American Road & Transportation Builders Association

Analysis of the Obama Administration's FY 2017 Budget Proposal for Transportation

FY 2017 Budget Summary

The Obama's Administration's proposed budget for FY 2017, which was submitted to Congress February 9, proposes to invest $73.0 billion in transportation improvements, an increase of 39.5 percent over the $53.4 billion enacted for FY 2016. Most of the increase, however—$17.9 billion—would fund the administration's proposed 21st Century Clean Transportation initiative, which would focus on reducing the environmental impact of transportation rather than investing in infrastructure improvements. Existing programs that invest in physical infrastructure improvements would receive a much smaller increase—5.7 percent—from $52.4 billion in FY 2016 to $55.1 billion in FY 2017.

For both the highway and public transportation programs, the FY 2017 budget simply ratifies the funding levels enacted in the Fixing America's Surface Transportation (FAST) Act, but transit activities would receive more than $6 billion in additional resources under the new clean transportation plan. This year's budget, however, does not include a repeat of past Obama Administration budget and reauthorization proposals to increase highway investment.

The budget also includes a number of other proposals that have been made in the past but never acted on by Congress—transforming the Highway Trust Fund (HTF) into a Transportation Trust Fund (TTF) that would also fund passenger rail and multimodal investments, moving transportation outlays from the discretionary to mandatory side of the budget, reducing funding for airport and water transportation improvements, and adding money for transit and passenger rail construction.

However, in a significant departure from previous budget submissions, the administration proposes to generate additional revenues for transportation improvements through a new tax on petroleum of $10.25 per barrel. Revenues would go into the proposed TTF and would finance much of the administration's Clean Transportation initiative. The additional revenues, however, would not be sufficient alone to fully fund the initiative over the long term, so the administration is also re-proposing some corporate tax reforms to generate additional revenues.

While the budget conforms to the administration's transportation investment priorities, it almost certain Congress will not enact many of the administration's proposals. Having just passed the five-year, FAST Act surface transportation measure in December 2015, it is most likely Congress will follow the funding levels enacted in that law for the highway and public transportation programs—much as it did in the FY 2016 appropriations process. As such, the Administration's new transportation plan is largely a concept intended to influence future federal transportation policy discussions. It should be noted, however, many of the alternative transportation and climate-friendly policies proposed by the Clean Transportation Initiative were contained in the Administration's 2014 and 2015 surface transportation reauthorization proposals, which Congress failed to incorporate in the FAST Act.

The following table summarizes the Administration's FY 2017 budget proposals for transportation:

The Administration's FY 2017 Budget for Transportation Construction

(thousands of dollars)

	FY 2016	FY 2017	Percent change
Highways			
Obligation limitation	$42,361,000	$43,266,100	2.1
Other	$739,000	$739,000	
Total	$43,100,000	$44,005,100	2.1
Transit Capital Investment Grants	$2,177,000	$3,500,000	60.8
National Infrastructure Investment (TIGER) grants	$500,000	$1,250,000	150.0
Airport Improvement Program	$3,350,000	$2,900,000	-13.4
Passenger Rail capital improvements & operating grants	$1,390,000	$2,325,000	67.3
Corps of Engineers Construction	$1,862,250	$1,090,000	-41.5
Subtotal, Existing Programs	$52,379,250	$55,070,100	5.7
21st Century Clean Transportation Plan Investments	$0	$17,935,000	NA
Grand Total	$52,379,250	$73,005,100	39.5

Highway Program

Funding proposed for the federal highway program in FY 2017 follows the amount authorized in the FAST Act to the penny. The administration proposes an obligation ceiling of $43.27 billion for FY 2017, a 2.1 increase over the amount enacted for FY 2016, which is the same amount as was included in the FAST Act. It should be noted that annual obligation ceilings in the FAST Act are the equivalent of authorization levels in other program authorization acts and can be changed during the annual transportation appropriations process. Given that the FAST Act provided sufficient Highway Trust Fund revenues to support the FAST Act annual obligation levels, it is unlikely Congress would change the FY 2017 ceiling.

