107th Congress, 1st Session: No. 20 July 23, 2001

INFORMED BUDGETEER: PLANES, TRAINS, AND AUTOMOBILES

THE *BULLETIN'S* TRANSPORTATION ISSUE

As the 2002 Transportation Appropriations bill is currently deliberated on the floor of the Senate, and as summer vacationers take to congested highways, railways, and airways, the *Bulletin* takes this opportunity to review the most important transportation-related budgetary and legislative issues. For budgeteers interested in the big picture, federal spending on transportation activities accounted for 30% of all levels of government transportation spending – $130 billion in 1995
(the most recent data published by the Department of Transportation).

Of this federal amount (about $40 billion), spending on highways accounted for half, with about 25 percent for air transportation, and the last one-quarter spread over transit, rail, and water. Given the gains in transportation spending resulting from enactment of TEA-21 in 1998 and AIR-21 in 2000 (see discussion below), these absolute amounts, as well as percentages, have most likely increased. Yet pressures remain to spend still more. Read on.

SUMMARY OF TRANSPORTATION APPROPRIATIONS

- The Senate Appropriations Committee approved its version of the FY 2002 Transportation appropriations bill on July 12th. It included $15.6 billion (compared to $17.0 billion in 2001) in general purpose discretionary budget authority (BA) (as well as $1.3 billion in mass transit BA, which is not counted against the discretionary caps). According to CBO, the bill would result in outlays of $52.9 billion (compared to $48.5 billion in 2001), including outlays from obligation limitations set for certain highway, mass transit and aviation programs.

- The House passed its version of the bill on June 26th. It included $14.9 billion in discretionary BA (plus $1.3 billion in mass transit BA) and $52.5 billion in outlays.

- Both the House-passed and Senate-reported appropriation bills fully fund the TEA-21 "guaranteed" level of $32.5 billion for highways and $6.8 billion for mass transit. TEA-21 is the bill enacted in 1998 that created new discretionary categories for highways and mass transit with outlays caps through 2003. The Senate-reported bill actually exceeds the highway "guarantee" by $200 million and the transit "guarantee" by $100 million.

- Both the House and Senate bill also meet the authorized levels for the two Federal Aviation Administration programs "protected" under AIR-21. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, enacted in 2000, created a point of order against appropriating amounts less than authorised in the bill for two programs (the Airport Improvement Program and Facilities and Equipment).

Key Programs in 2002 Transportation Appropriations
(Budgetary Resources, $ in Billions)

	2001 Level[a]	House Passed	Senate Reported	TEA or AIR 21 Level
TEA 21 Highway	30.2	32.3	32.5	32.3
TEA 21 Transit	6.3	6.7	6.8	6.7
AIR 21	5.9	6.2	6.2	6.2
"Protected"[b]	6.5	6.9	6.9	6.9
FAA Operations[c]	4.6	5.1	5.2	NA
Coast Guard	*	*	0.1	NA
Pipeline Safety	0.5	0.5	0.5	NA
Amtrak				

Source: SBC
a. 2001 levels do not reflect the 0.22% across the board cut.
b. AIR 21 "protected" accounts include Airport Improvement Program (AIP) and Facilities & Equipment (F&E).
c. FAA Operations not an AIR 21 "protected" account.
* less than $50 million

COMING DOWN THE TRACK

NEW FINANCIAL INSTRUMENT - AMTRAK BONDS?

- In the 106th Congress, Amtrak and its congressional supporters sought, but failed to achieve, the passage of the High Speed Rail Investment Act (S. 1900, H.R. 3700). Under the bill, Amtrak would have been allowed to raise up to $10 billion over ten years by issuing 20-year bonds for capital improvements. The same bill has been re-introduced in the 107th Congress (S. 250, H.R. 2329), except that it would allow Amtrak to raise up to $12 billion over ten years.

- The proposed Amtrak bonds would not pay interest. Instead, the federal government would provide a federal income tax credit to Amtrak bondholders. The Joint Committee on Taxation estimated that S. 1900 would result in a $3.3 billion 10-year revenue loss; S. 250 is expected to cost $4.3 billion over ten years.

- In order for a project to qualify for Amtrak bond financing, the state where the project is located would have to contribute at least 20 percent of the project's cost. States would be allowed to use federal funds, including amounts from the Highway Trust Fund, for their contributions, as well as the value of land contributed for a right-of-way.

