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HEADLINE: Bush wants \$15.8 billion more in federal highway money this coming year for road work a move welcomed by many of the nation's governors, who complain Washington hoards the money. White House sources told the Arkansas Gazette Sunday that Bush will recommend spending \$15.8 billion from the Highway Trust Fund in the next federal budget year, which begins Oct. 1, when he unveils his spending plan today. " That's great," said Arkansas Gov. Bill Clinton, when told the amount.

BODY:

WASHINGTON President Bush will ask Congress today to spend \$1.3 billion more in federal highway money this coming year for road work a move welcomed by many of the nation's governors, who complain Washington hoards the money.

White House sources told the Arkansas Gazette Sunday that Bush will recommend spending \$15.8 billion from the Highway Trust Fund in the next federal budget year, which begins Oct. 1, when he unveils his spending plan today.

" That's great," said Arkansas Gov. Bill Clinton, when told the amount.

But while higher than the \$14.5 billion being spent this current budget year, it's less than the \$16.5 billion that Clinton and other governors gathered here for the winter meeting of the National Governors' Association are seeking.

The bad news for governors is that the president who will urge that more than \$85 billion be spent on highways over the next five years also will seek to change the formula by which the money is divvied up between the states.

Bush will seek to require states to put up roughly 30 percent of the money. Now, states have to provide about 15 percent in matching funds.

That will require the states, which contract for the work, to cough up more matching money up front on their end to get the federal road and bridge dollars from Washington.

To many of the governors, most of whom are faced with tight budgets in a recession, this is the wrong time to tamper with the formula.

And some officials, including Sen. Dale Bumpers, D-Ark., have suggested that all the highway money that the federal government collects next year should be made available for road work as a way of spurring the economy in recessionary times.

" You can tap that fund in a dramatic way," Bumpers told the Gazette. " You could pump-prime the economy. A lot of public works jobs could be created.<"

With Congress financially strapped and locked into a five-year plan of reducing federal deficits, Bumpers said, there are very few places Washington can go to get money to create jobs and try to jump-start the economy except the highway fund.

Clinton said Bumpers was "absolutely right" and hoped he could persuade his fellow Democrats in Congress to go along with it.

" I believe it would be an economic stimulus no doubt about it," Clinton said. " It's one way to put some investment into the lagging parts of the country.

" We the nation's governors have always taken the position that it was a mistake for the administration to hoard the Highway Trust Fund. Our people pay those taxes in good faith with the promise the money will, in turn, be released to their roads.<"

The federal gasoline tax, which was hiked a nickel a gallon last year by Congress, is to be parceled back to the states for road and bridge construction and repair.

But as federal budget deficits have mounted in Washington, the Congress and administrations have sat on the funds and borrowed against them. And half of last year's nickel-a-gallon increase is now earmarked to lower federal deficits, rather than being spent on transportation work.

At present, the federal highway fund has a surplus of roughly \$20 billion.

Missouri Gov. John Ashcroft, a Republican, has urged that all but between \$1 billion to \$2 billion of the fund be tapped and that all the 2.5 cents of the new increase that is to go to roads be spent as it comes in.

Other governors Republicans and Democrats alike are advocating the same sort of thing.<

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HEADLINE: FREDERICK PUTS IN WORD FOR CLINTON;
MAYOR SAYS CANDIDATE TALKS 'MY KIND OF THING'

BYLINE: By Peter Mitchell of The Sentinel Staff

BODY:

Arkansas Gov. Bill Clinton swept through Orlando Thursday, winning kind words from Mayor Bill Frederick as the nation's presidential candidates battle for Florida's Democratic activists.

"He's the first Democrat who's had any real national appeal that rings any bells with me," said Frederick, a Democrat who often steers clear of partisan politics. "He's talking my kind of thing."

The mayor will not become involved in any presidential campaigns, however. Frederick said he pledged to avoid such activities after Orlando announced it would join the Bush administration's "points of light" program.

Yet Frederick made clear his attachment to Clinton's centrist appeal.

"Lord knows we need a change," said the mayor of the city that will be host of the state Democratic convention in December. "Neither of the party platforms is worth a damn."

Frederick's comments come as the Democratic presidential contenders step up their efforts in anticipation of the state party's Dec. 15 presidential straw poll.

Clinton, on his second Florida visit, is recovering after a slow start in a state that should be a natural for the moderate Southern governor. His campaign, buoyed by help from Lt. Gov. Buddy MacKay, has won wide support from state lawmakers and is beginning to contact local activists.

But Clinton's chief opponents in the Florida straw poll - the South's first measure of support - are also busy. Iowa Sen. Tom Harkin's campaign has a full-time staffer in the state. Supporters for Nebraska Sen. Bob Kerrey are

planning a party this weekend to woo Central Florida activists.

Other activists report getting calls from supporters of former Massachusetts Sen. Paul Tsongas. There has been little action from Virginia Gov. Doug Wilder or former California Gov. Jerry Brown.

"I doubt that there is really any front-runner," said Volusia County Democratic Chairman T. Wayne Bailey. "But that will change as we move toward Dec. 15."

Thursday, speaking at a morning fund-raising breakfast in the Citrus Club and talking with students in a portable classroom at Jones High School, Clinton struck his theme of reordering the nation's priorities to invest more money in education, rebuilding the country's infrastructure such as roads and sewers, and research and development.

He urged higher taxes on those earning more than \$200,000 to support a 10-percent tax cut for the middle class. He backed lower credit card interest rates, increased government-backed mortgage guarantees and **speeding up highway spending to spur the economy.**

At the Citrus Club, Clinton raised almost \$10,000, said Dick Batchelor, one of the organizers of Clinton's three-hour campaign swing. At the suggestion of MacKay, Clinton's press opportunity was staged before Jones High School students participating in Compact, a drop-out prevention program.

The students, who had discussed possible questions the day before, peppered Clinton with some sophisticated queries. One asked his feelings on abortion.

"I believe it should be legal, safe and rare," Clinton said, backing the protections offered under the Supreme Court's Roe vs. Wade decision. "I don't think abortion is a good thing. I just don't think it should be turned into a crime."

GRAPHIC: PHOTO: Bill Clinton talks with students at Jones High School in Orlando. JOHN RAOUX/SENTINEL

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HEADLINE: In N.H., Clinton urges faster use of road fund

BYLINE: By Curtis Wilkie and John Milne, Globe Staff

DATELINE: PORTSMOUTH, N.H.

BODY:

Gov. Bill Clinton of Arkansas called yesterday for an accelerated release of highway trust funds to "jump-start" the American economy and accused the Bush administration of holding back spending on highway construction to make the federal deficit look smaller.

Clinton, a candidate for the Democratic presidential nomination, described as "way too tepid" the action that Bush took yesterday in Texas: the signing of a new highway bill. The White House hailed the measure, which provides for a five-year, \$ 151 billion construction program, as evidence that the administration is moving to stimulate job growth.

Also seeking votes in Portsmouth yesterday was Jerry Brown, the former California governor and another of the Democrats seeking the party's presidential nomination. Brown accused the Cable News Network of trying to censor his campaign for the presidential nomination by preventing him from repeating on the air the toll-free number that he uses for organizing and fund-raising.

At a rally in Portsmouth, Brown drew cheers when he read a letter that he had written to CNN's owner, Ted Turner, complaining that he had been prevented from appearing on Monday's "Crossfire" television program because he wanted to repeat his toll-free telephone number.

"It is ironic," he said, "that CNN and other media outlets are attempting to censor a presidential campaign that seeks to reach beyond the small elite that now bankrolls national politics, especially when you allow David Duke to communicate his racist and anti-Semitic views and Saddam Hussein to threaten death to Americans."

CNN's vice president for public relations, Steve Haworth, said the network is not trying to censor Brown and invited him to appear on "Crossfire" last night. "We are asking all candidates who appear on CNN not to use CNN for direct fund-raising solicitations," Haworth said.

Brown did appear on the show last night, and over the station's objections did repeat his toll-free number on the air. The network allowed the program to continue despite the violation of its ground rules.

Brown said he has used the number to attract volunteers and contributions. He said 14,000 people called after he repeated the number on a candidate debate televised by NBC on Sunday. "I'd like to see the 800 number be used as a technology of involvement," Brown said on "Crossfire."

Earlier in the day, Clinton appeared at a City Hall reception sponsored by Portsmouth's mayor, Eileen Foley. Clinton said Bush, and President Reagan before him, long refused to spend millions of dollars that built up in a trust fund supported by taxes earmarked for highway construction.

"When we needed public works programs, they slowed down spending because it gave the false impression" that the highway surplus was helping to balance the budget, Clinton said in an earlier meeting with New Hampshire voters in Hampton. The trust fund operates independently from the accounting of the national budget.

Vast sums are already on-hand, Clinton said, and "all that money should be put out in the next six months to jump-start the economy."

During his day of campaigning along New Hampshire's seacoast, Clinton was also critical of another prospective rival in 1992. Anticipating the entrance of Gov. Mario Cuomo of New York into the Democratic race before Friday's filing deadline in New Hampshire, Clinton said: "I always thought he'd run, and I always thought he'd wait until the last minute. . . . He waited long enough to see which way the wind was blowing."

Clinton is a longtime rival of Cuomo among Democratic Party leaders as well as the nation's governors. He speculated that Cuomo was not emboldened to run until the victory in Pennsylvania last month by Harris Wofford, a Democrat who defeated Bush's ally, Dick Thornburg, for a US Senate seat. Clinton entered the race weeks before the Pennsylvania election.

The 45-year-old Clinton said Cuomo, who will be 60 next June, "sees this as his last chance to run for president."

Clinton also crossed over briefly into Maine, where Democratic caucuses will

be held the weekend after the Feb. 18 New Hampshire primary. He spoke at a Kittery reception hosted by one of his key supporters in the state, Portland's mayor, Tom Allen.

GRAPHIC: PHOTO, Gov. Mario Cuomo takes a quick ride in his office yesterday in a lighter moment after discussing New York's budget crisis with reporters. / AP
PHOTO

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Location: Old State House, Little Rock, Ark.

The editor of the report is Steve Ginsburg. Tim Ahmann, Eric Beech, Peter Ramjug and Paul Schomer also are available to help you. If you have questions, please call 202-898-8345. For service problems inside the District of Columbia, call 202-898-8355; outside D.C., call 1-800-537-9755.

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GOVERNOR CLINTON: Good afternoon. I want to thank you all for coming today and I hope you're enjoying my favorite building in our state. I'm here to announce that we are moving along on schedule in the transition process. The appointments that we have released today will put the transition into high gear here in Little Rock and in Washington.

They reflect my commitment to assembling the most qualified and diverse group of people available, including men and women with broad experience, some of whom served in the campaign and others who are just joining us now, as we move towards governing.

I know that some of you may be interested in the Cabinet level appointments. And let me tell you that I don't have any to announce today. But I do want to tell you what I'm doing on it and to spell out some of the criteria that I have established in seeking to fill these positions.

First and foremost, these people must have an unqualified commitment to public service. Tomorrow I will release a code of conduct for official involvement in this transition and in the next several days we'll be laying out the code of ethical conduct that appointees in the Clinton-Gore

administration must agree to abide by in order to serve in high office.

I've also pledged to the American people that my Cabinet will look more like America than previous administrations. As I've said before, I think that the great diversity of this nation can and must be a source of strength as we face the challenges that lie ahead.

I have spent several hours already, especially in the last three days working with Senator Gore, with Mr. Christopher and with others discussing potential Cabinet appointments. I have spent an enormous amount of time with Senator Gore and with others discussing the kinds of things we want these departments to do. I think that too often in the past, potential--or president-elects have been in a rush to fill the Cabinet positions before they decided whether they wanted these departments to pursue a different mission than had been pursued in the past and without considering perhaps how these departments should fit one with the other.

Let me just give you, if I might, just one example of that. I have read at least in my history books that some Cabinet appointments are considered major and others are considered minor. I don't know how you would consider the Departments of Commerce and Energy in that regard, but from the kind of economic policy I have laid out and the things that I think we have to do to change this country economically, those are very major appointments. And how they pursue the missions of those departments will affect the success or failure of this administration's economic efforts as well as what is done by the other major economic players.

So I have devoted some time to reviewing potential names. I intend to spend a lot more time doing that. This is something that I am deeply engaged in personally and I think that we will make the appointments in a timely and appropriate fashion.

I'd also like to say that Senator Gore and I have continued the partnership we established in the campaign. He has been here all day working with me and I think that this is perhaps unprecedented but quite good for the country. I think it will strengthen and help us as we move along. I've also made one other commitment in the past I'd like to reiterate today,

and that is that I intend to look beyond partisanship in bringing together public servants to help guide our nation for the next four years.

GOVERNOR CLINTON (continuing): If we're going to meet our goals of reviving the economy and carving out a new world for America in the post-Cold War era, we have to put aside a lot of our past preconceptions and I intend to look and am now aggressively looking among not only people of different racial and ethnic backgrounds and men and women, but also people of different political backgrounds who share the common goal of restoring economic growth, job creation and income, and strength to this country. If you have any questions, I'll be glad to try to answer them.

Q: Governor, you campaigned on a theme of economic hope and a pledge of putting Americans back to work. Are you finding it increasingly necessary to scale back the expectations you might have raised?

And second, what do you think you'll have to accomplish in the early months of your campaign to keep alive the hopes you might have raised during the past year?

GOVERNOR CLINTON: Well, I campaigned on a theme of economic hope and creating jobs, and increasing income. I also told the American people repeatedly we didn't get into this business overnight and we're not going to get out of it overnight.

I think what I have to do is to present an aggressive plan to the United States Congress and pass it, and to put together a world class economic team and to take whatever steps that can be taken without new laws being enacted by Congress to revive this economy.

I think all along the way I have to do my best at one of the most important jobs of a president which is to communicate to the American people, to explain exactly where we are at this point in our history, how we got here, and where we're going into the future. There is--there has to be a short-term economic agenda, we've been in this deep recession for a long time now.

There also has to be a long-term economic commitment

to increasing the productivity of the American economy so that we can not only create more jobs, but that we can begin to raise incomes of ordinary Americans again for the first time in well over a decade. And I expect that we'll be able to do that.

I expect to keep the focus on these economic issues, and I'm not trying to scale back, or scale down, or anything else. I think the American people understand that these problems are of long duration, and there won't be any overnight miracles, but I think they expect aggressive and prompt action and I'm going to give it to them.

Q: Governor, along those lines, do you intend to propose a middle class tax cut in January as you advanced through the campaign?

GOVERNOR CLINTON: I intend, I intend to propose a tax package that is consistent with what I recommended in the campaign. I have not made any decision to change it.

Q: That was (inaudible).

GOVERNOR CLINTON: That's correct. I've not made any decision to change what I advocated in the putting people first book on the economic issue. If I make a decision to do that I'll let you know, but I have not made a decision to do that.

Q: Governor, the top savings and loan regulator says \$ 50 billion is going to be needed to complete the bailout program and finance the deposit insurance fund. Do you intend to ask Congress for this money? If so, how quickly after you take office and will this hurt your ability to finance some of the programs you would like to see implemented?

GOVERNOR CLINTON: Well, it's interesting, they came out with that figure which is a bigger figure than they were using before the election, as soon as the election was over, but I have not--I'm not in a position to accept the figure because I have not been advised about it.

Let me, let me tell you what I'm going to do. I'm going to devote a lot of attention to the condition of the S&L bailout, the RTC, as well as to the condition of the banking system in the country and the potential impact of the new capital requirements coming in on December 19th, and make a

judgment on that, and as soon as I do I'll be glad to share it with you.

I'm just not in a position--I don't have all that much confidence in all the decisions that have been made by the RTC. I don't know what our options might be. So I can't tell you precisely what I'll do. It is--it concerned me that that announcement was made, when it was made and the way it was made, with the figure that was tacked on to it, and I think it probably came as kind of a jolt to the American people. But I will do what I think is best and responsible, but I can't accept the figure yet. Andrea.

Q: Governor, Bob Dole said that you're going to have a honeymoon and that he's going to be the chaperon. Do you anticipate that you're going to have a tough time with the opposition? And how do you respond to his comments that you did not have a mandate?

GOVERNOR CLINTON: Well, I think--let me say a couple of things about that. First of all, I think that I--that the American people hope that I have a honeymoon, not for me, but for them. If a honeymoon means a break in partisan political behavior, and an honest attempt by people of goodwill to reach agreement on something that's good for the country.

GOVERNOR CLINTON (continuing): I had a good talk with Senator Dole on the phone yesterday. I'm looking forward, when I go to Washington next week, to see President Bush. I am also looking forward to a meeting, a bipartisan meeting with the leadership in Congress, and I'm going to hold out the hand of cooperation to them, and I think that they will extend it in turn.

I think that the clear mandate of this election, by the way, from the American people was an end of politics-as-usual, and end to the gridlock in Washington, an end to finger-pointing and blame. I think there is no question that there was a mandate in this election.

In terms of whether I got a mandate or not, you know, having a 100-vote electoral majority more than you need is not too bad. There are only a couple of Democrats in this century who've gotten a bigger percentage vote. But arguably, the greatest president we ever had, Abraham Lincoln, was elected

with under 40 percent of the vote.

So I think the American people will all now evaluate what I do and whether I do it well and whether they support it.

Q: Do you think that you'll have to scale back, to follow up Gene's question, your legislative agenda to avoid the kind of experience Jimmy Carter had, by putting up so much legislation so quickly that he ended up with a bottleneck?

GOVERNOR CLINTON: Well, one of the things that I think it's important that we do is to set priorities and to proceed with discipline. I think that there are some clear priorities that we have to pursue. We have to have a program for economic growth, job creation, short- and long-term. We have to have a clear plan for deficit reduction over the next four years. We have to have a plan to deal with the exploding costs of health care and the fact that 100,000 Americans are month are losing their coverage, something that is ballooning the Medicaid budgets of this state and virtually every other one in the country, and we have to have a plan for political reform, something I campaigned on and I believe in. And I'm going to do my best to pass a national service program. I think those are the things we have to focus on.

I think we have to proceed with real discipline, but I think the American people want America to get its house in order and want this economy to start working again, and that's what I'll focus on.

Q: Governor, there's a lot concern abroad about what the Clinton foreign policy would be. I wonder if you could tell us what will be your first 100 days plan in foreign policy and what are the attributes you'll be looking for in a secretary of state and in a national security adviser?

GOVERNOR CLINTON: Well, I think I've laid out my foreign policy in great detail and with clear specificity. I've certainly tried to, and I believe that I spoke more to foreign policy than anybody else running in the Democratic primary, at least, and arguably more than my opponents in the general election.

Q: What do you think will be your top priorities?

GOVERNOR CLINTON: Well, my top priorities will be settling on a multi-year plan for a defense budget that I think keeps the defense of this country the strongest in the world and deals with the necessity to downscale; pursuing our continued efforts to reduce nuclear weapons with Russia and with other nuclear powers; working hard to stop the proliferation of weapons of mass destruction--nuclear, biological and chemical; keeping the Middle East peace process on track and doing whatever I can to make sure there is no break in continuity; and doing what I can to strengthen global economic growth, in terms of resolving outstanding matters with Mexico, hopefully resolving the outstanding issues in Europe, and proceeding with a cooperative strategy with the other major economic powers to promote global growth, something which will help us very much.

Q: Governor, the second half of the question?

GOVERNOR CLINTON: Well, I want a secretary of state who understands that we have obligations of continuity and obligations of change, and that basically the pillars of our national security and foreign policy ought to be a different but still very strong defense, a commitment to global growth and economic regeneration here, and the fulfilling of our responsibility as the world's sole superpower to try to promote democracy and freedom and restraint the proliferation of weapons of mass destruction.

I want someone that I think really understands that and can relate well to those issues and to the people around the world dealing with that.

GOVERNOR CLINTON (continuing): And in terms of a national security adviser, I want the same thing. I want people--by the way, I do think that President Bush's group worked pretty well as a team in that area, and that's something that I want. I'm very much committed to picking a national security adviser, secretary of Defense and a secretary of State who can work together on this agenda. I think that's what I ought to be doing.

Q: Governor Clinton, how quickly are you going to move on your pledge to allow gays and lesbians in the military? You're getting some heat for it now. You're getting pressure to do it in January, three days after you take office. How quickly are you going to move?

GOVERNOR CLINTON: Well, I think that--first of all, I am going to move forward on that.

Q: On your 100 day agenda?

GOVERNOR CLINTON: Let me tell you what I'm going to do. My concern here is to do it in a way that is most appropriate for the management of the whole national security and military interests of the country. I want to consult with a lot of people about what our options are, including people who may disagree with me about the ultimate merits. And let me just remind you one more time of how this all came up.

This whole issue really came to light when Secretary of Defense Cheney was asked to comment on a study which said that there were many thousands of men and women who were homosexuals in the military forces who served our country with great distinction and never did anything in their conduct that was destructive of the morale or the purpose of the military.

And I think he referred to this rule as "an old chestnut" or something of that kind.

What I want to do is to come up with an appropriate response that will focus sharply on the fact that we do have people who are homosexuals who served our country with distinction, who were never kicked out of the military. Others, who are being kicked out of the military--one of whom has just been reinstated by court. And the issue ought to be conduct. Has anybody done anything which would disqualify them, whether it's Tailhook scandal or something else. And so what I plan to do in an appropriate fashion, in a prompt fashion, is to put together a group of people and let them advise me about how we might best do this. But I'm not going to change my position on it.

Q: There are a couple of things--there are a lot of things presidents can't do, as you well understand.

GOVERNOR CLINTON: A lot of things.

Q: There are things that presidents can do. Right now there is for instance--there are two executive orders in effect, one of which bans abortion counseling by physicians at clinics, which use federal funds. The other is an executive

order that President Bush issued last May which effectively bars Haitian exiles from this country.

Have you made up your mind of what you're going to do with those two issues?

GOVERNOR CLINTON: Yes. Well, I have made up my mind that I am going to change the policy in both areas. I don't believe in the gag rule and I think it should be repealed. And with regard to the Haitians, I think my position on that has been pretty clear all along. I believe that there is a legitimate distinction between political and economic refugees. But I think that we should have a process in which these Haitians get a chance to make their case. I think that the blanket sending them back to Haiti under the circumstances which have prevailed for the last year was an error and so I will modify that process.

I'm not in a position not to tell you exactly how we're going to do it or what the specifics will be, but I can tell you I'm going to change the policy.

Q: You spoke with Don (inaudible) 10 million Americans. Can you tell us specifically what in your 100 day plan will bring jobs to them--specific job programs--and when they can expect to see those jobs?

GOVERNOR CLINTON: Well, we will have at least two things in this plan, which should create jobs in the short run--that is, in this calendar year. First of all, I will ask the Congress to adopt an investment tax credit that I have been advocating for well over a year now to give the private sector incentives to go out and invest in new plant and equipment and to increase their capacity to hire. The proposal--the specific proposal I put in my plan--we had an independent consulting firm evaluate and they said that they believed that that one proposal--just the investment tax credit--would create half a million private sector jobs in the first year alone--just that one proposal.

The second thing that we will do is to try to accelerate the investment of our country in infrastructure in terms of road projects, water projects, other projects of that kind that are already on line with the plans there and ready to go in the first year with the commitment that I have to transfer

defense cuts into domestic investment. So I want to try to increase transportation funding and those kinds of things to put people to work and they have a lot of spin-off job creation.

Those are two specific things. There will be more, which we'll be talking about during the course of this transition, but those are two.

Q: Governor, you suggest that you want to spend a lot of money for infrastructure. You proposed earlier \$ 20 billion, but many economists think that's not enough. 50 billion may be necessary. Won't that dramatically increase the deficit as you're trying to increase jobs?

How do you balance these? And secondly, are you beginning to feel overwhelmed by the enormity of the responsibility that you now have?

