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How to Cut $30 Billion More from the THUD Bill

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House appropriators recently approved the fiscal year (FY) 2014 Transportation, Housing and Urban Development, and Related Agencies (THUD) bill, setting the spending level at $44.1 billion—a $4.4 billion reduction from the FY 2013 post-sequestration level.

Senate appropriators have blown through the sequestration spending caps and approved their more costly, $54 billion THUD bill. The House should hold its ground and resist giving way to that higher spending level. Lawmakers in both chambers could also adopt the following reforms which, when fully implemented, would achieve $30 billion in additional budget savings.

- **Terminate the Essential Air Service (EAS) program: $100 million.** Following airline deregulation in 1978, Congress began subsidizing commercial flights in rural communities through the supposedly "temporary" EAS program. Three-plus decades later, federal taxpayers are still paying for the program. Taxpayers should not be forced to subsidize rural passengers who opt for air travel when cheaper or unsubsidized travel alternatives, such as ferries, are available. Any subsidies for these flights should come from the local or state level—not the federal government.

- **Privatize the Federal Aviation Administration (FAA): $11.8 billion.** Canada privatized its air traffic control (ATC) system in 1996, eliminating the need for government subsidies and improving service while maintaining robust safety standards.[1] Great Britain, Austria, and Denmark, among other countries, also successfully privatized or commercialized their ATC systems. Congress should follow this example, first by expanding competitive contracting opportunities at the FAA and subsequently developing privatization legislation, which could include, as an interim step, restructuring the FAA as an independent government corporation funded via user fees and private credit market borrowing. Using FY 2014 as a benchmark, privatization would save $9.5 billion in operations, $2.2 billion in facilities and equipment, and $145 million in research, engineering, and development costs.[2]

- **Reduce funding for the Airport Improvement Program (AIP) by 25 percent: $800 million.** Congress subsidizes public agencies and even private airport owners to plan and develop publically used airports, awarding AIP grants for runway construction, airfield lighting, noise mitigation, and similar projects. As a step toward eliminating the AIP, Congress should follow President Obama's lead in his FY 2013 and FY 2014 budget requests, which called for cutting funding by 27.6 percent and 13.4 percent, respectively.[3]

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- **Close down the Appalachian Regional Commission and eliminate its funding: $3 million.** This community and regional development agency duplicates highway construction work done through the Department of Transportation, and its funds are earmarks targeted toward location-specific communities of the 13 Appalachian states.

- **Privatize Amtrak: $950 million.** Losses on Amtrak's state-supported and long-distance routes overshadow its profitable routes and services (including the Northeast Corridor), resulting in annual net losses and the need for massive federal subsidies. Congress should require Amtrak to subject the operation of its lines to competitive contracting, which would improve service and lower its operating costs. Privatization would occur over the course of several years, at which point full savings would be realized.[4] When compared to FY 2014 spending, savings are $350 million in operating grants and $600 million in capital and debt service grants.

- **Terminate the Federal Transit Administration after phasing out the federal transit program over five years: $2.29 billion.** Transit is a local, not a federal, priority, and would be more appropriately funded at that level instead of through federal gas tax user fees. To phase out the program, Congress should stop incurring new federal transit obligations, fulfill existing obligations, and gradually transfer gas tax revenues diverted to transit back to the Highway Account of the Highway Trust Fund to be distributed via normal formula funding. For FY 2014, the House bill would spend $11.5 billion on transit, including $9.5 billion on transit formula grants and $1.8 billion on capital grants. Assumed savings for the first year during phase-out are $2.29 billion, or one-fifth of the FY 2014 appropriation.[5]

- **Eliminate subsidies to the Washington Metropolitan Area Transit Authority (WMATA): $125 million.** Despite decades of subsidies, WMATA has performed poorly, offering unreliable service and suffering from mismanagement and high operating costs. Because WMATA serves truly local needs, it should be fully funded through fares (user fees), advertising revenue, and revenue from the jurisdictions that it serves: Washington, D.C., Virginia, and Maryland.

- **Privatize the Saint Lawrence Seaway Development Corporation: $31 million.** Congress should follow the lead of Canada, which privatized its section of the Saint Lawrence Seaway in 1998, to eliminate the need for taxpayer support and encourage productivity and competitiveness along the seaway. Full savings would be realized when this reform is fully implemented.