- Repayment of bond principal would come from the investment earnings on the state contributions and the earnings on bond proceeds, which are held in a trust account by an independent trustee. If those earnings on the trust account are not sufficient, then Amtrak would be responsible for repayment of bond principal. This raises the question as to whether bondholders would attempt to recover losses from the federal government should Amtrak prove unable to repay the bonds.

- GAO issued a report July 16, which, among other recommendations, suggested that a provision be added to the bill "stating that the federal government does not explicitly or implicitly guarantee repayment of bond principal."

- GAO also estimated that the cost to the federal government of this legislation over thirty years would amount to between $16.6 billion and $19.1 billion dollars in nominal terms and between $7.7 billion and $10 billion in present value terms. GAO estimated that the cost of providing equivalent annual appropriations to be between $7.3 billion and $8.2 billion in present value terms.

- GAO points out that the bond proceeds of a program this size would only meet a fraction of the capital needs of federally designated high-speed rail corridors, which Amtrak estimates to be between $50 billion and $70 billion over 20 years.

- S. 250 has 56 co-sponsors. Two hearings on the issue have been scheduled and then cancelled: a May 22 hearing before the Commerce Committee was cancelled because of scheduling problems and a July 18 hearing before the Finance Committee was cancelled at the request of the bill's proponents. It is unclear at this time whether those hearings will be rescheduled or whether a markup will be scheduled.

RAILROAD RETIREMENT AND SOCIAL SECURITY

- If you haven't read OMB Circular A-11 lately – the impossibly dense document on budget preparation that only budgeteers could love – you might not understand why investing federal trust fund assets in the stock market would cause an increase in outlays and a corresponding decrease in the surplus.

- As reviewed in detail in the February 20th *Budget Bulletin*, a federal trust fund is an accounting mechanism that links collections dedicated to a specific fund with spending for a specific purpose. If a trust fund runs a surplus, then the accumulated balances are invested in special, nonmarketable U.S. Treasury securities, or IOUs, at an annual rate of at least 5%.

- Contrary to what many believe, the balances invested in U.S. Treasury securities do not sit in a bank. As ever, the government uses the trust fund surpluses to pay down debt held by the public in a time of unified budget surpluses, or to spend on other programs during a time of deficits. If a fund ever reaches the point where outgoing payments exceed current receipts, the Treasury must obtain cash to pay back the IOUs through some combination of increased taxes, spending cuts, increased borrowing from the public, or retiring less debt.

- Some of the trust funds established to provide retirement income for workers are facing huge unfunded liabilities. For example the unfunded liability for Social Security is about $8.7 trillion, and the unfunded liability for the much smaller Railroad Retirement system is about $40 billion. While both systems are running annual surpluses, some propose investing trust fund balances in the equities markets to shore up these systems for the future.

- Because of the guidance of A-11, proposals to privately invest trust fund balances (such as HR 1140, for the Railroad Retirement system) currently are estimated to increase outlays. The CBO cost estimate of HR.1140 states: "we treat an investment in non-U.S. securities (equity or debt securities) as a purchase of an asset. You must record an obligation and an outlay for the purchase in an amount equal to the purchase price." Selling off such an investment would conversely result in an offsetting receipt (a negative outlay).

- This budgetary treatment is based on the notion that when the government sends money to the private sector, it is an outlay. But, there are those who argue that if the government invests money in the stock market, the money is not really "sent" to the private sector. They suggest the purchase of financial assets should be treated as an investment, or a means of financing, rather than an outlay.

- There are two problems with this suggestion. First, the federal government does not have a capital budget. It currently treats other investments – from infrastructure and R&D, to education and training–as an outlay. There is no consensus to treat financial investments any differently. Second, the purchase of financial assets cannot be viewed in isolation from the rest of the budget. Under current law, the Railroad Retirement Trust Fund and the Social Security Trust Fund consist entirely of those special, nonmarketable U.S. Treasury securities. Using the budget surplus to cash-in these bonds and buy stock means the government will have less cash to pay off the public debt. That means government interest payments to the public will be higher.

- If purchasing private assets were not treated as an outlay, it would likely open the door for massive government intervention in the capital markets. Our current path of paying down the debt would be reversed with new increases in federal borrowing.

