American Road & Transportation Builders Association

# Analysis of the Obama Administration's FY 2016 Budget Proposal for Transportation

## FY 2016 Budget Summary

The Obama Administration is proposing $21 billion per year increases in federal surface transportation investment through FY 2021 as part of its February 2 FY 2016 budget submission to Congress. The six-year, $478 billion highway/transit/rail reauthorization plan—Generating Renewal, Opportunity, and Work with Accelerated Mobility, Efficiency, and Rebuilding of Infrastructure and Communities throughout America (GROW AMERICA)—is $126 billion more than current investment levels and $238 billion more than estimated Highway Trust Fund revenues over the period.

The Administration included a similar version of GROW AMERICA in its FY 2015 budget, but that plan proposed $302 billion over four years. In addition to containing slightly larger investment increases each year, this year's budget also includes a specific proposal to generate the $238 billion needed for the reauthorization proposal by requiring all U.S. based multinational companies to "repatriate" overseas profits at a reduced tax rate as a transition to new tax structure. The revenue generated by this process would be dedicated to a new Transportation Trust Fund that would fund federal highway, transit and passenger rail investments over the next six years. These revenues would both fill the gap between existing Highway Trust Fund revenues and current investment levels and support the $21 billion in annual increased investments that would be authorized by GROW AMERICA.

In addition to renaming the Highway Trust Fund as a Transportation Trust Fund with new Rail and Multimodal Accounts, GROW AMERICA retains the numerous structural and policy reforms to the highway and public transportation programs of the 2014 proposal. Proposed funding increases in the proposal by category from FY 2015 to FY 2016 would be: highways—25 percent (to $51.3 billion); transit—62 percent (to $19.6 billion); and railways—236 percent (to $4.8 billion).

While many members of Congress are examining the prospects of using budgetary savings from reforming the tax code (i.e., Obama repatriation plan), a line from the Administration's budget reflects a reality of this approach: "the Budget assumes that spending returns to the baseline levels based on what was enacted in 2015—and accordingly the structural gap between baseline trust fund spending and baseline trust fund receipts returns." As a result, the proposed Transportation Trust Fund would be facing revenue shortfalls in excess of $30 billion beginning in FY 2022—more than twice the current Highway Trust Fund revenue gap.

More details of the Administration's FY 2016 transportation budget and the GROW AMERICA proposal follow.

# Surface Transportation Reauthorization

MAP-21, the Moving Ahead for Progress in the 21st Century Act which authorized federal investment in highway and public transportation improvements for FY 2013 and FY 2014, expired September 30, 2014. A short-term bill, enacted in July of 2014, extends this authorization through May 31, 2015. In response to the wide-spread agreement among policy-makers that a long-term funding authorization is needed for the federal surface transportation programs, the Administration's FY 2016 budget submission not only requests funding for FY 2016 but also provides details on its six-year surface transportation reauthorization proposal. The proposal would provide a total of $478.3 billion for the federal highway, mass transit, highway safety and passenger rail programs between FY 2016 and FY 2021. It also includes a proposal to generate the necessary revenue. The Administration's reauthorization proposal is summarized in the following table, along with comparative data for FY 2015.

