's ever been before. n