The FAST Act also permitted states to spend $639 million above the obligation ceiling in FY 2017—a procedure that dates back more than 20 years. This, along with $100 million of spending authority under the emergency relief program, provides another $739 million that can be invested in highways in FY 2017, for total spending authority in FY 2017 of $44.0 billion. The FY 2016 total was $43.1 billion.

The budget proposal also adheres to the FAST Act's highway program structural changes, such as the creation of the new National Highway Freight and Nationally Significant Freight and Highway Projects Programs.

In addition to the $44.0 billion proposed for highway investment in FY 2017, the FY 2016 Consolidated Appropriations Bill included a provision that would allow states to reprogram as much as $2 billion of highway program funds that Congress had earmarked for specific highway projects in past legislation and which never got underway or were completed for less than the earmarked amount. Any reprogramed funds obligated during FY 2017 would be in addition to the obligation ceiling for the year.

Public Transportation Program

The Administration's FY 2017 budget proposal of $19.9 billion for public transportation programs is $6.4 billion beyond $12.2 billion authorized by the FAST Act. Most of the proposed increase would be for the Formula and Bus Grant programs, which provide funds to transit agencies around the country for capital improvements and bus purchases.

Funding for the Capital Investment Grants (New Starts) program, which is the source of federal funds for major subway and light rail construction projects, would be $3.5 billion in FY 2017. This is a 60.8 percent increase from the $2.2 billion appropriated in FY 2016, which was a slight decrease from the $2.3 billion authorized in the FAST Act. Funding levels for the New Starts program are authorized in surface transportation laws though spending levels are set during the annual appropriations process and the revenues used to support these projects comes from the General Fund. Under the Administration's proposal, New Starts would be provided more certainty via dedicated revenues through the new Transportation Trust Fund.

Building a Clean 21st Century Transportation System Proposal

As part of the budget, the administration is proposing a significant initiative to refocus federal transportation investment on reducing traffic, reducing the environmental impact of transportation and providing transportation alternatives. The initiative—called the "21st Century Clean Transportation Plan"—would provide $17.9 billion in FY 2017 and a ten-year total of $225 billion for a variety of new programs involving almost all transportation modes and most U.S. DOT modal agencies.

Specifically, over the next ten years the plan would include an annual average of:

- $20 billion per year on top of existing investment levels to expand transit systems in cities, suburbs and rural areas; invest in high-speed rail and new rail technologies; invest

in multimodal freight improvements; and expand the TIGER program to support more innovative local projects.
- $10 billion per year to incentivize state and local governments to advance climate change friendly transportation initiatives and establish new competitive grant programs to support land use strategies, "livable communities," and resilience to climate impacts; and
- $2 billion per year to "launch a new generation of smart, clean vehicles and aircraft."

Under the clean transportation proposal, the Federal Highway Administration would receive the largest block of funds, but little of it would be for physical improvements to highways and bridges. Specifically, the FHWA would administer five new programs, with $7.5 billion in funding in FY 2017 and a ten-year total of $109.5 billion:

- A "Future Freight System Program," funded at $2 billion in FY 2017, that would invest in "innovative rail, highway, port and intermodal projects."
- A "Climate-Smart Performance Program" that would invest $2 billion by formula across transportation modes to "mitigate transportation's contribution to climate change and improve outcomes for communities."
- Three discretionary competitive grant programs, totaling $3.5 billion in FY 2017, that would (1) provide grants to MPOs and RPOs for regional approaches to connecting demographics and transportation; (2) provide grants to improve neighborhoods; and (3) provide grants to "address the impact of climate change on transportation and surrounding communities."

The Federal Transit Administration would receive an additional $5.86 billion in FY 2017 and a ten-year total of $61 billion for the transit formula grant programs, which would add funding for transit capital investment, state of good repair grants, and bus and railcar purchase and maintenance. In addition, the initiative proposes $525 million in FY 2017 and $6.6 billion over ten years for a discretionary grant program to foster investment in bus rapid transit systems. The proposal would also allow federal highway funds to be used for local matching requirements.

The clean transportation initiative would provide the Federal Railroad Administration (FRA) $3.7 billion in FY 2017 and a ten-year total of $42.6 billion for high speed rail, positive train control implementation, rail relocation and mitigation grants and other passenger rail improvements. The administration would also collapse current FRA spending on operating funds and capital grants for Amtrak and a few smaller programs into a single "Rail Service Improvement" program.

