

# National Transportation Priorities and the 1991 Federal Highway Program Proposals

Eugene McCormick

Deputy Administrator

Federal Highway Administration

I would like to discuss today what is happening in Washington, D. C. that may have some bearing on our future. The Secretary of the U.S. Department of Transportation, Sam Skinner, began work on the National Transportation Policy effort in the early part of 1989. It is now nearing completion. The Highway and Surface Transportation Reauthorization Bill is scheduled to be renewed in the Fall of 1991.

Let me begin by focusing upon the administration's proposed 1991 fiscal year (FY 1991) highway budget that was released in late January of 1990. The budget for the Federal programs that state and local officials use throughout the country to drive the very basic federal programs — federal-aid urban and secondary, the primary and interstate system — totalled approximately \$12 billion. There are two ways to view that \$12 billion regular program level. From a good news standpoint, it represents about a 6 percent increase from the administration's FY 1989 proposed budget. From a bad news standpoint, this year's approved budget represents about a 2 percent decline.

The total that congress ultimately approved this year is about \$12.2 billion. That amount includes about \$200 million ear-marked as demonstration funding for specific projects. Congress has a propensity to include these in appropriation or authorization bills. So, from a highway standpoint, a fair reflection of this year's budget compared to the proposed budget for next year is that they are about the same (although a small step forward from the administration standpoint). We'll have to wait to see how Congress reacts to the proposed budget, amidst the overall deficit reduction problem. The highway program, as other transportation programs, is funded within the context of the overall budget constraints faced in Washington.

Let me now address the matter of the Highway Trust Fund. There always seems to be a lot of discussion about the Fund. Some contend there is a growing balance, and others say that many billions of dollars are not being utilized. It is important to recognize that there are really two discreet elements of the Highway Trust Fund. One is the so-called highway account, and the other is the mass transit account. The mass transit account was established in 1982. One cent of the five cent Federal gas tax were ear-marked for transit improvements, and those funds became the mass transit account.

I would like to focus on the highway account portion of the trust fund. In the last eight years, the total expenditures or obligations incurred from the highway

account amounts to \$95 billion. Actual revenues entering the highway account totalled about \$88 billion. In essence, there has been more obligated and spent out of the highway account than has actually been deposited into the highway account. The highway account does earn interest, though. That interest over the last eight years totals about \$8 billion. Therefore, the revenue (\$88 billion) and the interest (\$8 billion) totals \$96 billion. So, of the \$96 billion in the account over the last eight years, \$95 billion has been utilized. Yes, the highway account balance has grown over the last eight years, but it has grown very minimally — about \$1 billion.

The balance of the highway account today is about \$10 billion. There are over \$30 billion of obligations against that \$10 billion balance. The highway user revenues and Federal gas tax that supports the highway and mass transit accounts is guaranteed in legislation to extend two years beyond October, 1991 expiration date of the current authorization bill. So, the Federal taxes will stay in place until the fall 1993. When you compare the current balance, coupled with those new revenues, against the future obligations, then there is obviously more revenue down the line.

The bottom line is that yes, obligations out of the highway account could be increased, without jeopardizing the account's fiscal solvency. In essence, that \$12 billion budget proposal mentioned earlier could be increased by about 35 percent, or about \$4 billion a year for three to four years without really threatening the fiscal integrity of the highway account. Therefore, there is the potential to spend more in the federal-aid highway program and help the states address their back-log of needs, but those expenditures are being constrained because they are a part of the overall deficit problem.

One item included in the Department of Transportation's FY 1991 program relates to the airport program, and should be of particular significance even to those of us in the highway community. The Department will introduce legislation to increase the user fees that support the airport trust fund. This trust fund has about a \$7.5 billion balance currently, and there has been concern about that growing balance similar to the concern about the highway trust fund. At the moment, the federally supported airport and airway program is not what you would call a true user finance system. About 55 percent of the program's federal support comes from user fees, while the remaining 45 percent comes from general revenue sources. The proposed legislation will increase the dependence of the federal program upon the users of the system, raising that 55 percent user fee share to an appropriate 85 percent share.

The program would be augmented through an increased level of federal spending of about \$2.5 billion per year. Therefore, at the end of four years, the balance in the airport trust fund would decrease from that \$7.5 billion down to about \$3 billion. I suggest this is significant to the highway and mass transit accounts because this legislation being considered currently will probably have some bearing upon the legislative debate associated with the highway program reauthorization and the transit program reauthorization next year.

Another significant development the highway community should be aware of are the threats we hear occasionally in Washington of using a gas tax increase for non-transportation or non-highway purposes. That continues to be a risk that we may have to face. At the state level, here in Indiana and the other forty-nine states

as well, the state gas tax is a major source of revenue supporting the highway program. At the federal level, the federal gas tax represents about 85 percent of Federal tax revenues supporting the federal-aid highway program. I think any introduction of a bill supporting the use of gas tax revenues for deficit reduction or other non-transportation purposes should be viewed very seriously by those of us who believe in the user fee concept. I believe it would set us down a very dangerous course, both at the federal level and at the state level. That is something we should all watch very closely.

Let me now touch upon the National Transportation Policy Effort. The Department of Transportation has undertaken an effort over the last year of formulating National Transportation Policy. In the summer and fall of 1989, we conducted what we called out-reach meetings throughout the country. At these meetings, we asked state and local officials, as well as members of the private market place, questions about national transportation. What should the future of transportation in our nation be? How do we prepare for that future? How do we structure a federal program that enables us, as a nation, to compete in this shrinking world?

