American Road
& Transportation
Builders Association

Analysis of the Trump Administration's FY 2018 U.S. Department of Transportation Budget Proposal

Budget Summary

The Trump Administration's FY 2018 budget suggests the president's "trillion dollar infrastructure initiative" will involve only $200 billion in direct federal funding over the next 10 years. The remainder will materialize through a series of policy and regulatory reforms involving expansion of tolling and encouraging private investment in public infrastructure.

The proposed budget would fund the Highway Trust Fund-supported federal highway and transit programs at the levels authorized by Congress in the 2015 FAST Act during FY 2018—$44.2 billion and $9.7 billion, respectively. After the next fiscal year, however, the budget calls for capping FY 2019 and FY 2020 investment at the FY 2018 level—thus foregoing $2.4 billion in funding authorized by the FAST Act.

Most disturbingly, however, once the FAST Act expires in October 2020, the Administration is proactively calling for constraining future federal highway and transit investment to the level of incoming revenue to the Highway Trust Fund. Absent congressional approval of a new revenue stream for the HTF before then—which the budget document does not request—it notes such a course of action would lead to a $95 billion cut in highway and transit program investment from current levels through FY 2027. To compensate for this massive reduction, the document says "The Administration believes that the federal government should incentivize more states and localities to finance their own transportation needs."

Multiple House GOP budget proposals since 2011 have advanced the idea of constraining highway and transit funding to HTF receipts. Each time, however, members of the House and Senate have rejected the idea.

The bottom line is that the budget cuts highway and transit investment by $100 billion over 10 years, which certainly dilutes the President's separate call for $200 billion for the "infrastructure initiative." Whether some of that comes back to the surface transportation programs remains to be seen.

Addition by subtraction?

Infrastructure Initiative

During the 2016 election campaign, a major plank of the Trump platform was a proposal to invest $1 trillion in improving America's infrastructure. The FY 2018 budget would have been an excellent opportunity for the Trump Administration to provide some specific details on how this proposal would be funded and administered. The Administration's presentation of its Infrastructure Initiative, however, focuses primarily on providing a broad outline of a combination of policy, regulatory and legislative proposals with few specific budgetary details.

The basic premise of the Infrastructure Initiative is that investment can be stimulated and made more productive by reforming how projects are developed, funded, regulated and administered. The Initiative is based on four main principles, including targeting federal funds to projects that lead to changes in how infrastructure is designed, built and maintained; giving state and local governments incentives to generate their own resources; devolving federal programs to lower levels of government and divesting federal capital assets to the private sector; and leveraging private funds through public-private partnerships.

It does not appear from the Administration's description of its Infrastructure Initiative or from any of the budget documents that the plan involves a significant increase, if any, in federal funding. The Infrastructure Initiative summary paper says "providing more federal funding, on its own, is not the solution to our infrastructure challenges. Rather, we will work to fix underlying incentives, procedures, and policies to spur better infrastructure decisions and outcomes, across a range of sectors."

Nonetheless, the Infrastructure Initiative says "the 2018 Budget includes $200 billion in mandatory outlays to support this effort…" The figure is cited in a number of places in the budget and supporting documents. The budget assumes $5 billion for the initiative in FY 2018 with funding growing annually until peaking at $50 billion in FY 2021 and declining in subsequent years. The lack of detail about how the funds would be utilized suggests an agglomeration of funding for existing federal infrastructure investment programs that the Administration plans to direct toward its Infrastructure Initiative.

The Administration does cite some specific potential elements of its Infrastructure Initiative, although without specific budget figures. These include increased funding for the TIFIA program, which finances transportation projects through direct loans and loan guarantees; raising the ceiling on the amount of Private Activity Bonds that can be issued; liberalize the ability of states to toll Interstate Highways and allow private investment in rest areas; and fund the WIFIA programs which leverages private funds for drinking water and wastewater projects. Non-budgetary elements of the initiative include reducing the impact of federal regulations on infrastructure investment projects and speeding up the permitting process.

