

STATEMENT OF BROCK ADAMS, SECRETARY, UNITED STATES DEPARTMENT OF
TRANSPORTATION, BEFORE THE COMMUNITY AND PHYSICAL RESOURCES TASK
FORCE OF THE HOUSE BUDGET COMMITTEE, OCTOBER 18, 1977

Mr. Chairman and Members of the Task Force:

It is a pleasure to have this opportunity to present to you my views on development of transportation policy and an assessment of several important issues that will shape the Federal transportation budget in the years ahead. This Committee provides an especially good forum to discuss some of the tough issues involved in finding ways to finance transportation investments that are equitable, sufficient, and assured. Of course, I support the budget process and the guidance it provides for national priorities and economic direction and I hope we can find ways to resolve and accommodate transportation needs within the framework and constraints of the budgetary system. I will also want to explore with you our approach to the assessment of the Nation's transportation investment needs.

I recently testified before both the House and Senate Public Works Committees on transportation programs generally and the steps we are taking to developing a major set of legislative proposals to revise and reform the present highway and transit grant programs. It is our plan to place this program before the Congress early next year. We are now drafting final proposals for review within the Executive Branch and by the President.

As you know, my colleagues and I in the Department have devoted a great deal of time and effort over the past several months to a major reassessment of Federal assistance programs. I do not wish to repeat here the testimony I have already given to the Public Works Committees, but I do believe it would be useful for perspective to highlight some of the points that I made there.

All of the major grant programs for highways and transit development will have to be reauthorized next year. Action will be required by the following year on airport development and rail programs. This comes at a crucial time in the history of the Nation's transportation system. From the time these programs were conceived, projections of transportation demand, growth in travel, automobile usage, energy usage, all pointed sharply upward. When the Executive Branch and the Congress considered extending the grant programs in the past, the central issue was how much more was required to match the growth curve. But today our transportation forecasts are less certain, the future more cloudy and less bullish. The overriding need to conserve energy, the many steps that are being taken to reverse the steady upward trend of energy consumption, must inevitably impact on the transportation system and the Federal programs that support it. The transportation system consumes 26% of all the energy consumed and more than 50% of all the petroleum. Federal transportation programs must be revised in ways that can more effectively support the Nation's goals.

At the same time, we have become much more sensitive to the environmental impact of transportation programs and the broader impacts that transportation investments have on shaping urban areas for better or for worse. These factors and others converge to oblige us to reexamine our grant programs closely and critically.

Fundamental in this reexamination has been systematic and open discussions of the strengths and weaknesses of our grant programs with those who know them best -- state and local officials and public interest groups throughout the country. Five major themes have recurred in these discussions. These are the need for more flexibility, the desirability of more uniformity in Federal/state matching ratios, the question of what agency is the appropriate grant recipient, the importance of streamlining and consolidating the transportation planning process, and the issue of developing distribution formulas that more accurately reflect transportation needs.

In terms of program substance and direction, we also found a broad consensus supporting changes that encourage early completion of the Interstate Highway System. This monumental -- largest of all -- public works program is drawing to an end and I can say it is my firm intention and that of the Administration to propose adjustments in the way that program is financed to assure that it is finally completed in an orderly and timely manner. We also found, of course, overwhelming support for continuing and strengthening programs in support of mass transit and our proposals will reflect this. Moreover, there is a broad recognition

of the need to focus Federal assistance increasingly on the maintenance and rehabilitation of our existing highway system, particularly the older Interstate highways and on bridges. As the Committee is perhaps aware the Department developed a comprehensive options paper which was disseminated widely in Congress and among interested state and local officials and transportation groups. The response has been gratifying and extremely helpful. Drawing from this wide range of ideas and recommendations, I believe our program will address each of the major issues in surface transportation constructively and I believe in innovative ways.