**Administration Surface Transportation 6-Year Reauthorization Proposal**
Net Budget Authority (Millions of dollars)

| | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | 6-year total |
|---|---|---|---|---|---|---|---|---|
| Total | $54,971 | $77,162 | $78,258 | $79,138 | $80,180 | $81,217 | $82,336 | $478,291 |
| Highways: | $40,995 | $51,307 | $51,944 | $52,502 | $53,115 | $53,724 | $54,408 | $317,000 |
| MAP-21 Programs | $40,995 | $42,357 | $43,194 | $44,002 | $44,815 | $45,674 | $46,558 | $266,600 |
| CISI Program | | $7,450 | $6,250 | $5,000 | $3,800 | $3,550 | $3,350 | $29,400 |
| Freight Program | | $1,000 | $2,000 | $3,000 | $4,000 | $4,000 | $4,000 | $18,000 |
| FAST Program | | $500 | $500 | $500 | $500 | $500 | $500 | $3,000 |
| Mass Transit: | $10,858 | $18,249 | $18,566 | $18,890 | $19,252 | $19,627 | $20,009 | $114,593 |
| Formula Grants /1 | $8,738 | $13,999 | $14,226 | $14,460 | $14,702 | $14,995 | $15,295 | $87,677 |
| Capital Investment Grants | $2,120 | $3,250 | $3,315 | $3,380 | $3,450 | $3,520 | $3,590 | $20,505 |
| Bus Rapid Transit | | $500 | $525 | $550 | $600 | $612 | $624 | $3,411 |
| FAST Program | | $500 | $500 | $500 | $500 | $500 | $500 | $3,000 |
| Highway Safety: | $1,415 | $1,576 | $1,688 | $1,771 | $1,808 | $1,861 | $1,914 | $10,618 |
| FMCSA | $584 | $668 | $748 | $797 | $799 | $816 | $831 | $4,659 |
| NHTSA | $830 | $908 | $940 | $974 | $1,009 | $1,045 | $1,083 | $5,959 |
| TIGER Grants | $500 | $1,250 | $1,250 | $1,250 | $1,250 | $1,250 | $1,250 | $7,500 |
| Railways: | $1,421 | $4,775 | $4,805 | $4,720 | $4,750 | $4,750 | $4,750 | $28,550 |
| Current Pass. Rail Service | | $2,450 | $2,400 | $2,350 | $2,300 | $2,300 | $2,300 | $14,100 |
| Rail Service Improvement | | $2,325 | $2,405 | $2,370 | $2,450 | $2,450 | $2,450 | $14,450 |
| Projected Transportation Trust Fund Revenues: /2 | | | | | | | | |
| Existing Revenue Sources | $39,600 | $39,600 | $39,800 | $39,900 | $39,900 | $40,000 | $40,100 | $239,300 |
| Corporate Tax Proposal | | $40,100 | $40,100 | $40,100 | $40,100 | $40,100 | $37,500 | $238,000 |
| Projected Outlays | $53,700 | $60,500 | $68,500 | $73,400 | $75,800 | $77,700 | $79,500 | $435,400 |
| End of Year Balance | $800 | $20,000 | $31,400 | $38,000 | $42,300 | $44,600 | $42,600 | |

1 Includes administrative expenses, research and training and emergency relief

2 TTF figures for FY 2021 are estimates

## Highway Program

One of the core elements of the Administration's FY 2016 Budget submission is its proposal to significantly increase federal investment in highway improvements in its six-year surface transportation reauthorization proposal. For FY 2016, the President proposes a net investment in highways of $51.3 billion, a 25.2 percent increase compared to FY 2015 net investment of $41.0 billion. After that, the Administration's reauthorization proposal would increase highway investment just over one percent per year (the expected rate of inflation) to $54.4 billion in FY 2021. The six-year total for highway investment would be $317 billion, about $60 billion more than at the current funding level adjusted for inflation.

The Administration proposes to use most of the additional funds for three new programs. The largest is a proposed $29.4 billion "Fix-it-First" initiative called the "Critical Immediate Safety Investments Program" (CISIP), the purpose of which is to "focus on the reconstruction, restoration, rehabilitation, preservation or safety improvement of existing highway assets." To emphasize this program's focus on immediate repairs to highways and bridges, the Administration is requesting a front-loaded funding of $7.45 billion in FY 2016, which would then taper off to $3.35 billion by FY 2021. Second, the Administration would upgrade MAP-21's freight policy provisions into a separate freight investment program with dedicated funding of $18 billion over the six years. This program, growing from $1 billion in FY 2016 to $4 billion in FY 2019 and beyond, would require development of state and regional freight transportation plans and would fund multi-modal and multi-jurisdictional freight improvements. Third, the Administration requests $500 million per year for a new "Fixing and Accelerating Surface Transportation" (FAST) program, a competitive grant program focusing on development of innovative solutions to pressing transportation challenges. The Administration is also proposing a similar counterpart FAST program for the transit program.