GOVERNOR CLINTON: No, I'm having a wonderful time. I mean, it is an enormous responsibility, but I asked for it, and it's an indulgence to feel overwhelmed by it. It's like everything else. If you get up every day and go to work, and put one foot in front of the other--I mean, some nights when we--last night, we finished after eleven, and we stood around and think--this is overwhelming, you know. But--but it is in the nature of democratic government that most people can do most jobs if they summon their best effort. And I'm just going to give you my best effort every day.

Now let me answer your question. The major debating point among all the economists about what to do with the economy now is just that. You know--do you--there was the crowd that--there is the group that says go ahead and make big cuts in the deficit now because a few years from now you'll bring down interest rates, even though it will actually drive up unemployment, slow the economy more. And then there's a group that says spend more money now, either by putting more money into construction projects, or by having a huge tax cut.

And then there's--you know, my position is--and we're going to have a chance--we'll test it, we'll see if I'm right. That's what this election was about. I believe that what we have to do is have a disciplined reduction in the debt, so we send a clear signal to the markets at home and abroad that we're going to bring this deficit down. But that we do it more gradually and

with a framework which permits us to substantially increase investment.

You see, I believe that we cannot balance this budget ever unless we can get more economic growth than we've got. I think if you look at this anemic growth, the anemic employment, the anemic tax receipts, you're never going to get to a position where the budget is in balance unless you can grow the economy.

But on the other hand, to ignore the deficit is a great mistake. So I'm going to pursue my course which is increased investment, gradual but disciplined reduction of the deficit, and we'll see if it works. Steve.

Q: Is the criticism that has been aired of Mr. Jordan's tobacco connection appropriate, or fair, in your judgment, and, sir, will you ask him to make an adjustment in his affairs?

GOVERNOR CLINTON: Well, I don't think it is--should be--let me, let me answer the question from the point of view of the citizens. I don't think that the American people should be concerned about it. I have asked--keep in mind, everybody is working on the transition, is working for a two-month period, and in his case for nothing. What I have asked them to do is to not attend to their board duties, to basically be on leave from any of their board responsibilities during the time they are working for this transition.

And I have told all the people, even those who are working for free, that they will be subject to the same ethical constraints as the people that we hired to work in this transition which we will announce tomorrow. So in my view that is enough. Now in terms of the tobacco connection, I have two points to make.

First of all, those of you who are familiar with my record and my wife's public statements here at home would have little to be concerned about about us being too close to the tobacco lobby. I've vetoed a smoker's bill of rights that passed overwhelmingly in my legislature in 1991 and I spent the rest of the legislative session trying to fend off an override, which we successfully did.

GOVERNOR CLINTON (continuing): I think Senator Gore's

record on public health issues is well known. So that's the first point I want to make.

The second point I'd like to make is that Vernon Jordan is my friend and has been very important to me in the selection of the vice president and in this transition process, but Vernon Jordan is not going to pick these major people who serve in the health care positions. I am.

And so that is my job. I am working hard on this. Nobody on this board is going to be making these decisions. I'm going to make them. So I hope the American people will accept that.

Q: You've set up a fairly elaborate system for the transition of domestic policy advisers. What do you hope to learn from them? And the policies that are passed, will they be yours or theirs?

GOVERNOR CLINTON: Mine. They will be mine, but I can learn a lot from them.

Let me just give you an example. If you take all the things that we have recommended, we have an economic team--on the domestic side, we've got an economic team, a health care team and a team for virtually everything else. It's sort of my reinventing government initiatives--political reform, national service, the criminal justice things I recommended.

Here's why you need a team. It's all very well to say you want an investment tax credit and quite another thing to make the 15 decisions that have to be made to shape the exact bill you want. It's all very well to say, as I have said, that the working poor in this country, who are exploding exponentially, if they work 40 hours a week and have a child at home, should be lifted out of poverty by increasing the refundable income tax credit for the working poor, and another thing to answer the five or six questions that define how you get that done.

In the national service context, all of you who were on this campaign, you heard people applauding and hoping at every turn that idea, and it's one I feel very passionate about but there are a lot of factual questions that have to be asked.

How much money should everybody be able to borrow a year? What contributions should people's families be expected to make, if any? If you put this into effect, how are you going to keep the colleges and universities of this country from using it as an excuse to explode tuition even more? I mean, there are lots of factual questions.

So what these people are going to be doing is trying to figure out how to implement the recommendations we made in the campaign, telling us if there are better ideas that we ought to add to them or modify them, and basically making sure that we've got it all paid for, and then dealing with the practical details of how you take ideas and work them into the incredibly complex laws governing the congressional budgeting process and deal with the committees and all that.

I mean, one of you asked a question about, you said President Carter tried to pass too many things and either didn't get it done or when he did, nobody knew what had happened. One of the things that Ronald Reagan did in passing his program that I think you have to give him a lot of credit for in 1981 is to put a whole lot of changes into omnibus bills by organizing the things properly and making sure it fit with the way that the congressional laws work. I was very impressed with the way they did it, and we will do as much of that as we can. I think the fewer votes you have, the better off you are.

So those are some of the things they'll be doing.

Q: On the economic summit, we're told that you're going to be bringing some of the top business leaders from across the country here to Little Rock to give you their views on what should be done about the economy. By almost anyone's standards, Ross Perot is one of the more successful business leaders. You agreed with some of his economic strategies during the campaign and you appealed to his supporters to be comfortable with voting for you. Would you be comfortable with having him come and be a part of that team?

GOVERNOR CLINTON: I wouldn't be uncomfortable doing that. I have not made up my mind who's going to come.

Q: Will he be invited?

GOVERNOR CLINTON: I've had no discussions on that.

But I'm going to have business leaders here. We'll have some people from labor here who understand the changes that are going on. We'll have some distinguished economists here. We'll have a lot of people who were part of this campaign and some people who weren't. And it will be more in the nature of a retreat in that sense. I mean, I'm asking people to come here and go to work. You know, there's not going to be much posturing and show about this; it's going to be a lot of work.

Q: Ross Perot says he wants to get under the hood.
Governor,--

GOVERNOR CLINTON: Wants to what?

Q: Ross Perot says he wants to get under the hood,
he's ready to work from day one.

GOVERNOR CLINTON: I expect he'll have a chance to get under the hood.

Q: Governor, are you satisfied with the way in which President Bush has handled the State Department probe into your background during the campaign, or do you think more needs to be done?

GOVERNOR CLINTON: Well, I'm glad Ms. Tamposi had to leave her job about six weeks early--I thought that was an appropriate thing to do. I don't know that I know enough to give you a final judgment. Let me just say this: if I catch anybody using the State Department like that when I'm president, you won't have to wait till after the election to see them gone. I don't want to talk about what happened in the past. The election is over, we don't have a minute to waste looking at the past. I just want you to know that the State Department of this country is not going to be fooling with Bill Clinton's politics, and if I catch anybody doing it I will fire them the next day; you won't have to have an inquiry or rigmarole or anything else--because it is too important to me that the rest of the world see us as having a coherent and, as much as possible, non-political foreign policy.

And let me say, you will see that I've gone out of my way since I was elected to support the idea that President Bush is our president, that he makes foreign policy, and that we're all going to stick with it until there's a change, and this is a

part of that to me.

Q: (Inaudible).

GOVERNOR CLINTON: I'm sorry, I didn't hear.

Q: What is your policy toward the Korean peninsula?

GOVERNOR CLINTON: Well, I expect, by the way, to have a talk with President Roh this afternoon. I wish I had had my conversation with him already before we had this. I hope that some day the Korean people will be reunited in a democratic and free society. I hope that we can continue to be a force for the security of South Korea. And I hope very much that the North Koreans will not be successful in developing real nuclear capacity.

Q: Can you give us some more details about the lobbying restrictions and ethics package you're going to announce, and tell us what real impact do you think they're going to have on the way business is done in Washington? Whose interests are going to be better represented because of them and whose won't?

GOVERNOR CLINTON: I don't want to give more details, because otherwise we won't have anything else to do the next time we meet. But let me tell you what I'm--on the first question, let me answer you this way. Tomorrow, I will release what I--what will be the rules for people involved in the transition, and several days after that we will release, as we finalize them, what will be the rules for people who take high positions in the administration.

Then we will release those things which require legislative changes in rules relating to lobbyists and campaign finance reform, but I will push to the Congress, and I will do that in three separate stages during this transition process. What change I expect is that I think the main--let me back up and say, first of all, lobbying is a part of people's First Amendment rights. I bet nearly everybody in here has been a lobbyist or a supplicant, or something at one time or another before a public body.

If there were a bill pending in Congress to substantially restrict the application of the First Amendment

all of you would happily show up and say why it was a lousy idea and you would be lobbyists, but that wouldn't make you bad people. It would make you patriotic Americans.

The problem with the system that we have is that if-- that all decisions are made by organized groups, then very often the public interest is not served.

So how do I expect this to change? I think the code of ethics requirements on the executive branch will give people confidence that whatever decisions we make in dealing with economic issues here and beyond our borders will be made by people who can not in turn profit for (sic) them for several years after they leave the government.

And that will increase the credibility of our decisionmaking. Secondly, if we can pass lobby reform through the Congress, it will--it will leaven the influence of special interest groups with the public interest because people will know more about what lobbyists are doing when they're doing it.

Thirdly, if we can pass campaign finance reform, I think every election will be like this last election. That is, I don't think incumbents will have a free ride in the Congress even when things settle down some. If you have limits on total spending you open the airways to debate and you limit the influence of PACs, and I think every election can be like this presidential election.

People have to go on the talk shows, they have to do the debates, they have to do the town meetings. They have to honestly defend their records in order to get reelected.

Q: (inaudible) Little Rock is not Washington and you face increased security as president-elect--

GOVERNOR CLINTON: Thank goodness.

Q: --and you also face increased media scrutiny. Will we see you on the streets of Washington a lot jogging and are you frustrated by the bubble?

GOVERNOR CLINTON: Well, I'm a little bit--you know, I'm a real sort of informal person. I live in an atmosphere that

is highly personal and informal and I know my friends and neighbors, and my constituents can come up to me and talk to me on the street. But I would hope that both Senator Gore and I would be able to maintain some greater level of ongoing personal contact with folks than is typically the case. Now I know there are security concerns and we've talked to the Secret Service about that, and I have no criticism of them. I think they do a fine job.

But I think that one of the reasons we made this campaign a success is because we went out of our way to demonstrate, both of us together and separately, that we could be genuinely accessible to the American people and that we were interested in them, and I think that there are a lot of things you do in your own personal habits that send that signal out. So I hope I'll be able to do it. May not.

Q: Governor (inaudible) that you had some options for action without congressional help to move the economy along. Could you be specific about what those options are?

GOVERNOR CLINTON: I could when I'm really ready to talk about what I want to do. I don't want to--I think it's very important for me not to be hypothetical in that and I need to settle on what I'm going to do and then tell you. I think I shouldn't be hypothetical. Yes?

Q: You had mentioned twice now the spread of nuclear weapons in your statement and also you've expressed concern about North Korea, and also Iran, another unfriendly nation is getting close to--what is it that you can do to prevent that and is that a concern that you, now that you have more information is that a deepening concern?

GOVERNOR CLINTON: Well, it's been a concern of mine for some time, and I know it's also a concern of Senator Gore's. I think we will have to work on the right kind of test ban, the right kind of agreement not to proliferate our transfer technologies. I think we'll have to work on trying to help promote some elemental security procedures for our allies who are willing to help us. I mean, you know, we're living in a different world now with the disintegration of the former Soviet Union and even the disintegration of ordinary means of security. And when you find whatever is was, six or seven pounds of enriched uranium in the back of car at rest stop in Germany you



see what you're up against.

I just think that this is something that will require a great deal of our attention and a very disciplined and consistent effort to try to keep this stuff down. And we're going to do what we can.

Thank you very much.



Other NDD Cuts to Support House BESTEA and Presidential Initiatives

Funding Surface Transportation Programs at the House BESTEA level (and Presidential initiatives) would result in a **2.0 percent outlay reduction** in FY 1999 to "all other NDD programs." Assuming an average spendout rate for these other programs, this would require a **3.9 percent budget authority reduction**. On average over the next five years, outlays for all other NDD programs would be cut by **5.5 percent**. Budget authority would be cut by **6.7 percent** on average over the next five years.

PROGRAMMATIC IMPLICATIONS:

Agriculture:

- **Undermines food safety.** A reduction of this magnitude could mean the layoff or RIF of an estimated 250 meat and poultry inspectors, which would result in the slowdown of production, or even rotating shut-downs, in some meat and poultry slaughter and processing plants. Such a reduction could also deny vital investments proposed for the President's Food Safety Initiative and mean a delay of USDA's modernization of the Federal meat and poultry inspection system, as well as reduced funding for mandatory improvements in state inspection systems, including upgraded state lab testing for pathogens.
- **Decreases WIC participation rates.** The President proposed a monthly participation level of 7.5 million in FY 1999 and in the outyears. A 2.0 percent reduction in outlays in FY 1999 and larger reductions in the outyears would reduce WIC participation by 100,000 to 7.4 million in FY 1999, by 300,000 to 7.2 million in FY 2000, by 400,000 to 7.1 million in FY 2001, and by 600,000 to 6.9 million in fiscal years 2002 and 2003.

Commerce:

- **Funding restrictions at this period in the decennial cycle would seriously threaten the accuracy of the final decennial census.** The Administration has requested \$849 million for final decennial census preparations in 1999, an increase of \$459 million over the 1998 enacted level. This level of funding provides essential funding to continue key preparatory activities – such as finalizing the master address file, expanding the field infrastructure, and producing the questionnaires and public use forms – for the Constitutionally-mandated decennial census.

- **20-50 Percent Cut in Climate Change Technology Initiative.** These reductions could mean as much as a 50 percent reduction in the proposed increases for the two largest components of the Climate Change Technology Initiative (CCTI) -- DOE's Energy Conservation and Solar and Renewable Energy programs. Without the requested funding, these programs will lack many of the technologies needed to make serious progress in reducing greenhouse gas emissions.

Health and Human Services:

- **Requires Head Start budget authority level of \$4,432 million in FY 1999, \$228 million below the President's request (4.9 percent reduction).** The President's FY 1999 budget provides funds for up to 36,000 slots for regular Head Start, 10,000 slots for Early Head Start, and COLA and quality investments. At a funding level of \$4,432 million, the program would not be able to maintain its expansion goals -- even if it did not make COLA and quality investments in FY 1999. Specifically, foregoing COLA and quality could mean that Head Start will not be able to expand Early Head Start in FY 1999 and can only add about 20,000 new slots for regular Head Start. Preserving COLA and quality investments at such a funding level could mean that Head Start could add only up to 7,300 new slots for regular Head Start and no new slots for Early Head Start.

An average outlay cut of 5.5 percent over five years would seriously compromise the President's commitment to provide Head Start services to one million children by FY 2002. Depending on how much was set-aside for COLA and quality investments, a five-year cut could result in Head Start falling about 60,000 to 120,000 children short of the President's commitment.

- **Reduces budget authority for the Child Care and Development Block Grant by \$27 million, potentially eliminating child care assistance to roughly 10,000 low-income children.**
- **Reduces total funding for NIH-supported medical research by over \$570 million in FY 1999 and by \$5.7 billion over five years.** If done proportionately, funding for investigator-initiated research project grants (RPG's) would be cut by over \$315 million in FY 1999 and more than \$3.2 billion over five years. If the RPG cut is taken all out of new grants, this would deny funding to over 1,100 meritorious research grant applications in FY 1999 and more than 11,500 over five years. A reduction of this magnitude in funding for new research ideas and would slow the scientific community's progress in developing treatment and prevention strategies for life-threatening diseases such as cancer, cardiovascular disease, AIDS and diabetes.

- **Would result in significant program cuts to the Advanced Technology Program and Manufacturing Extension Partnership in NIST's Industrial Technology Services account.** This reduction could result in the elimination of 33 of the 94 new ATP awards planned for FY 1999. These awards support cost-shared research on technologies promising broad benefits to the U.S. economy. The cut to MEP would result in the elimination of Federal funding for thirteen manufacturing extension centers, which would deprive over 5,200 manufacturers from receiving assistance in modernizing their facilities and saving jobs.
- **Economic Development Administration - would deprive over 160 distressed communities from receiving assistance.** These distressed communities include those adversely impacted by Defense base closures, natural disasters, major plant closings, and trade agreements. A 5.5 percent cut over five years would limit EDA's ability to provide assistance to localities, support jobs, and leverage private sector resources.

Education Department:

- **750,000 children would be denied assistance under Title I in FY 1999; and over five years, 2.7 million children would be denied assistance.**
- **100 new Charter Schools could be not opened in FY 1999; and over five years, 350 new Charter Schools could not be opened.**
- **3.8 million students would see a \$170 decrease in their awards and 74,000 fewer low-income students would receive Pell grants in FY 1999. Over five years, Pell maximum grants would be reduced on average by \$123; and 281,000 fewer low-income students would receive Pell grants.**
- **All funding for new discretionary initiatives would be eliminated and (e.g. Education Opportunity Zones, High Hopes) – preventing 175,000 at-risk middle school students from receiving mentoring and tutoring, denying additional assistance to poor schools in their efforts to undertake school reforms, preventing after school programs from serving an additional 450,000 students, and preventing new efforts to improve teacher training and recruit 7,000 new teachers.**

Energy Department:

- **Cancels and closes science user facilities.** Energy would be unable to build the Spallation Neutron Source, leaving the United States without a facility comparable to those in Europe and Japan which is vital to research in materials science, structural biology, metallurgy, and chemistry. Operation of existing DOE user facilities that serve thousands of Government and private scientists would have to be curtailed or suspended.

- **Reduces funding for Ryan White program by more than \$37 million in FY 1999 and more than \$322 million over five years, limiting the services available to people with AIDS just as new treatments are providing hope that AIDS need not be a fatal disease.** In FY 1999, such a reduction could result in about 16,000 fewer people receiving services through Title I grants to cities, 2,200 fewer people receiving drugs through the AIDS Drug Assistance Program, and 3,000 fewer people receiving services in Title III clinics. Over five years, such reductions could result in about 138,500 fewer people receiving Title I services annually, about 19,100 fewer people receiving ADAP services annually, and about 26,500 fewer people receiving Title III services annually. Such funding reductions would undermine Ryan White's ability to address growing demand for AIDS services.
- **Reduces funding for HRSA by nearly \$150 million in FY 1999 and over \$1.2 billion over five years, undermining health care and services for women and children, uninsured people, and people with AIDS;** it would cut Health Centers well below the President's request — possibly preventing over 400,000 people from receiving health services in FY 1999 and more than 3.5 million people over five years. It would also reduce funding for the Maternal and Child Health Block Grant well below the President's Budget.
- **Eliminates funding in the Office of Emergency Preparedness for one to two cities' Metropolitan Medical Strike Teams (MMSTs),** which are part of a system to respond to the medical consequences of terrorist events involving biological and chemical weapons.
- **Reduces funding for the Initiative to Improve Health Care Quality,** which would impede the development of research and research tools to measure the quality of health care, as well as research on consumers' use of information on quality.
- **Reduces funding for SAMHSA by \$89 million in FY 1999, with sizable cuts to the Mental Health Block Grant and the Substance Abuse Block Grant,** denying substance abuse treatment to almost 30,000 people. Over five years, SAMHSA's funding would be cut by \$759 million, denying treatment to nearly 250,000 people.
- **Reduces funding for CDC by nearly \$100 million in FY 1999 and \$820 million over five years, cutting childhood immunization funding, reducing funding for HIV prevention and breast and cervical cancer screening.**

- **Reduces funding for HCFA Program Management by \$65 million in FY 1999 and \$550 million over five years, necessitating deep cuts across all HCFA activities.** Assuming that Congress does not enact any of the HCFA user fees, a reduction of this magnitude would impact base functions (e.g., contractor non-renewals, the Medicare handbook, initial and recertification surveys, and beneficiary appeals) as well as the implementation of new initiatives (e.g., the Balanced Budget Act, the Health Insurance Portability and Accountability Act, and Medicare+Choice). The effects of such a funding level would be felt by both Medicare contractors and beneficiaries.

Housing and Urban Development:

- **Reduces both public housing and Section 8 rental assistance to low-income families by up to 100,000 families in 1999 and 400,000 families at the end of five years.** If the number of subsidized low-income families could not be reduced, then enactment of legislation would be necessary to lower the overall level of the families' subsidy by 2 percent in 1999 and 8 percent in 2003. In addition, HUD would require similar cuts in block grants to States and localities for community development and housing.
- **Job Creation, Economic Opportunity, Housing and Homeownership – Cuts would imperil, reduce or eliminate HUD's proposed job creation efforts, including a Community Empowerment Fund to get businesses the start-up capital they need to create jobs, money to convert old polluted brownfields into thriving businesses and funding for a new round of Empowerment Zones to bring opportunity back to the inner city.** Cuts would eliminate both new vouchers to help people move from welfare to work and the funding increase for the homeless. Finally, the overall reductions in operating subsidies for public housing will force local housing authorities to reduce services to low-income residents and cuts in administrative expenses could jeopardize a major management reform effort needed to improve HUD's performance across the board.

Interior:

- **Virtually eliminates the requested increase for National Park Service Priority Maintenance.** Over five years, the Administration proposes an 8 percent increase in discretionary funding over FY 1998 levels for facility maintenance and construction. A 6.7 percent budget authority reduction to offset ISTEA increases would eliminate nearly all of the increases for park facilities, which are needed to support maintenance and construction projects designed to preserve and protect the Nation's precious natural, historic and cultural resources for the enjoyment of current and future generations.
- **Inadequately funds the Endangered Species Act (ESA) program.** Would cut the President's request for Interior's Fish and Wildlife Service (FWS) by \$32

million (and larger outyear reductions). This funding level would severely affect successful implementation of the ESA reforms initiated by the Administration and included in pending ESA reauthorization legislation. It would reduce the number of completed consultations on federal grazing permits, timber sales, and wetlands permits; prevent FWS staff from working on several large habitat conservation plans; and stop FWS from providing any new private landowners incentives for habitat conservation.

Justice:

- **Eliminates 1,000 Border Patrol agents.** Such a reduction would not provide enough resources to fund 1,000 agents in 1999, which are needed to fill enforcement gaps and to enhance Border Patrol presence along the Southwest border. Additionally, the cut means that mandated detention and removal requirements could not be met. The cut would also adversely affect our ability to deploy "force multiplying" technology, which will increase the effectiveness of Border Patrol agents and enable INS to better control the border. A 6.7 percent budget authority cut over five years would significantly constrain our ability to shift our focus from observing the border to responding to known intrusions.
- **Eliminates new Federal Bureau of Investigation agents and Drug Enforcement Administration agents.** Such a reductions would cut the FBI's budget by 2.8 percent from the 1998 enacted level. The cut would not only eliminate new agents needed to combat increased threats of domestic and international terrorism, including cyber crime, but would reduce base staffing. The cut would also reduce the number of DEA agents that could be hired to enhance domestic anti-heroin and anti-methamphetamine efforts. A 6.7 percent budget authority reduction over five years would adversely impact FBI and DEA ability to respond to new and emerging law enforcement needs.
- **Federal Prisons.** Would mean no money for new activations or sufficient resources to provide annualization of prior year increases in 1999, adversely impacting the activation of the following facilities and expansions: Loretto, PA expansion 200 beds; Butner, NC 763 beds; Edgefield, SC 1,664 beds; and Beaumont, TX 1,152 beds. The resulting delays would negatively affect the Bureau of Prisons' ability to fill as many as 3,800 beds.