We are in a world economy. Everyday I see things that make it clear that the world is shrinking. If we, as a nation, are to remain competitive in that world, then our transportation system, which carries with it a significant cost of the moving of products to market, must itself remain competitive. We must provide an efficient overall transportation system. It was from that perspective that Secretary Skinner began the effort, and it has culminated in what I think will be a framework for decisions that the nation and the states can make in the future to assure a more effective, efficient transportation system.

It is important that the policy outline the relationships between and the roles of local government, state government and the federal government. The transportation system transmits across those governmental lines. A part of our obligation in the future will be to deliver a transportation program to the citizens of each state and the nation, as a whole, and assure the effective delivery of the program through the multiple levels of government. I believe there has been a growing role of the private market place and a nurturing of private-public partnership in that effort. That can be manifested in many ways in our transportation program.

The National Transportation Policy Effort is not intended to be solely a one-time report that sits on a shelf in Washington, and is never referred to. It has become the fundamental premise from which we will view the highway and transit program legislation to be introduced in 1991. So, the National Transportation Policy effort has been directly tied to and integrated in our efforts to produce an administration reauthorization bill.

Let me now give you a general overview of that reauthorization bill. We have seen, over the last thirty years, the completion of the interstate system. That 43,000 mile system of roads carries almost one-fourth of all our travel in this country. We are now looking at a future beyond that. We see a future that requires a renewed effort and enhanced funding to preserve and greatly enhance the existing system. We have a mature and diverse system, and preserving and enhancing that system needs to be the foundation of both federal and state programs.

We also need to expand our system. You can go to literally any major metropolitan area throughout the country and see a growing congestion problem.

Gridlock costs human time and resources. These are economic costs that handicap our ability to maintain that world competitiveness. We must address urban mobility. In some cases that will require new systems. In rural areas, we need to assure enhanced highway accessibility, particularly in cases where perhaps a community has lost a rail line that provided freight connections to much of the rural economy. We need a program that is balanced between rural and urban interests.

The fundamental element that we would suggest for the program is to provide the states the flexibility they need, deserve and warrant to make the best decisions possible. The decisions made in Indiana serve Indiana citizens. It's done within an overall federal context, but that doesn't mean that Indiana's problems can be solved the same way as Illinois' or California's. Each state's transportation system is unique. Those of us sitting in Washington are not in the best position to suggest how those problems should be solved in Indiana, Illinois or California. So, the basic concept is to provide the states a higher degree of flexibility in their authority to work with local governments. Each state should establish priorities for its own programs.

We also see a future that has to invest more in research and development and technology. There are many cases where technology that is available today to aid the highway program isn't being utilized to the degree it should throughout our country. I would hope that the FHWA can become more active, and serve as a mechanism to nurture and stimulate further development. We should lead the research and development effort, in concert with the states, and serve as a tool for implementation and demonstration.

Public-private partnership needs to be stressed as well. This can manifest itself in many ways. I fully expect the administration bill will provide a higher degree flexibility for states in utilizing public-private partnerships. For example, look at the toll road financing question. Traditionally, in the federal-aid highway program, federal funds could not be used in the construction of toll roads. In the 1987 Act, there were provisions for seven or eight pilot projects throughout the country that enabled some co-mingling of federal funds with toll funds. There are opportunities there that should be realized. The flexibility should be provided at the federal level to permit those partnerships that make sense in each state — most particularly in the metropolitan areas.

We also need to re-establish the credibility of the highway account and the highway trust fund. So, our goal and hope is to increase the level of federal support for the highway program within the context of the overall budget constraints that we are faced with. We will also suggest increasing the matching ratio on the behalf of state and local governments, so that, in essence, some of the program categories you are familiar with may require a little larger match on your part. That may cause problems in some areas, but we hope to offer the flexibility and the stream-lining of the program mentioned earlier to go hand-in-hand with that.

The needs we face on our highway system, and in transportation system overall, surpasses the capabilities of either local, state or federal government to fully address. It is only through the combined efforts of all of those agencies, plus a renewed public-private participation, that can fully address the critical highway needs we face. The flexibility and simplicity of the program is key to that effort.

I also believe very sincerely in the theme of intermodal and multi-modal planning. We have, within FHWA, worked closely with National Highway Traffic

Safety Administration, the Federal Railroad Administration and the Urban Mass Transportation Administration in developing our program for the future. So, we are looking at ways through which the transit program, the highway safety program, the highway construction program, the federal railroad program can all be interactive. The challenges we face, particularly in our metropolitan areas, are so much more complex and sophisticated today that we need the maximum number of tools in our handy work box to solve those problems. The compatibility and applicability of modal funds across modal boundaries are a key tool to use in that regard.

The challenges of the future are many. We in the transportation community have faced that before. We see the possible risks of the gas tax used for non-transportation purposes. Yet, I think we have much working for us. We have a community that understands the importance of the transportation system — what it means to us as a nation and to you in the state of Indiana. We can address those risks and those challenges of the future through a close cooperative relationship. That is the key to the future. What we need, then, are programs such as the reauthorized federal-aid highway program that are simple, flexible and that build upon that constituency — combining the efforts at the federal, state and local governmental levels.