With most of the increased highway funding being requested for these three programs, the Administration is only proposing modest increases for the existing MAP-21 programs. For FY 2016, the Administration is requesting a total of $42.4 billion for MAP-21 programs, an increase of only 3.3 percent over the FY 2015 funding of $41.0 billion. After that funding for MAP-21 programs would grow slightly faster than the projected rate of inflation, to $46.6 billion by FY 2021.

In addition, the Administration is proposing changes to the highway program to speed the approval and delivery of major highway improvement projects and would emphasize projects that preserve and improve the existing system over expansion projects.

## Freight Program

A proposed upgrade of the MAP-21 freight policy program into an actual multi-modal investment program would provide $18 billion for rail, highway and port improvements that would enhance efficient movement of goods within the country and abroad. Funding would grow from $1 billion in FY 2016 to $4 billion in FY 2019 and beyond and is included in the Highway Program annual totals.

# Transportation Trust Fund

The Administration proposes to expand the Highway Trust Fund, which currently provides funding only for the federal highway and public transportation programs, into a multimodal Transportation Trust Fund (TTF).

In addition to the existing Highway and Mass Transit Accounts, the TTF would include a Rail Account that would fund intercity and passenger rail improvements and a Multimodal Account that would fund competitively awarded surface transportation grants.

All other surface transportation programs including those currently funded from the General Fund, such as the TIGER program, the transit Capital Investment program, and elements of the highway safety programs, would also be moved into the TTF, thus removing virtually all transportation from the general fund. In FY 2015, funding for these programs totaled $4.2 billion. Moving them into the TTF would change the budgetary treatment of these programs, both eliminating the need for annual appropriations and subjecting them to the PAYGO budget process. The appropriations process, however, would still set annual obligation limitations for the highway and transit programs.

To assure that the proposed TTF has sufficient revenues to fund its six-year surface transportation bill, the Administration proposes to inject a total of $238 billion into the trust fund between FY 2016 and FY 2021. The funds would come from the proceeds of the Administration's proposal for a mandatory tax on corporate profits held abroad. Of the $238 billion total, $85 billion would be used to fill the gap between current-law revenues and baseline highway and transit program outlays, $27 billion would cover the cost of general-fund programs moved into the TTF and $126 billion would fund all proposed program increases. According to the FY 2016 budget, the Administration would transfer $40.1 billion into the TTF each year between FY 2016 and FY 2020, and $37.5 billion in FY 2021[1].

# Public Transportation Program

The Administration's reauthorization proposal would provide a 6-year total of $114.6 billion for Federal Transit Administration programs. There would be a significant increase in funding in FY 2016 to a total of $18.2 billion, up from $10.9 billion in FY 2015, and grow to $20 billion by FY 2021. 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 increased to $3.3 billion in FY 2016 from $2.1 billion in FY 2015. This would grow to $3.6 billion by FY 2021, for a 6-year total of $20.5 billion. In the past, funding levels for the New Starts program have

[1] It is unclear whether the proposed $238 billion transfer includes the $5 billion needed to keep the Highway Trust Fund solvent between June 1 and September 30, 2015. If so, the revenue transfer shown in the table for FY 2021 would be $5 billion less as would the end of year balance.

been set during the annual appropriations process and come from the General Fund. Under the Administration proposal, New Starts would be provided more certainty via dedicated revenues through the Transportation Trust Fund (TTF).

Two new transit programs are proposed. The Rapid Growth Area Transit Program would provide $500 million in FY 2016, growing to $624 million in 2021, for a six-year total of $3.4 billion for bus rapid transit. Meanwhile, the transit portion of the FAST program described above would receive $500 million per year over six years and $3 billion in total.

