American Road & Transportation Builders Association

Analysis of the Obama Administration's FY 2012 Budget Proposal

Executive Summary

In one of the boldest budgets in memory, the Obama Administration has proposed investing a total of $128 billion in transportation in FY 2012, a $53 billion increase over the amount enacted for FY 2010[1].

The increase is based largely on a proposal to frontload in FY 2012 $50 billion of a six-year $556 billion infrastructure investment bill to spur job growth and allow states to initiate "sound multi-year investments" in roads, railways and runways. The President's budget lacked details on project selection requirements for the "up-front" investment.

More than half of the $50 billion "up front" investment would boost funding for the federal highway program to a record $70.5 billion, a 70 percent increase over the amount enacted for FY 2010.

The rest of the "economic boost" would provide for the following program levels:

- $22.4 billion for public transportation in FY 2012, up 85 percent from $12.1 billion in FY 2010;
- $8.3 billion for passenger rail including investments in high-speed rail, up 93 percent from $4.3 billion in FY 2010;
- $18.7 billion for the Federal Aviation Administration, up 19 percent from $15.7 billion in FY 2010, with the $3 billion increase going to the Airport Improvement Program for investment in airport runways; and
- $5.0 billion for the proposed National Infrastructure Bank.

In addition to an increase in funding for transportation, the proposed legislation would make a number of program changes. Within the highway program, for example, 55 existing programs would be collapsed into five, centered around an enhanced National Highway Program that would focus federal investment on core roads while giving states and localities more flexibility in applying federal funds to their highway investment needs. Emphasis would be placed on preserving existing roads and bridges, improving border crossings, improving highway safety and providing transportation alternatives. For transit, the New Starts construction program would be collapsed into a broader Transit Expansion and Livable Communities Program while $7.5 billion of the $50 billion bonus for FY 2012 would be used to bring bus and rail systems up to a state of good repair.

[1] Congress has not yet enacted final appropriations bills for FY 2011, so all comparisons are to amounts enacted for FY 2010.

In other significant proposals, the FY 2012 budget recommends creating a Transportation Trust Fund (TTF) that would then house the Highway Trust Fund's existing Highway and Mass Transit Accounts. The TTF would also contain a Rail Account and would house the Administration's proposed National Infrastructure Bank. The proposal would also change the budgetary treatment of the transportation programs to assure that Congress does not authorize more investment than trust fund revenues can support.

The weak link to the Administration's budget is that it provides no recommendations for generating new revenues. Existing Highway Trust Fund revenues are far less than needed to maintain current highway and transit investment, let alone add rail and an infrastructure bank. To fill the gap, the administration proposes $26 billion in new revenues for FY 2012 but offers no recommendations for how to do that, other than working with Congress to identify potential revenue sources.

Although the President's budget recommends a significant increase in federal transportation investment in FY 2012, it only represents the first step in the annual budget process. It will face hard going in the Congress. In particular, the new majority in the House of Representatives has made spending cuts, not increases, the core of their legislative platform for FY 2012. Federal transportation investment decisions are not finalized until Congress enacts the transportation appropriations bill.

A more detailed analysis of the budget's transportation funding recommendations is provided on the following pages. Please contact ARTBA's Dave Bauer or Hank Webster at 202-289-4434, with any questions about the content of this analysis.

Highway Program

The Obama Administration's FY 2012 budget requests a total of $70.4 billion for the federal highway program. This represents a 70 percent increase over the $41.7 billion enacted for FY 2010 and would be a record annual federal investment in highways.

Of the $70.4 billion total, $57.4 billion would be devoted to highway improvements including $25 billion of the proposed $50 billion increase in transportation investment for FY 2012 and $32.4 billion for the proposed National Highway Program, discussed below. Other proposals include $2.5 billion for an expanded Highway Safety Program, $4.1 billion for the Livable Communities Program, $1.4 billion for the federal lands program, $2.2 billion for improved border crossings, and $450 million for the TIFIA program.

Administrations often use the budget to propose program changes in addition to their funding requests. The FY 2012 budget includes information on a number of changes the administration plans to include in its surface transportation authorization proposal. One of the most significant is a proposal to collapse 55 existing highway programs into five. The core of this is to eliminate virtually all of the categorical formula highway programs, such as the Interstate Maintenance Program and the Bridge Program, and replace them with an expanded National Highway Program that would focus federal highway investment on core highways while allowing states and localities more flexibility in using federal highway funds to address their highway investment needs. Funds would be apportioned by formula, with slightly more than half of the total dedicated to an expanded network of national interest highways and the rest going into a flexible investment program. The administration also proposes an emphasis on system preservation and maintenance rather than investment in new highways.

