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BEFORE THE SUBCOMMITTEE ON SURFACE TRANSPORTATION OF THE
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES, ON WEDNESDAY, FEBRUARY 19, 1986

Mr. Chairman, and distinguished members of the Subcommittee, I am pleased to have this opportunity to appear before you to discuss our budget proposal for fiscal year 1987. I will touch upon our legislative proposal, but will not have the time to discuss it at length. I hope to have an opportunity later to discuss UMTA's reauthorization with you in greater detail.

Last year, Mr. Chairman, I came before you to argue that we can no longer afford to spend tax dollars from the General Fund of the Treasury of the United States to fund programs that accrue benefits locally, programs that are a local responsibility. In light of the Gramm-Rudman-Hollings legislation, this message becomes even more urgent. In order to meet the deficit targets of that historic legislation, we believe the Federal role in transit will have to be diminished.

Mass transit has suffered from a situation that Federal dollars alone cannot solve: capital cost overruns (like the Detroit People Mover), rising operating costs, stagnant ridership and an inability to adjust to changing patterns of urban development.

The budget cuts that we believe are necessary represent a challenge to State and local officials to uncover the solutions to these problems, many of which are right at their doorstep and can no longer be neglected. This shift in responsibility is particularly appropriate at a time when the States are in sounder fiscal condition than the Federal government. Moreover, local governments should rise to the challenge by dedicating funding to transit where transit is a local priority.

In addition to diminishing the Federal role in transit, we must begin delivering the one cent of the Federal gas tax that is dedicated to transit in a manner that encourages efficient use of that limited resource.

The Administration's fiscal year 1987 budget proposal for UMTA and the accompanying proposed reauthorizing legislation address two critical issues: funding levels and the appropriate mechanism to deliver those funds.

First, the UMTA program would be funded entirely from the Highway Trust Fund. The fiscal year 1987 budget request is for $1.22 billion, the projected average annual receipts into the Mass Transit Account for the next four years exclusive of interest. Because it would no longer expend general revenues, the combined effect of the penny tax and the UMTA program would no longer add to the Federal deficit. Moreover, limiting transit funding to the revenues received in the Mass Transit Account is consistent with the Administration's goal of funding Federal transportation assistance primarily through user fees.

Second, the current structure of the UMTA and FHWA programs leads to duplication, lack of coordination and distorted decisionmaking. Projects are often selected based on availability of funds rather than on transportation needs. Therefore, we propose to restructure the UMTA program as part of a highway and transit block grant program that has an urban mobility component and a State component. For the first time since the inception of the UMTA program, State and local governments would be able to base transportation decisions on urban and State mobility needs, rather than choosing projects in order to maximize the availability of Federal funding. We believe this flexibility, coupled with the need to conserve resources, will encourage State and local officials to carefully evaluate their transportation requirements and only proceed with needed and cost-effective projects.

The transit industry's monopoly structure provides no market pressures to ensure maximum efficiency and productivity. To further encourage the cost-efficient use of resources and assure flexible responses to changing transportation needs, our proposal calls for greater participation by the private sector and more extensive competition in the provision of services. Under the proposal, private operators would be involved at the earliest stages of transportation planning and would have to receive fair consideration as service providers. The introduction of greater competition through competitive bidding of service and maintenance should also significantly reduce operating costs and the need for Federal subsidies, as it has already in Dallas and Phoenix. Private sector involvement in capital infrastructure development through direct private investment or public/private joint ventures in new rail systems, rail extensions, and station modernization, also offers opportunity for considerable savings, thereby greatly reducing reliance on Federal assistance. New York, Denver and Washington are currently enjoying substantial benefits from this approach. Our legislative proposal would also greatly increase the protections provided to private providers of charter bus service from unfair competition by the public sector. These private sector initiatives are a significant feature of this Administration's policy and I would hope to be able to discuss them with you in greater detail at a later date.

Let me now turn to the specific accounts in our budget proposal.

Discretionary Grants

We propose to eliminate the discretionary grant account. These funds have reached only a few cities. In fact, three-fourths of this account, the rail modernization and new starts funds -- by far the largest portion of the discretionary grants account -- go to only 20 cities. The Administration believes that this is not an equitable distribution of the nationally collected gasoline tax. Instead, receipts of the tax should be allocated nationally, so that, to the greatest degree possible, all payers of this tax may benefit from it. Moreover, regardless of the source of funding, there are inherent problems in allocating discretionary funds. Congress' growing tendency to earmark these funds has created enormous political pressure to fund inefficient and unreasonably expensive systems. In other cases, funds meant for rehabilitating existing rail lines have been used for extensions that cannot be completed. So long as Federal funding is available to pay for 80 per cent of the cost of new fixed rail projects, local officials will be tempted to build or extend systems that they would not undertake with their own local tax dollars. This is inappropriate. We believe that the decision to build a new fixed rail system should be governed by local political and fiscal constraints. Such a decision should not be influenced by the possibility of funding from a Federal discretionary program.

