OPENING STATEMENT OF THE HONORABLE ANDREW L. LEWIS, SECRETARY OF TRANSPORTATION, ON FY 1982 BUDGET BEFORE THE SENATE APPROPRIATIONS SUBCOMMITTEE ON TRANSPORTATION, APRIL 8, 1981

On February 18, 1981, President Reagan set the ground rules for his recovery plan--a "new beginning" for the American economy--and on March 10 he announced his budget proposals in support of that plan. Following the President's announcement of his budget revisions, we sent to the Congress a series of supporting legislative proposals on Federal transportation policy and funding of a wide range of transportation programs:

-- Airports and airways,

-- Highways and highway safety,

-- Amtrak,

-- Mass transit, and

-- User fees on Coast Guard services.

I am especially pleased, therefore, to have this timely opportunity to address this Committee for the first time as Secretary of Transportation.

For fiscal year 1982 we are requesting $19.2 billion in budget authority for Department of Transportation programs, including $215 million transferred to the Department for the Appalachian highway program. This represents a projected budget savings of nearly $5 billion from the $24.2 billion requested for these programs by the prior Administration.

Clearly, with budget savings of that size it will not be "business as usual" at DOT this next year. But I think President Reagan made it clear in his first economic message that we cannot expect to do "business as usual" in this country if the results are to be double-digit inflation, double digit annual increases in Federal spending and record deficits that have pushed interest payments on the national debt to more than $80 billion a year.

We cannot defend or justify "business as usual" when doing so entails the continuation of programs that serve no useful purpose, regulations that are more trouble than they are worth, and subsidies that benefit a select few at the expense of every taxpayer.

The President has pledged to cut the rate of growth in Federal spending. Over the last three years the Federal budget has grown by nearly 16 percent a year; President Reagan wants to reduce that to about six percent in 1982 and to show similar restraint in subsequent years.

That will be possible only if we can break the recent pattern of bigger and bigger budgets, financed through higher taxes and deepening deficits. The President's FY 1982 budget request marks the point of departure from that ruinous route to a new course of fiscal responsibility.

We must understand, of course, that we will not end a long string of budget dificits in one year--or in two. Neither is it reasonable to expect in a growing nation and a growing economy that budget increases can be avoided in the years ahead. But they can be slowed--economies can be achieved. Let me emphasize that in trimming the DOT budget we have not done so capriciously but with careful consideration for the direction we believe transportation policy should take.

We have three policy goals in view:

One, to define the proper role of the Federal government in transportation matters.

Over the years, the Federal government has tried to do too much. In attempting, first, to assist the various modes in their formative years, and then--second--to effect social and economic changes through transportation programs, Washington has encroached on state and local prerogatives and intruded into areas of private sector responsibilities.

We must come back, I believe, to the realization that the nation's transportation needs can be met in large part by the private sector. When the private sector is allowed to operate competitively, with minimum regulation and maximum efficiency, the public will be better served and the cost to the taxpayer will be greatly reduced.

Two; a corollary policy goal is to return to the states, counties, and local jurisdictions the autonomy to deal with the transportation issues that concern their citizens alone. Public transit falls into this area, as do our secondary roads and our airports. While some overall Federal assistance may be in order, the Federal government--as a rule-- should not try to dictate transportation choices that concern only the people of a region, city or community.

Three; to phase out, reduce or eventually eliminate Federal subsidies to those systems and services that should be self-supporting--paid for by those who use or benefit from them. The only justifiable exceptions to this rule, in my view, are those services that benefit society as a whole.

Let me turn now to the DOT budget and talk more specifically about the programs and the funding levels proposed.

U. S. COAST GUARD

Consistent with the emphasis of this Administration on keeping both our active and standby military capability intact, the Coast Guard's budget has been retained essentially as proposed in the January request. Budget authority requested for 1982 is $2.19 billion, a reduction of only $10 million, which can be achieved through economies in the use of civilian personnel. Military personnel strength will not be affected.