Finally, when all elements of the proposal are combined, it is possible that the proposed Infrastructure Initiative <u>will actually result in less, not more</u>, federal investment in infrastructure. The emphasis on incentivizing private investment, devolving federal responsibilities to lower levels of government and involving non-federal partners in investment projects are all suggestive of proposals by previous administrations to reduce federal infrastructure investment. One example of evidence of a desire to reduce federal funding is discussed in the highway program section below.

Summary Table - FY 2018 Budget for Transportation Investment

(millions of dollars)

Program	FY 2016	FY 2017	FY 2018
Airport Improvement Program	$3,350.0	$3,350.0	$3,350.0
Highway Program			
Obligation Limitation	$42,361.0	$43,266.1	$44,234.2
Exempt Contract Authority	$739.0	$739.0	$739.0
Total Budget Authority	$43,100.0	$44,005.1	$44,973.2
Public Transportation Program			
Total Budget Authority	$11,783.0	$11,748.0	$11,226.0
Capital Investment Grants/New Starts	$2,177.0	$2,400.0	$1,232.0
Highway Safety Programs			
NHTSA	$723.0	$725.0	$750.6
FMCSA	$580.0	$634.0	$657.8

Highway Program

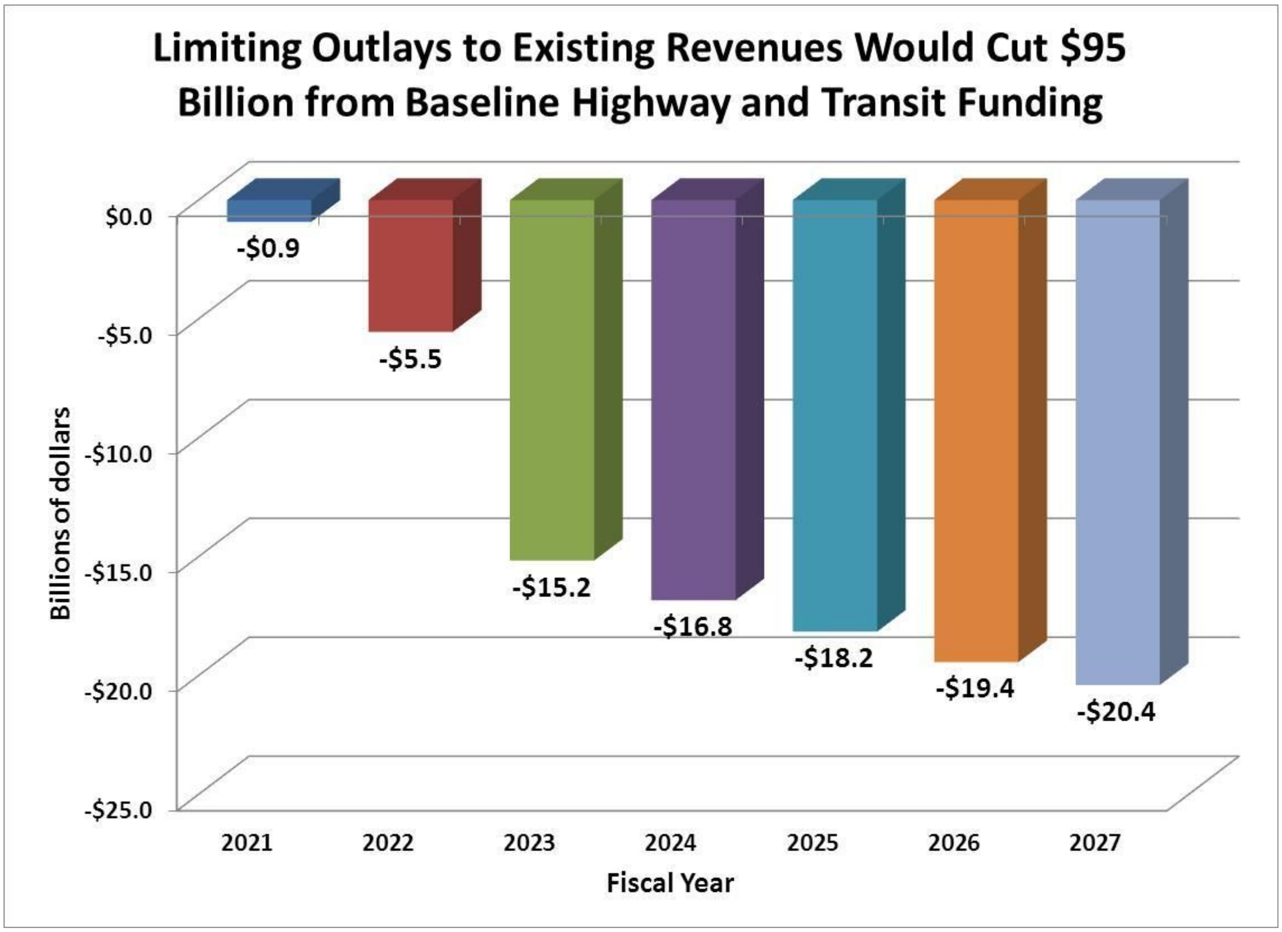
Funding. For FY 2018, the Trump Administration's budget for highways conforms to the FAST Act. The budget recommends $44.973 billion of new contract authority for the federal highway program and a limitation on obligations of $44.234 billion. These amounts are the same as were enacted in the FAST Act for FY 2018 and represent an increase of about $970 million or about 2 percent over the amounts enacted for FY 2017.