After attempting to work with Congress to ensure that the discretionary funds would be used in a cost-effective manner, the Administration has concluded that the only way to prevent the squandering of this resource is to no longer make it available on a discretionary basis. Therefore, we propose elimination of the discretionary account. Furthermore, in order to preclude any additional costs to the Federal Government in future years under this category, we propose to rescind all outstanding new starts funds for fiscal years 1984, 1985 and 1986, except for those funds already committed to full funding contracts in Portland and Santa Clara. The total amount proposed for rescission is $521.3

million. This represents earmarking for nine new start projects. If these funds are not rescinded, the projects they would support could ultimately impose a total cost of more than $4 billion on the Federal government. I cannot overemphasize how costly these projects would be and how imperative it is in this time of deficit crisis that localities decide whether they can develop community support and local funding for these projects.

Formula Funds

Under our legislative proposal both the funding source and the delivery mechanism for transit funds would be changed. General revenues would no longer be used to fund transit projects. Instead, funds from the Mass Transit Account -- as well as certain funds from the Highway Account -- of the Highway Trust Fund would be the sole source of funding for a combined transit and highway block grant program.

Under the new program, funds would be set aside from the Mass Transit Account for UMTA's administrative expenses, the research, training, and human resources program, planning, and the elderly and handicapped program. The remaining Mass Transit Account funds, approximately $1.1 billion, would comprise UMTA's contribution to the block grant program and would be apportioned to the States for use on eligible transit and highway projects. Rather than requiring detailed Federal review before releasing the funds as grants, UMTA and FHWA would receive assurances from the

States that they would comply with minimal Federal requirements. Once those assurances were received, we would obligate the funds. We would conduct audits to verify that the assurances had in fact been complied with.

Under our legislative proposal, funds from the Mass Transit Account would be apportioned to the States on the basis of the existing section 9A and section 18 formulas. The States would have to make funds attributable under the 9A formula to urbanized areas of 200,000 in population or more available for expenditure in those areas. The States could spend all other Mass Transit Account funds apportioned to them at their discretion for capital highway or transit projects in accordance with their transportation needs and could use up to the amount provided in 1985 for rural and small urban operation needs. Under the Highway Account component of the block grant program, the States would have to make approximately $540 million available to urbanized areas of 200,000 or more in population. The remainder would be available to the States on the basis of existing urban, secondary, and bridge formulas for use on either transit or highway projects anywhere in the States.

Funds would be available for capital assistance in all areas and for operating assistance only in areas under 200,000. The Administration maintains its position that operating costs are driven by purely local policies and should be paid for at the local level. However, given the level of dependence on Federal operating assitance claimed by the small urbanized and rural areas, we concluded that it would be appropriate to allow some level of operating assistance for those areas in our legislation. Operating assistance would be limited, however, to the amounts that were available to the small urbanized and rural areas for operating assistance in fiscal year 1985. The Federal share would be 50 percent.

Recognizing the importance of maintenance, we have also proposed expanding the definition of eligible transit capital items for all recipients to include "tires, materials, and supplies," items that currently are treated as operating expenses. By bringing these into the capital program we will ease the effect of the operating assistance cut and also encourage recipients to properly maintain their capital investments.

As part of restructuring the UMTA program into a combined transit and highway block grant program, we are proposing that the local share for capital projects be set at no less than 25 per cent. This change will present a "level playing field" between transit and highway projects. In addition, this level of local share will encourage better capital utilization by the States.

Elderly and Handicapped Program

Our fiscal year 1987 budget proposal would continue funding for the elderly and handicapped program. In fact, the level we have requested, $35 million, is slightly higher than the fiscal year 1986 level. We continue to have a strong commitment to the elderly and handicapped program, which provides assistance to private non-profit corporations and associations for the specific purpose of assisting them in providing transportation services meeting the special needs of elderly and handicapped persons under section 16(b)(2) of the UMT Act. Its great value has been recognized at the Federal, State, and local levels. Under the proposal, the funds would be distributed to the States on the basis of an adminstrative formula, as is currently done.

Planning

Our fiscal year 1987 budget proposal includes $30.5 million for planning. These funds will be distributed to State and local officials on the basis of an administrative formula, as is currently done.

Interstate Transfer Grants-Transit

The Administration proposes to discontinue funding Interstate transit substitution projects from the general funds and to fund them with revenues from the Highway Trust Fund. We believe that this proposed funding arrangement is more in line with the original intent of the Interstate Transfer program and puts substitute transit and highway projects on the same basis. It is also more in line with our legislative proposal. Funding all substitute projects directly from the source that would have otherwise funded the withdrawn Interstate segments is more appropriate than separately funding substitute transit projects from the General Fund. This will support deficit reduction efforts, while continued funding from the General Fund would add to the Federal deficit.

## Research and Training; Administration

For fiscal year 1987, the Administration proposes to fund $19.5 million from the Mass Transit Account for this activity. No new funds are requested from the General Fund.

We are requesting that up to $26.8 million be made available from the Mass Transit Account for UMTA's administrative expenses. This would parallel the treatment of the Federal Highway Adminnistration's administrative expenses, which come from the Highway Account of the Highway Trust Fund. The reduction in administrative expenses from fiscal year 1986 to fiscal year 1987 results primarily from a reduction in staffing, which is consistent with the proposed reduced program levels.

## Conclusion

The changes in the UMTA program I have described are necessary to achieve deficit reductions required to meet the Gramm-Rudman-Hollings target for fiscal year 1987, and still provide an appropriate level of Federal assistance for transit. I look forward to working with you to enact the authorizing legislation needed to implement this restructuring.

Mr. Chairman, that concludes my prepared statement. I would be pleased to answer any questions that you might have.