Coast Guard's three major programs, Operating Expenses at $1.4 billion, Acquisition, Construction and Improvements at $375 million, and Research and Development at almost $30 million all provide for growth in real terms over their 1981 levels, while Reserve Training at $51 million and Retired Pay at $288 million will continue at about their 1981 levels adjusted for inflation. To help offset future costs of those Coast Guard services which benefit specific users, the President has proposed the establishment of a graduated system of user fees. These fees will be phased in over a period of five years. Ultimately, the Treasury will recoup approximately $500 million annually, which will permit continued allocation of Federal resources to the non-recoverable costs of equipment acquisition, law enforcement and military preparedness.

FEDERAL AVIATION ADMINISTRATION

We are proposing $3.367 billion for the Federal Aviation Administration in FY 1982. Although this represents a budget savings of $476 million from the January budget estimates, it still provides for a slight increase over 1981 appropriations.

Our first and highest priority continues to be a dedication to the safety of our airport and airway system. We believe, however, that the President's goal of relief for the American taxpayer can be served by recovering more fully and more equitably the costs attributable to the civilian users of the system. In the legislation now being prepared, we will propose a schedule of user taxes for commercial and general aviation, representing their fair share of the funding needed to maintain a high level of airway safety.

We are also proposing to reduce the Federal airport grant program by about 45 percent through 1986, reflecting a change in the Federal role in essentially local affairs. The nation's largest airports in particular have the means to finance their own development work, and state and local communities have access to revenue sources sufficient to meet a portion of their capital needs. In our revisions of 1982 requests for FAA, the airport grant reduction of $300 million is our largest. Our amended program proposes grants of $450 million each year beginning in FY 1981.

Elsewhere in FAA our reviews of aviation activity forecasts, realistic procurement schedules, and a close analysis of actual requirements has established new levels for our Operations, Facilities and Research appropriations, reflecting reductions of $176 million in 1982 from the January estimates. Even after these reductions, however, FAA's Operations account at $2.4 billion will provide for a slight increase over 1981 appropriations while funding lower staffing levels in all activities other than air traffic control centers and towers. Procurement of facilities and equipment will be funded at $353.7 million in FY 1982, but of that amount $30 million will be taken from our proposed deferral of all 1981 site-specific Congressional additions which had not met FAA's needs criteria for inclusion in their original request. FAA's R&D programs, now combined under a single trust fund account, will be funded at $104.8 million, the same as the FY 1981 level. We are also proposing $100 million in new commitments under the Aircraft Loan Guarantee program, and more precisely targeting this lower level of guarantees for aircraft engaged in localized service.

FEDERAL HIGHWAY ADMINISTRATION

Our comprehensive legislative proposal dealing with the highway program was submitted to Congress on March 17. In it, we have not recommended a tax increase to raise Highway Trust Fund revenues. Instead, the bill proposes economies which will permit the program to live within its means.

Today, I will not discuss category by category details of our bill, but will talk in terms of budget totals. In the Federal-Aid Highways budget, we propose total obligations equal to the total budget authority proposed in the bill for this program: $8.3 billion. The obligation ceiling for Federal-Aid Highways is proposed to be $8.15 billion with the usual exemption for Emergency Relief, and with a new obligation rate control intended to assure we can attain the outlay reductions included in the President's budget proposals. In addition to the basic Federal-Aid program, we propose financing Interstate Transfer Grants-

Highways at $200 million and funding of the Appalachian Development Highway System program at $215 million, both to be funded from the Highway Trust Fund. In round numbers then, FHWA's total program is $8.7 billion, a reduction of $2 billion from the budget of the prior Administration, including the Appalachian funds.

We believe that if we are successful in finally re-defining the Interstate system, for completion by 1990, we will be able to divert more capital funds--but at somewhat lower levels--to the bridge repair and Interstate maintenance programs. Through 1986 we hope to produce budget savings of $11 billion compared to the previous Administration's highway funding proposal.

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION

For the National Highway Traffic Safety Administration, we are requesting $170 million. To operate within this level, we propose to make the best and most effective use of highway safety grants by restricting eligibility to areas that have shown the greatest potential for reducing deaths and injuries. Alcohol programs and emergency medical services are examples. Another eligible use is 55 mph enforcement. However, unlike previous years, no specific appropriation for 55 mph enforcement will be sought. We expect the States to continue their ongoing highway safety programs, 98 percent of which are already funded from state and local sources. This restructuring of the so-called "402 program" will save $100 million. The related operations and research program provides for an increase of $8 million over the 1981 level, the principal growth being for improved statistical data in support of motor vehicle safety.