Labor Department:

- **Job Training Programs.** Most of the Department's job training programs in the Training and Employment Services (TES) account are forward funded. This cut would have the following effects:
 - **Results in about 248,000 fewer dislocated workers receiving training, job search assistance, and support services.** The 1999 outlay cut of 2 percent would require a one-year budget authority cut that reduces outlays

over the 5-year period by more than 5.5 percent

- **Eliminates about 22,000 summer job opportunities for low-income youth in the Summer of 1999.** To achieve a 5.5 percent outlay cut for the period 1999-2003, the budget authority would have to be cut by \$278 million over 5 years, or 6.4 percent. This would eliminate about 174,000 Summer Job opportunities over the 5-year period
- **Adult training grants - results in about 238,000 fewer low-income adults receiving training and employment services.** About 40 percent of program participants are welfare recipients. The 1999 outlay cut of 2 percent would require a one-year budget authority cut that reduces outlays over the 5-year period by more than 5.5 percent
- **Job Corps -- eliminates about 7,200 residential training slots for extremely disadvantaged youth.** The 5-center expansion initiative launched in FY 1998 in response to Congressional appropriations report language would be delayed or stopped.
- **Reductions would mean significant cuts to the implementation grants to States to develop One-stop Career Center systems and jeopardize funding for America's Labor Market Information System including America's Job Bank.**
- **Employment Service - cuts of this magnitude would harm labor exchange and job search assistance for unemployed workers.**
- **Community Service Employment for Older Americans (Labor) is forward funded.** Budget authority would be cut by \$46.4 million in FY 1999 (10.5 percent) and some 6,400 low-income older Americans would lose their part-time jobs. Over FY's 1999 - 2003, budget authority would be cut by over \$121 million and some 16,800 fewer part-time community service jobs would be available for the low-income elderly.

Veterans Affairs:

- **Veterans Medical Care - would impede on the Department's ability to increase access to high quality health care.** As a result of these reductions, VA would treat an estimated 72,000 fewer veteran patients in FY 1999, including 14,000 in need of hospital care. A \$5.2 billion reduction over five years would result in 1.1 million fewer veterans being treated, including 154,000 in need of hospital care.

Environmental Protection Agency:

- **EPA Operating Program -- reductions would significantly hamper EPA's ability to protect and improve the environment.** In particular, it would

jeopardize EPA's ability to carry out the Clean Water Action Plan to address pollution from factory farms, and the Climate Change Technology Initiative which would reduce greenhouse gas emissions, cut energy usage and save consumers money.

- **Lost Capitalization for the Clean Water and Drinking Water State Revolving Funds (SRFs)** — A 3.9 percent cut to the FY 1999 combined SRF request of \$1.85 billion would reduce Federal capitalization by more than \$72 million. This 3.9 percent budget authority cut to FY 1999 would result in a loss of more than \$288 million in loans to municipalities. A 6.7 percent cut to the FY 99-2003 combined SRFs request of \$8.35 billion would reduce Federal capitalization by \$559 million, resulting in a total loss of about \$2.2 billion in loans to municipalities.
- **Slows Superfund cleanups** — Results in eight fewer completions of Superfund toxic waste sites in FY 1999 and 135 fewer completions over five years, needlessly jeopardizing public health.

National Aeronautics and Space Administration (NASA):

- **Jeopardizes International Space Station deployment.** With its first launch scheduled for later this year, Space Station is entering a critical phase in its development. The proposed cuts could lead to multi-year delays in Space Station deployment and raise outyear Space Station costs by billions of dollars.
- **Threatens science programs.** The proposed cuts would endanger NASA's science programs, especially the increase being sought by the Administration for new Space Science missions to complement the Origins initiative begun by the Administration and Congress last year. NASA Space Science achieved several notable successes this past year (the Mars Pathfinder, Galileo, Hubble Space Telescope, and Lunar Prospector missions), and the proposed reductions would undercut major efforts to follow up on these successes.

Office of Personnel Management:

- **Results in a RIF of about 175 FTE to accommodate an average annual outlay reduction of \$10 million from the FY 1999 budget levels.** These staffing reductions, taken against an agency that has already reduced its FTE levels by over 50 percent since 1993, would have a significant adverse impact on OPM's ability to continue to provide the level and quality of services required during this period of Government-wide downsizing, including: lengthen the claims processing times for retirement claims, delay systems modernization and maintenance investments necessary to maintain effective service delivery, decrease OPM's ability to provide workforce restructuring assistance, reduce OPM's ability to monitor agency implementation of merit system.

National Science Foundation (NSF): 1

- **Reduces support for research.** Under the proposed cuts, the number of new projects that NSF could support would drop by 1,000, and the number of researchers, educators and students that NSF could support would also drop 8,650 for FY 1999. The proposed cuts would make it impossible for NSF to meet certain GPRA performance goals like increasing the percentage of competitive grants awarded to new investigators and increasing the size and duration of grants. Improvements to information systems that would enable NSF to increase productivity would also be delayed. The ultimate outcomes of the cuts would be: reduced investment in universities and colleges, negative impact on industries and agencies that rely on NSF research, and a slowing in the development of the U.S. scientific knowledge base.

National Service:

- **The National Service program would be cut by about \$190 million (24 percent) in 1999, reducing funding below the 1998, 1997, and 1996 enacted levels.** Nearly all funding for the AmeriCorps programs would be eliminated, including funding for some 6,000 participants who, in turn, would have leveraged hundreds of thousands of volunteer tutors working with children under the America Reads initiative.

Surface Transportation Programs
Mandatory and Discretionary Spending
(dollars in millions)

	<u>Enacted</u> <u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>6-Yr.</u> <u>Total</u>
President's Request:							
Budget Authority	27,739	27,741	27,699	27,644	27,624	27,624	166,070
Outlays	26,276	27,099	27,540	27,674	27,843	27,937	164,369
CBO WODI Baseline:							
Budget Authority	30,747	30,747	30,747	30,747	30,747	30,747	184,482
Outlays	27,178	28,277	28,687	28,749	28,558	28,557	170,006
CBO WIDI Baseline:							
Budget Authority	30,747	30,772	30,800	30,828	30,857	30,887	184,891
Outlays	27,179	28,423	29,235	29,821	30,236	30,900	175,794
OMB WIDI Baseline:							
Budget Authority	27,789	28,231	28,909	29,530	30,166	30,815	175,440
Outlays	26,447	27,347	28,232	28,788	29,457	30,040	170,311
HR 2400, BESTEA - OMB Scoring							
Budget Authority	30,292	34,825	38,763	38,710	38,273	38,888	219,751
Outlays	26,412	28,992	32,703	35,594	37,057	37,790	198,548
HR 2400, BESTEA - CBO Scoring							
Budget Authority	30,798	34,730	38,719	38,866	38,693	38,808	220,614
Outlays	27,346	30,150	33,805	36,734	37,866	38,549	204,450
S. 1173, ISTEA2 - OMB Scoring							
Budget Authority	30,771	35,959	36,747	37,347	38,038	38,786	217,648
Outlays	26,244	29,037	33,096	35,271	36,692	37,843	198,183
S. 1173, ISTEA2 - CBO Scoring							
Budget Authority	31,289	36,008	36,817	37,350	37,993	38,712	218,169
Outlays	27,218	30,413	34,567	36,719	37,795	38,878	205,590

CBO Scoring of Surface Transportation Programs
Mandatory and Discretionary Spending
(dollars in millions)

	Enacted <u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	6-Yr. <u>Total</u>	6-YR Total Less WIDI <u>Baseline</u>
CBO WIDI Baseline:								
Budget Authority	30,747	30,771	30,800	30,828	30,857	30,887	184,890	N/A
Outlays	27,179	28,423	29,235	29,821	30,236	30,900	175,794	N/A
<u>Discretionary</u>								
BA	1,061	1,085	1,114	1,142	1,171	1,201	6,774	N/A
Outlays	25,213	26,322	26,985	27,703	28,134	28,806	163,163	N/A
<u>Mandatory</u>								
BA	29,686	29,686	29,686	29,686	29,686	29,686	178,116	N/A
Outlays	1,966	1,757	1,541	1,207	1,056	960	8,487	N/A
HR 2400, BESTEA - CBO Scoring								
Budget Authority	30,798	34,730	38,719	38,866	38,693	38,808	220,614	35,724
Outlays	27,346	30,150	33,805	36,734	37,866	38,549	204,450	28,656
<u>Discretionary</u>								
BA	1,203	714	315	260	185	155	2,832	-3,942
Outlays	25,231	27,770	30,957	33,663	34,666	35,296	187,583	24,420
<u>Mandatory</u>								
BA	29,594	34,016	38,404	38,406	38,509	38,654	217,583	39,467
Outlays	2,115	2,379	2,848	3,071	3,200	3,253	16,866	8,379
S. 1173, ISTEA2 - CBO Scoring								
Budget Authority	31,288	36,008	36,717	37,350	37,993	38,712	218,068	33,178
Outlays	27,218	30,412	34,567	36,718	37,794	38,878	205,587	29,793
<u>Discretionary</u>								
BA	1617	2194	2432	2391	2420	2463	13,517	6,743
Outlays	25252	28660	33022	35492	36703	37867	196,996	33,833
<u>Mandatory</u>								
BA	29671	33814	34285	34959	35573	36249	204,551	26,435
Outlays	1966	1752	1545	1226	1091	1011	8,591	104

**Comparison of House and Senate ISTE A Reauthorizations with Alternative projections
(Outlays in millions)
Six Year Totals: 1998 to 2003**

HR 2400, BESTEA

	OMB Scoring	CBO Scoring	President's Request	CBO WODI Baseline	OMB WIDI Baseline	CBO WIDI Baseline
Outlays	198,548	204,450	164,369	170,006	170,311	175,794

HR 2400 OMB Scoring

			Less CBO WODI Baseline	OMB WIDI Baseline	CBO WIDI Baseline
	CBO Scoring	President's Request			
Outlays	-5,902	34,179	28,542	28,237	22,754

HR 2400 CBO Scoring

		Less CBO WODI Baseline	OMB WIDI Baseline	CBO WIDI Baseline
	President's Request			
Outlays	40,081	34,444	34,139	28,656

S. 1173, ISTE A2

	OMB Scoring	CBO Scoring	President's Request	CBO WODI Baseline	OMB WIDI Baseline	CBO WIDI Baseline
Outlays	198,183	205,590	164,369	170,006	170,311	175,794

S. 1173 OMB Scoring

		Less CBO WODI Baseline	OMB WIDI Baseline	CBO WIDI Baseline	
	CBO Scoring	President's Request			
Outlays	-7,407	33,814	28,177	27,872	22,389

S. 1173 CBO Scoring

	Less CBO WODI Baseline	OMB WIDI Baseline	CBO WIDI Baseline	
	President's Request			
	41,221	35,584	35,279	29,796

Other NDD Cuts to Support House BESTEA and Presidential Initiatives

Funding Surface Transportation Programs at the House BESTEA level and Presidential initiatives would result in a **2.0 percent outlay reduction** in FY 1999 to "all other NDD programs." Assuming an average spendout rate for these other programs, this would require a **3.9 percent budget authority reduction**. On average over the next five years, outlays for all other NDD programs would be cut by **5.5 percent**. Budget authority would be cut by **6.7 percent** on average over the next five years.

PROGRAMMATIC IMPLICATIONS:

Agriculture:

- **Undermines food safety.** A reduction of this magnitude could mean the layoff or RIF of an estimated 250 meat and poultry inspectors, which would result in the slowdown of production, or even rotating shut-downs, in some meat and poultry slaughter and processing plants. Such a reduction could also deny vital investments proposed for the President's Food Safety Initiative and mean a delay of USDA's modernization of the Federal meat and poultry inspection system, as well as reduced funding for mandatory improvements in state inspection systems, including upgraded state lab testing for pathogens.
- **Decreases WIC participation rates.** The President proposed a monthly participation level of 7.5 million in FY 1999 and in the outyears. A 2.0 percent reduction in outlays in FY 1999 and larger reductions in the outyears would reduce WIC participation by 100,000 to 7.4 million in FY 1999, by 300,000 to 7.2 million in FY 2000, by 400,000 to 7.1 million in FY 2001, and by 600,000 to 6.9 million in fiscal years 2002 and 2003.

Commerce:

- **Funding restrictions at this period in the decennial cycle would seriously threaten the accuracy of the final decennial census.** The Administration has requested \$849 million for final decennial census preparations in 1999, an increase of \$459 million over the 1998 enacted level. This level of funding provides essential funding to continue key preparatory activities -- such as finalizing the master address file, expanding the field infrastructure, and producing the questionnaires and public use forms -- for the Constitutionally-mandated decennial census.

- **20-50 Percent Cut in Climate Change Technology Initiative.** These reductions could mean as much as a 50 percent reduction in the proposed increases for the two largest components of the Climate Change Technology Initiative (CCTI) -- DOE's Energy Conservation and Solar and Renewable Energy programs. Without the requested funding, these programs will lack many of the technologies needed to make serious progress in reducing greenhouse gas emissions.

Health and Human Services:

- Requires **Head Start** budget authority level of \$4,432 million in FY 1999, \$228 million below the President's request (4.9 percent reduction). The President's FY 1999 budget provides funds for up to 36,000 slots for regular Head Start, 10,000 slots for Early Head Start, and COLA and quality investments. At a funding level of \$4,432 million, the program would not be able to maintain its expansion goals -- even if it did not make COLA and quality investments in FY 1999. Specifically, foregoing COLA and quality could mean that Head Start will not be able to expand Early Head Start in FY 1999 and can only add about 20,000 new slots for regular Head Start. Preserving COLA and quality investments at such a funding level could mean that Head Start could add only up to 7,300 new slots for regular Head Start and no new slots for Early Head Start.

An average outlay cut of 5.5 percent over five years would seriously compromise the President's commitment to provide Head Start services to one million children by FY 2002. Depending on how much was set-aside for COLA and quality investments, a five-year cut could result in Head Start falling about 60,000 to 120,000 children short of the President's commitment.

- **Reduces budget authority for the Child Care and Development Block Grant by \$27 million, potentially eliminating child care assistance to roughly 10,000 low-income children.**
- **Reduces total funding for NIH-supported medical research by over \$570 million in FY 1999 and by \$5.7 billion over five years.** If done proportionately, funding for investigator-initiated research project grants (RPG's) would be cut by over \$315 million in FY 1999 and more than \$3.2 billion over five years. If the RPG cut is taken all out of new grants, this would deny funding to over 1,100 meritorious research grant applications in FY 1999 and more than 11,500 over five years. A reduction of this magnitude in funding for new research ideas and would slow the scientific community's progress in developing treatment and prevention strategies for life-threatening diseases such as cancer, cardiovascular disease, AIDS and diabetes.

- **Would result in significant program cuts to the Advanced Technology Program and Manufacturing Extension Partnership in NIST's Industrial Technology Services account.** This reduction could result in the elimination of 33 of the 94 new ATP awards planned for FY 1999. These awards support cost-shared research on technologies promising broad benefits to the U.S. economy. The cut to MEP would result in the elimination of Federal funding for thirteen manufacturing extension centers, which would deprive over 5,200 manufacturers from receiving assistance in modernizing their facilities and saving jobs.
- **Economic Development Administration - would deprive over 160 distressed communities from receiving assistance.** These distressed communities include those adversely impacted by Defense base closures, natural disasters, major plant closings, and trade agreements. A 5.5 percent cut over five years would limit EDA's ability to provide assistance to localities, support jobs, and leverage private sector resources.

Education Department:

- **750,000 children would be denied assistance under Title I in FY 1999; and over five years, 2.7 million children would be denied assistance.**
- **100 new Charter Schools could be not opened in FY 1999; and over five years, 350 new Charter Schools could not be opened.**
- **3.8 million students would see a \$170 decrease in their awards and 74,000 fewer low-income students would receive Pell grants in FY 1999.** Over five years, Pell maximum grants would be reduced on average by \$123; and 281,000 fewer low-income students would receive Pell grants .
- **All funding for new discretionary initiatives would be eliminated and (e.g. Education Opportunity Zones, High Hopes) -- preventing 175,000 at-risk middle school students from receiving mentoring and tutoring, denying additional assistance to poor schools in their efforts to undertake school reforms, preventing after school programs from serving an additional 450,000 students, and preventing new efforts to improve teacher training and recruit 7,000 new teachers.**

Energy Department:

- **Cancels and closes science user facilities.** Energy would be unable to build the Spallation Neutron Source, leaving the United States without a facility comparable to those in Europe and Japan which is vital to research in materials science, structural biology, metallurgy, and chemistry. Operation of existing DOE user facilities that serve thousands of Government and private scientists would have to be curtailed or suspended.

- **Reduces funding for Ryan White program by more than \$37 million in FY 1999 and more than \$322 million over five years, limiting the services available to people with AIDS just as new treatments are providing hope that AIDS need not be a fatal disease.** In FY 1999, such a reduction could result in about 16,000 fewer people receiving services through Title I grants to cities, 2,200 fewer people receiving drugs through the AIDS Drug Assistance Program, and 3,000 fewer people receiving services in Title III clinics. Over five years, such reductions could result in about 138,500 fewer people receiving Title I services annually, about 19,100 fewer people receiving ADAP services annually, and about 26,500 fewer people receiving Title III services annually. Such funding reductions would undermine Ryan White's ability to address growing demand for AIDS services.
- **Reduces funding for HRSA by nearly \$150 million in FY 1999 and over \$1.2 billion over five years, undermining health care and services for women and children, uninsured people, and people with AIDS; it would cut Health Centers well below the President's request — possibly preventing over 400,000 people from receiving health services in FY 1999 and more than 3.5 million people over five years. It would also reduce funding for the Maternal and Child Health Block Grant well below the President's Budget.**
- **Eliminates funding in the Office of Emergency Preparedness for one to two cities' Metropolitan Medical Strike Teams (MMSTs), which are part of a system to respond to the medical consequences of terrorist events involving biological and chemical weapons.**
- **Reduces funding for the Initiative to Improve Health Care Quality, which would impede the development of research and research tools to measure the quality of health care, as well as research on consumers' use of information on quality.**
- **Reduces funding for SAMHSA by \$89 million in FY 1999, with sizable cuts to the Mental Health Block Grant and the Substance Abuse Block Grant, denying substance abuse treatment to almost 30,000 people. Over five years, SAMHSA's funding would be cut by \$759 million, denying treatment to nearly 250,000 people.**
- **Reduces funding for CDC by nearly \$100 million in FY 1999 and \$820 million over five years, cutting childhood immunization funding, reducing funding for HIV prevention and breast and cervical cancer screening.**

- **Reduces funding for HCFA Program Management by \$65 million in FY 1999 and \$550 million over five years, necessitating deep cuts across all HCFA activities.** Assuming that Congress does not enact any of the HCFA user fees, a reduction of this magnitude would impact base functions (e.g., contractor non-renewals, the Medicare handbook, initial and recertification surveys, and beneficiary appeals) as well as the implementation of new initiatives (e.g., the Balanced Budget Act, the Health Insurance Portability and Accountability Act, and Medicare+Choice). The effects of such a funding level would be felt by both Medicare contractors and beneficiaries.

Housing and Urban Development:

- **Reduces both public housing and Section 8 rental assistance to low-income families by up to 100,000 families in 1999 and 400,000 families at the end of five-years.** If the number of subsidized low-income families could not be reduced, then enactment of legislation would be necessary to lower the overall level of the families' subsidy by 2 percent in 1999 and 8 percent in 2003. In addition, HUD would require similar cuts in block grants to States and localities for community development and housing.
- **Job Creation, Economic Opportunity, Housing and Homeownership --** Cuts would imperil, reduce or eliminate HUD's proposed job creation efforts, including a Community Empowerment Fund to get businesses the start-up capital they need to create jobs, money to convert old polluted brownfields into thriving businesses and funding for a new round of Empowerment Zones to bring opportunity back to the inner city. Cuts would eliminate both new vouchers to help people move from welfare to work and the funding increase for the homeless. Finally, the overall reductions in operating subsidies for public housing will force local housing authorities to reduce services to low-income residents and cuts in administrative expenses could jeopardize a major management reform effort needed to improve HUD's performance across the board.

Interior:

- **Virtually eliminates the requested increase for National Park Service Priority Maintenance.** Over five years, the Administration proposes an 8 percent increase in discretionary funding over FY 1998 levels for facility maintenance and construction. A 6.7 percent budget authority reduction to offset ISTEA increases would eliminate nearly all of the increases for park facilities, which are needed to support maintenance and construction projects designed to preserve and protect the Nation's precious natural, historic and cultural resources for the enjoyment of current and future generations.
- **Inadequately funds the Endangered Species Act (ESA) program.** Would cut the President's request for Interior's Fish and Wildlife Service (FWS) by \$32

million (and larger outyear reductions). This funding level would severely affect successful implementation of the ESA reforms initiated by the Administration and included in pending ESA reauthorization legislation. It would reduce the number of completed consultations on federal grazing permits, timber sales, and wetlands permits; prevent FWS staff from working on several large habitat conservation plans; and stop FWS from providing any new private landowners incentives for habitat conservation.

Justice:

- **Eliminates 1,000 Border Patrol agents.** Such a reduction would not provide enough resources to fund 1,000 agents in 1999, which are needed to fill enforcement gaps and to enhance Border Patrol presence along the Southwest border. Additionally, the cut means that mandated detention and removal requirements could not be met. The cut would also adversely affect our ability to deploy "force multiplying" technology, which will increase the effectiveness of Border Patrol agents and enable INS to better control the border. A 6.7 percent budget authority cut over five years would significantly constrain our ability to shift our focus from observing the border to responding to known intrusions.
- **Eliminates new Federal Bureau of Investigation agents and Drug Enforcement Administration agents.** Such a reductions would cut the FBI's budget by 2.8 percent from the 1998 enacted level. The cut would not only eliminate new agents needed to combat increased threats of domestic and international terrorism, including cyber crime, but would reduce base staffing. The cut would also reduce the number of DEA agents that could be hired to enhance domestic anti-heroin and anti-methamphetamine efforts. A 6.7 percent budget authority reduction over five years would adversely impact FBI and DEA ability to respond to new and emerging law enforcement needs.
- **Federal Prisons.** Would mean no money for new activations or sufficient resources to provide annualization of prior year increases in 1999, adversely impacting the activation of the following facilities and expansions: Loretto, PA expansion 200 beds; Butner, NC 763 beds; Edgefield, SC 1,664 beds; and Beaumont, TX 1,152 beds. The resulting delays would negatively affect the Bureau of Prisons' ability to fill as many as 3,800 beds.

Labor Department:

- **Job Training Programs.** Most of the Department's job training programs in the Training and Employment Services (TES) account are forward funded. This cut would have the following effects:
 - **Results in about 248,000 fewer dislocated workers receiving training, job search assistance, and support services.** The 1999 outlay cut of 2 percent would require a one-year budget authority cut that reduces outlays

over the 5-year period by more than 5.5 percent

- **Eliminates about 22,000 summer job opportunities for low-income youth in the Summer of 1999.** To achieve a 5.5 percent outlay cut for the period 1999-2003, the budget authority would have to be cut by \$278 million over 5 years, or 6.4 percent. This would eliminate about 174,000 Summer Job opportunities over the 5-year period
- **Adult training grants - results in about 238,000 fewer low-income adults receiving training and employment services.** About 40 percent of program participants are welfare recipients. The 1999 outlay cut of 2 percent would require a one-year budget authority cut that reduces outlays over the 5-year period by more than 5.5 percent
- **Job Corps -- eliminates about 7,200 residential training slots for extremely disadvantaged youth.** The 5-center expansion initiative launched in FY 1998 in response to Congressional appropriations report language would be delayed or stopped.
- **Reductions would mean significant cuts to the implementation grants to States to develop One-stop Career Center systems and jeopardize funding for America's Labor Market Information System including America's Job Bank.**
- **Employment Service - cuts of this magnitude would harm labor exchange and job search assistance for unemployed workers.**
- **Community Service Employment for Older Americans (Labor) is forward funded.** Budget authority would be cut by \$46.4 million in FY 199 (10.5 percent) and some 6,400 low-income older Americans would lose their part-time jobs. Over FY's 1999 - 2003, budget authority would be cut by over \$121 million and some 16,800 fewer part-time community service jobs would be available for the low-income elderly.