- **Limit Highway Trust Fund (HTF) spending to level of revenue: $12 billion.** Congress spends more out of the HTF than it collects in federal fuel tax revenues, bailing out the HTF with cash transfers from the General Fund. This worsens federal budget deficits and excuses *federal* spending on *local* programs such as bicycle and nature trails, ferry boats, and scenic overlook construction, which do not reduce traffic congestion.[6] Congress should redeploy HTF money only

1. Chris Edwards, "Privatize the FAA!," Cato Institute, April 24, 2013, p. 3, http://www.cato.org/publications/commentary/privatize-faa (accessed July 1, 2013).
2. Ronald D. Utt, "Continuing the Effort to Curb Excessive FAA Salary Costs," Heritage Foundation *WebMemo* No. 1622, September 19, 2007, http://www.heritage.org/research/reports/2007/09/continuing-the-effort-to-curb-excessive-faa-salary-costs.
3. See "Cuts, Consolidations, and Savings" in the President's budget requests for FY 2013 and FY 2014 at http://www.gpo.gov/fdsys/pkg/BUDGET-2013-CCS/pdf/BUDGET-2013-CCS.pdf (accessed July 1, 2013) and http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/ccs.pdf (accessed June 27, 2013).
4. Ronald D. Utt, "Chairman Mica's New Amtrak Proposal Would Use the Private Sector to Reform Passenger Rail," Heritage Foundation *WebMemo* No. 3290, June 13, 2011, http://www.heritage.org/research/reports/2011/06/amtrak-privatization-proposal-to-reform-passenger-rail-service.
5. Wendell Cox, "Transit Policy in an Era of the Shrinking Federal Dollar," Heritage Foundation *Backgrounder* No. 2763, January 31, 2013, http://www.heritage.org/research/reports/2013/01/transit-policy-in-an-era-of-the-shrinking-federal-dollar.

to programs that cost-effectively improve mobility and safety or reduce congestion.

- **Close down the Maritime Administration (MARAD): $325 million.** MARAD was created in 1950 to provide domestic maritime commerce in the event of a national emergency. The outdated maritime laws it enforces actually undermine the competitiveness of the U.S. shipping and shipbuilding industries by subsidizing inefficient shippers and raising consumer prices. In separate legislation, Congress should repeal the Jones Act (authorized by the Merchant Marine Act of 1920), an antiquated law that requires U.S.-owned, -built, and -operated vessels to move goods between two locations in the U.S.

- **Eliminate the Community Development Block Grant (CDBG) program: $1.6 billion.** The CDBG program duplicates other federal housing and economic development programs. It has also strayed from its original purpose of providing housing assistance and encouraging economic development in low-income communities. The grants have been diverted to wasteful pork projects, such as funding a pet shampoo company and issuing risky business loans.[7] To their credit, House appropriators reduced this program's funding by 58 percent from $3.8 billion in FY 2013 to $1.6 billion in FY 2014, but this program already received $16 billion from the Hurricane Sandy Disaster Relief bill. Congress should eliminate the CDBG program altogether and devolve these activities to the states and localities.

Total Savings: $30.024 billion

Slow the Spending Train. Spending should be reined in to bring the national debt—which is on course to increase by 50 percent during the next decade—under control. While the programmatic reforms discussed above cannot happen overnight, lawmakers can take concrete steps in this year's appropriations process to eliminate wasteful, poorly targeted, and inefficient spending. The THUD bill is a good place to start.

*—**Emily Goff** is Research Associate in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*

6. Emily Goff, "Congress Should Reprioritize Highway Trust Fund Money to Improve Mobility," Heritage Foundation *Issue Brief* No. 3919, April 22, 2013, http://www.heritage.org/research/reports/2013/04/highway-trust-fund-needs-to-be-reprioritized-to-improve-mobility.
7. See Senator Tom Coburn (R–OK), *Wastebook 2012*, p. 48, http://www.coburn.senate.gov/public/index.cfm?a=Files.Serve&File_id=b7b23f66-2d60-4d5a-8bc5-8522c7e1a40e (accessed June 28, 2013); and Ronald D. Utt, "President's Plan to Consolidate Federal Economic Development Programs Is Long Overdue," Heritage Foundation *WebMemo* No. 656, February 7, 2005, http://www.heritage.org/research/reports/2005/02/presidents-plan-to-consolidate-federal-economic-development-programs-is-long-overdue.