FEDERAL RAILROAD ADMINISTRATION

For the Federal Railroad Administration, our budget calls for $1.04 billion in FY 1982, a rather substantial reduction--$795 million--in the funds requested in the Carter budget. We do so in the belief that the costs to the taxpayers for the operation of certain rail services are far out of proportion to the benefits accruing the general public.

There are four areas of rail operations that particularly concern us.

First, Conrail--we believe--must be redefined. To date Conrail has cost the taxpayers more than $3 billion and its prospects for profitability, in its present form, remain doubtful.

We realize, of course, that the region served by Conrail must be served by efficient, stable rail freight service. That service is only possible if it is returned to the private sector and restructured in some manner to remove impediments to private sector takeover. The restructuring would be accomplished by the following:

--Separate passenger and commuter services along the Northeast Corridor from freight operations, so they can be operated by a full-time passenger management, and not as a distraction to efficient freight operations.

--Reform the labor protection provisions to provide fair and equitable severance pay, retraining assistance and hiring priorities. Labor protection will be viewed as a temporary social cost, not a cost of operating a railroad.

--Reorganize operating responsibilities in the Northeast Corridor so that Conrail's freight operations do not bear an inordinate share of terminal operation costs. The high costs of terminal operations in the Corridor have made even profitable railroads reluctant to accept responsibility for freight terminal and switching facilities.

We believe that once these problems are addressed and corrective legislation is enacted, Conrail's assets will become attractive to private railroads as prospective purchasers, and Northeast rail service will become an integral part of a national system.

Second, Amtrak--after 10 years of operation--has failed to attract more than one percent of the traveling public and has fallen far short of paying its own way. In fact, Amtrak passengers pay only 40 percent of the operating costs. Even the railroad's highly-touted fuel efficiencies cannot be defended over much of Amtrak's system. Consequently, the Administration submitted authorizing legislation on March 17, 1981, that will require that Amtrak's revenues, including contributions from State and local governments, cover at least 50 percent of the Corporation's operating costs beginning in fiscal year 1982. To achieve this goal, the Amtrak Board will need to take a combination of actions, including system-wide fare adjustments, elimination of routes that are the most poorly patronized and institution of other operating economies.

The future of rail passenger service lies in service along well-traveled high-density corridors, where traffic levels along with funds provided by states and communities can cover a high percentage of the operating costs.

Third, we are reorienting the Northeast Corridor project to emphasize safety and reliability at a reasonable speed rather than high-speed service as the primary objective. Seventy-five percent of Corridor riders are commuters who travel short distances. Dependability and convenience are more important to them than speed. By cutting out electrification north of New Haven, and some of the other more costly rail improvements associated with high speed operations, we can save $310 million over the next four years.

Fourth, we propose to eliminate the Federal rail assistance program for low volume branch lines. Since the benefits have been primarily local, this program is another example of Federal involvement in matters better relegated to state and local responsibility. We have proposed application of the $80 million appropriated in 1981 to finance pending supplementals and we propose no funding in 1982.

For other rail programs, we are requesting a total of $220 million to fund administrative costs, Railroad Safety, Minority Business Resource Center, Railroad Restructuring, and Research and Development at about their 1981 appropriated levels. We are also proposing continued capital support for the Alaska Railroad, but we will be applying increasing attention over the next year to removing responsibility for this intrastate railroad from the Federal budget by turning it over the either the state or a private operator who can guarantee continued operation of essential services.

URBAN MASS TRANSPORTATION ADMINISTRATION

The transit legislation submitted to Congress on March 17, 1981 reflects the Administration's commitment to assist transit agencies through increased capital support for bus and rail modernization projects and reduced Federal intrusion into operational decisions better left to local decisionmakers. This policy is reflected in our FY 1982 budget request for UMTA of $3.769 billion, a reduction of nearly $1.4 billion from the Carter Budget.