Veterans Affairs:

- **Veterans Medical Care - would impede on the Department's ability to increase access to high quality health care.** As a result of these reductions, VA would treat an estimated 72,000 fewer veteran patients in FY 1999, including 14,000 in need of hospital care. A \$5.2 billion reduction over five years would result in 1.1 million fewer veterans being treated, including 154,000 in need of hospital care.

Environmental Protection Agency:

- **EPA Operating Program -- reductions would significantly hamper EPA's ability to protect and improve the environment.** In particular, it would

jeopardize EPA's ability to carry out the Clean Water Action Plan to address pollution from factory farms, and the Climate Change Technology Initiative which would reduce greenhouse gas emissions, cut energy usage and save consumers money.

- **Lost Capitalization for the Clean Water and Drinking Water State Revolving Funds (SRFs)** – A 3.9 percent cut to the FY 1999 combined SRF request of \$1.85 billion would reduce Federal capitalization by more than \$72 million. This 3.9 percent budget authority cut to FY 1999 would result in a loss of more than \$288 million in loans to municipalities. A 6.7 percent cut to the FY 99-2003 combined SRFs request of \$8.35 billion would reduce Federal capitalization by \$559 million, resulting in a total loss of about \$2.2 billion in loans to municipalities.
- **Slows Superfund cleanups** – Results in eight fewer completions of Superfund toxic waste sites in FY 1999 and 135 fewer completions over five years, needlessly jeopardizing public health.

National Aeronautics and Space Administration (NASA):

- **Jeopardizes International Space Station deployment.** With its first launch scheduled for later this year, Space Station is entering a critical phase in its development. The proposed cuts could lead to multi-year delays in Space Station deployment and raise outyear Space Station costs by billions of dollars.
- **Threatens science programs.** The proposed cuts would endanger NASA's science programs, especially the increase being sought by the Administration for new Space Science missions to complement the Origins initiative begun by the Administration and Congress last year. NASA Space Science achieved several notable successes this past year (the Mars Pathfinder, Galileo, Hubble Space Telescope, and Lunar Prospector missions), and the proposed reductions would undercut major efforts to follow up on these successes.

Office of Personnel Management:

- **Results in a RIF of about 175 FTE to accommodate an average annual outlay reduction of \$10 million from the FY 1999 budget levels.** These staffing reductions, taken against an agency that has already reduced its FTE levels by over 50 percent since 1993, would have a significant adverse impact on OPM's ability to continue to provide the level and quality of services required during this period of Government-wide downsizing, including: lengthen the claims processing times for retirement claims, delay systems modernization and maintenance investments necessary to maintain effective service delivery, decrease OPM's ability to provide workforce restructuring assistance, reduce OPM's ability to monitor agency implementation of merit system.

National Science Foundation (NSF):

- **Reduces support for research.** Under the proposed cuts, the number of new projects that NSF could support would drop by 1,000, and the number of researchers, educators and students that NSF could support would also drop 8,650 for FY 1999. The proposed cuts would make it impossible for NSF to meet certain GPRA performance goals like increasing the percentage of competitive grants awarded to new investigators and increasing the size and duration of grants. Improvements to information systems that would enable NSF to increase productivity would also be delayed. The ultimate outcomes of the cuts would be: reduced investment in universities and colleges, negative impact on industries and agencies that rely on NSF research, and a slowing in the development of the U.S. scientific knowledge base.

National Service:

- **The National Service program would be cut by about \$190 million (24 percent) in 1999, reducing funding below the 1998, 1997, and 1996 enacted levels.** Nearly all funding for the AmeriCorps programs would be eliminated, including funding for some 6,000 participants who, in turn, would have leveraged hundreds of thousands of volunteer tutors working with children under the America Reads initiative.

Dorothy Robyn
04/03/98 05:11:49 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP
cc: Sally Katzen/OPD/EOP, Jonathan A. Kaplan/OPD/EOP
Subject: Today's Raines, Stein, Slater, Lew Meeting on ISTE

Here's a quick read out of the meeting, which I attended in Gene's place:

Slater asked for meeting because he's doing a 6-state tour next week, and wants to know what message he should be sending. (Also, he'll be doing a speech at Nat'l Press Club the week after.)

Raines summarized the problems in ISTE as four: 1) it's too big, relative to BBA; 2) as a result, it crowds out other priority investments -- either directly, or by using offsets needed for other things; 3) \$9B in House demo's; and 4) the off-budget provision. Although we haven't said much about #3 and #4, where we want to go w. ISTE is: smaller, less crowding out, fewer dem's, and on-budget. That said, there's no agreement internally on how to get there, and Frank can't really predict where we'll come out.

Raines and Stein suggested that Rodney talk about the importance of transportation investment -- and our good record -- but make clear it can't crowd out other important investments. (Rodney emphasized that non-highway transportation investments are the hardest hit in the Senate budget resolution -- that's half of what domenici uses to pay for ISTE; he can obviously say that very effectively with a lot of audiences.) Rodney wanted guidance on what to say about the timing of the bill. We agreed that he should say: 1) We think we can get a good bill by May 1. 2) But if Congress can't get a good bill by May 1, they should slow down a bit in order to do it right.

In sum, Rodney's message should be: 1) it's too big; 2) it crowds out other investments; 3) we need a good bill by May 1; and 4) we need to maintain the good policies that are now in both bills -- DBE, WTW transportation services, environmental funding, etc.

The rest of the meeting was a discussion of strategy. Stein thinks that if we do some additional analysis and see how things play out, the right answer in terms of strategy will make itself apparent. He thinks we need 3 pieces of analysis: 1) crowding out effects of ISTE -- both aggregate and compelling examples; 2) demonstration projects -- again, both aggregate and compelling examples; and 3) the best response to the Shuster, et al argument that we just want to spend what's rightfully ours -- namely, everything in the HTF. OMB is doing 1); DOT is doing 2); i'm going to take a crack at 3), by summarizing relevant info from the House Budget committee and possibly a GAO report on non-HTF spending on highways.

Larry thinks press coverage of the demo's has been brutal -- ABC even linked it to Shuster's need to deal with his legal problems. (He stressed that we should not be the source of any information on pork/demos; he thinks that story can tell itself.) Plus, he met w. Sen. Warner, who said he was embarrassed by the House bill -- the pork, the off-budget and the sheer size. He's mortified by the prospect of a Democratic president vetoing a GOP bill b/c of pork and excessive spending. Larry thinks the environment is there for things to turn around somewhat -- mostly likely, a jettisoning of the demo's. But he and others think it will be hard to get Congress to scale back the size of the bill

Thanks
Will Be
Post article on
Shuster --
Sunday
ES
7/7/98

Let me
see as
soon
as
you
see
anything.

much beyond that b/c increasing the pie was the way they solved the fractious formula fights.

Larry may also be underestimating the difficulty of getting rid of demos. He said he thought the House porkfest had embarrassed the Senate so much that it wouldn't add its own demos. But DOT officials (Steve Palmer and Jack Basso) tended to disagree; they said the Senate will likely get rid of some of the House's pork to make room for its own.

Larry and Frank agreed that they would jointly call Chafee, Warner and Baucus on Monday to try to slow them down a bit in terms of the conference. Slater said he would also try to use DOT's role in providing technical assistance -- e.g., in resolving the House-Senate formula differences -- to slow things down. We want to slow things down without being seen as doing so.

Transportation Bill Q and A
April 5, 1998

Q: The President has said he thinks spending in the recently enacted transportation bills goes too far. Would he veto the popular transportation bill?

A: This President campaigned on the need to invest more in infrastructure in order to "rebuild America," and he has raised transportation spending to record levels, even while balancing the budget:

--The budget submitted by the President this year asks for 42% more for transportation than the average expenditure in the Bush Administration.

But the spending levels in the recently enacted House and Senate transportation bills -- along with the earmarked demonstration projects, and the effort to take the Highway Trust Fund "off budget" -- threaten to undermine the bipartisan balanced budget agreement and to starve other critical investments, such as the President's proposals for education, child care and health care.

Transportation is an important domestic priority, but we must strike a balance, so that we maintain fiscal discipline and preserve strong investments in our people as well as our physical infrastructure.

**DOT OFFICIALS TALKING POINTS (READ ONLY)
ISTEA REAUTHORIZATION
APRIL 2, 1998**

The Senate and House votes bring us closer to a reauthorization bill which builds upon ISTEA's successes and which includes many of the initiatives President Clinton proposed last spring to help us meet the challenges of the new century. However, we're concerned that proposed new spending goes too far, threatening both fiscal discipline and commitments to education and other investments.

Building on ISTEA. We commend Congress for bills which retain most of ISTEA's principles. They continue the many programs which work, refine those which haven't yet fully realized their promise, and create new initiatives which apply what we've learned.

Investing in America. The Congressional bills retain ISTEA's proven core structure of highway, bridge, and transit programs to continue rebuilding America, and continue investments in ITS and other advanced technologies.

Protecting safety and the environment. The bills have programs to expand seat belt use and, in the Senate, a tough .08 BAC standard to fight drunk driving. They expand CMAQ to clean our air and Transportation Enhancements to improve our communities.

Creating opportunity. These bills expand opportunity through a continued strong disadvantaged business enterprise program and a new program to help those making the transition from welfare rolls to payrolls get to where the jobs are.

Concern about spending levels. However, the spending levels in this bill, earmarked demonstration projects, and the effort to take the Highway Trust Fund off-budget threaten to undermine the bipartisan balanced budget agreement and starve other critical investments, such as the President's proposals for education and child care. They also could force cuts in other vital transportation programs, such as FAA modernization and the Coast Guard's national security mission.

Balancing the budget, balancing our values. The President, in partnership with Congress, has raised transportation investment to record levels while balancing the budget and honoring other critical national priorities. We need to continue such fiscal responsibility while investing for our future in a balanced way.

The House-Senate conference. As ISTEA reauthorization moves to the House-Senate conference committee, we pledge to work with the conferees to preserve the important priorities established in both the House and Senate bills, and to address the serious concerns which have been raised.

04/03/98 FRI 15:10 FAX 202 755 8784

CQ WEEKLY REPORT

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LOTT-COVERDELL-BUDGET PAGE 10 04/03/98 .STX

To: Sarah for
Elen N.

Fr: Sue Knecht

X X X way.

Q Senator Lott, you talked about offsets of the ISTEA. Your bill for ISTEA does have offsets, but one of the offsets that is used for ISTEA is administrative savings in the (FGA ?). That money is also being earmarked in the agricultural research bill for restoration of food stamp benefits to legal immigrants. There's a dispute about where that money ought to go. What do you think?

SEN. LOTT: I think that money should go for the highway bill, personally. We need to have agriculture research in America and we need crop insurance. It does need to be offset, and we're going to continue to work with members of the Agriculture Committee and Republicans and Democrats on both sides of the Capitol to find a way to move the agriculture research and crop insurance, and that it be paid for. I don't think we should be taking some of the food stamp administrative savings and move it over to pay for a program that did not exist as a result, or does not exist, as a result of our welfare reform package. So we'll get the job done, but not the way, probably, that it came out of conference.

Q But you do favor restoring the welfare benefits to the legal immigrants?

SEN. LOTT: No.

Q Not at all.

Q Senator Lott, on tobacco. BAT (sp) Industries has said that for a tobacco company to sign on to the McCain bill would amount to suicide. And RJR Reynolds is also giving suggestions that they might refuse to sign on. Do you have concern that BAT (sp), RJR and others will just refuse to sign on to the tobacco bill and you'll be left with nothing, or do you think there's pressure on them to come around?

SEN. LOTT: Those questions probably should be answered by Senator McCain and others from the Commerce Committee that were directly involved in the drafting of the legislation that came out of the committee, or Senator Nickles, who is working on it. I think again it's important that that committee dealt with the tough issue, it's complicated, they reported it out, you know, 19 to one. I think they are going to have to take a look at it.

If you wind up bankrupting companies, if that can be determined for sure what the financial impact would be, that is counter-productive because everybody's saying, "Oh, well, you know, we need

.ETX

LOTT-COVERDELL-BUDGET PAGE 11 04/03/98 .STX

these funds for the teenage cessation smoking program, for Medicare, you know, to deal with the health problems. But if you bankrupt them, you don't get the money. So I think there is — I talked to Senator McCain about this and others, including Senator Nickles and even Senator Wyden. I was just on the floor last night talking to Senator Wyden, and I said, you know, what do you think really is the impact going to be? And if there is a conclusion that it would bankrupt some of these companies, then they may have to adjust what the amount of funding is or how that is acquired.

I think there's no question that the package that came out of Commerce is going to



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

April 1, 1998
(House Floor)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 2400 - Building Efficient Surface Transportation and Equity Act of 1998 (Shuster (R) PA and 118 cosponsors)

Reauthorization of the Nation's surface transportation programs is a top Administration priority. The Administration is pleased that H.R. 2400 is a six-year bill that reflects many of the President's priorities. As the President stated in his letter of March 28, 1998, however, he has serious concerns that the extent of proposed new spending in this transportation bill goes too far and could threaten both fiscal discipline and the commitment to education and other critical investments in our future. The Administration urges the House to reduce the spending levels in H.R. 2400 and fully offset any new spending with acceptable proposals.

The Administration strongly supports the Spratt amendment, which would extend the current highway and mass transit programs until July 1, 1998, ensuring that important construction projects proceed uninterrupted. This will provide sufficient time for completion of a budget resolution, making clear the offsets required by the high levels of funding called for in this bill.

We are pleased that BESTEA includes many of the provisions advanced by the President last spring. There are significant and solid areas of agreement. BESTEA builds upon the successes of ISTEA by retaining the basic program structure for transit and core highway programs, including the bridge program, as well as continuing the effective metropolitan and statewide planning processes. The bill retains ISTEA's highly successful environmental programs, and firmly supports Intelligent Transportation Systems technologies.

Funding Levels and Off-Budget Treatment. H.R. 2400 would increase surface transportation authorizations significantly above the President's request -- increasing surface transportation outlays during 1998-2003 by at least \$34.2 billion above the President's request. Yet H.R. 2400 does not identify any offsets. Without offsets, severe cuts in other domestic discretionary spending programs would be required over the next five years in order to realize fully the authorized levels of transportation spending.

If this transportation bill is fully funded from discretionary spending, it will force billions of dollars of additional cuts -- beyond those already required to live within the BBA. If such cuts were made, the President's request for nondefense discretionary programs would be reduced by \$31 billion over five years -- with serious consequences. For example, compared to the President's request 50,000 - 100,000 fewer children would participate in Head Start over 5 years; WIC would be cut by \$431 million over 5 years, with an average of 100,000 fewer people assisted each year; Superfund would be cut by \$166 million over 5 years; 138,00 fewer low-income students would receive Pell Grants over 5 years; 39,000 fewer AIDS victims would be assisted through the Ryan White program over 5 years; and an average of 572 fewer border patrol agents would be hired each year.

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It would be extremely difficult for the Congress to find acceptable offsets for this additional spending. To illustrate, the Senate-reported Budget Resolution identified \$16 billion in mandatory offsets for transportation spending -- offsets that the President had proposed for funding vital initiatives in education, research, veterans' benefits, food stamps, environmental programs, and other domestic discretionary programs. Even these offsets would provide less than half the amount needed to pay for the increases in H.R. 2400.

We have moved our Nation from a decade of enormous deficits into an era of strong economic growth and budget surpluses -- due in part to the fiscal discipline required when making critical resource tradeoffs under a unified budget. We strongly oppose any provision that would drain anticipated budget surpluses prior to fulfilling our commitment to save Social Security first. The Administration also has serious concerns about the provision in H.R. 2400 which would move the Highway Trust Fund off-budget.

Demonstration Projects. The Administration believes that individual States are best able to define high priority transportation projects. The Administration has serious concerns regarding the number of earmarked projects in the bill and the unprecedented \$9 billion in mandatory spending over six years for so-called "high priority" projects. This level of earmarked projects circumvents the usual State planning and selection process, undercutting key themes of ISTEA, including public participation, analysis of alternatives, and environmental review. This is not an appropriate way to allocate billions of dollars of public resources.

Disadvantaged Business Enterprises. The Administration strongly opposes the Roukema amendment, which would effectively repeal ISTEA's disadvantaged business enterprise (DBE) goals for highway and transit projects. First enacted in 1987, the DBE program sets out a 10 percent goal for all federal highway contracts to go to disadvantaged business enterprises. It is essential to continue equal opportunity in competition for transportation contracts.

Safety Concerns. The bill's safety provisions should be strengthened by mandating a .08 percent blood alcohol level as the national standard for drunk driving; enacting a strong companion program to combat drugged driving; prohibiting open containers of alcohol in motor vehicles; and encouraging States to improve their seat belt usage rates to 85 percent or enact primary seat belt laws.

Environmental Concerns. The bill's provisions regarding the National Environmental Policy Act (NEPA), which the Administration strongly opposes, should be deleted. The Administration particularly opposes the proposed pilot program delegating the statutory authorities of Federal agencies to States. The Department of Transportation should continue to be responsible for ensuring that the environmental impacts of projects are considered from a national perspective. Moreover, these provisions would have the negative effect of actually delaying project implementation and reducing the opportunities for public participation. In addition, the bill should extend Congestion Mitigation and Air Quality Improvement (CMAQ) program funding eligibility to potential non-attainment areas that may result from the recently promulgated Clean Air Act standards.

Other Major Concerns. The Administration will also seek amendments to H.R. 2400 in the House or in Conference to address the concerns described below and in the Attachment.

- The bill should increase the funding for, flexibility of, and number of Access to Jobs projects. The current limits on the number and design of projects and low funding levels will make it difficult for States and communities to succeed in moving people from welfare to work.
- The bill should increase the ability of States to leverage their transportation resources by including the State infrastructure bank and credit enhancement provisions as proposed by the Administration. The Administration, however, strongly opposes any provision that would permit direct and indirect Federal guarantees of tax-exempt obligations and the subordination of Federal loans for certain transportation projects in contravention of longstanding Federal credit policies.
- The provision limiting transit preventive maintenance and small urbanized area operating assistance to \$400 million per year should be deleted.
- The bill should authorize the full \$161 million requested for National Park roads and parkways. The funding levels currently authorized in the bill are inadequate to support these important programs.
- The bill should include a provision allowing employers to offer their employees transit and vanpool benefits in lieu of compensation, thus making the tax treatment of transit and vanpool benefits the same as for parking benefits under the Internal Revenue Code.
- The bill should extend the excise tax incentives for ethanol (but without phasing down the rates of the benefits), thereby supporting the use of alternative fuels to improve our Nation's air quality.

Pay-as-you-go Scoring

H.R. 2400 would increase direct spending by \$8.3 billion above the baseline over six years. Most of this increase in mandatory spending would result from the over 1,400 demonstration projects included in this bill. Without any mandatory offsets, if this spending were scored on-budget as it should be, the bill would result in a sequester of mandatory programs as required by the Budget Enforcement Act. A sequester would result in across-the-board cuts in programs such as Medicare, Guaranteed Student Loans, programs of the Commodity Credit Corporation, Social Services Block Grants, and Extended Unemployment Benefits.

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PRESERVATION

AttachmentAdditional Concerns with H.R. 2400

The Administration urges the House to address the following additional concerns with H.R. 2400.

The Administration recommends that H.R. 2400 be amended to:

- Delete the provisions in Title IX authorizing the Secretary to provide direct loans and loan guarantees totaling \$5 billion for rail purposes. The Administration strongly opposes establishing a separate program for providing credit to private railroads. Further, a number of provisions in Title IX are either inconsistent with the Federal Credit Reform Act of 1990 or conflict with OMB guidance for budgeting and managing credit programs.
- Include "one-call" underground utility damage prevention provisions.
- Delete the provision for transferability of CMAQ and Transportation Enhancements funding to other highway program categories.
- Require consideration of the seven planning categories proposed by the Administration in order to promote consistent local planning and decision making for highway and mass transit projects.
- Retain ISTEA's current financial feasibility requirements for transportation plans.
- Provide adequate funding for the administrative and operations expenses of the Federal Highway Administration. (Funding levels currently in the bill would require large reductions in agency operations, and probably mandate reductions-in-force.)
- Reauthorize the Hazardous Materials Transportation safety program.
- Ensure that investments in highway and transit spending are balanced by investment in intermodal research and technology.

The Administration would strongly oppose amendments that would weaken the Transportation Department's ability to promote highway safety, or any selective exemptions from, or definitional changes to, Federal truck size and weight limitations, hazardous materials standards, hours of service requirements, or whistleblower protections, as such changes would constitute a threat to all motorists.

The Administration would strongly oppose any amendments to weaken: (1) the National Environmental Policy Act; (2) the Congestion Mitigation and Air Quality Improvement Program; or (3) the Clean Air Act, or their implementation.

The Administration is also committed to retaining ISTEA's labor standards and employee

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PRESERVATION

protection requirements afforded working people on federally assisted projects (including those assisted by State infrastructure banks), and would oppose any amendments repealing or limiting these protections. The Administration would oppose changing the transit formula by adopting any form of minimum allocation for transit.

Finally, H.R. 2400's provisions regarding spectrum for the Intelligent Transportation System are consistent with the Administration's proposed bill. If these provisions were enacted, the Department of Transportation would work within the Inter-Department Radio Advisory Committee to satisfy spectrum requirements in an efficient and effective manner.

* * * * *

Status of ISTEA Legislation

March 25, 1998

On March 12th, the Senate passed the Intermodal Surface Transportation Efficiency Act reauthorization by a vote of 96-to-4. The House Transportation and Infrastructure Committee approved a manager's amendment to its reauthorization proposal, Building Efficient Surface Transportation and Equity Act (BESTEA), on March 24th with a vote of 69-to-0. The bill is expected to go to the House Rules Committee on Monday, March 30th and to the House floor on Tuesday, March 31st. The current 6-month extension prohibits obligating highway funds beyond May 1, 1998, thereby forcing Congressional action.

In policy terms, the House and Senate bills are similar to the Administration's proposal, the National Economic Crossroads Transportation Efficiency Act (NEXTEA). The key differences are discussed below.

Funding: The Senate bill provides \$217 billion in contract authority over 6 years for surface transportation --\$50 billion more than the President's budget request (\$38 billion more for highways and highway safety and \$13 billion more for transit). The House bill provides \$219 billion in contract authority over six years or \$53 billion above the President's budget request.

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Offsets: The Senate bill does not specifically require offsets. The Senate Budget Resolution provides \$194 billion for ISTEA programs. In doing so, the Senate claims the Administration's 1999 budget offsets for other priority initiatives and/or cuts some priority programs to pay for the increased transportation spending. While the manager's amendment to the House bill includes a provision requiring offsets, none are specifically identified. Offsets are unlikely to be identified until Conference.

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Safety: The Senate adopted two amendments that would withhold highway funds from states that fail to adopt laws to 1) reduce the legal blood alcohol level to .08 (currently .10 in most states) and 2) to prohibit the carrying of open alcohol containers in motor vehicles. (The .08 vote came a day after the President endorsed the Lautenberg-DeWine amendment at an East Room event.) The House bill does not include either provision. However, Representative Lowey is expected to offer a .08 BAC amendment on the House floor.

Environment: Both the Senate and House bills continue the Congestion Mitigation and Air Quality Improvement (CMAQ) program and the Surface Transportation Enhancements program. The Senate has avoided any showdown votes over environmental issues, including making single occupancy vehicle lanes eligible under the CMAQ program and delaying implementation of the new Clean Air Act standards. The House bill contains a controversial provision to streamline the environmental review process by delegating Federal oversight authority to the States.

