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How to Create an Effective Transportation Program in an Age of Fiscal Austerity

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Early this year, the new Congress will confront several challenges relating to the size, scope, and nature of the federal surface transportation programs. These challenges will in large part be driven by the need to constrain overall federal spending and by shortfalls in the highway trust fund. Congress should embrace these financial challenges as an opportunity to reform the federal transportation program while still meeting the goal of reducing federal spending and shifting greater responsibility to the states.

Congress must deal with three separate transportation policy issues within the first half of the year:

1. On March 4, the latest extension of the laws governing the highway program expire and must be renewed in a process called reauthorization, which typically sets the laws, programs, goals, and spending levels for the next five years;
2. Also on March 4, the current continuing resolution expires, and Congress must determine how much to spend on the highway program for the remaining eight months of fiscal year (FY) 2011; and
3. At some point during the first six months of calendar year 2011, Congress must pass a budget resolution to establish FY 2012 spending levels, including how much to spend on transportation.

As this paper will demonstrate, if Congress deals with these three legislative events in a coordinated manner, it can begin the process of recreating a federal highway program that provides better transportation services and cost-effective mobility at reduced levels of spending.

Transportation Spending Will Be Cut. At present, total federal spending is running at about $3.8 trillion on an annual basis, of which only $670 billion in FY 2011 is accounted for by non-defense discretionary spending, the part of the budget that is the "easiest" to cut. The rest of the budget consists of entitlements (Social Security, Medicare, Medicaid, civil servant pensions, food stamps, Obamacare, etc.), national defense and homeland security, and interest on the debt. Most of these programs will be difficult to cut over the next year or two, and some will continue to grow at alarming rates.

If entitlement program spending proves difficult to cut or restrain, the deficit reduction focus will then largely fall upon the $670 billion in "non-defense discretionary" programs. All federal transportation programs—Amtrak, aviation, highways, transit, and the new high-speed rail commitments—are a part of this category, and they are currently running at about $75 billion per year, equal to 11 percent of the non-defense discretionary total.

Thus the implications are obvious: If the next Congress cuts this component of discretionary spending by, say, 20 percent for a $134 billion annual savings, then all federal transportation programs would be vulnerable to a $15 billion cut. In

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turn, this would impact the baseline for all future spending, meaning that all future transportation spending could be $15 billion lower in every subsequent year as compared to baseline projections.

Some in Congress have been arguing that the highway/transit component of transportation spending must live within its means. Since the highway trust fund is now spending more than it is receiving in dedicated federal fuel tax revenues, this suggests that cuts will have to be made until spending at least matches revenues and the program is deficit neutral or deficit reducing. To facilitate this goal, in early January the House Republicans amended the existing rule that guaranteed full funding of the infamous SAFETEA-LU, a piece of legislation passed in 2005 that set a record for earmarks and included the "bridges to nowhere."

Under the new rule, highway and transit funding would no longer have that guarantee and could be reduced by Congress, including if trust fund revenues fall below authorized spending levels. As such, highway spending will now be subject to similar budgetary treatment as other discretionary federal spending programs, including homeland security, public health, education, and national defense.

Laying the Groundwork for Reform. In making these cuts in transportation, Congress also has the opportunity to do it in a way that lays the groundwork for fundamental reform in the future by refocusing the program on cost-effective mobility and eliminating the many marginal, inefficient, and non-transportation programs that now clutter the program and account for as much as 35 percent of all spending.[1] At the same time, Congress can begin "turning back" the program to the states by allowing them to retain the federal fuel tax collected within each state and use those additional funds to meet their own transportation priorities, not those of Washington or the lobbyists who influence the program.

To achieve these many goals, Congress should:

- Delay the enactment of a new highway reauthorization bill for at least two years and keep the program in temporary operation with transitional legislation.
- Allow states, through this transitional legislation, to temporarily ignore existing legislative mandates, including earmarks, and use federal funds for their own transportation priorities. Allowing states the freedom to better prioritize their needs and ignore wasteful mandates would help offset the diminished level of funding.
- Suspend, through the transitional legislation, all competitive grant programs (often referred to as Administration "earmarks") such as the New Starts program, TIGER grants, and university research. Money otherwise authorized for these programs would instead be provided to the states as part of their formula allocation and applied to priorities of their choice.
- Limit transportation spending totals authorized for the remainder of the FY 2011 budget and for the FY 2012 budget to no more than the existing, dedicated revenues flowing into the trust fund.
- Use the two-year transition period to reconsider the goals and purpose of a federal transportation program and devise a system that shifts greater responsibility to the states and encourages the states to focus on modes and projects that provide cost-effective mobility.
- Subject Amtrak to significant budget cuts and terminate the President's costly high-speed rail program.

Loosen the Chains. The above points could have a big impact on both federal spending and the quality of the transportation services it funds. By freeing the program from the many existing mandates—earmarks, transit, bicycle and hiking paths, historic covered bridges, urban street-scapes—Congress would be in a better position to determine the benefits and costs of turning back the highway program to the states.

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1. Ronald D. Utt, "Federal Highway Trust Fund: Recommit to Better Highways and Enhanced Mobility," Heritage Foundation *WebMemo* No. 2944, June 30, 2010, at *http://www.heritage.org/Research/Reports/2010/06/Federal-Highway-Trust-Fund-Recommit-to-Better-Highways-and-Enhanced-Mobility.*