TEXAS DEPARTMENT OF TRANSPORTATION

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The Federal Flyer

President Bush Unveils FY 2003 Budget

Negative RABA Leads to $8.6 Billion Cut in Highway Funding

On February 4, 2002, President **George W. Bush** released the full details of his budget proposals for fiscal year 2003. The budget would fund the U.S. Department of Transportation (USDOT) at about $59.3 billion in FY 2003, compared to $63.6 billion enacted in the FY 2002 Appropriations Act for the USDOT and Related Agencies. The significant drop in the transportation budget is reflected in the first-ever calculations of negative Revenue Aligned Budget Authority (RABA), which will reduce highway funding some $8.6 billion below the FY 2002 spending level.

In This Issue

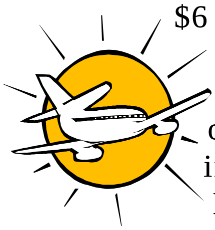
Despite the dramatic cuts to the highway programs, the budget honors TEA 21 and AIR 21 and provides increases for the transit, highway safety, and aviation programs. In addition, the budget proposes significant increases in funding for the new Transportation Security Administration and the security operations of the United States Coast Guard. As proposed in his first budget last year, President Bush includes recommendations for new user fees for railroad safety and hazardous materials transportation.

Highways - The budget follows the spending guarantees set in the Transportation Equity Act for the 21st Century (TEA 21). However, because the forecasts for FY 2003 gas tax revenues into the Highway Trust Fund are expected to be lower than projected in TEA 21 and because actual FY 2001 revenues came in significantly lower than projected when FY 2001 RABA funds were distributed, the FY 2003 budget will require the first ever negative RABA adjustment to highway obligation authority. This negative RABA will reduce highway program funding below the TEA 21 authorized level to only $23.205 billion for FY 2003. The FY 2002 spending level was set by Congress at $31.8 billion. As a result, the highway program will see a cut of some $8.6 billion in one year. When combined with some $932 million in FY 2003 highway obligations exempt from the limit, the total FHWA budget comes to $24.1 billion, down $8.8 billion from last year. The estimated impact to Texas highway funding is a cut of approximately $600 million compared to the FY 2002 funding level.

Many observers in Congress and in the transportation community are questioning these national gas tax revenue figures in light of state reports that gas tax revenues, while they might be growing at a slower rate, have not indeed declined as drastically as the USDOT figures predict and in fact continue to grow, even in the slow economy. (See related article on page 3.).

Within the highway program budget, the President proposes to set aside $47 million of the funds available in the National Corridor Planning and Development and Coordinated Border Infrastructure discretionary programs for the construction of state safety inspection facilities along the U.S./Mexico border. This proposal continues the President's commitment to preparing the border states to adequately inspect Mexican motor carriers entering the United States in advance of providing expanded U.S. operating authority for Mexican trucks later this year. In FY 2002, the President proposed and Congress supported a $56 million set-aside for this purpose.

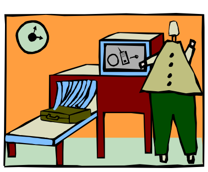
The budget proposes to focus the $93 million in FY 2003 ITS Deployment Program funds on ITS technologies that enhance the security of our surface transportation systems. In addition, $6 million in highway program funds would be available for environmental streamlining activities.



Aviation - The budget would spend $14.01 billion on the FAA in FY 2003. FAA operations ($7.482 billion), facilities and equipment ($3.0 billion), and airport improvement grants ($3.4 billion) are all at the levels set by the Aviation Investment and Reform Act of the 21st Century (AIR 21).