The administration proposes to rescind unused earmarks from previous authorization bills and does not include any funding for new earmarks in its FY 2012 budget proposal.

Public Transportation Program

Like the highway program, the administration proposes a substantial increase in funding for the public transportation program. The FY 2012 budget proposal of $22.4 billion represents an 85 percent increase compared to FY 2010 when Congress provided $12.1 billion for the public transportation program.

The biggest funding request is $10.7 billion to help transit agencies bring their equipment and vehicles to a state of good repair. Of this, $7.5 billion would come from the up-front $50 billion boost to transportation investment proposed by the administration. Another $7.7 billion, including $3 billion from the one-time investment, would support the formula transit capital program.

The most important program change proposed for the public transportation program is a recommendation to collapse the New Starts program into a broader Transit Expansion and Livable Communities Program. For FY 2012, $4.2 billion would be channeled into new transit projects, including $1 billion from the $50 billion bonus.

Transportation Trust Fund Proposal and Outlook

A critical element of the Obama Administration's FY 2012 budget proposal is to form a new Transportation Trust Fund which would house the existing Highway Account, Mass Transit Account along with the new Rail Account and National Infrastructure Bank.

Under the proposal, revenues from the motor fuels excise tax and the user fees on heavy trucks would continue to be dedicated solely to the Highway and Mass Transit accounts with no change. The budget estimates that revenues from these existing sources will total $38.7 billion during FY 2012 (up from $37.8 billion in FY 2011), with $33.5 billion being credited to the Highway Account and $4.9 billion credited to the Mass Transit Account.

These revenue levels are far short of the amounts required to support current investment levels for the highway and public transportation programs, as is widely recognized, let alone the additional investment proposed by the Administration and to finance two additional accounts. To close the gap, the Administration proposes, in conjunction with enactment of new surface transportation authorization, $26 billion of new revenues in FY 2012 and a total of $140 billion between FY 2012 and 2016.

Unfortunately, the Administration does not provide specific proposals for generating the proposed new revenues. Instead, the Administration says "The additional revenue … would be sufficient to maintain the solvency of the Transportation Trust Fund, but are not associated with any specific policy proposal. Rather, the Administration intends to work with Congress to authorize sufficient revenue for the Transportation Trust Fund."

The amorphous new revenues would, if enacted, create a sea change in the outlook for the Highway/Transportation Trust Fund. Without new revenues and continued spending at current levels, the Congressional Budget Office (CBO) recently forecast that the Highway Account would exhaust its cash balance as early as the beginning of FY 2013, with the Mass Transit Account not far behind. At that point, the Federal Highway Administration and Federal Transit Administration would be able to reimburse state and local governments for outlays only on a delayed basis depending on the flow of tax revenues into the trust fund.

With the additional revenues proposed by the Administration, the trust fund would no longer face a shortfall. Instead, the trust fund would show a modest annual surplus for the foreseeable future, even at the investment levels proposed by the Administration, and the trust fund balance would in fact grow each year.

The impact of the proposed increase in revenues is shown in the table below, which compares the CBO's most recent Highway Trust Fund forecast and the Administration's proposal.

Highway/Transportation Trust Fund Estimates (in billions $)

	2010[1]	2011	2012	2013	2014	2015	2016
CBO Winter Baseline							
HTF Revenues	$54.5	$36.4	$36.8	$37.2	$37.8	$38.5	$39.0
End of Year Balance	**$29.2**	**$22.3**	**$8.6**	**-$7.5**	**-$24.3**	**-$41.0**	**-$57.3**
Administration Proposal							
TTF Revenues	$54.8	$37.8	$64.7	$76.7	$79.8	$82.6	$85.1
End of Year Balance	**$29.2**	**$22.0**	**$26.4**	**$33.7**	**$37.9**	**$41.9**	**$43.5**

[1] FY 2010 revenues include $19.5 billion transferred into the Highway Trust Fund from the General Fund. Absent the transfer, revenues in FY 2010 totaled $35.0 billion.

National Infrastructure Bank

The Administration proposes a $5 billion investment annually between FY 2012 and FY 2017, for a total of $30 billion, to establish a National Infrastructure Bank (NIB) to provide grants and loans, or a blend of both, to support individual projects and broader activities of significance to the Nation's economic competitiveness across various modes. Projects compete based on the value to taxpayers and the economy.