- To date, there is no evidence that OMB plans to change the A-11 guidance on the budgetary treatment of financial or physical assets. As a result, CBO estimates that if enacted, HR 1140 would increase outlays by $15.8 billion. Likewise, proposals authorizing the government to invest Social Security Trust Fund balances in the stock or corporate bond markets would increase outlays as well in the year the investment occurred.

THE LITTLE ENGINES THAT COULDN'T

- H.R. 1020, the Railroad Track Modernization Act of 2001, would authorize the Department of Transportation (DOT) to issue $1.05 billion in grants (if provided in a future appropriation bill) to states and smaller (class II and class III) railroads for the rehabilitation and improvement of tracks and related strictures.

- These grants would be used primarily to upgrade tracks so they could accommodate heavier 286,000-pound rail cars, increasingly used by the largest railroads. These heavier cars put significant strains on rail infrastructure. Many small rail lines can only handle these cars only with difficulties, including slow speeds, greater wear and tear, and possible derailment. Others are unable to handle these heavier cars at all. To remain integrated in the national rail network these smaller railroad lines will require upgrades.

- A study commissioned by the American Short Line and Regional Railroad Association found that it would cost about $6.9 billion to upgrade *all* of the nations tracks and bridges. Funding for infrastructure upgrades above the $1.05 billion in grants could come from the railroads, states, and the Railroad Rehabilitation and Improvement Financing program. Authorized in TEA-21, RRIF can provide up to $3.5 billion at any time in direct loans and loan guarantees for rail capital improvements like these upgrades.

- Proponents of the bill argue that smaller railroads can't borrow or generate enough profits to invest in such upgrades, and therefore need assistance. Without such assistance, it is argued, many of these rail lines would be abandoned, leaving communities–especially in rural areas–cut off from the national rail network.

- H.R. 1020 was reported by the House Committee on Transportation and Infrastructure on June 12th. It currently has 100 cosponsors in the House. Supporters plan to introduce a companion bill in the Senate shortly.

BUDGET QUIZ

Question: Why does the $1.35 billion provided for mass transit BA in the 2002 Transportation Appropriations bill not count against the discretionary cap for budgetary enforcement and sequestration purposes?

Answer: When TEA-21 carved out new, separate categories of spending for highways and mass transit beginning in 1999, spending limits (or caps) were set for outlays only, because most of the budgetary resources provided to generate outlays in those programs come from obligation limitations, not budget authority. However, the authors of TEA-21 forgot that some mass transit programs actually needed appropriations of budget authority to produce associated outlays and did not set a cap on such budget authority.

When it came time (after enactment of TEA-21) to count mass transit BA and outlays in the first Transportation bill against the new caps, it was discovered there was no mass transit BA cap against which one could measure the BA that had to be provided to drive the outlays. So while OMB, CBO, and the Budget Committees did *record* the mass transit appropriation as BA, they did not *count it against* any cap, leaving enforcement to be levied through the only mechanism provided by law – the mass transit outlay cap.

This consensus practice has been in effect since 1998, which makes the current Administration's complaint (Statement of Administration Policy, S. 1178 Dept. of Transportation Appropriations Bill, FY2002) that the "Senate Committee exempted $1.35 billion...from the overall limit of $661 billion...as backdoor spending" very curious indeed. But the Administration does not seem to appreciate the difference between its desire for an "overall limit" and the application of law to its proposed discretionary BEA cap of $660.6 billion, which–even under the Administration's request–would, by law, be augmented by appropriations for CDRs, adoption assistance, and EITC and, by interpretation of law, would not have mass transit BA counted against it. Further, the Administration thus far has failed to make the necessary legislative proposal to correct the error of TEA-21 and formally create the mass transit BA cap to accompany the mass transit outlay cap that has proved sufficient to enforce TEA-21.

QUOTE OF NOTE

"The budget outlook does depend on productivity increasing at a pace faster than it did in the 20years prior to 1995. I see no evidence to suggest that that has changed, that is, that the numbers being used by OMB or CBO for long term projections have been compromised in any significant way."

Alan Greenspan, Chairman
Board of Governors of the Federal Reserve System
House Banking and Financial Services Committee
July 18, 2001