Mass transit - The budget follows the TEA 21 guidelines and provides $7.23 billion for the Federal Transit Administration (FTA) in FY 2003, an increase of $356 million over last year. Within the formula grants programs, funds are provided as follows: Clean Fuels ($50 million); Elderly and Disabled ($87 million); Nonurbanized ($231 million); Urban ($3.308 billion); and Over-the-road Buses ($7 million). For transit capital grants, the budget proposes funding of $607 million for bus and bus facilities and $1.214 billion each for the Fixed Guideway Modernization and New Starts programs. In addition, the budget would fund the Job Access and Reverse Commute Program at $150 million in FY 2003. Finally, the budget again includes $145 million to fund the President's New Freedom Initiative, to reduce barriers for persons with disabilities to enter the workforce and to find innovative solutions to transportation barrier faced by persons with disabilities.

Coast Guard - Once again, the Coast Guard looks to be a big winner in the FY 2003 budget cycle, slated to receive $7.1 billion, a 28 percent increase over last year's levels. Half of the increase would be a lump-sum payment to the military retirement fund and the other half would go to expand Coast Guard operations and update equipment.



Transportation Security Administration - The newly created agency would receive $4.8 billion, more than triple the FY 2002 level, to hire air marshals and baggage screeners and to provide funding for explosives detection systems. About $2.3 billion of the total would be generated by the newly-imposed aviation passenger user fees.

Railroads - The Federal Railroad Administration (FRA) will see a reduction in its budget under the President's proposal. The FRA's safety and operations programs would increase by about $8 million over last year, but the research and development program would see a slight cut and the Next Generation High Speed Rail program budget would be reduced by close to thirty percent. The budget would fund Amtrak at the exact same level as last year ($521 million). However, in his budget, President Bush states that "the Administration believes that intercity passenger train service should be founded on a partnership between the Federal Government, the States, and the private sector." The $521 million request for Amtrak serves as a placeholder pending the development of a new paradigm for intercity passenger rail service.

Appropriations Schedule - The House Appropriations Committee will begin its schedule of hearings on the USDOT budget for FY 2003 this week, with the final hearing set for April 17. It should mark up its bill reflecting (or rejecting) these budget recommendations shortly after that. The Senate Appropriations Committee has not yet announced its hearings schedule.

House, Senate Leaders Challenge Highway Funding Cuts

Members Looking for Solutions to Negative RABA Impacts

A group of United States Senators is seeking to force a Senate vote on increasing funding for Federal-aid highways beyond what is proposed in the Bush Administration's new budget to ameliorate the effects of so-called "negative RABA." But questions remain within the Senate and within the highway community regarding the appropriate tactics involved — how much money to ask for, and which bill to seek to amend.

Highway program advocate **Max Baucus** (D - Montana), **chairman of the Senate Finance Committee**, filed an amendment to the Senate economic stimulus bill on January 24 that would add $5 billion in highway funding during fiscal year 2003. This is approximately the amount of negative RABA that is deducted from the highway program in the FY 2003 budget. However, **Senate Majority Leader Tom Daschle** (D - South Dakota) pulled the stimulus package this week, leaving highway advocates looking for a new legislative vehicle outside the appropriation process to find a fix. Senators are keenly aware that the final highway spending number enacted for FY 2003 will become the budgetary baseline for TEA 21 reauthorization, so a high FY 2003 number is essential for the long-term health of the program.

Some in the highway industry want to press Congress for a full $8.5 billion to restore highway funding to FY 2002 levels, arguing that this level of funding is essential to prevent job losses. They also note that asking for the full amount is a good idea as a starting point for negotiations. Others in the industry worry that asking for $8.5 billion would make the industry look greedy and would damage efforts to preserve beneficial budgetary provisions for highways and transit programs in the reauthorization of TEA 21 next year. They fear that opponents of the highway program would point to the request as proof of the inability of the industry to live within the means provided by the Highway Trust Fund.