At the same time, I have to say that the critical and central issue of program levels has not been finally resolved, but they soon will be and they will be reflected in the context of the President's budget for FY 1979. I will return to this subject later, but suffice it here to say that, given this Administration's fiscal objectives and the existing revenue sources supporting Federal transportation programs, I do not envision any substantial overall increase in the Federal transportation account. I fully realize that this central question is a matter of highest interest to the task force. It is to me also. Based on both my budget experience and new perspectives on transportation, I do have some thoughts I would like to share with you on the key policy problem of establishing appropriate funding levels for Federal transportation programs. Broadly, there are two key elements involved in shaping the Federal budget: The need to assess future trends and uncontrollable demands on Federal revenues, and the need to make soundly based judgments of program needs and the extent to which they must be met to achieve national objectives. The requirement of the Congressional Budget

Act for five-year projections is a key and essential element to any rational approach to assessing priorities and resource needs. I support this requirement fully and it is my firm intention to strengthen longer term resource planning in my Department.

Closely related, of course, is the issue of how we deal with the question of needs. I know from my own experience in shaping the Congressional budget that major elements of it, particularly those that comprise so-called entitlement programs -- social security, interest on the debt, and the like -- can be forecast fairly well with the help of economists and a crystal ball. These programs tend to be given first claim on available resources.

At the same time, domestic programs which address a wide range of important national aims on a so-called "discretionary basis" are much more difficult to deal with. We are confronted with assertions and measures of need that far outstrip available resources on any reasonable set of assumptions. Transportation fits into this category. Because of dramatically shifting Federal priorities, transportation programs in fact have comprised a steadily diminishing fraction of the total Federal budget. For example, in 1962, outlays were \$9 billion for natural resources, environment and energy, health, education and manpower, community development, and transportation -- and transportation was 45% of the total. By 1977, outlays for these programs had risen to \$101 billion, of which transportation represented just 15%. Similarly, current five-year projections of the Federal budget show Federal outlays for transportation at a relatively constant dollar amount, while aggregate budget outlays rise approximately 30%. I do not mean to imply here

by any means that transportation is getting short shrift or is unduly constrained. The figures simply highlight the importance of making soundly based assessments of transportation trends and for carefully considering costs in determining the level of Federal assistance necessary to assure that the transportation system can continue to perform effectively. Equally important, it reflects the fact that much of our Federal transportation investment is financed by user taxes which, while assuring a steady flow of revenue, tends to fix program levels not necessarily based on any measures of sound investment opportunity.

This brings me to the concept of the Combined Transportation Account which I have advanced from time to time. I firmly believe that the way both the Executive Branch and the Congress have handled the authorizations for transportation programs has led to many of the imbalances among modes and within modes that we are now trying to correct. The reason for this is that authorizations are handled by separate Committees in differing reauthorization cycles. Revenue legislation that supports these programs are handled by still other Committees and often are still on another time schedule. At no point in the authorization/budget process is the Executive Branch and Congress able to view Federal transportation programs as a whole. I believe that solid progress will be made to remedy this situation in the months ahead in at least two ways: First, at your urging and mine, OMB has agreed to present for the first

time transportation programs of the Federal Government as a separate functional classification. We expect that the Executive budget will also show in a useful way all financing sources that support transportation. Loan guarantees and tax expenditures for transportation will also be presented so that the overall transportation program of the Federal Government can be seen and assessed. Second, I believe that the way we present our surface transportation proposals will provide perspectives -- particularly on highway and transit programs -- of the kind that I believe is necessary for sound decisionmaking.

I want now to discuss briefly how we see the program needs side of transportation. As you well know, in attempting to decide on what program levels are warranted and supportable Congress has mandated all sorts of "needs" studies, not only in transportation but for other program areas as well. I have supported many of these. At the same time, I am also aware that these studies, while conducted conscientiously and in good faith, are often essentially wish lists. "Desires" is perhaps a better characterization than needs. Totals are often so astronomical as to be less than helpful in making the hard decisions and priority tradeoffs in the budget process. The 1972 Highway Needs Study which projected highway investment requirements of over one-half trillion dollars through 1990 is an example of this sort of thing. We are attempting in the Department now to take a new approach to such studies which I believe will be more useful both to Congress and to decisionmakers in the Executive Branch. The Highway Needs Study recently sent to the Congress