Innovative Finance: The Senate bill contains an innovative finance title which reauthorizes the State Infrastructure Banks (SIBs). It also creates a new authorization for a Transportation Infrastructure Finance and Innovation program that goes further than the Administration's proposal by providing direct loans and loan guarantees. The Department of the Treasury has serious concerns with the expanded program. The House has not included any innovative finance proposals.

THE WHITE HOUSE

WASHINGTON

Johannesburg

March 28, 1998

The Honorable Newt Gingrich
Speaker of the
House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Since taking office in 1993, my Administration has made a commitment to both fiscal discipline and the strategic investments we need to lay the foundation for a strong and healthy economic future. Our initiatives have helped produce economic conditions never imagined when I first took office. We have reduced the budget deficit from \$290 billion in 1993, and may realize a potential surplus in 1998, reaching balance years before our target date. We now enjoy low unemployment, modest inflation, sustained economic growth and a level of prosperity that is a model for other countries.

Our economic policy has always demonstrated our commitment to public investments in our people to complement our commitment to private investments, fueled by successful deficit reduction. Our priorities have always included a combination of vital investments in education and training, environment, community empowerment, research, infrastructure and transportation.

Certainly investing in a reliable, efficient, and a well-constructed system of highway and mass transit is an important domestic priority and critical to our economic success. In fact, the budget I submitted this year asks for 40 percent more for transportation than the average annual expenditure in the previous administration.

However, I have serious concerns that the extent of proposed new spending in this transportation bill goes too far and could threaten both our fiscal discipline and our commitment to education and other critical investments in our future. Transportation is an important domestic priority, but we must strike a balance so that we do not allow one priority to squeeze out other critical investments such as education or undermine our fiscal discipline.

We should not and need not reject fiscal discipline or force cuts in critical programs on which our citizens and country rely to build a strong America in the 21st century. If we show a balance of our values as we reach a truly balanced budget, we can maintain fiscal discipline while maintaining strong investments in both our people and our physical infrastructure.

Sincerely,

Bill Clinton

THE WHITE HOUSE

WASHINGTON

Johannesburg

March 28, 1998

The Honorable Richard A. Gephardt
Minority Leader
House of Representatives
Washington, D.C. 20515

Dear Mr. Leader:

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Sincerely,

Bin

THE WHITE HOUSE

WASHINGTON

Johannesburg

March 28, 1998

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

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Bill Clinton

THE WHITE HOUSE

WASHINGTON

Johannesburg

March 28, 1998

The Honorable Thomas A. Daschle
Minority Leader
United States Senate
Washington, D.C. 20510

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Comparison of Surface Transportation Funding Levels Under Discussion for ISTEA Reauthorization
(dollars in billions, mandatory and discretionary resources)

26-Mar-98

	<u>FYs 1998 - 2003</u>		<u>FY 1998 - 2003 Difference From:</u>			
	<u>BA</u>	<u>OL</u>	<u>Balanced Budget Agreement</u>		<u>President's Budget</u>	
			<u>BA</u>	<u>OL</u>	<u>BA</u>	<u>OL</u>
Balanced Budget Agreement.....	157.6	155.4	---	---	(8.5)	(9.0)
1999 President's Budget.....	166.1	164.4	8.5	9.0	---	---
NEXTEA.....	169.9	167.1	12.3	11.7	3.8	2.7
Original Senate (S. 1173).....	185.6	176.3	28.1	20.9	19.6	11.9
Senate (S. 1173) with Byrd - Gramm.....	216.6	198.4	59.0	43.0	50.5	34.0
Senate Agreement.....	216.5	197.8 /1	58.9	42.4	50.4	33.4
Senate Resolution.....	194.1	176.3 /3	36.5	20.9	28.0	11.9
House BESTEA (Equal to CA).....	219.1	197.7	61.5	42.3	53.0	33.4
House BESTEA (Off-Budget in 1999)....	219.1	206.9 /2	61.5	51.5	53.0	42.6

1/ As passed, the Senate Agreement would not alter FY 1998 appropriations/obligation limitations. Therefore, approximately \$3.1 billion in BA authorized for 1998 would not be available. Consequently, the 1998-2003 BA available to be spent would be reduced to \$213.4 billion over six years and result in \$194.7 billion in outlays, assuming all other years are fully funded.

2/ This scenario assumes Shuster's BA levels plus obligation of an additional \$10.2 billion in unobligated balances that are not currently available due to obligation limitation. CA does not increase because the resources are unobligated balances. In FY 1999-2001, highway obligations increase by \$3.5 billion each year above the Shuster authorized levels.

3/ There is a disconnect between Senate Resolution outlay and spending assumptions. Given OMB scoring of the outlay levels provided in the Resolution, highway spending would need to be reduced significantly (approximately -\$3 billion) in FY 1999 from the levels shown.

Notes

All Congressional scenarios except the Senate Resolution, assume obligation levels equal to the contract authority and authorization levels in the legislation. This assumption also holds for FY 1998. Therefore, the outlays shown are the maximum if the legislation was fully funded.

Attached pages provide greater detail on the assumptions and break out the funding.

The Balanced Budget Agreement scenario represents the amounts attributable to highways, highway safety, and transit at the time of the agreement.

The President's Budget represents the budget authority and obligation limitations included in the budget. The Budget funds Surface Transportation at essentially the FY 1998 level.

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All Scenario includes funding for Highways, Transit, and the National Highway Traffic Safety Administration. In the case where multiple committees have jurisdiction over program authorizations, the most recent committee action is used.

The two spending equal to receipt scenarios assume total spending for surface transportation is equal to the prior year receipts, without interest, beginning in FY 1999. The difference between the two scenarios is that the first scenario funds AMTRAK out of the Highway Trust Fund, as proposed by the President's Budget.

The current year highway trust fund (highway account and mass transit accounts) receipts and interest are provided for illustrative purposes. These figures are based upon OMB estimates.

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Dorothy Robyn
03/19/98 11:32:05 AM

7h^{als}
6S 3/24

Record Type: Record

To: Melissa G. Green/OPD/EOP

cc:

Subject: Re: Gingrich Outlines ISTE A Plans 

Barry wasn't looking to Gene to make a call, and Jake -- to whom I just spoke -- doesn't think Gene should get that directly involved. I just wanted Gene to be aware of this.

See next page

Dorothy Robyn
03/19/98 11:14:36 AM

Record Type: Record

To: Gene B. Sperling/OPD/EOP, Sally Katzen/OPD/EOP
cc: Peter A. Weissman/OPD/EOP, Melissa G. Green/OPD/EOP, Jonathan A. Kaplan/OPD/EOP
Subject: Gingrich Outlines ISTE A Plans

1. Although one can't necessarily believe BNA, these accounts of Slater's position are troubling.
2. NYT is writing editorial about ISTE A, and Barry Toiv wants NEO to talk to them today about our views.

----- Forwarded by Dorothy Robyn/OPD/EOP on 03/19/98 11:13 AM -----

Kenneth L. Schwartz
03/19/98 10:48:02 AM

Record Type: Record

To: Michael Deich/OMB/EOP, Jacob J. Lew/OMB/EOP, Charles E. Kieffer/OMB/EOP
cc: See the distribution list at the bottom of this message
Subject: Gingrich Outlines ISTE A Plans

Please note that it seems likely that the House bill will take the Trust Funds off budget. Please note that Slater may be getting out in front (see section in red) by allegedly supporting both House and Senate bills.

QUESTION: Do we want to try to put a stake in the ground re: the House bill? The stake could be either on funding levels or off budget treatment or both. If so, should we do so now? [In short, we are not clear what the Administration message is or should be on the Senate bill and the pending House bill.]

----- Forwarded by Kenneth L. Schwartz/OMB/EOP on 03/19/98 09:01 AM -----

David E. Tornquist

03/19/98 08:58:21 AM

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To: Kenneth L. Schwartz/OMB/EOP@EOP, Mark J. Schwartz/OMB/EOP@EOP, David J. Worzala/OMB/EOP@EOP, Diane R. Montgomery/OMB/EOP@EOP, Kim C. Nakahara/OMB/EOP@EOP, David E. Tornquist/OMB/EOP@EOP, William B. Stroud II/OMB/EOP@EOP

cc:
bcc:

Subject: Gingrich Outlines ISTE A Plans

CM/Kerry Stern
we should
talk about
this.
GS
3/21

BIFA

Daily Report for Executives

No. 53

Thursday March 19, 1998

Regulation, Law & Economics

Transportation

Gingrich Outlines ISTEA Plans

At House GOP Conference Meeting

House Speaker Newt Gingrich (R-Ga) officially unveiled the GOP leadership's plan to bring the \$218 billion highway and transit bill to the floor late this month, telling rank-and-file Republicans March 18 that the sharp funding increases will be covered by still unidentified offsets.

In a meeting of the House Republican Conference, Gingrich said the leadership has agreed to allow the House Transportation and Infrastructure Committee's six-year rewrite of the Intermodal Surface Transportation Efficiency Act to move forward with its funding levels intact, lawmakers and aides said.

While Budget Committee Chairman John Kasich (R-Ohio) expressed strong reservations about the bill's (HR 2400) spending levels, there was heavy support in the conference for bringing the bill to the floor, they said.

"The speaker presented this as the leadership's plan," said Rep. Thomas Petri (R-Wis), chairman of the Surface Transportation Subcommittee. "He said the bill would go to the House floor with language to take the [Highway] Trust Fund off budget, and the members said they support that."

The decision of the leadership to allow the committee's bill to go to the floor with large spending increases for highways and transit amounts to a large win for Transportation and Infrastructure Committee Chairman Bud Shuster (R-Pa), who last fall saw the same bill put on hold amid allegations that it would bust the budget. House leaders recently relented, however, after they watched the Senate overwhelmingly approve an ISTEA bill (S 1173) with similar large increases.

But Gingrich said at the session that offsets must be identified to cover the increased highway and transit spending, Petri and others said, and Kasich indicated he still will try to significantly change the bill once it moves to the floor. During the meeting, aides said, Kasich criticized both the highway and transit spending levels proposed by Shuster's bill as too high.

However, Kasich increasingly appears to hold the minority viewpoint in the debate over boosting ISTEA funding. In a series of meetings with lawmakers and industry officials on March 17 and March 18, Transportation Secretary Rodney Slater indicated the Clinton administration's support for the committee's bill and urged officials to keep the pressure on Congress to push the legislation through during the next few weeks, officials said.

Members Take 'Bitter With The Sweet'

Gingrich announced the leadership's decision to allow HR 2400 to move forward with its funding levels intact only hours after the Senate passed the \$214 billion ISTEA bill by a vote of 96 to 4. The speaker said the plan called for the bill to be approved by the House before the Easter recess in order to allow a House-Senate conference on the bill to occur before May 1, the date on which states can no longer

obligate any of their federal highway construction dollars.

With the pressure on to reauthorize the surface transportation programs before another lapse -- and the prospect of some \$9 billion in money for special projects -- House members are also expected to strongly back the committee's bill. But the funding, Petri and others said, could be jeopardized if the required offsets are not identified soon.

Petri said that if they are settled on, the offsets could be included in HR 2400 when it goes to the floor. In that fashion, Petri said, "the members have to take the bitter with the sweet."

However, another option discussed, Petri said, is to simply include language in the bill stating that the offsets will be identified later by House and Senate lawmakers. But that strategy, he said, could be risky, given that the available offsets could be committed to other purposes in the meantime.

On the Senate side, Budget Committee Chairman Pete Domenici (R-NM) is planning to pay for the ISTEA increases with many of the offsets already identified in President Clinton's FY 1999 budget. However, the president had called for those offsets to be used to pay for his new spending proposals.

For his part, Kasich is expected to offer an alternative plan on the floor. Among the possibilities for Kasich, House aides said, is to offer his plan to repeal a portion of the federal gas tax and "turn back" the federal aid highway program to the states. Another option, they said, is for Kasich to offer an amendment that simply scales back the highway and transit authorization levels in HR 2400.

"Kasich wants to go down to the Senate's [lower] highway levels, and he wants to go below the baseline for transit," a House aide said. Meanwhile, Slater continued to meet with House members and others in an effort to preserve the momentum created by Senate action on ISTEA. The administration, which proposed a freeze in highway and transit funding in its own FY 1999 budget, now is supporting the proposed spending increases if they do not jeopardize the budgetary caps.

Slater Meeting With Lawmakers

Slater met with Rep. James Oberstar (D-Minn), the Transportation Committee's ranking Democrat, March 18 and has a similar session planned for March 19 with Shuster. The transportation secretary also met with transportation industry groups and labor interests earlier in the week.

According to members of the Transportation Construction Coalition who met with Slater March 17, Slater said the administration supports the House and Senate ISTEA bills and funding increases and urged the groups to keep the pressure on lawmakers to finish the reauthorization before states run out of federal highway monies. In addition, an extended lapse in program authority could lead to furloughs at the Federal Highway Administration, officials said.



By Nancy Ognanovich

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Message Copied To: _____

DOT's Draft Talking Points

**Talking Points for
The Secretary NEC Meeting
NEXTEA Issues**

- Thank you for providing the opportunity to meet and discuss next steps we may wish to consider on the pending ISTEA legislation. As you know the legislation is moving in the Senate. We had a substantial success last week with the vote on DBE which was 58 to 37 to table the McConnell amendment. The Senate has also raised the contract authority levels to \$26 billion annually for highways and \$36.88 billion annually for transit. In the case of transit these are General Fund authorizations.
- I have been meeting with a number of House and Senate members and they see the Senate moving the bill quickly to closure. Possibly this week.
- We will soon be asked for our position on this enhanced funding as well as other features of the bill. While the added funding provides no increases in outlays as soon as the debate starts on the budget resolution the pressure will build to put more outlays toward transportation. Also Mr. Shuster will be pressing for additional real spending in the House.
- I think it would be good for us to formulate an administration position before we are at the point where we will need to be more precise. I believe it is in our interests to get the ISTEA bill done in a way that is consistent with the Administration's priorities.
- To accomplish that objective we could consider moving to conference with a position that keeps our options open. We could respond by stating that while progress is being made on the bill we must see its effects on Administration priorities before making a firm decision on agreement or opposition to its provisions. Further we could extend that position to conference where we can see the results of the budget resolution and the likely House action.
- Therefore, I suggest that we continue to stay with the position taken by the President when he met with the Governors' which was within the Balanced Budget Agreement we will work with the Congress to complete this legislation.
- As the Senate moves forward we have other critical policy issues such as Transit Minimum Allocation to which we need to concentrate our energies on defeating. Some of the same people that were our allies in the DBE and Minimum Allocation issues are also supporters of the increased funding for highways and transit.

BACKGROUND

The NEC is likely to wish to take a strong position to limit potential funding increases that may result from the current ISTEA legislative process. Given that the Senate hasn't yet actually provided for any real spending increases it is better for the Administration to keep its options open as we concentrate on defeating objectionable policy amendments e.g. Minimum Allocation and others that may yet surface.

03/10/98 09:35 FAX
Mar. 10, 1998 8:01AM

NATL ECONOMIC COUNCIL

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No. 4028 P. 3/3

In addition to the funding issues it is possible that Treasury may raise objections to Chafe's amendment for innovative financing on the grounds that it violates the longstanding policy against the Federal government accepting itself as a subordinated debtor.

Comparison of Surface Transportation Funding levels under discussion for ISTEA Reauthorization
(\$ in Billions)

This table has been updated for the Transit Agreement of 3/5/98

	1998 BA	QL	1999 BA	QL	2000 BA	QL	2001 BA	QL	2002 BA	QL	2003 BA	QL	1998-2003 BA	QL
Balanced Budget Agreement	25.9	24.7	26.1	25.6	26.2	26.0	26.3	26.1	26.5	26.4	26.6	26.6	157.6	155.4
1999 President's Budget	27.7	26.3	27.7	27.1	27.7	27.5	27.6	27.7	27.6	27.8	27.6	27.9	166.1	164.4
NEXTEA	28.6	26.6	28.2	27.4	28.1	28.1	28.1	28.1	28.1	28.4	28.7	28.5	169.9	167.1
Original Senate (S. 1173)	29.9	26.7	29.9	28.3	30.5	29.4	30.9	29.9	31.7	30.6	32.8	31.4	185.6	176.3
Senate (S. 1173) with Byrd - Gramm	29.9	26.7	35.9	29.9	36.6	33.4	37.1	35.0	38.0	36.2	39.2	37.2	216.6	198.4
Senate Agreement (3/3/98)	30.7	26.9	35.7	29.9	36.5	33.1	37.1	34.8	37.8	36.0	38.7	37.0	216.5	197.3
House BESTEA (Shuster)	30.4	26.6	34.6	29.1	38.5	32.7	38.5	35.3	38.5	36.7	38.5	37.4	219.1	197.7
Spending Equal to Receipts with AMTRAK trust funded	27.7	26.3	31.6	28.2	31.8	30.3	32.7	31.4	33.3	32.2	33.9	33.0	191.1	181.3
Spending Equal to Receipts without AMTRAK trust funded	27.7	26.3	32.2	28.4	32.4	30.7	33.2	31.8	33.8	32.7	34.4	33.5	193.8	183.3

Notes

All Congressional scenarios assume obligation levels equal to the contract authority and authorization levels in the legislation. This assumption also holds for FY 1998. Therefore, the outlays shown are the maximum if the legislation was fully funded.

Attached pages provide greater detail on the assumptions and break out the funding.

The Balanced Budget Agreement scenario represents the amounts attributable to highways, highway safety, and transit at the time of the agreement.

The President's Budget represents the budget authority and obligation limitations included in the budget. The Budget funds Surface Transportation at essentially the FY 1998 level.

All Congressional scenarios assume obligation levels equal to the contract authority and authorization levels in the legislation. This assumption also holds for FY 1998. Therefore, the outlays shown are the maximum if the legislation was fully funded.

All Scenario includes funding for Highways, Transit, and the National Highway Traffic Safety Administration. In the case where multiple committees have jurisdiction over program authorizations, the most recent committee action is used. For example, the Senate Banking Committee levels for transit are used in all Senate scenarios.

The two spending equal to receipt scenarios assume total spending for surface transportation is equal to the prior year receipts, without interest, beginning in FY 1999. The difference between the two scenarios is that the first scenario funds AMTRAK out of the Highway Trust Fund, as proposed by the President's Budget.

Comparison of Surface Transportation Funding levels under discussion for ISTEA Reauthorization
(\$ in Billions)

This table has been updated for the Transit Agreement of 3/5/98

President's Budget Versus Deal

	1998		1999		2000		2001		2002		2003		1998-2003	
	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL
1999 President's Budget	27.7	26.3	27.7	27.1	27.7	27.5	27.6	27.7	27.6	27.8	27.6	27.9	156.1	154.4
Senate Agreement (3/3/98)	30.7	26.9	35.7	29.9	36.5	33.1	37.1	34.8	37.8	36.0	38.7	37.0	216.5	197.3
Delta	2.9	0.7	7.9	2.8	8.8	5.6	9.5	7.1	10.2	8.2	11.1	9.1	50.4	33.4

President's Budget Versus Deal - Highways Only

	1998		1999		2000		2001		2002		2003		1998-2003	
	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL
Pres Bud (highways)	22.8	22.0	22.6	23.0	22.5	23.0	22.5	22.9	22.4	22.7	22.4	22.6	135.2	136.2
Senate Deal (Highways)	24.7	22.6	28.5	25.4	29.2	27.6	29.7	28.6	30.2	29.1	30.9	29.8	173.2	163.1
Delta	1.9	0.6	5.9	2.5	6.7	4.6	7.2	5.7	7.8	6.4	8.4	7.1	37.9	26.9

President's Budget Versus Deal - Transit Only

	1998		1999		2000		2001		2002		2003		1998-2003	
	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL	BA	QL
Pres Bud (transit)	4.6	3.9	4.7	3.8	4.8	4.1	4.8	4.4	4.8	4.7	4.3	4.9	23.5	25.3
Senate Deal (transit)	5.7	4.0	6.8	4.2	7.0	5.2	7.1	5.9	7.3	6.5	7.5	6.9	41.3	32.5
Delta	1.0	0.0	2.1	0.4	2.2	1.1	2.3	1.5	2.5	1.8	2.7	2.0	12.3	6.3

All Congressional scenarios assume obligation levels equal to the contract authority and authorization levels in the legislation. This assumption also holds for FY 1998. Therefore, the outlays shown are the maximum if the legislation was fully funded.

The President's Budget represents the budget authority and obligation limitations included in the budget. The Budget funds Surface Transportation at essentially the FY 1998 level.

All Scenarios include funding for Highways, Transit, and the National Highway Traffic Safety Administration. In the case where multiple committees have jurisdiction over program authorizations, the most recent committee action is used. For example, the Senate Banking Committee levels for transit are used.

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(VACANCY)

WAYNE T. STRUBLE, STAFF DIRECTOR
(202) 226-7270



U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

March 23, 1998

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THOMAS S. KAHN, MINORITY STAFF DIRECTOR
AND CHIEF COUNSEL
(202) 226-7200

Dear Democratic Colleague:

On Tuesday, March 24, 1998, the House Transportation and Infrastructure Committee is scheduled to mark up H.R. 2400, a six-year reauthorization of highway and mass transit programs. The full House is expected to take up the bill sometime next week. Two weeks ago, the Senate approved a highway funding bill by a vote of 96-4, and the conference committee is expected to meet soon after the House passes H.R. 2400.

Attached is a report entitled *Surface Transportation Reauthorization: Budget and Policy Issues*. The report was prepared by the House Budget Committee Democratic staff and is designed to provide Democratic Members and their staff information about issues related to transportation reauthorization.

This report addresses several issues. First, it discusses the President's budget and the transportation bills currently before Congress. Second, it examines how an increase in transportation funding could affect funding for other programs in the federal budget. Third, it considers whether we now provide adequate funding for transportation. Finally, the report analyzes the implications of a section of the House bill that would put the transportation trust funds "off budget."

The funding levels in the House and Senate bills will have an impact on the rest of the budget, which has to be of concern to all of us in the Democratic Caucus. Over the six-year period 1998-2003, the Senate bill authorizes \$45 billion *more* in contract authority for transportation than the President's Fiscal Year 1999 budget. The House bill exceeds the President's budget by \$48 billion. While I would like to see more funding for national transportation needs, enactment of the spending levels in these bills will make it much harder to fund other domestic priorities included in last year's Balanced Budget Agreement and important priorities in the President's budget for this year.

I hope you find the attached report, which was drafted by Craig Bomberger from our staff, helpful. Please call me or have your staff call the House Budget Committee's Democratic staff at x67200 if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



HOUSE BUDGET COMMITTEE

DEMOCRATIC CAUCUS

Congressman John M. Spratt, Jr., Ranking Minority Member
222 O'Neill House Office Building, Washington, DC 20515 • 202-226-7200
www.house.gov/budget_democrats/

Briefing Paper

Surface Transportation Reauthorization: Budget and Policy Issues

March 23, 1998

John M. Spratt, Jr.
Ranking Democratic Member

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

Surface Transportation Reauthorization: Budget and Policy Issues

Setting federal funding levels for transportation has recently been an extremely contentious issue in Congress. During consideration in the House of the fiscal year 1998 budget resolution, an amendment was offered that would have increased transportation funding at the expense of other discretionary programs, thereby breaking the Bipartisan Budget Agreement. The amendment was defeated by only two votes. Additionally, the law authorizing federal surface transportation programs — the Intermodal Surface Transportation Efficiency Act of 1991, or ISTEA — expired on September 30, 1997. Disagreements among legislators — but not necessarily partisan battles — were severe enough that reauthorization had to be put off until this year. (Congress passed and the President signed into law an interim funding bill, the Surface Transportation Extension Act of 1997, but that measure does not extend beyond May 1, 1998.) Thus, many of the issues that were brought up during the first session of the 105th Congress are being revisited this year.