We believe the goals of public transit will be better served by changes in the Federal approach. For one, transit funds should be directed to where the public benefit is clearly demonstrated. Capital expenditures will be targeted to systems already under construction, or to those that are already an effective part of an urban transportation network. In this way, bus and existing rail systems will receive much needed funds for rehabilitation and modernization. Second, we will maintain mass transit operating subsidies at the projected levels for 1982, but begin phasing out these subsidies in 1983 with the purpose of ending them by 1985. To cushion the temporary difficulties caused by this phase-out of Federal assistance, the remaining transition funds will be concentrated on those large urban areas that provide the most transit service. Based on our review, we believe it is very important for operational costs to be tied closely to the communities, and to allow those communities to determine transit fares, service levels, labor practices and other issues of local concern. A careful analysis of transit history suggests that the availability of steadily increasing Federal transit funds, along with the Federal regulatory requirements, have contributed to the sharply rising costs of transit operations. By eliminating Federal operating subsidies, local officials will be able to make operational determinations without the additional burden of excessive and costly Federal requirements.

For other UMTA programs, we propose funding for Non-Urban Formula Grants at $75 million, or about the 1981 level, and for Research, Training, and Administration a total of $99 million, an increase of $12 million over the 1981 appropriation to continue progress toward UMTA's goal of more efficient program delivery.

ST. LAWRENCE SEAWAY DEVELOPMENT CORPORATION

For the St. Lawrence Seaway Development Corporation, the FY 1982 budget projects revenues of $11.6 million, program costs of $11.6 million, and debt redemption of $2 million. To meet these obligations, the Corporation plans to utilize $1.5 million from its existing balances and $0.5 million of its unused borrowing authority.

RESEARCH AND SPECIAL PROGRAMS ADMINISTRATION

We are requesting an appropriation of $30 million for the Research and Special Programs Administration for FY 1982. This funding will allow for high priority support for our safety programs in hazardous materials and pipeline transportation.

It represents a savings of $21.7 million from the January budget request, most of which, $17 million, will be realized from termination of Federal participation in the Cooperative Automotive Research Program. We will be relying on market forces to spur basic research in automotive technology leading to increased fuel efficiency--a major goal of this program. We now expect that all five major automobile manufacturers will be able to exceed the 1985 average fuel economy standard of 27.5 miles per gallon on their own initiative to meet competition. We also believe the automobile companies rather than the Federal government are in the best position to decide what kind of research to undertake and when to do so. For these reasons it would be an inappropriate use of Federal funds to continue support of this research effort.

OFFICE OF INSPECTOR GENERAL

For the Office of Inspector General, we are requesting a program level of $24.3 million. This Administration will be looking to the Inspector General to pursue his search for waste, fraud, and abuse by concentrating his focus on high payoff areas of the Department's operations. To help the Inspector

General to continue to vigorously carry out the mandates of his office, we are proposing no actual reduction from current staffing levels through fiscal year 1982.

OFFICE OF THE SECRETARY

For the Office of the Secretary, we are requesting appropriations totalling $49.5 million for FY 1982. This request will allow for continued support of transportation policy direction and coordination and will provide for administrative and housekeeping costs. We expect to accomplish research in support of policy decisions at reduced levels than previously proposed by concentrating on studies and research which support short-to-mid-term policy decisions, and which lead to decreased Federal involvement in State and local transportation policy decisions and areas of private sector responsibilities.

CLOSING REMARKS

In addition to the budgetary and legislative reforms which I have described we are also involved in a thorough examination of our most costly or controversial DOT regulations.

You will recall that in his economic recovery message President Reagan stressed the costs--in higher prices, higher unemployment and lower productivity--of over-regulation. In compliance with the actions he has directed, we are putting our Department's regulations to the acid test. Do their benefits exceed their costs? Do the existing regulations involve the least cost to society or is there an alternative approach that would do the job better? Or, the most crucial test of all: could we live as well, or better, without a particular regulation?

We look upon this as a priority project, with the findings generally due by July. We are also engaged in a longer range look at all the regulations in our Department and in this endeavor we will be soliciting the views of industry and the public.

We look upon our budget request, our legislative proposals and our regulatory review as a "new beginning" toward a more rational, a more equitable and a more effective national transportation policy. We look forward to this Committee's views and contributions, since we share, certainly, a mutual interest in achieving a healthier economy and a more efficient, productive transportation system.

This concludes my prepared statement. We would be glad to respond to the Committee's questions.