is an example of the new approach. Our approach is to focus on policy assumptions and policy alternatives as they relate to differing potential levels of highway investment. Viewing highway conditions and investments in this way, the current report suggests a range of interesting findings and options. For example, if present investment priorities and capacity standards are continued, the report estimates that \$21.8 billion a year in Federal, state, and local highway construction will be required through 1990. This compares with \$12 billion a year now being spent. If, however, program emphasis is changed from increasing capacity to rehabilitating the existing system, the investment needed would be \$19.7 billion a year. Going further, if steps are taken to reduce peak hour traffic by 20% through increased transit usage, staggered work hours, and the like, the annual investment would be some \$14 billion over the period through 1990.

In short, this input/output approach to needs assessment gives us a better fix on what our programs are actually buying and what policy alternatives are available to sustain an adequate system at differing investment levels. I recognize realistically that many people will choose to focus on total engineering need figures, but at a minimum the other plausible alternative policy approaches to acceptable performance levels will be on the table to consider.

Also in the highway area we have recently sent to Congress a needs study on resurfacing, restoration, and rehabilitation requirements on the Interstate System. While it does not present a range of alternatives as the broader Highway Needs Study does, it does clearly describe the nature and magnitude of the growing problem. The study indicates that to

eliminate the current rehabilitation backlog on the Interstate System and to hold it to good standards would require an average investment of some \$950 million per year through 1995.

In the transit area the Department has made no overall assessment of need but we intend to examine whether there is a feasible approach to such an undertaking. For practical purposes, under the present capital program essentially 100% of the Federal share of the investment requirement for bus purchases is being met as well as a major share of the project proposals for improvement and modernization of existing transit systems. With respect to major new heavy rail systems we intend to pursue our basic policy of assessing the merits of project proposals on a case-by-case basis which obliges the sponsor to perform a thorough assessment of alternatives. We will shortly be issuing a formal policy statement of our views on major transit investments and I will be happy to supply the Task Force with copies as soon as it is available. By its very nature, of course, since further transit investments will depend on careful and systematic analyses of alternatives, it is unlikely that firm long-term forecasts of aggregate investment can be reliable or even very useful. At the same time, of course, we have carefully appraised the projects that are in various stages of planning and technical study, and we continue to believe that a Federal investment level for the existing UMTA Section 3 program in the order of \$1.4 to \$1.7 billion per year is appropriate over the next few years. This level will be supplemented by substantial amounts in a number of metropolitan areas with funds derived through the so-called "Interstate transfer" process.

In the aviation area, I recently transmitted an FAA report to Congress giving an assessment of need for new major airports through the Year 2000. The report appraises the outlook on various assumptions regarding GNP and aviation growth, fuel costs, and other factors. It concluded that as many as 10 new airports might be justified but that under realistic assumptions about technology developments, possible environmental problems, and financial priorities of local sponsors, only one to three are likely to materialize. Also, the FAA soon will be publishing a National Airport System Plan which has been under development for many months and has involved extensive work with airport operators. This Plan -- which in a sense is a traditional "needs" study -- will be useful in appraising specific project requests and to give a general picture of potentially useful airport development nationwide. It will be responsive to the statutory mandate, but it does not consider alternative levels of service related to different investment commitments, nor does it explore alternatives for metering demand in ways that might limit new investment. In future versions of the Plan, we intend to make such assessments.

Finally, in the railroad area, the Department is also conducting a study called for by Section 504 of the 4R Act on the capital needs of the railroad industry. This study, which is well along will be completed early next year. It will present an analysis and discussion of various

approaches which government and the industry might take to improve the financial condition of the railroads so that essential improvements can be made. Possible further regulatory changes, management improvements, structural changes, and possible financial assistance alternatives will be covered in the recommendations of the report. A companion study under Section 901 of the 4R Act, to be submitted at the same time, will present a broad examination of the Nation's rail system, its problems, and the issues it raises for national transportation policy. These studies of a private sector industry are not precisely analogous to those that are discussed earlier, but they will be extremely important in gaining a better understanding of the railroad industry and what the Federal role should be with respect to it.