This report is designed as a briefing on several aspects of transportation funding. First, what is Congress considering this year? Second, how might an increase in transportation funding affect the budget as a whole? Third, does Congress now provide adequate transportation funding? Fourth, what is the significance of the balances in the highway trust fund? Finally, what are the implications of changing trust fund budgetary treatment or financing? (An appendix discusses the unusual budgetary treatment of trust fund spending.)

I. ISTEA Reauthorization

Current Status — Short-Term Authorization

As mentioned above, federal surface transportation programs are currently operating under a short-term authorization. The Surface Transportation Extension Act of 1997 (P.L. 105-130) did not extend ISTEA for six months, as some had proposed. Instead, for highway programs, the Act provides \$5.5 billion in contract authority as an advance against the fiscal year 1998 contract authority that will eventually be provided in a reauthorization bill. States may also obligate previously unobligated federal-aid highway apportionments, up to an

obligation limitation of \$9.8 billion.¹ The law also authorizes \$15.5 million for the minimum allocation program.² The advance authorization of \$5.5 billion and the \$15.5 million for the minimum allocation are both apportioned based on states' relative shares of fiscal year 1997 funding. Under the Act, states may not obligate funds after May 1, 1998. Thus, pressure remains for Congress to take action soon.

On March 12, 1998, the Senate passed S. 1173, the Intermodal Surface Transportation Efficiency Act of 1997 (ISTEA II), by a vote of 96 to 4. The House of Representatives has not yet taken any action, but the House Committee on Transportation and Infrastructure has scheduled a markup of H.R. 2400, the Building Efficient Surface Transportation and Equity Act of 1997 (BESTEA) for March 24, 1998, and floor consideration for April 1, 1998. Even if the House passes H.R. 2400 that day, the conference committee will probably have to reconcile significant differences between the House and Senate bills.

The table on the following page shows contract authority levels for the President's proposal, the Senate-passed bill, and the House bill as marked up by committee last fall. For comparison, the table also shows contract authority levels for the Balanced Budget Act of 1997 (BBA) and projected Highway Trust Fund excise tax revenue.³ Outlay estimates are generally not yet available. The President's proposal and the House and Senate bills are described in the following sections.

¹See the appendix for additional information on obligation limitations and other trust fund revenue and spending terms.

²The minimum allocation guarantees each state a percentage of total apportionments for certain programs that is not less than ninety percent of the percentage of its estimated contributions to the highway account of the Highway Trust Fund — that is, ninety percent of a state's *relative share* of contributions. This is not to be confused with the "ninety percent of payments" adjustment, which a qualifying state receives to ensure that its apportionments for the fiscal year and allocations for the previous fiscal year will be at least ninety percent of its contributions to the highway account of the Highway Trust Fund.

³The 1997 BBA did not include explicit details on transportation funding, such as levels of contract authority or obligation limitations. The BBA contract authority numbers presented in the table are derived from the Transportation Committee's fiscal year 1998 Section 302(a) allocations. The trust fund revenue projections are from CBO.

Table I: ISTEA Reauthorization Proposals
Contract Authority and Projected Trust Fund Excise Tax Revenue
by Fiscal Year, Billions of Dollars

	1998	1999	2000	2001	2002	2003	98-03	99-03	98-02	Average Annual
NEXTEA (Administration)	28.3	28.2	28.1	28.1	28.1	28.8	169.5	141.2	140.7	28.2
Highways	23.2	23.1	23.0	23.0	22.9	23.5	138.7	115.5	115.2	23.1
Transit	5.1	5.1	5.1	5.1	5.1	5.2	30.8	25.7	25.5	5.1
BESTEA (Shuster-Oberstar)	30.2	34.3	38.4	38.4	38.4	38.4	218.0	187.8	179.7	36.3
Highways	24.9	28.5	32.0	32.0	32.0	32.0	181.3	156.5	149.3	30.2
Transit	5.4	5.9	6.4	6.4	6.4	6.4	36.7	31.3	30.3	6.1
Revised ISTEA II (Senate)*	30.3	35.3	36.1	36.8	37.5	38.4	214.5	184.1	176.1	35.7
Highways	24.7	28.5	29.2	29.7	30.2	30.9	173.2	148.5	142.3	28.9
Transit	5.7	6.8	7.0	7.1	7.3	7.5	41.3	35.6	33.8	6.9
BBA**	29.8	28.4	29.1	29.7	30.4	na	na	na	147.4	29.5
Highways	24.9	23.4	23.9	24.4	24.9	na	na	na	121.4	24.3
Transit	4.9	5.1	5.2	5.3	5.5	na	na	na	26.0	5.2
HTF Excise Tax Revenue**	31.4	32.0	32.5	33.0	33.6	34.1	196.6	165.2	162.5	32.8
Highways	27.1	27.6	28.1	28.5	29.0	29.5	169.8	142.6	140.3	28.3
Transit	4.3	4.4	4.4	4.5	4.6	4.7	26.8	22.5	22.2	4.5

Note: Numbers may not add due to rounding.

* Reflects amendments to S. 1173 that provide additional contract authority of \$25.8 billion for highways and \$5.0 billion for mass transit.

** BBA and revenues presented for comparison. Revenues adjusted to correct for the shift of \$5.9 billion in revenues from 1998 to 1999.

Source: Contract authority numbers provided by DOT (prior to passage of S. 1173 and markup of H.R. 2400). Estimates for amendments to S. 1173 based upon consultation with the Senate Budget Committee. BBA and tax revenue figures based upon CBO estimates.

Administration Reauthorization Proposal (NEXTEA)

The President's reauthorization proposal builds upon the previous ISTEA bill. For highway and transit programs, the National Economic Crossroads Transportation Efficiency Act (NEXTEA) provides a total of \$169.5 billion in contract authority over the six-year period 1998–2003 — \$138.7 billion for highways and \$30.8 billion for mass transit. NEXTEA revises state-by-state distribution formulas, and for some programs, expands the definition of eligible activities. The proposal includes funding for State Infrastructure Banks, or SIBs, and allows tolls on some interstate segments if certain conditions are met. All NEXTEA programs are funded from the highway account of the Highway Trust Fund, except for transit programs, which are funded from the transit account. This is a significant policy shift; even Amtrak would be funded from the Highway Trust Fund. (For purposes of comparing NEXTEA with the House and Senate bills, which only include highway and transit programs, \$4.8 billion in NEXTEA budget authority for rail provisions is omitted from the figures in this report.)⁴

Senate-Passed S. 1173 (ISTEA II)

As previously stated, the Senate passed S. 1173, the Intermodal Surface Transportation Efficiency Act of 1997 (ISTEA II), by a vote of 96 to 4 on March 12, 1998. The bill as reported by committee embodied a compromise among different regional interests and sought to abide by funding levels set in the BBA. ISTEA II was amended on the Senate floor, however, to include additional contract authority of \$25.8 billion for highways and \$5.0 billion for mass transit. As passed, the bill provides a total of \$214.5 billion in contract authority over the six-year period 1998–2003 — \$173.2 billion for highways and \$41.3 billion for mass transit. Not only do ISTEA II funding levels exceed levels set in the BBA and in the President's budget, but they also far exceed projections for Highway Trust Fund excise tax revenues that will be collected over the six years, and they even exceed projections for excise tax revenues plus interest.

According to the Senate Committee on Environment and Public Works, ISTEA II provides a guarantee that each state will receive a level of funding equal to at least 91 percent of the state's contribution to the highway account of the Highway Trust Fund. Unlike the House bill, the Senate bill includes no money for demonstration projects. The bill expands program flexibility and includes funding for SIBs and other innovative financing mechanisms.

⁴The different reauthorization proposals have varying provisions for highway safety, research, and other programs. For purposes of this report, funding for these programs is included in the numbers for highway funding.

H.R. 2400 (BESTEA)

The approach used by the House Committee on Transportation and Infrastructure when it marked up H.R. 2400 last September was to increase the amount of funding available for transportation, add a few programs, and update the formulas for apportioning funds to the states.

BESTEA authorizes a total of \$218 billion in contract authority over the six-year period 1998–2003 — \$181.3 billion for highways and \$36.7 billion for mass transit. The bill will include a reported \$9 billion in “high priority projects,” commonly referred to as demonstration projects, or “demos.”⁵ As with ISTEA II, not only do BESTEA funding levels exceed levels set in the BBA, but they also far exceed projections for Highway Trust Fund excise tax revenues that will be collected over the six years, and they even exceed projections for excise tax revenues plus interest.

The formula changes and overall spending levels in BESTEA are intended to provide states with a guaranteed 95 percent allocation of certain funds. This is not a 95 percent return on contributions into the Highway Trust Fund, however, because funds for some programs are distributed before the apportionment formulas are applied. If a state receives a relatively small share of these other funds, then its overall return may be less than 95 percent.

As previously mentioned, BESTEA includes several new programs. For example, the high-cost interstate system reconstruction and improvement program is designed to fund major projects in the interstate system that states would not otherwise fund using their regular annual obligations because of the high costs of such projects. The high-risk road safety improvement program provides funding to states for roads that are subject to significant numbers of severe motor vehicle crashes that incur fatalities or incapacitating injuries.

BESTEA also includes language providing for immediate off-budget treatment of the transportation trust funds, although some reports indicate this provision may not take effect until 2001. If the trust funds are taken off budget in a manner consistent with the language previously included in H.R. 2400, then the trust funds would not be subject to any budgetary constraints. Because these trust fund outlays are considered discretionary, removing them from the budget would require OMB to reduce the statutory “caps” on other discretionary programs. But it is unclear by how much the discretionary caps would be reduced in response to taking the trust funds off budget. (See Part V, *Moving the Trust Funds Off Budget*, for a more detailed explanation.)

⁵It is not yet clear whether the \$9 billion in demos will be included within the total of \$218 billion or are in addition to that amount.

Offsets for Increased Funding

Senate Budget Committee Chairman Domenici's budget resolution, which the Senate Budget Committee ordered reported on March 18, 1998, assumed increased transportation spending and identified the following offsets, which total \$19.0 billion in outlays over five years:

- reverse the Veterans Administration General Counsel's recent decision regarding compensation to veterans for smoking-related illnesses, saving \$10.5 billion over five years;
- reduce federal Medicaid and Food Stamp payments to states for administrative costs, \$3.6 billion;
- reduce spending for the Social Services Block Grant (Title XX), \$3.1 billion;
- increase the FHA guaranteed loan ceiling, \$1.0 billion;
- terminate Federal Crop Insurance for tobacco producers, cap mandatory Commodity Credit Corporation automated data processing costs, and eliminate the Market Access Program, \$0.6 billion;
- increase Ginnie Mae broker premiums, \$0.2 billion.

These offsets do not appear to be sufficient to cover the increased outlays in the Senate bill relative to the BBA. The Senate-passed bill may exceed BBA outlay levels by as much as \$23.6 billion over five years, but the offsets total only \$19.0 billion. In addition, the increased costs authorized in the Senate bill grow from year to year, while the savings from the assumed offsets do not.

In the House, the offset problem will be compounded by the additional \$3.5 billion of contract authority in the bill compared with the Senate bill. If the reported \$9 billion for demos is in addition to the \$218 billion, that would further raise the costs. (In total, these additional contract authority levels could yield as much as \$8 billion to \$9 billion in additional outlays beyond those in the Senate bill.)

II. How Would an Increase in Transportation Funding Affect the Budget as a Whole?

As explained in the appendix, outlays from the transportation trust funds are considered discretionary. They therefore compete with all other discretionary programs within fixed “caps,” which are set by statute through 2002.⁶ If the current budgetary treatment of transportation programs remains unchanged, an increase in highway spending would necessarily result in a decrease in some or all other discretionary programs — e.g., natural resources, energy, space and science, the environment, community development, education, housing, veterans’ medical care, some law enforcement activities, the legislative and judicial branches, and (after 1999) defense. Furthermore, the annual appropriations process would be the arena in which the ultimate decisions would be made — how much of the authorized transportation increase to allow, and which programs to cut in return.

New legislation could change the budgetary treatment of some or all transportation trust fund amounts from discretionary to mandatory. ISTEA II does not do so, nor does BESTEA as it was drafted last fall. If, however, such a legislative change were enacted, then three outcomes (or some combination) are possible:

- If the transportation increases were not offset by legislation cutting entitlements or increasing revenues, OMB would be required to order “sequestration” of Medicare, farm price supports, and certain other entitlements to offset the increases. This is a consequence of the “pay-as-you-go” (PAYGO) rule for mandatory spending and revenues, which applies through 2002.⁷
- If the transportation increases were so offset, and the offsets were selected from those proposed in President Clinton’s 1999 budget, then those offsets would no longer be available to finance other initiatives contained in that budget; child care, school construction, class-size reductions, and so on, would be partly squeezed out. This type of outcome is implied by the Republican budget resolution approved by the Senate Budget Committee, which lists many of President Clinton’s mandatory offsets as “reductions assumed to offset the increased outlays resulting from [ISTEA II].”

⁶For 1998 and 1999, there are separate caps for defense and non-defense programs. For 1998-2000, there are also separate caps for the Violent Crime Reduction Trust Fund.

⁷In this context, the word *increase* means an increase relative to existing 1998 funding projected to grow only with inflation.

- Finally, transportation increases could be offset by other entitlement cuts or revenue increases beyond those proposed in the President's budget.

Alternatively, legislation could be enacted placing transportation programs "off budget." In such a case, neither the caps on discretionary funding nor the pay-as-you-go rule would apply, so budget rules would not require that an increase in transportation spending be offset. Rather, the increase would reduce projected surpluses (and under CBO estimates, probably throw the 2002 budget back into deficit). The President has argued that "every penny of any surplus" should be reserved for Social Security; in this context, reducing projected surpluses by increasing transportation spending "off budget" would conflict with the goal of saving all surpluses for Social Security.

III. Does Congress Provide Adequate Funds for Transportation?

Transportation Needs

In light of the political pressure for increasing transportation funding, one may logically question to what extent transportation has unmet funding needs. Perhaps the most authoritative account of the condition of the nation's highway system is the biennial report that the Department of Transportation is statutorily required to submit to Congress, the most recent of which was delivered in October 1995.⁸ The report, *1995 Status of the Nation's Surface Transportation System: Condition and Performance*, includes statistics on highway and transit system conditions (e.g., road surface conditions as measured by the Present Serviceability Rating and the International Roughness Index) as well as financial data on the cost of system maintenance and repair (e.g., the "cost to maintain" and "cost to improve" highways, bridges, and transit).

The aforementioned report displays statistics on pavement conditions by road type (interstate, principal arterial, collectors, etc.) and differentiates between urban and rural areas. Overall highway system performance as measured by these statistics, including all road types for both urban and rural areas, is summarized in the following table:

⁸The 1995 report is still the most current edition, and there is some controversy surrounding the 1997 report, which was due in January 1997. DOT has apparently delayed the report at OMB's direction. Furthermore, according to the January 22, 1998, *Daily Report for Executives*, Federal Highway Administration officials have confirmed that the report has been scaled down from approximately 300 pages to only about 60 and omits many of the previously-included tables on costs to maintain or improve conditions of roads and bridges.

Table II: Highway Pavement Conditions Summary

Percent of Miles	Pavement Condition	
16	Very Good	"New or almost new pavement...."
19	Good	"In decent condition..."
34	Fair	"Will likely need improvement in the near future...."
17	Mediocre	"Needs improvement in the near future...."
9	Poor	"Needs immediate improvement to restore serviceability."
5	Unpaved	

The following cost statistics suggest a need for increased transportation funding. Before examining the cost statistics, however, it is important to define DOT's terminology. First, both "cost to maintain" and "cost to improve" are reported as the average annual cost over a twenty year period, assuming 2.2 percent compound annual travel growth for highways and 2.4 percent compound annual travel growth for transit.⁹ Using an annual average over twenty years, especially one incorporating travel growth, does not necessarily present a good measure for comparing any given year (except at the midpoint). That is, using the average annual measure as a benchmark overstates needs in the short run but understates them during the second ten years. Second, the "cost to maintain" measures assume that overall system performance would remain about the same; some deficiencies would be corrected and other portions would worsen. (For highways and transit, "cost to maintain" includes capacity expansion as well as system preservation components.) Third, all numbers are reported in 1993 dollars. Fourth, the "cost to improve" measures for highways, bridges, and transit incorporate various assumptions about what measures constitute "improvement." Finally, the dollar amounts reported for the cost measures are estimates of total capital investment required from *all sources*, not just federal programs.¹⁰

⁹These figures are based on travel growth estimates that differ significantly from historical growth patterns. For more details on DOT's methodology, please refer to U.S. Department of Transportation, *1995 Status of the Nation's Surface Transportation System: Condition and Performance*, Chapter 5: "Highway, Bridge and Transit Future Investment Requirements."

¹⁰The DOT report does not detail private sector capital investments in transportation. Within the public sector, all levels of government spent over \$39.0 billion on highway and bridge capital improvements in 1993. Of the \$39.0 billion, the federal share consisted of \$0.3 billion spent by the federal government and \$17.1 billion of federal funds spent by state and local governments. Thus, the federal share was \$17.4 billion of the \$39.0 billion (44.6%). Of total 1993 highway and bridge spending (including capital, noncapital, and debt retirement) of \$88.5 billion, the federal government provided \$18.2 billion (20.6%). Similarly, all levels of government provided a total of \$15.5 billion for transit in 1993, of which \$3.3 billion (21.3%) was the federal share. While federal funding for transit capital assistance remained fairly constant between 1988 and 1993, state and local

That said, the following tables show DOT's findings:

Table III: Projected Investment Requirements, All Sources

1994-2013 Annual Average, Billions of Dollars

	Cost to Maintain	Cost to Improve
Highways	49.7	65.1
Bridges	5.1	8.9
Transit	7.9	12.9
Total	62.7	86.9

As previously stated, it is difficult to use a twenty-year annual average as a benchmark to determine current performance. Thus, Table IV presents a clearer picture — albeit a snapshot for a single year and not necessarily a representation of the current situation — of how a single year's outlays compared to needs for the following year.

Table IV: 1994 Investment Required vs. 1993 Capital Outlay

Billions of Dollars

	1994 Cost to Maintain	1994 Cost to Improve	1993 Capital Outlay*
Highways	44.8	59.3	28.8
Bridges	5.1	8.9	6.0
Transit	7.3	11.8	5.7
Total	57.2	80.0	40.5

*Capital outlay related to capital investment requirements.

Much of the data presented in the DOT study is subject to interpretation. Nonetheless, the study indicates that the nation has unmet transportation funding needs. The question for policymakers is how to address these needs when weighed against budget constraints and other unmet national needs.

contributions grew. (However, federal capital assistance for transit grew significantly after 1993.)

How Has Transportation Funding Fared Recently?

Transportation has fared relatively well compared with spending for other domestic priorities during the drive to balance the budget. For fiscal years 1998 through 2002, allocations for discretionary outlays for transportation in the fiscal year 1998 budget resolution exceeded those in the President's budget by \$8.2 billion over five years. In the 1998 budget resolution, transportation was the only function that received any increase in discretionary outlays over the President's budget. All other functions were below the President's request over the five-year period 1998-2002.

The 1998 appropriations process also provided generous spending for transportation relative to other spending priorities. The 1998 transportation appropriations bill provides \$42.2 billion in total budgetary resources¹¹ — \$5.1 billion (13.7%) greater than the enacted 1997 level. For highway programs alone, the 1998 bill provides \$23.3 billion in total budgetary resources — \$2.3 billion (11.1%) greater than the enacted 1997 level. Press accounts of the bill, however, describe highway spending as almost twenty percent higher than the 1997 level. This figure represents the increase in the obligation limitation for federal-aid highways. For 1998 the obligation ceiling is \$21.5 billion, a \$3.5 billion increase (19.4%) over the 1997 level, not including 1997 supplemental obligation authority. The levels in the 1998 bill appear to conform to the budget agreement.¹²

Shuster-Oberstar Amendment to the FY 1998 Budget Resolution

During floor debate on the fiscal year 1998 House budget resolution, Representatives Shuster and Oberstar offered an amendment that would have provided an additional \$19 billion in budget authority and \$12 billion in outlays for transportation spending over the five-year period 1998–2002. This additional spending would have been offset by across-the-board cuts in other discretionary programs and by reducing the amount of the tax cut in the budget resolution. The amendment failed by a vote of 214-216.

¹¹Total budget resources are comprised of discretionary budget authority and, where applicable, obligation limitations.

¹²The \$42.2 billion of overall budgetary resources falls below the budget agreement total budget authority of \$46.4 billion for function 400. The budget agreement did not include details beyond the function total, such as levels of trust fund obligation limitations.

IV. What About the Trust Fund Balances?

Current Revenue and Spending Levels

For its 1998 baseline, the Congressional Budget Office estimates tax revenues and outlays for the Highway Trust Fund, including both highway and transit accounts, at \$25.6 billion and \$26.5 billion for the year, respectively. The following table displays a detailed breakdown of these numbers:

Table V: Highway Trust Fund Summary

Fiscal Year 1998, Millions of Dollars

	Highway Account	Transit Account	Total
Balance, Beginning of Year	12,513	9,827	22,340
Tax Revenue	22,164	3,407	25,571
Interest	848	643	1,491
Total Revenue	23,012	4,050	27,062
Outlays	22,328	4,221	26,549
Total Revenue Less Outlays	685	(171)	513
Balance, End of Year	13,198	9,656	22,853

Note: Numbers may not add due to rounding.

As shown in the table, total trust fund outlays exceed tax revenue for the year by nearly \$1 billion but fall short of total revenues by \$513 million because of \$1.5 billion earned in interest on prior balances, resulting in an end of year balance of \$22.9 billion.¹³ This balance is one of the justifications used by advocates for increasing transportation spending. Indeed, CBO estimates that if Highway Trust Fund outlays grow at the rate of inflation from 1998 baseline levels, then the trust fund balance will reach approximately \$64 billion by the end of 2003. Inferring that the current balance stems from years of revenues exceeding outlays, however, does not provide the full picture of the trust fund's spending history.

¹³One could question the use of 1998 as an example; the Taxpayer Relief Act of 1997 delayed deposits into the Highway Trust Fund from August and September 1998 until October 5 — shifting \$5.9 billion in deposits from FY 1998 into FY 1999. If the FY 1998 revenue numbers were adjusted to correct for this abnormality, then outlays would indeed fall short of the \$31.4 billion in excise tax revenues (not to mention tax revenues plus interest). However, the example still serves well for illustrative purposes, and there have been many years in the recent past when outlays exceeded excise tax revenues.

Past Causes of the Balances

The previous example showing the Highway Trust Fund summary for fiscal year 1998 demonstrates a trend that characterizes the lifetime of the fund. Since the fund's inception in 1956 through fiscal year 1995, total outlays from the fund exceeded excise tax revenues by \$6.3 billion for both highway and transit accounts. When interest is included, however, outlays fall short of total fund revenues by \$19.0 billion.¹⁴ Such a large discrepancy is not due merely to interest accumulating during the spendout of transportation dollars; there have been periods when program funding fell significantly short of tax revenues.

For example, during the period from 1967 through 1979, revenues (including both excise tax receipts and interest income) to the highway account of the Highway Trust Fund exceeded outlays by \$12.3 billion. Excise tax receipts alone surpassed outlays by \$7.8 billion. Consequently, the balance in the account grew from \$243 million at the end of 1966 to \$12.6 billion at the end of 1979 — a level that was not attained again until 1997. This account build-up was due to deliberate efforts by the Johnson and Nixon Administrations to control government spending on certain non-defense programs.