In addition, the National Highway Traffic Safety Administration would receive $200 million in FY 2017 and a ten-year total of $3.9 billion for autonomous vehicle R&D, of which the Federal Motor Carrier Safety Administration would get $150 million in FY 2017 and $1.5 billion over ten years to expand its safety programs.

It is unlikely, however, that any of these proposals will be enacted during the next year. Even if there were widespread support for them within Congress, the reality is that the proposed funding would either require a tax increase or offsetting spending cuts elsewhere in the budget.

Instead, the proposals should be viewed as a blueprint for where the administration believes transportation investment in the years ahead should be focused: specifically by providing alternatives to single-occupancy vehicles in order to reduce the impact of transportation on climate change and the environment.

Transportation Trust Fund and Revenue Proposals

As in previous budget submissions, the administration proposes to replace the existing HTF, which currently funds only highway and public transportation investments, with a broader TTF that would also fund federal investments in rail and intermodal improvements. Revenues from existing HTF sources—the federal excise taxes on motor fuels and taxes on heavy trucks—would continue to be credited to the TTF and be used for the highway and public transportation programs. The new Rail Account and Intermodal Account would be funded from new revenue sources, as would most of the new programs included in the administration's Clean Transportation proposal. Some existing spending, such as the transit capital investment program and the TIGER grant program, which are currently funded through annual appropriations from the General Fund, would be brought under the TTF.

To provide the new TTF revenues, the administration proposes a $10.25 per barrel tax on petroleum, to be phased in over five years. This would generate a net of $319 billion in new revenues over the next ten years. To ease the impact, home heating oil would be exempt and the administration would establish a program of assistance to families to relieve energy cost burdens. Revenues would be credited to the TTF.

Even with the new tax, there would still be a revenue gap of $110 billion during FY 2021-26, the second half of the ten-year budget window. To fill this, the administration continues to call for using revenues from business tax reform, specifically through tax changes on overseas earnings of U.S. multinational corporations.

The administration has proposed the creation of a Transportation Trust Fund in previous budget submissions but there has been no action in Congress. Broadening the scope of the trust fund would require new revenues, either by enacting new taxes or dedicating an existing revenue source, which Congress has not been willing to do. It is unlikely that the proposal will gain any more traction than in the past.

In a related move, the administration proposes to reclassify transportation outlays as mandatory, moving them from the discretionary part of the budget. Under current rules, contract authority is scored as mandatory while outlays are scored as discretionary, which results in inconsistent treatment of transportation investment in the budget. While the administration's proposal is based on removing this inconsistency, the real impact is that under the PAYGO budget rules, increases in mandatory outlays must be offset from the mandatory side of the budget – i.e., through decreases in other mandatory spending programs such as Social Security and Medicare or through tax increases. The change thus would put pressure on Congress to raise highway and other transportation-related taxes to increase transportation investment, such as the increase proposed for the Clean Transportation initiative. This proposal has been made repeatedly in the past but Congress has not acted on it and is unlikely to do so this year.

Passenger Rail

Currently, the federal government provides annual appropriations from the General Fund for both operating cost subsidies and capital improvements for the National Rail Passenger Corporation, also known as Amtrak, as part of the budget for the Federal Railroad Administration (FRA). In FY 2016, Congress enacted $288.5 million in operating subsidies for Amtrak and $1,101.5 million for capital improvements and debt service, a total of $1.39 billion.

In the FY 2017 budget, the administration proposes to collapse these programs into a single "Current Passenger Rail Service" program that would be funded at $2.3 billion, a 65 percent increase over funding for the separate programs in FY 2016. In addition, the administration proposes to move funding for the program into the proposed TTF, eliminating the need for an annual appropriation from the General Fund. The $2.3 billion would fund two programs authorized in the FAST Act - $1.9 billion for grants to Amtrak for the Northeast Corridor and National Network, including Amtrak's state-supported routes, plus $400 million for the State of Good Repair program, which makes grants to bring publicly-owned or Amtrak-owned facilities and equipment to a state of good repair.