## Federal Aviation Program

The President's FY 2016 budget proposal for aviation programs is on par with the FY 2015 enacted funding level of $15.8 billion. However, changes are suggested as to how that money is allocated. In particular, and of the most interest to ARTBA members, the Airport Improvement Program (AIP), which funds capital grants to airports, would be scaled back to $2.9 billion in FY2016 from $3.35 billion in FY 2015. 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.

The current aviation program authorization law is set to expire October 1, 2015. AIP funding levels and whether or not to raise the PFC cap will both be debated in Congress in the coming months as the House and Senate prepare to move new aviation bills.

## Passenger Rail

As part of its surface transportation reauthorization proposal, the Administration is proposing a major revamping of the federal programs that fund intercity passenger rail, including Amtrak.

The current operating and capital investment programs for Amtrak would be replaced with two new programs. A proposed Current Passenger Rail Service program would provide funding for repairs to passenger rail and funds to continue long-distance rail service. A proposed Rail Service Improvement Program would fund development of high-speed intercity rail and rail safety improvements.

The Administration requests $4.8 billion for these two rail programs in FY 2016, up from $1.4 billion in FY 2015, and a 6-year total of $28.6 billion. Funds would come from the proposed Rail Account of the TTF. Federal investment in passenger rail has required separate legislation in the past, but the Administration is proposing the programs now become part of the surface transportation authorization law.

## 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 2015 to $1.25 billion in FY 2016. The same amount is proposed for each of the next five years, for a six-year total of $7.5 billion.

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.

## TIFIA Program and PABs

The Administration would continue to provide $1 billion per year for the TIFIA program, which provides loans and loan guarantees to projects involving private equity investment, for a total of $6 billion over the life of the GROW America Act. The amount is included in the Highway total. The budget also calls for raising the cap on Private Activity Bonds (PABs) from $15 billion to $19 billion. PABs are a useful project financing tool for advancing infrastructure investments.

## Impact on Surface Transportation Reauthorization Process

The Obama Administration has clearly laid down a marker that it supports increasing federal surface transportation investment. By contrast many members of Congress—including some Democrats—are focused on simply preserving current levels of highway and public transportation investment. What remains to be seen is how hard the President and his team will push on this front—the Administration did not object to the largely status quo investment levels contained in the 2012 surface transportation bill signed by the President.

The other significant take away from release of the Administration's budget proposal is that the President's support for using one-time revenues from corporate tax reform will likely embolden many of the members of Congress eyeing repatriation as a source to stabilize the Highway Trust Fund. Even with the Administration and several members of Congress lining up behind repatriation, it should be emphasized that such a mechanism is not likely to move on its own or as part of a transportation bill. Closing tax loopholes and reforming corporate tax laws has been a hot discussion topic since the 2012 presidential election and very little progress has been made on that front. Former House Ways & Means Committee Chairman Dave Camp (R-Mich.) released a tax reform plan in early 2014—which included repatriation revenues for the Highway Trust Fund—but no votes were held on the measure. Furthermore, there is little chance of tax reform moving through Congress before the Highway Trust Fund runs into another revenue crisis later this summer. While tax reform is certainly a potential vehicle for a long-term trust fund solution, it is by no means an easy proposition—even with the President's help.

As for whether or not the Administration's policy and Transportation Trust Fund reforms will gain traction on Capitol Hill, it should not be overlooked that very similar proposals came from the U.S. Department of Transportation last spring and very few of these recommendations were included in the six year, highway program reauthorization bill approved by the Senate Environment & Public Works (EPW) Committee last summer when Democrats controlled the chamber. With Republicans now in the majority in the Senate and House, the Administration is likely to have an even more difficult time convincing members of Congress to accept proposals they rejected last year.

With the release his FY 2016 budget proposal, President Obama has put forth a plan to stabilize the Highway Trust Fund and reauthorize the federal surface transportation programs. Now the ball is in Congress's court.