From 1980 through 1995, however, outlays outpaced tax revenues by \$14.2 billion but fell short of total fund revenues by \$6.4 billion. (For only the highway account of the Highway Trust Fund, outlays exceeded tax receipts by \$18.0 billion and total fund revenues by \$3.1 billion.) The account balance fell sharply in 1980 and 1981, but began growing again in 1983, due mainly to increasing balances in the transit account. (Recently, balances have begun to grow more quickly. This is explained in the following section.) Both outlays and revenues rose over the same period, with outlays rising from \$7.2 billion in 1979 to \$22.7 billion in 1995.

Thus, at least since 1980, persistent account balances are not the result of policies that prevent spending from dedicated revenues. As previously illustrated, Highway Trust Fund highway and transit account outlays are projected to exceed tax revenues by nearly \$1 billion in 1998 but fall short of tax revenues plus interest by about half that amount. Rather, the build-up of account balances from the late 1960s through the 1970s created a surplus in the fund which has continued earning interest at a compound rate to this day, even though spending has usually exceeded tax revenues.

¹⁴For only the highway account, outlays exceeded tax revenues by \$10.1 billion but fell short of tax revenues plus interest by \$9.4 billion. For the transit account, which was not created until 1983, outlays fell short of tax revenues by \$3.8 billion and tax revenues plus interest by \$9.6 billion. Some mass transit advocates would argue that transit has historically been underfunded. (Transit account outlays increased significantly beginning in 1994, however.)

Changes to the Tax Structure

The build-up of persistent account balances has also been exacerbated in recent years by changes to the tax structure. Prior to the Surface Transportation Assistance Act of 1982 (STAA), the excise tax rate on gasoline had been 4 cents per gallon. The STAA raised the tax rate per gallon to 9 cents, 1 cent of which was earmarked for the newly created transit account. (The Superfund Amendments and Reauthorization Act of 1986 then added 0.1 cents per gallon for the leaking underground storage tank (LUST) trust fund, bringing the total tax rate to 9.1 cents per gallon.) The Omnibus Budget Reconciliation Act of 1990 subsequently increased the tax rate by 5 cents per gallon — 2.5 cents each for the general fund and the Highway Trust Fund (2 cents for the highway account and 0.5 cents for the transit account). The 2.5 cents for deficit reduction was authorized through fiscal year 1995, while the 2.5 cents for the Highway Trust Fund was a permanent increase.

The Omnibus Budget Reconciliation Act of 1993 (OBRA93) further changed the tax structure, raising the excise tax on gasoline from 14.1 cents per gallon to 18.4 cents per gallon. This permanent 4.3 cent increase was intended for deficit reduction and therefore, added to the amount designated for the general fund, raising that portion to 6.8 cents per gallon. The act also extended the 2.5 cent tax rate that had gone to the general fund through fiscal year 1999, but transferred that portion of the excise tax to the Highway Trust Fund effective October 1, 1995 — with 2 cents dedicated to the highway account and the remaining 0.5 cents for transit. When the 2.5 cents reverted to the Highway Trust Fund, the trust fund portion of the tax rate grew from 11.5 cents per gallon (10 cents highway, 1.5 cents transit) to 14.0 cents per gallon (12 cents highway, 2 cents transit).

By transferring a portion of the excise tax that had previously been earmarked for deficit reduction to the trust fund, OBRA93 marked an important departure from previous authorizations. The trust fund would begin receiving tax revenue that had not been considered as part of the regular surface transportation authorization — in this case, ISTEA. With the precedent established, this would not be the last time that gas taxes earmarked for deficit reduction would later be diverted to the Highway Trust Fund.

The Taxpayer Relief Act of 1997 (P.L. 105-34) included a provision to transfer to the Highway Trust Fund the 4.3 cents per gallon of motor fuels excise tax that previously was dedicated to the general fund for deficit reduction. According to CBO estimates, the shift of the 4.3 cents should increase tax revenue to the Highway Trust Fund by \$6 billion to \$7 billion annually.

The transfer arose as part of a compromise to provide additional funding for Amtrak. Some senators wanted to dedicate 0.5 cents of the 4.3 cents for Amtrak. Other negotiators,

meanwhile, did not want to dedicate any of the 4.3 cents to Amtrak without also directing the rest to the Highway Trust Fund. Later, the conference agreement on the tax bill provided \$2.3 billion for Amtrak capital through a retroactive tax refund, which precluded the need for the 0.5 cents from the general fund portion of the motor fuels excise tax. Despite the alternative resolution of the Amtrak funding problem, the tax shift was not dropped. Instead, the entire 4.3 cents was dedicated to the Highway Trust Fund.

The shifts of the 2.5 cents and 4.3 cents have dramatically altered forecasts for trust fund tax receipts and balances. Without these transfers, trust fund receipts would probably grow at a pace roughly equal to inflation over the next several years, and the trust fund balances would remain fairly stable. Instead, the balances will grow or — if spending is increased to the levels supported by the most stalwart advocates of transportation spending — remain stable.

General Fund Spending on Transportation

The amount of transportation spending that has been funded not from the Highway Trust Fund but from the general fund of the U.S. Treasury is usually overlooked during debate about increasing transportation funding. The General Accounting Office recently released a report¹⁵ on what the status of the highway account of the Highway Trust Fund would be if it had financed all highway expenditures (i.e., if highway projects funded from the general fund had instead been funded from the trust fund).

GAO estimates that if the \$39.3 billion expended from the general fund for highways from 1957 through 1996 had been expended from the trust fund, and interest had been charged to the fund for negative balances (as it is now credited for positive balances), then the highway account balance at the end of fiscal year 1996 would have been -\$152.7 billion. (This compares to the actual highway account balance at the end of 1996 of \$11.6 billion.) According to GAO, the additional \$39.3 billion in expenditures would have generated \$124.9 billion in interest charges.¹⁶ This calculation suggests that total transportation funding, including both trust fund and general fund spending, has significantly exceeded fuel tax revenues plus interest.

¹⁵ *Highway Trust Fund: Possible Impact if It Had Financed All Highway Expenditures*, GAO/RCED-98-78R, February 6, 1998.

¹⁶ This scenario is impossible because the Byrd Amendment would have prevented such excessive commitments, not to mention political forces that probably would have come into play.

Economic Theory and Trust Fund Balances

Many economists have a different perspective on the issue of trust fund balances. They generally view trust funds of this type as not meaningful, and instead make the following arguments. First, they consider transportation infrastructure to be beneficial to society as a whole, not just to drivers. This consideration suggests that (a) transportation should be funded from general revenues, not earmarked revenues, and (b) the level of funding should be based on the need for infrastructure relative to other competing public needs.

Second, economists generally argue that the level of gasoline taxes should be that which internalizes, in the price of gas at the pump, the societal costs of pollution. Such an approach facilitates efficient marketplace trade-offs among cleaner and dirtier energy sources. Thus, there is no necessary relationship between the desirable level of gasoline taxes and the desirable level of infrastructure funding.

V. Moving the Trust Funds Off Budget

Many transportation advocates hope to take the transportation trust funds off budget. During the 104th Congress, House Transportation and Infrastructure Committee Chairman Shuster introduced H.R. 842, the "Truth in Budgeting Act," which provided off-budget treatment for the Highway Trust Fund, the Airport and Airway Trust Fund, the Inland Waterways Trust Fund, and the Harbor Maintenance Trust Fund. The bill passed the House by a vote of 284 to 143 but was never considered by the Senate.

Chairman Shuster introduced essentially the same bill, H.R. 4, during the first session of the 105th Congress. After being referred to the Transportation and Infrastructure Committee and the Budget Committee, the bill was marked up and ordered reported by the Transportation Committee but was not considered by the Budget Committee or the full House. Last fall the language of H.R. 4 was incorporated as a title of H.R. 2400.

From a budgeting perspective, off-budget treatment for the transportation trust funds is undesirable. Taking the trust funds off budget would provide preferential treatment for transportation spending over other programs. While transportation may have unmet funding needs, other domestic priorities — such as education, the environment, and health research — also have unmet funding needs. One of the principle reasons for a unified federal budget is to allow lawmakers to review the relative needs of various programs from year to year and allocate scarce resources in whatever manner they believe best serves the public; taking the trust funds off budget would allow transportation spending to circumvent this system.

Taking the trust funds off budget not only would favor transportation over other programs, but it could reduce funding available for other programs. Under current law, if the trust funds are taken off budget then OMB must lower the discretionary caps by some corresponding amount. It is likely, however, that the reduction in the discretionary caps will be greater than the obligation limitations that the appropriators otherwise would have set. Thus, other discretionary programs would receive less funding. Alternatively, failure to lower the discretionary caps or to find other mandatory offsets would result in much higher federal spending, which would jeopardize our success in getting rid of the deficit.

Taking the trust funds off budget would also set a precedent for over 150 other trust funds. If additional trust funds were also taken off budget, budgetary pressures on spending for programs without trust funds would be exacerbated.

Appendix: Background on Trust Fund Revenue and Spending

Excise Taxes

The Federal-Aid Highway Act of 1956 greatly expanded and accelerated the highway program, including the Interstate Highway System. Concurrently, the Highway Revenue Act of 1956 created the Highway Trust Fund to provide funding, through grants to states, for the construction and rehabilitation of highways. The trust fund receives revenues from excise taxes and other taxes on highway users.

Today, approximately 90 percent of tax revenues paid into the trust fund comes from excise taxes on motor fuels, such as an 18.4 cents per gallon tax on gasoline. Other funding is derived from sales taxes on tires, trucks, buses, trailers, and truck usage taxes. Additionally, balances in the account generate revenues from interest payments, since those balances are invested in Treasury securities.

Contract Authority

Although most discretionary spending in the federal budget is controlled by budget authority and outlays through the appropriations process, most transportation spending is handled differently. Most highway and transit programs are funded by contract authority, which permits funds to be obligated but not expended. The contract authority is appropriated from the Highway Trust Fund directly by the authorizing committee.¹⁷ If this were the whole

¹⁷The direct appropriation by the authorizing committee is allowable notwithstanding House and Senate rules because contract authority is not considered an "appropriation" within the rules.

story (see below for obligation limits and the role of the appropriators), these trust fund programs would be classified as mandatory, subject to the pay-as-you-go rules, and limited by Section 302 allocations to the authorizing committees.

Obligation Limitations

Obligation limitations — also referred to as obligation ceilings or ob limits — are placed on the use of contract authority (otherwise available to the Department of Transportation) by the annual transportation appropriations bill. For this reason, the actual cost of the program is ultimately controlled by the Appropriations Committee. As a result, the program outlays are classified as discretionary, and therefore must compete within the discretionary caps and are constrained by politics and Congressional rules to fit within the Section 302 allocation to the Appropriations Committees.¹⁸

Outlays

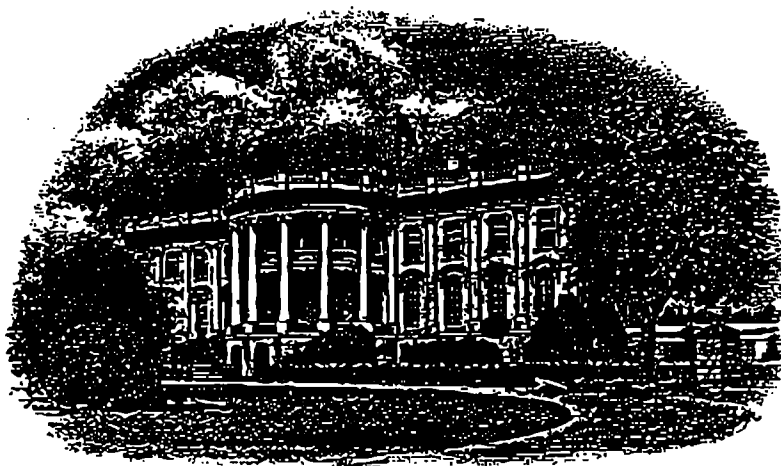
While obligations are commitments to pay out money, the actual payments are called outlays. The federal share of transportation projects is typically provided as a reimbursement to state departments of transportation. States pay contractors for completed work and submit vouchers to the U.S. Department of Transportation. The federal transportation outlays are recorded when the U.S. Treasury subsequently transfers funds to the states.

Exempts

Some transportation programs are exempt from obligation limitations. The minimum allocation program, emergency relief, and contract authority demonstration projects (demos) are not covered by annual obligation limits, so they are truly mandatory programs. Thus, these programs are subject to the pay-as-you-go rules.¹⁹

¹⁸The current system of scoring mandatory contract authority and discretionary outlays is not consistent with how other programs are scored (nor is it logical). Logic suggests that both the budget authority, equal to the obligation limitation, and the outlays should be considered discretionary. (OMB has proposed but not implemented this change.) Alternatively, the obligation limit should be viewed as producing budget authority and outlay *savings* to be credited to the appropriators.

¹⁹When periodically reauthorizing the exempt programs, the authorizing committees cannot set funding levels above baseline unless the additional spending is offset elsewhere by decreased mandatory spending or increased revenues. (The offsets do not necessarily have to come from other transportation programs.)

**FAX Transmission**

**National Economic Council
The White House**

To: Pete or Melissa

Phone: _____ FAX: _____

From: DOROTHY ROBYN

Phone: 202-456-2801 FAX: 202-456-2223

Date: _____ Time: _____

Pages to follow: 2

Comments: for Gene's 5:45 mtg. OMB will also
provide a paper for Gene in advance of the
meeting

DOT's Draft Talking Points

**Talking Points for
The Secretary NEC Meeting
NEXTEA Issues**

- Thank you for providing the opportunity to meet and discuss next steps we may wish to consider on the pending ISTEAs legislation. As you know the legislation is moving in the Senate. We had a substantial success last week with the vote on DBE which was 58 to 37 to table the McConnell amendment. The Senate has also raised the contract authority levels to \$26 billion annually for highways and \$56.88 billion annually for transit. In the case of transit these are General Fund authorizations.
- I have been meeting with a number of House and Senate members and they see the Senate moving the bill quickly to closure. Possibly this week.
- We will soon be asked for our position on this enhanced funding as well as other features of the bill. While the added funding provides no increases in outlays as soon as the debate starts on the budget resolution the pressure will build to put more outlays toward transportation. Also Mr. Shuster will be pressing for additional real spending in the House.
- I think it would be good for us to formulate an administration position before we are at the point where we will need to be more precise. I believe it is in our interests to get the ISTEAs bill done in a way that is consistent with the Administration's priorities.
- To accomplish that objective we could consider moving to conference with a position that keeps our options open. We could respond by stating that while progress is being made on the bill we must see its effects on Administration priorities before making a firm decision on agreement or opposition to its provisions. Further we could extend that position to conference where we can see the results of the budget resolution and the likely House action.
- Therefore, I suggest that we continue to stay with the position taken by the President when he met with the Governors' which was within the Balanced Budget Agreement we will work with the Congress to complete this legislation.
- As the Senate moves forward we have other critical policy issues such as Transit Minimum Allocation to which we need to concentrate our energies on defeating. Some of the same people that were our allies in the DBE and Minimum Allocation issues are also supporters of the increased funding for highways and transit.

BACKGROUND

The NEC is likely to wish to take a strong position to limit potential funding increases that may result from the current ISTEAs legislative process. Given that the Senate hasn't yet actually provided for any real spending increases it is better for the Administration to keep its options open as we concentrate on defeating objectionable policy amendments e.g. Minimum Allocation and others that may yet surface.

03/10/98 09:35 FAX
Mar. 10, 1998 8:01AM

NATL ECONOMIC COUNCIL

0003 _____

No. 4028 P. 3/3

In addition to the funding issues it is possible that Treasury may raise objections to Chafe's amendment for innovative financing on the grounds that it violates the longstanding policy against the Federal government accepting itself as a subordinated debtor.

 Dorothy Robyn
03/08/98 05:44:30 PM

Record Type: Record

To: Russell W. Horwitz/OPD/EOP, Sally Katzen/OPD/EOP
cc: Jonathan A. Kaplan/OPD/EOP, Brian A. Barreto/OPD/EOP, Jake Siewert/OPD/EOP, Charles R. Marr/OPD/EOP
Subject: STPP ISTE A Summary, 3/6

This is a nice, detailed summary of where things stood as of Friday morning. Only change is DBE.
----- Forwarded by Dorothy Robyn/OPD/EOP on 03/08/98 05:42 PM -----

Diane R. Montgomery 03/06/98 02:36:01
PM

Record Type: Record

To: Michael Deich/OMB/EOP
cc: See the distribution list at the bottom of this message
Subject: STPP ISTE A Summary, 3/6

The Surface Transportation Policy Project (STPP) met today to share the latest intelligence on what is happening on the Hill related to the surface transportation reauthorization bill. The following is a summary of highlights from today's meeting:

General News

The Disadvantaged Business Enterprise (DBE) program amendment to repeal the DBE program was defeated 58-37 this morning. It is expected that the Senate will recess after the vote until Monday.

Senators Lott (R-MS) and Daschle (S-SD) are calling for a cloture vote on Monday (3/9) at 5:15 pm or so. All amendments must be filed by 1 pm on Monday. Then Senators will have till 5 pm to file any second degree amendments. By Monday evening, we should know what amendments will definitely go forward. Even if there is not a cloture vote, there may be an agreement to limit debate to 2-4 more days and prohibit any new amendments from being offered. Consequently, STPP believes that the Senate bill could be done as early as next Friday (3/13). Daschle has indicated that he would like the bill completed by Wednesday.

The House Task Force assigned to evaluate surplus spending options, of which Representative Shuster (R-PA) is a member, has been meeting more regularly and appear to be making progress regarding surface transportation spending.

Secretary Slater will be meeting with the National League of Cities (NLC) on Sunday and with the American Public Transit Association (APTA) on Monday where he will carry the pro-transit spending, anti-minimum allocation message.

The Secretary will also release the 1997 Conditions and Performance report today and speak to it at the Sunday NLC meeting and on Monday to APTA. In general, the report indicates that highway pavement and bridge conditions are continuing to improve while congestion continues to worsen. Transit systems are growing and transit speed of service has increased. The condition of light rail equipment has improved, but there has been a slight decline in the condition of buses and heavy rail equipment. Highway safety also continues to improve, however, the rate of improvement is slowing.

Problematic Amendments

1) Transit Minimum Allocation. This amendment would reallocate approximately \$400 million of transit funds from urban to rural States based on State highway use. Senators Thomas (R-WY), Allard (R-CO), Johnson (D-SD), and Levin (D-MI) are sponsoring the amendment, which would also allow 25% of the reallocated funds to be used for "other uses," presumably highways. DOT and STPP believe that the funding charts, circulated by proponents, illustrating that most States win in FY1999 are misleading. This is because earmarking impacts the formula in the outyears; therefore, the same States do not benefit each year. DOT is working on funding charts that reflect outyear funding impacts.

2) CMAQ Amendments. Senator Inhofe (R-OK) may still offer two problematic amendments related to the Congestion Mitigation and Air Quality Improvement (CMAQ) program: 1) single-occupancy vehicle eligibility and 2) transferability of CMAQ funds to highway construction program categories. While Inhofe has not addressed either issue lately, there is concern that he may revisit one or both issue (s) now that agreement has been reached on the air standards implementation language (discussed below). *While I believe it is doubtful, I have a call into EPA to determine if the air quality standards agreement between EPA and Inhofe included that he would not offer any CMAQ amendments.*

3) Enhancements vs. Railbanking. Senator Brownback (R-KS) has put his amendments to make the enhancements program optional on hold pending outcome of his amendment to attack railbanking. If he succeeds on eliminating railbanking, it is unclear whether he will drop the enhancements amendment. Railbanking preserves abandoned rail corridors for future rail use rather than return the property to land owners. In the interim, many corridors are converted to pedestrian and bicycle trails. The Kansas agriculture coalition is behind the railbanking amendment. Representative Moran (R-KS) may offer a similar provision in the House once the House bill begins moving again. Senators Bumpers (D-AR) and McCain (R-AZ) have objected to the railbanking amendment because it amends two laws, the National Trails System Act and the Interstate Commerce Act, under the jurisdiction of the Energy and Commerce Committees.

Possible New Amendments

1) Program Distribution. Senate Environment and Public Works (EPW) staff are reportedly working on an amendment to require that States fund programs proportionately in the event that the appropriators provide obligation limitation less than the authorization level. Currently, the discrepancy between contract authority and obligation limitation would allow States sufficient flexibility fund non-environmental programs first.

2) Rural Planning. Senator Levin (D-MI) will reportedly offer an amendment to incorporate rural areas into the metropolitan planning process. While it does not appear to grant rural areas membership in the Metropolitan Planning Organization (MPOs), it would allow them to participate in the process. The National Association of Counties (NACO) supports this amendment.

3) Bridge Funding. NACO is looking for a sponsor to offer an amendment to ensure that the Bridge program receives proportionate funding increasing in the future. The Senate bill currently eliminates

a separate Bridge program, makes it a setaside within the Surface Transportation Program, and requires that funding for bridges be no less than actual funding provided in FY 1997. The NACO amendment would change the minimum Bridge spending requirement to be the same as the percentage of total funding in FY 1997.

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THE PRESIDENT HAS BEEN
3-12-97THE WHITE HOUSE
WASHINGTON

March 11, 1997

For - Finance
underwriting in
infrastructure

MR. PRESIDENT:

There is general agreement among the agencies as well as your White House staff on the *ISTEA Reauthorization bill* except for one issue. The attached Raines/Sperling memo discusses the area of contention -- it outlines two options for dealing with \$100 million per year available through the Innovative Financing title. Given that you are scheduled to announce the bill tomorrow morning, it would be helpful if you could make a decision prior to the event. However, if you feel you need more time, an immediate decision is not imperative.

Background. As currently drafted, the title has two parts. The first would provide Federal grants of \$150 million per year to State Infrastructure Banks (SIBs), and SIBs would use these funds to offer credit support for State/local transportation projects. All agencies support this provision. However, there is disagreement about how to best use the other \$100 million per year available under this title.

Option 1 – Direct loans. NEC, OMB, DOT, WH Legislative Affairs and John Podesta would allow the Federal government to make direct loans for up to 33% of the cost of State/local revenue-generating (toll) transportation projects of “national economic significance.” However, Treasury objects to this approach. *The memo provides detailed arguments pro and con.*

Option 2 – Additional grants. Treasury proposes that the \$100 million per year be used for direct grants to SIBs for specific transportation projects. The SIBs would use the funds to provide some form of credit support to the projects. *See memo for details.*

Finally, if you're inclined toward option 1, please note that Sec. Rubin would like to speak with you before you give final approval.

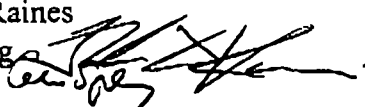
Helen Howell *Helen*

THE PRESIDENT HAS SEEN

3-12-97

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines
Gene Sperling 

SUBJECT: Elements of the "Innovative Financing" Program
in the Administration's ISTEA Reauthorization Bill

This memorandum seeks your decision on the nature of the 'Innovative Financing' program that is to be included in the Administration's ISTEA reauthorization proposal.

As currently drafted, the Innovative Financing title has two parts. The first would provide Federal grants of \$150 million per year to State Infrastructure Banks (SIBs). SIBs would use these funds to offer credit support for State/local transportation projects (e.g., by writing down the interest that borrowers must pay). All agencies support this provision.

The second part of the Innovative Financing title would allow the Federal government to make direct loans, on favorable terms and conditions, for up to 33 percent of the cost of a State/local transportation project. Preliminary OMB estimates indicate that the \$100 million per year in budget authority available for this purpose would support up to \$400 million in loans. NEC, OMB, DOT and White House Legislative Affairs support this provision. Treasury objects. Treasury proposes instead that the \$100 million per year be used for direct grants (e.g., adding the \$100 million to the \$150 million per year already provided for SIBs).