Aviation Programs

The Administration's budget calls for cutting guaranteed funding for the Airport Improvement Program from $3.5 billion to $2.4 billion—a $1.1 billion reduction. However, airports would be able to compete for an additional $3.1 billion in one-time funding for airport infrastructure that would be made available under the President's proposed $50 billion up-front investment in roads, railways, and runways as part of a multi-year surface transportation reauthorization. According to the proposal, most of this $3.1 billion would be used for runway construction and other airport improvement projects aimed at increasing overall system efficiency in the future.

The budget proposes specifically to eliminate guaranteed funding for large and medium hub airports and to focus federal grants on smaller commercial and general aviation airports that do not have access to additional general revenue or other outside sources of capital. The proposal however, would allow the excluded airports to increase non-federal passenger facility charges, thereby giving them greater flexibility to generate their own revenue for capital improvements.

The Administration also requests $1.24 billion for the Federal Aviation Administration's "NextGen" program—$370 million more than in FY 2010. NextGen is an initiative to replace the nation's current ground-based radar air traffic control system with a satellite-based system.

Rail Programs

The Administration's budget proposal would, for the first time, consolidate intercity passenger rail investment together with the highway and transit programs in a surface transportation reauthorization bill. The budget calls for zeroing out a number of programs, including Amtrak's stand-alone subsidies, and merging those priorities into two major competitive programs—Network Development and System Preservation. Each program would be funded in FY 2012 at $4 billion. The $8 billion dollar total is the beginning of a six-year plan to invest $53 billion. Amtrak will be able to compete for grants under the System Preservation program, funded within the Rail Account of the new Transportation Trust Fund.

Rail programs that would be defunded in the FY 2012 proposal include: $50 million for the Railroad Safety Technology Program; $34 million for rail line relocation; $1 billion in capital and debt service grants to Amtrak; $563 million in operating subsidy grants to Amtrak; and $2.5 billion in Capital Assistance for High Speed Rail and Intercity Passenger Grants.

The total budget for the Federal Railroad Administration (FRA) would jump nearly 200 percent. This is because of the $8 billion of investment in Network Development and System Preservation, $5.5 billion is characterized as part of the Administration's call for a $50 billion up-front investment in infrastructure. The total FRA budget would continue to grow through FY 2017 with the majority of funding dedicated to the development of high-speed rail through the newly established "Network Development" fund.

Highway Safety Programs

The Administration's budget requests $606 million for the Federal Motor Carrier Safety Administration (FMCSA). This represents a $56 million increase over the $550 million appropriated for FY 2010. 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.

For the National Highway Traffic Safety Administration (NHTSA), the Administration requests a total of $860 million for FY 2012. This would be a $131 million increase over the $729 million included in the FY 2010 appropriations act. The NHTSA budget focuses on improving highway safety through research and dissemination of information, as well as through grants supporting state efforts to enforce highway safety laws. The President's budget also requests a new $50 million distracted driving prevention program to encourage states to enact laws to prevent distracted driving with a focus on cell phone usage.

Major Transportation Infrastructure Components to President Obama's FY 2012 Budget

Program	FY 2010 Actual Amount	FY 2011 Revised	President's FY 2012 Proposed Amount
Federal-Aid Highways Obligation Limitation	$41.1 Billion	$41.1 Billion	$69.7 Billion
Transit Formula Program	$8.3 Billion	$8.3 Billion	$7.7 Billion
Bus and Rail State of Good Repair Program*****	$0	$0	$10.7 Billion
Transit Expansion and Livable Communities Program*****	$0	$0	$3.5 Billion
Capital Assistance for High-Speed Rail Corridors and Intercity Passenger Rail Service	$2.5 Billion	$2.5 Billion	$0
Operating Grants to Amtrak	$563 Million	$563 Million	$0
Capital and Debt Service Grants to Amtrak	$1 Billion	$1 Billion	$0
Network Development* (Rail)	$0	$0	$4 Billion
System Preservation* (Rail)	$0	$0	$4 Billion
National Infrastructure Bank*	$0	$0	$5 Billion
Grants-in-Aid For Airports (AIP)	$3.52 Billion	$3.52 Billion	$2.4 Billion
AIP Infrastructure-General Fund Mandatory*	$0	$0	$3.1 Billion

*****New Program