After FY 2018, however, the picture changes substantially. Reflecting the fact that federal gas tax and other user fees have not been increased since 1993 and that Highway Trust Fund revenues will fall far short of projected outlays after the FAST Act, the Administration envisions the following changes to the highway program after FY 2018:

Beginning FY 2019, the administration would freeze the obligation limitation at the FY 2018 level of $44.234 billion. This freeze, which would last through FY 2027, would cut obligations below the FAST Act by just over $1 billion in FY 2019 and $2.1 billion in FY 2020. Assuming the FAST Act's $1 billion rise per year in obligation limitations would continue beyond FY 2020, the freeze would lop more than $40 billion from highway program obligations through FY 2027.

FAST Act contract authority levels would continue to be provided through FY 2020, but would be frozen at the FY 2020 level through FY 2027. The loss in new contract authority through FY 2027 would total $28 billion.

Finally, and most important, after FY 2020, the Administration envisions limiting reimbursements to the states from the Highway Trust Fund to no more than can be supported with existing tax revenues. Relative to baseline projections, this would reduce HTF outlays by a total of $95 billion between FY 2021 and FY 2027. The shortfall, illustrated in the attached graph, would grow from $1 billion in FY 2021 and $5 billion in FY 2022 to $20 billion by FY 2027.



<u>Program Structure</u>. There is nothing in the formal budget tables to suggest that the administration plans to propose any major changes in the structure or rules of the highway program. The budget shows new contract authority being split among the core highway programs as designated by the FAST Act, with most of the funds going into the National Highway Performance Program and the Surface Transportation Block Grant Program. The tables identify these as "apportioned" funds, which mean they would be apportioned among the states by formula, also conforming to the FAST Act.

However, the section of the budget describing the Administration's $1 trillion infrastructure initiative hints of other plans for these funds. According to the budget:

This proposal will include a combination of policy, regulatory, and legislative proposals, ranging from changes to existing programs, to the creation of new programs and initiatives to reshape how the Federal government invests, permits, and collaborates on infrastructure. The 2018 budget includes $200 billion in mandatory outlays to support this effort, which the Administration will use to make targeted investments to incentivize State, local, private, and other partners to significantly expand their infrastructure investments.

Highway Trust Fund

Since 2008, the Highway Trust Fund has required periodic infusions from the General Fund in order to meet its legal requirement to reimburse states for federal highway and transit program obligations. Over the decade, these infusions have totaled $140 billion. The latest infusion, $70 billion provided under the FAST Act, was designed to keep the Trust Fund solvent through FY 2020.

The following table shows projected combined receipts, outlays and balances for the Highway and Mass Transit Accounts through FY 2022. As the table shows, unless Congress enacts new revenues, the Trust Fund will deplete its existing balance by the end of FY 2022.