It is unlikely, as discussed above, that Congress would act to fund passenger rail through the TTF. It is also unlikely that Congress will provide the full amounts proposed by the administration for passenger rail, since both parts of the request are above the amounts authorized in the FAST Act for FY 2017—$1.5 billion for grants to Amtrak and $140 million for the State of Good Repair program.

Federal Aviation Program

The President's FY 2017 budget proposal of $15.9 billion for aviation programs is slightly less than the FY 2016 enacted funding level of $16.3 billion. However, nearly all of the difference comes in the form of proposed changes to the Airport Improvement Program (AIP), which funds capital grants to airports. The budget proposal calls for scaling back AIP investment levels to $2.9 billion in FY2017 from $3.35 billion in FY 2016. The program would also focus investment on improvements at more mid and small size airports.

To allow more revenue for larger airports, the Administration follows a long-time ARTBA recommendation to increase the cap on the Passenger Facility Charge (PFC). Currently capped at $4.50, the PFC is a passenger plane ticket fee charged by airports per landing they can use on capital and facility improvements. The budget calls for the cap to increase to $8.00 per flight segment. Both the change in the PFC and AIP programs are identical to the President's FY 2016 budget proposal.

The nation's federal aviation program authorization law is currently operating on an extension that is set to expire March 31. The House Transportation and Infrastructure Committee is scheduled to take up a new multi-year reauthorization bill February 11. The legislation, authored by Committee Chairman Bill Shuster (R-Pennsylvania) and Aviation Subcommittee Chairman Frank LoBiondo (R-New Jersey), would grow AIP funding levels but leave the cap on PFC unchanged. Timing on action in the Senate is unclear making another extension beyond March 31 very likely.

TIGER Program

The Administration proposes to more than double funding for the National Infrastructure Investments program, popularly known as the TIGER program, from $500 million in FY 2016 to $1.25 billion in FY 2017. Last year's Administration budget proposal requested the same increase.

Funding for the TIGER program, which provides competitive grants for improvements of national or regional significance in all transportation modes, is in addition to the regular highway and mass transit programs and has come from the general fund, not the Highway Trust Fund. Under the Administration's proposal, the TIGER program would be capitalized with money coming from the new Multimodal Account of the TTF.

Private Sector Collaboration

The proposal includes a number of initiatives intended to foster cooperation between the public and private sectors to deliver infrastructure improvements, including:

- Establish an Innovative Finance Bureau at the Department of Transportation—as directed by the FAST Act—to promote public-private collaboration, work with states and local governments on technical issues relating to public private partnerships.
- Requests $275 million for the Transportation Infrastructure Finance and Innovation Act, commonly known as TIFIA, credit assistance and loan guarantee program—the amount authorized in the FAST Act. The Administration had previously advocated $1 billion for this program.
- Create a new Qualified Public Infrastructure Bond to attract private sector capital for airport, port, mass transit, solid waste disposal, sewer, water and "qualified highway and surface freight transfer facilities." This proposal appears to supplant the Administration's previous support for expanding the cap on Private Activity bonds for highway and freight projects.
- Establish a new federal credit program to support public private partnerships called the "Financing America's Infrastructure Renewal Program" to provide loans for public-private partnership projects "that meet applicable environmental and labor standards."

- Lastly, the budget recycles the call for a National Infrastructure Bank that has been part of virtually all Obama Administration budget and reauthorization proposals for the last eight years.

Water Transportation

Improvements to the nation's rivers and harbors are the responsibility of the Corps of Engineers. Federal funding for such improvements are provided within the annual budget for the Corps. For FY 2017, the administration proposes to provide a total of $1.09 billion for the construction of commercial navigation, flood and storm damage reduction, and aquatic system restoration projects, including studies, design work, and plans and specifications. This would represent a 41.5 percent cut from $1.86 billion enacted for the Corps' inland waterway construction program in FY 2016. Funding for water transportation improvements come from the Inland Waterways Trust Fund, which covers half the cost of construction, and the Harbor Maintenance Trust Fund.

The administration has proposed similar cuts to the Corps' construction budget in previous budget submissions, but Congress has generally ignored the proposals and is likely to do so this year.