On the other side of Capitol Hill, the bipartisan leadership of the **House Committee on Transportation and Infrastructure** issued the following joint statement regarding the cuts in highway funding necessitated by the RABA formula:

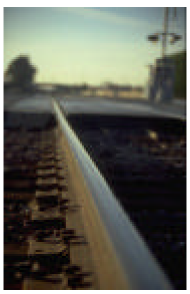
> *"...The Nation cannot afford this drastic $8.5 billion cut in our states' highway investments in these economic times. This cut could result in hundreds of thousands of Americans being thrown out of work when both sides of the aisle agree that we need more family-wage jobs. When Congress, under the bipartisan leadership of this Committee, enacted the Transportation Equity Act for the 21st Century (TEA 21), we worked together to unlock the enormous balances in the Highway Trust Fund to create good-paying construction jobs and build our Nation's transportation infrastructure. ... The Committee, on a bipartisan basis, will work to ensure that highway investments continue to play a critical role in helping our Nation's economy in these tough times. To begin this process, we have asked the General Accounting Office to assess the validity of the model, calculation, and assumptions by the Department of Treasury and the Office of Management and Budget to develop these budget figures. In addition, we will continue to work to further the landmark principle of TEA 21 - to unlock the Highway Trust Fund. At a time when we face a Budget request that cuts the program more than $9 billion in one year, we are sitting on a Highway Trust Fund (Highway Account) balance of $20 billion. Our goal is to unlock as much of that build up as possible."*

Amtrak Faces Uncertain Future

Route Cuts, Restructuring Plans Proposed

Amtrak, the nation's intercity passenger rail service corporation, announced February 1 that it will cut $185 million in expenses and lay off 1,000 workers in order to keep operating in fiscal year 2002. At the same time, the passenger rail company warned that without a $1.2 billion cash infusion, it will suspend its unprofitable long-distance train service in October.

These announcements come one week after the USDOT Inspector General found that Amtrak lost $1.1 billion in fiscal year 2001 and is no closer to operational self-sufficiency now than it was in 1997. In his annual report on Amtrak, the Inspector General found that the company's annual capital needs are estimated at between $1.0 billion and $1.5 billion.



Long-Distance Rail Service Cuts Suggested. **George Warrington, Amtrak's president and chief executive officer**, said that continued long-distance train operations will be contingent on the fiscal year 2003 appropriations Amtrak receives from Congress. He said that the uncertainty of continued appropriations force Amtrak to give the required 180-day notice that on March 29 the company will post a contingency notice on the entire long-distance network. "To manage today's system ... the Congress must appropriate $1.2 billion or substantial route cuts will be necessary at the beginning of the next fiscal year," the ***Bureau of National Affairs*** quotes Warrington as stating. "We cannot be all things to all people; we have to manage within our budget." Warrington said that long-distance rail service "always has been and always will be unprofitable services deemed to be in the public interest as a public service connecting communities."

Eighteen overnight trains that run mostly throughout the West and Midwest are likely to be affected. Amtrak has not released the list of trains being considered for elimination. However, profitable train service in the Northeast Corridor and along the West Coast would continue to run as in the past.

Hearings Scheduled on Amtrak's Future. The House Committee on Transportation and Infrastructure will conduct oversight hearings this year. The first hearing will take place on February 14, where members of the Amtrak Reform Council will outline the Council's restructuring plan for Amtrak. The Council voted on January 11 to recommend to Congress that the quasi-governmental corporation be split up, with another entity taking responsibility for rail infrastructure in the busy (and profitable) Northeast Corridor.

However, predicting what Congress will do with Amtrak is a risky business. Amtrak has both supporters and detractors within the Congress. This year will see major discussions on the corporation's future. Members of Congress will propose additional funding for Amtrak, while others will try to enact the Amtrak Reform Council's recommendations.

The ***Federal Flyer*** is a publication of the TxDOT Legislative Affairs Office. It is intended to provide up-to-date information on major legislative activities in the 107th Congress for the management of the Texas Department of Transportation, state leaders, and others interested in Texas transportation issues. This report will also feature key activities in the national transportation community. Sources include news services and staff reports.

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