Highway Trust Fund Outlook
(billions of dollars)

Fiscal Year	2016	2017	2018	2019	2020	2021	2022
Start of Year Balance	$11.9	$69.2	$58.1	$46.5	$34.3	$22.1	$9.3
User fee revenues	$41.8	$42.3	$42.6	$42.9	$43.0	$43.1	$43.1
General fund transfers	$70.0						
Outlays:	$54.5	$53.4	$54.2	$55.1	$55.3	$55.9	$52.1
Highways	*$43.6*	*$42.3*	*$43.0*				
Transit	*$9.5*	*$9.6*	*$9.7*				
NHTSA, FMCSA & other	*$1.4*	*$1.5*	*$1.6*				
End of Year Balance	$69.2	$58.1	$46.4	$34.3	$22.1	$9.3	$0.3

Aviation Programs

The Trump Administration is advocating for the privatization of the nation's civil aviation system. In fact, the budget includes the creation of a "non-governmental entity to manage the nation's air traffic control function." House Transportation & Infrastructure Committee Chairman Bill Shuster (R-Pa.) introduced legislation to achieve this goal in 2016, but it did not advance beyond his committee and generated substantial opposition from Republicans in the House and Senate. Under the Administration's approach, the aviation passenger ticket taxes would be reduced and the new entity would impose new user fees to support the system.

The budget proposes continuing Airport Improvement Program funding at $3.35 billion—the level at which it has been since FY 2012. It also calls for elimination of the Essential Air Service Program which assures small communities continue to receive air service from certified carriers. While not a construction-related activity, the program is very popular with members of Congress and will be an area to watch as the executive and legislative branches begin their back and forth over next year's spending plans.

Public Transportation Program

The Trump Administration is proposing to fund the transit formula grant program at the $9.7 billion authorized by the FAST Act for FY 2018—the program supports transit agencies in urban and rural areas. The budget follows through from the blueprint released in March to only fund new fixed guideway projects that have a full funding grant agreement. As a result, the budget proposes $1.2 billion for the transit Capital Investment Grant Program as opposed to the $2.3 billion authorized by the FAST Act. Congress provided $2.4 billion in FY 2017—$100 million above the authorized level.

Like the highway program, the public transportation program would be severely impacted by the proposal to constrain spending to current Highway Trust Fund revenues beyond FY 2020. Similarly, the Administration's proposal to hold surface transportation investment at the 2018 level for the remainder of the FAST Act would forgo $200 million increases in 2019 and 2020 for transit formula grants. It is unclear how money would be left on the table by the Administration's push to not fund new transit capital projects, but the program would certainly receive less than the FAST Act's $2.3 billion yearly authorization.

Other Transportation Programs

The Trump Administration FY 2018 budget also calls for:

- No funding for the National Infrastructure Investments program, or TIGER Program, which was initiated by the Obama Administration and provides grants from the federal general fund for a variety of transportation projects—highway-related activities are the historically largest recipient of the program. Congress provided $500 million in FY 2017.
- A $735 million cut in Amtrak funding, a 49 percent reduction, and cuts to several other smaller rail programs.
- $1 billion, or 16 percent, cut to the Army Corps of Engineers budget which, among other things, supports port and water infrastructure activities.

Going Forward

The release of the President's plan typically signals the beginning of the annual budget and appropriations process. While the Administration's submission is generally given deference—particularly among members of his own party—it is by no means a binding document. GOP lawmakers in the House and Senate have already been critical of some of the Administration's proposals, such as cuts to the Meals on Wheels Program.

In the transportation area, the drastic proposal to scale back trust fund spending to what existing revenues could support would not manifest for two years. This concept, however, reinforces the value and importance of ARTBA's push to secure a permanent Highway Trust Fund revenue solution well before the FAST Act expires on September 30, 2020. Furthermore, a number of the programs the President proposes to cut or eliminate—such as TIGER grants—are very popular with members of both parties on Capitol Hill.

While both the Administration and congressional budget documents are intended to provide guidance and signal priorities for federal spending, the actual programmatic funding levels are set during the annual appropriations process. As such, there is still a long way to go until we know how Congress will respond the President's transportation spending plans.

ARTBA will continue to work to ensure, at minimum, the FAST Act highway and transit investment increases are realized and secure increased federal investment for all transportation modes in FY 2018.