I want to turn now to discuss briefly some of the issues relating to financing Federal transportation programs in the future. Demands on the spending side of the budget are virtually limitless but as we all know the revenue side is fixed within quite predictable limits. I support the President's budget objectives and I want to help him to achieve them. While I am fully aware that there are unmet transportation investment opportunities, I frankly do not see major growth in transportation programs without new funding sources. That is why I strongly supported the use of some of the energy taxes, which are clearly related to transportation, for helping to meet increasing need for transportation investment, and to provide a continuing, sure source of financing. I still believe that this presents a real opportunity and challenge for the Congress.

Moreover, the Administration and the Department are formally committed to the concept of having users supply the revenues for transportation programs wherever possible and practicable. That is why I have strongly advocated waterways user charges. Passage of that legislation by the House last week was an important milestone. While user charges are a sound approach in equity and as a means for making beneficiaries of Federal programs sensitive to their costs, it is also important that charges are assessed in ways that are perceived to be related to the benefits derived. We now have underway in the Department cost allocation studies for highways and for the Federal airways system. When completed, these studies should give guidance on how user taxes in those areas might be equitably adjusted. User charges have the merit of being easily understood. They are employed, as you know, extensively at the state level to support transportation. They are widely accepted by the public, and I believe they will continue to be accepted so long as the payers and users can see that the money is spent prudently for useful purposes.

That is why, of course, the Highway Trust Fund and more recently the Airport/Airway Trust Fund have been so successful in achieving their purposes. While there are many critics of some aspects of the Interstate Highway System, there is no question that the vast majority of the public properly perceive it as a successful and beneficial program. Without the Highway Trust Fund, I think you would agree that it would never be as far along as it is.

The major attribute of user-financed trust funds, of course, is that they give a stable and predictable revenue source which, together with long-term authorizations, provide the assurance and planning lead time required for large, costly, and complex transportation projects. At the same time, those same trust fund characteristics tend to reduce budget controllability while providing funding levels which are not necessarily commensurate with program needs.

The importance of longer term Federal financial commitments has been brought home to me time and again since I assumed by job as Secretary of Transportation. I am well aware that this view in some respects is at odds with some of the concerns I shared when my attention was focused on the Congressional budget and how to manage it. I have concluded, however, that the state and local governments have a legitimate need for assurance of transportation assistance as a basis for gaining public support for important transportation projects.

While the funding and authorization mechanisms for Federal highway and airport programs provide that kind of assurance, it is important that we recognize the same need in the transit area. There is no way to get objective assessments made by state and local governments of intermodal transportation alternatives if funding assistance is more assured for one mode than for another, or for that matter when the matching share for one is different from another. You recall that the major mass transit authorization act in 1974 made \$11.8 billion in contract authority available as a lump sum to cover the six years through 1980. The program has been

working off that authorization ever since. This type of authorization, in the absence of a trust fund, is of course no longer allowed by the Congressional Budget Act. Instead, multi-year appropriation authorizations, coupled with multi-year budget authority, is the approach that I have proposed before both House and Senate Committees in testimony on transit legislation.

This funding approach is consistent with the Budget Act and would go a long way toward providing the assurances needed for major transit investments. In my transit testimony, I suggested a rolling five-year authorization cycle, in which appropriations would be made at least one year in advance. Every two years an authorization level would be recommended for the following five years based on continuing replacement and modernization projects, construction schedules of projects underway, and estimates of new program needs. Each year an advance appropriation would be sought for the following year. This would provide a basis for advanced planning without unduly compromising Congressional fiscal options. There are, of course, variants of this approach which could be considered, including the potential of a trust fund approach if a revenue source is available. In any event, I firmly believe that we cannot duck with promises the need for some reasonable longer term commitment for Federal assistance on major projects.

The problem of transportation financing is being fully explored by the Administration in the context of the development of its proposals for the next highway/transit authorization legislation.

I intend to work with the Congressional Committees involved, particularly in the development of our new legislative program, to find sound solutions for this and the other issues that I have discussed with you today.

I appreciate this opportunity to share my views with you and would be happy to answer any of your questions.

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