OPTION 1 -- Direct Federal Loans with Flexible Repayment Provisions

Under this option, the Federal government would offer loans to State/local sponsors of revenue-generating (toll) transportation projects of "national economic significance." The Federal loans could cover up to one-third of total project costs. The State/locality would cover the remaining project costs by issuing tax-exempt bonds.

During the first 10 years of the loan, the Secretary of Transportation could defer repayment of principal and/or interest on the Federal loan if the cash flows from the project were insufficient to cover these items. Any deferred payments would be added to the balance of the loan and would accrue interest at the Federal cost of funds. At the end of 10 years, the balance of the Federal loan would be refinanced with a 20-year Federal loan, at Treasury interest rates, with no further deferral of repayment allowed.

Since borrowers would pay interest at the Federal cost of funds, the budget cost of these loans would arise only from losses associated with default. In the case of default, the Federal

government and the other project lenders would have equal standing: each could claim project assets in proportion to the amount of loans they had outstanding.

PRO:

Leveraging Federal investment in transportation. Compared to existing Federal grants, these loans would provide a much lower subsidy to any one project, thus leveraging the total amount of transportation investment stimulated by Federal assistance. Preliminary OMB estimates indicate that, in contrast to existing direct grants subsidizing 80 percent of project costs, the Federal loan would provide financial assistance equivalent to a direct subsidy of between 8 and 22 percent of project costs.

More efficient use of the Nation's transportation infrastructure. By subsidizing the construction of transportation projects that charge user fees, the program would increase the efficiency with which the Nation's transportation infrastructure is used.

CON:

Treasury acknowledges the advantages of the proposed credit subsidies, but objects to the form in which the subsidies would be provided. Treasury argues that the DOT proposal is at odds with longstanding Federal credit policy, and would set a precedent that would be difficult to avoid with a host of other Federal subsidy programs. Treasury objections include:

Enhancement of tax-exempt debt. Treasury argues that the direct loan program would violate Federal policies, and perhaps current tax law, prohibiting the use of Federal funds to enhance the credit-worthiness of State/local tax-exempt debt. The prohibition against enhancement is designed to discourage the use of tax-exempt debt:

- reducing tax-exempt debt reduces the associated revenue loss to the Treasury;
- making State/local tax-exempt debt less attractive increases the demand for Treasury debt, and lowers the interest rate that the Federal government must pay.

Existing Federal policy would allow a direct Federal loan covering 100 percent of the cost of a State/local transportation project. However, Treasury argues that a Federal loan for 33 percent of project costs would constitute an 'enhancement' of the State/local tax-exempt debt that covers the remaining project cost. Treasury argues that the enhancement would arise from the market's belief that the Federal government would grant the project further subsidies rather than allow the project to fail and the Federal loan to go into default. DOT notes that a market perception of enhancement would be overcome by a consistent Federal policy against forbearance.

"Subordination" of Federal debt. Treasury argues that the most problematic aspect of the DOT proposal, however, is the fact that the Federal loans would involve more risk than the tax-exempt loans: during the first 10 years of the loan, the State/local borrower would be able to

defer payments on the Federal loan, but would be required to make uninterrupted payments to private lenders of the tax-exempt debt. During the first ten years of the loan, the Federal government would take on more credit risk than the private lenders. Treasury argues that the Federal loan is therefore 'subordinate' to the tax-exempt debt.

DOT argues that the Federal loan would not be subordinate in any material sense: both the Federal loan and the tax-exempt debt would have equal claim on the project assets in the event of default.

Scoring uncertainty. Treasury argues that it would difficult to measure the risk associated with toll transportation projects, for such projects are infrequent, lumpy investments. (Since 1961, only \$39 billion in revenue bonds have been issued for transportation toll projects; one percent of this amount has defaulted.) DOT acknowledges the uncertainty, but note that any measurement uncertainty would be reflected in a higher OMB estimate of the credit subsidy cost of the loans; on average, the OMB credit subsidy estimate should accurately reflect the long-term budget cost of the Federal loans.

OPTION 2 -- Provide Additional Grants to State Infrastructure Banks

Under this option, the Secretary of Transportation would allocate the \$100 million per year to SIBs for specific transportation projects. The SIBs would use the funds to provide some form of credit support to the projects (e.g., an interest-rate write down).

PRO:

Consistent with Treasury's interpretation of Federal credit policy. Since any direct enhancement of tax-exempt debt would be provided directly by SIBs rather than the Federal government, this option would be consistent with Federal credit policy.

Budget Certainty. By providing grants rather than loans, this option would eliminate all of the budget uncertainty associated with scoring credit programs.

CON:

Fewer transportation projects would be built. NEC, DOT and OMB believe that the Federal government would subsidize fewer projects under Option 2 than under Option 1. First, Option 1 allows States/localities to borrow at the federal cost of funds, while Option 2 requires States/localities to access the credit market at the SIB cost of funds. Second, Option 1 would provide a financial instrument not routinely offered by private capital markets (a 30 year loan with limited deferral of principal and interest during the first ten years); given the unusual nature of the credit instrument, borrowers would have to pay a premium to purchase a private-sector equivalent of Option 1.

NEC, OMB and DOT argue that the absence of a private market equivalent to Option 1 may reflect a capital market imperfection due to the short time horizons of private investors; they

note that the Federal government can offer more 'patient' capital. In response, Treasury argues that no market failure exists: we observe no similar private sector loans only because the risks are high and borrowers are unwilling to pay the required premium. Treasury notes that, with perfect capital markets, States should be indifferent between a direct Federal loan and a grant equalling the OMB-estimated subsidy cost of the loan (which the State could use to write-down the cost of a private loan); since States prefer direct Federal loans, Treasury concludes that OMB must be underestimating the true budget cost of the loan. DOT notes, however, that if capital markets were imperfect, States could finance more infrastructure with direct Federal loans than with the grant equivalent. Unfortunately, we have no empirical test of whether private capital markets are perfect.

RECOMMENDATIONS

NEC, OMB and DOT recommend that you approve Option 1. Treasury recommends that you approve Option 2. If you are inclined to approve Option 1, Secretary Rubin would like to speak with you before you give final approval.

DECISION

- ☒ Approve Option 1
- ☐ Approve Option 2
- ☐ Discuss Further



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 8, 1997 (SENT)
(Senate)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S. 1173 Intermodal Surface Transportation Efficiency Act of 1997 (Warner (R) Virginia and 17 cosponsors)

Reauthorizing the Nation's surface transportation programs is the Administration's top transportation priority for this session of Congress. The Administration is pleased that S. 1173 is a 6-year bill, and that it addresses many of the President's priorities as reflected in the Administration's proposal. For example, the bill includes important environmental protection, welfare-to-work, and worker protection provisions; and expands the uses of the highway and mass transit capital funds. In addition, the Administration supports many of the safety provisions under consideration by the Commerce Committee.

The Bipartisan Budget Agreement. The Bipartisan Budget Agreement (BBA) between the President and the Congress increased highway spending by \$10 billion. While the Senate reported bill is more consistent with the BBA than the 6-year bill considered by the House Transportation and Infrastructure Committee, S. 1173 still exceeds the total transportation spending levels assumed in the BBA -- including an additional \$2 billion in mandatory outlays. However, the Administration understands that it is the managers' intent to modify the bill so that it remains within the bounds of the carefully crafted BBA. The Administration supports this goal and urges the Senate to craft a bill that is fully consistent with the BBA. The Administration would strongly oppose amendments to the bill which would further increase funding levels above those agreed upon in the BBA.

Amendment Concerns. The Administration commends the Senate for retaining ISTEA's disadvantaged business enterprise goals and uniform certification provision for highway projects, and strongly opposes any amendments to repeal or weaken these provisions. In addition, the Administration would oppose any amendments to weaken: the National Environmental Policy Act, the Congestion Mitigation and Air Quality Improvement Program (including allowing single occupancy vehicle projects to receive funding under the Program), or the Clean Air Act. The Administration is also committed to retaining ISTEA's labor standards and employee protection requirements afforded working people on federally assisted projects (including those assisted by State infrastructure banks), and would oppose any amendments repealing or limiting these protections. The Administration would also oppose changing the transit formula by adopting any form of minimum allocation for transit.

Major Concerns. The Administration supports Senate passage of a 6-year transportation bill, but will seek amendments to S. 1173 to address the concerns described below and the additional concerns discussed in the attachment.

- The bill should be modified to be fully consistent with the Bipartisan Budget Agreement.
- The bill's safety provisions should be strengthened by -- retaining the unbelted crash testing requirement; penalizing repeat drunk driving offenders at the same blood alcohol level as first offenders; including the Administration's criteria in the seat belt incentive program for States to increase seat belt use rates; and eliminating the special exemption from the Federal seat belt use law for New Hampshire.
- S. 1173 should be amended to authorize the full \$2.2 billion requested by the Administration for the Appalachian Development Highway System, and the full \$161 million requested for National Park roads and parkways. The funding levels currently authorized in the bill are inadequate to support these important programs.
- The bill should provide additional flexibility to State and local governments in establishing hiring preferences for in-State welfare recipients, in order to meet the aggressive targets included in the recent welfare reform law.

Finally, the Administration supports the use of alternate fuels to improve our nation's air quality, and therefore strongly supports the extension of the excise tax exemption for ethanol (but without phasing down the rates of the benefits).

Pay-As-You-Go Scoring. S. 1173 as reported would increase direct spending; therefore it is subject to the pay-as-you-go requirement of the Omnibus Budget Reconciliation Act of 1990. Therefore, if the bill were enacted and these costs are not offset during the remainder of this Congressional session, a pay-as-you-go sequester would be triggered at the end of the session. OMB's preliminary scoring estimates of this bill are presented in the table below. Final scoring of this legislation may differ from these estimates.

PAY-AS-YOU-GO ESTIMATES
(\$ in millions)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>98-03</u>
Outlays	71	244	335	402	463	529	2,044

Attachment: Additional Concerns

The Administration supports Senate passage of a 6-year transportation bill, but will seek amendments to S. 1173 to address the major concerns described above and the additional concerns discussed in this attachment. The bill should be amended to:

- Expand its intermodal focus by permitting State and local governments to use Surface Transportation Program (STP) funds for publicly owned freight rail infrastructure.
- Retain the current 10 percent set-aside of STP funds for transportation enhancements.
- Delete Section 1115 which would unnecessarily expand Federal Lands Program eligibility to include non-Federal aid eligible roads.
- Delete two provisions that would dilute the effectiveness of the Hazard Elimination program by unnecessarily extending the program to the Interstate System (which is already our safest system of roads), and unnecessarily expanding program eligibility to include non-safety traffic calming projects.
- Prevent confusion and duplication by deleting the provision that would give States the option of using or not using the metric system in connection with highway construction contracts.
- Further expand the definition of capital to make contracted paratransit services for individuals with disabilities an eligible expense.
- ✓ • Advance transportation projects more prudently and leverage private and non-Federal investment by substituting the Administration's State Infrastructure Bank and Credit Enhancement proposals for the bill's current Innovative Infrastructure Finance provisions.
- In addition, the Administration is concerned that the proposed Magnetic Levitation Transportation Technology Deployment Program does not adequately take into consideration evidence on the costs and benefits of projects that would be eligible under the program.

*Sec. 1236. Design Flexibility.***SUMMARY**

This section clarifies section 109 of title 23, United States Code, regarding planned future traffic needs and the Secretary's responsibilities in reviewing State plans for proposed highway projects. This modification eliminates the requirement that the Secretary ensure that a State plan for a highway project must accommodate future traffic demands. The revised section only requires that the Secretary ensure that future traffic needs were considered.

DISCUSSION

This change gives States and localities additional flexibility in designing and constructing highway projects under this title.

*Subtitle C—Finance***CHAPTER 1—GENERAL PROVISIONS**

A considerable gap exists between transportation infrastructure needs and available Federal resources. It is important that national transportation policy anticipate the future and reach out for ideas on creative ways to finance our infrastructure needs. The programs provided in this subtitle will increase the strategic investment in transportation infrastructure.

*Sec. 1301. State Infrastructure Bank Program.***SUMMARY**

This section codifies the State Infrastructure Bank (SIB) Pilot Program authorized in the NHS Designation Act of 1995.

DISCUSSION

This section includes modifications to increase the flexibility of the SIB program. The current 10-State limit on the number of participants in the SIB program is eliminated, thus enabling any State to establish a State Infrastructure Bank. The percentage limitation regarding funds a State can transfer to use State Infrastructure banks is eliminated. The need to maintain separate highway and transit accounts within a SIB is also terminated.

The 10-state limit unnecessarily restricted States from pursuing this financial mechanism and the percentage limitation unnecessarily limits States' use of this mechanism. The need to maintain separate highway and transit accounts also imposed an accounting burden on States that was inconsistent with financial flexibility desired in a financing entity such as a State Infrastructure Bank.

CHAPTER 2—TRANSPORTATION INFRASTRUCTURE FINANCE AND INNOVATION**SUMMARY**

This chapter establishes a Federal credit program for surface transportation, entitled the "Transportation Infrastructure Finance and Innovation Act." The program is designed to provide funding for large projects with their own revenue streams, which can obtain

and leverage substantial investment.

This program offers a new tool to enhance investment in greater private sector needs.

The TIFIA program difficult to finance the complexity. Projects "regionally" or "national" to be self-supporting dedicated funding some more than \$100 million percent of a State's cost must be at least

Forms of assistance include loans, loan guarantees Federal participation is limited to 33 percent total program over the Federal assistance of

This new credit as program. The ultimate Federal participation capital investment to

The provision allows projects (including highway crossing projects) that meet the

For example, some high speed rail proposed high speed assistance financing support to Tampa would United States and operate its trains. The State transportation trust This investment will private sector that is and is intending to operate projects that demonstrate marketplace and are comprised of the types of assistance authorized under

As introduced, the applying the "Davis-Bacon" made available under those funds: Section of title 23, United States Code applying the prevailing taken under TIFIA; and

and leverage substantial private capital with a limited Federal investment.

DISCUSSION

This program offers the sponsors of major transportation projects a new tool to enhance limited Federal resources, stimulate additional investment in our Nation's infrastructure, and encourage greater private sector participation in meeting our transportation needs.

The TIFIA program is targeted toward projects that have been difficult to finance through traditional means due to their scale and complexity. Projects must be designated by the Secretary as "regionally" or "nationally" significant, and they must have the potential to be self-supporting from user charges or other non-Federal dedicated funding sources. In addition, eligible projects must cost more than \$100 million or represent an amount greater than 50 percent of a State's annual apportionment. For ITS projects, the cost must be at least \$30 million.

Forms of assistance that can be provided under this program include loans, loan guarantees, and lines of credit. In all cases the Federal participation will be as a minor investor. Federal participation is limited to 33 percent of total project costs. The \$530 million total program over the six-year authorization can leverage total Federal assistance of up to \$10.6 billion in loans and lines of credit.

This new credit assistance program is a limited, six-year pilot program. The ultimate objective of the program is to phase out Federal participation in these large projects and encourage private capital investment to fulfill this function.

The provision allows the Secretary to provide to all title 23-eligible projects (including highways, transit, high speed rail, railroad highway crossing projects, and others) Federal credit assistance if the projects meet the eligibility criteria outlined in the provision.

For example, some States are pursuing major initiatives to establish high speed rail systems. The State of Florida reports that its proposed high speed rail project would require Federal credit assistance financing support. The 320-mile system from Miami to Orlando to Tampa would introduce 200 mile-per-hour trains to the United States and operate on right-of-way exclusively reserved for its trains. The State of Florida plans to allocate funds from its transportation trust fund over a 40-year period for this project. This investment will establish an innovative partnership with the private sector that is contributing significant equity to the project and is intending to operate the system over a 40-year period. Such projects that demonstrate new technology in the United States marketplace and are financed with significant private sector capital comprise the types of projects envisioned to receive credit assistance authorized under this provision.

As introduced, the bill also contained two provisions expressly applying the "Davis-Bacon" prevailing wage requirement to funds made available under this chapter and to projects assisted with those funds: Section 1314(c)(1) would have applied the provisions of title 23, United States Code, section 113, thereby expressly applying the prevailing wage requirement to highway projects undertaken under TIFIA; section 1314(c)(5) would have applied the pro-

title 23, United States Code, and the Secretary's responsibility for proposed highway projects. Requirement that the Secretary project must accommodate section only requires that the needs were considered.

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PROVISIONS

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Infrastructure Bank (SIB) Pilot Act of 1995.

to increase the flexibility of the limit on the number of participating States, thus enabling any State to use State infrastructure funds to maintain separate highway and transit programs.

restricted States from pursuing percentage limitation unnecessary. The need to maintain consistency with financial flexibility designate Infrastructure Bank.

INFRASTRUCTURE FINANCE AND

credit program for surface transportation Infrastructure Finance and Investment Act to provide funding for projects, which can obtain

visions of title 49, United States Code, section 5333, thereby expressly applying the prevailing wage requirement to mass transportation projects undertaken under TIFIA. These two provisions were deleted from the reported bill. For highway projects, the provision applying title 23, United States Code, section 113 was considered redundant, because section 113 already applies by its own terms. For mass transportation projects, the committee deferred consideration of the application of title 49, United States Code, section 5333 to the Committee on Banking, Housing, and Urban Affairs, which has jurisdiction over mass transportation projects.

Sec. 1311. Short Title.

This section identifies a new Federal credit assistance program for surface transportation facilities as the "Transportation Infrastructure Finance and Innovation Act of 1997."

Sec. 1312. Findings.

This section recites Congressional findings that a comprehensive surface transportation infrastructure system is crucial to the economic health of the Nation and that traditional methods of funding transportation projects, including Federal grants, are insufficient to meet the Nation's infrastructure investment needs.

Sec. 1313. Definitions.

This section sets forth the definitions for terms used in this chapter, including "project," "eligible project costs," "obligor," "local servicer," and "substantial completion."

Sec. 1314. Determination of Eligibility and Project Selection.

This section defines the threshold eligibility criteria for a project to receive Federal credit assistance and outlines the basis upon which the Secretary will select among potential candidates. The Secretary's determination of a project's eligibility will be based on both quantitative and qualitative factors, including State and local support, project size, whether the project has a revenue stream, and whether the project is of national or regional significance.

Sec. 1315. Secured Loans.

This section establishes a temporary lending program whereby the Secretary may make direct Federal loans or guarantee loans from private lenders in fiscal years 1998 through 2003 to demonstrate to the capital markets the viability of making transportation infrastructure investments where returns depend on excess project cash flows. It is intended to help the capital markets develop the capability to replace the role of the Federal government by the end of the authorization period in helping finance the costs of large projects of national significance.

Sec. 1316. Lines of Credit.

This section authorizes the Secretary to enter into agreements to make direct loans to projects at future dates upon certain conditions occurring. Such agreement would be in the form of a standby line of credit.

Sec. 1317. Project

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Sec. 1322. Report

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Sec. 1317. Project Servicing.

The program will use State or local governmental agencies to assist the Secretary in servicing each credit instrument. The State may designate its State infrastructure bank or another public agency to serve as the local servicing agent for the credit instrument.

Sec. 1318. Office of Infrastructure Finance.

This section adds a new section to chapter 1 of title 49, requiring the Secretary to establish an Office of Infrastructure Finance to manage the credit program and provide related technical and educational assistance.

Sec. 1319. State and Local Permits.

This section states that this title in no way supersedes any existing State or local laws, regulations, or project approval requirements.

Sec. 1320. Regulations.

This section provides that the Secretary can issue regulations that are appropriate concerning this chapter.

Sec. 1321. Funding.

This section provides contract authority to fund the budgetary or subsidy costs of the Federal credit instruments. Subsidy costs, which are defined in and required to be funded by budget authority under the Federal Credit Reform Act of 1990, represent the present value of expected cash flows for each credit instrument, taking into account the default risk as well as any interest rate subsidy. Since this title requires all secured loans to be made at a rate equal to the comparable term U.S. Treasury rate, there will be no interest subsidy element. A total of \$80 million for each of fiscal years 1998 and 1999; \$90 million for each of fiscal years 2000 and 2001; and \$115 million for each of fiscal years 2002 and 2003 is authorized under this title. The contract authority would remain available until expended and would be derived from the Highway Trust Fund.

The bill caps the nominal amount of credit instruments supported by this contract authority at \$1.2 million for each of fiscal years 1998 and 1999; \$1.8 million for fiscal years 2000 and 2001; and \$2.0 million for fiscal years 2002 and 2003.

Sec. 1322. Report to Congress.

This section requires the Secretary to summarize the activities and results of the assistance programs and mechanisms provided under this title, including whether they are succeeding in encouraging the private capital markets to invest in large transportation infrastructure projects. The report shall be made within 4 years of enactment of the subtitle and include recommendations on whether the program should be continued or phased out by the end of the authorization period as planned.

Timing. The October 8, 1997, SAP puts the Administration on record as opposing Senator Chafee's innovative financing proposal in S. 1173, the ISTEA reauthorization. There will be opportunities to reemphasize this position formally in the future, in particular in the Senate Floor or the Conference SAP. Since the House opposes this program, innovative financing will be a conference issue. Less formally, Treasury and/or Transportation staff could inform Senate staff of our opposition. Since Transportation supports this program off the record, an alternative to directly informing staff of our concerns would be to ask Transportation to be silent on this issue.

Funding Levels. The Senate bill exceeds the President's request for highways, highway safety, and transit by approximately \$50 billion over 6 years. Given these large increases, there is less of a need to bend our principles to make more funding available for these programs in the future. The Administration's proposed innovative financing program will still be available to serve some projects in need.

ISTEA
March 7, 1998

Q: Will the additional money that the Senate approved for transportation last week cut into the funding needed to pay for the Administration's priorities in education, the environment, etc.?

A: The President was on record as saying he would support spending on surface transportation (highways, highway safety and transit) above that in his budget if and only if it could be done within the budget caps. We are pleased that the Senate's recent action appears to stay within the budget caps. We will discuss further with Congress how the increased transportation spending will be offset to ensure that the President's other priorities are preserved.

Speaking of the President's priorities, I want to applaud the Senate for its 58-to-37 vote on Friday to preserve the Department of Transportation's Disadvantaged Business Enterprise (DBE) program, which provides expanded economic opportunity for people who have been effectively shut out of the construction contracting process until recently. The Senate's vote reaffirms the President's "mend it, don't end it" approach to affirmative action and promoting equal opportunity.

Background:

The Senate agreed last week to provide \$173 billion (contract authority) over 6 years for highways -- \$38 billion more than the President's budget request and \$26 billion more than S. 1173, Sen. Chafee's ISTEA II reauthorization proposal. The Senate also agreed to provide \$5 billion (budget authority) more for transit than what was in S. 1173 (and \$17 billion more than the President's request).

There is no agreement yet on the obligation limitation or outlays that will be included in the Budget Resolution. Domenici is "committed" to finding offsets for this added spending, but they have not been identified.

Sen. Gramm's amendment, Gramm-Byrd, provided for a conditional increase in highway spending equal to the highway account share of the 4.3 cent per gallon tax (3.45 cents). It would have raised spending on highways by \$32 billion above the level in S. 1173.



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

March 5, 1998

The Honorable Pete V. Domenici
United States Senate
Washington, DC 20510

Dear Senator Domenici:

This letter responds to questions that you have posed regarding the Disadvantaged Business Enterprise (DBE) Program currently authorized by the Intermodal Surface Transportation and Efficiency Act.

1. Has the text of section 1111 been ruled on by the Supreme Court, and if not, how does section 1111 differ from the statute that was before the Supreme Court in Adarand v. Peña?

The Supreme Court in Adarand v. Peña did not find this or any other program to be unconstitutional. Indeed, the Supreme Court did not even consider the constitutionality of section 1003(b) of ISTEA, which sets a 10% goal for expenditure of the authorized funds with DBEs. The Adarand case involved a different program: the Department of Transportation's use in its own direct federal contracts of compensation to encourage federal prime contractors to use DBE subcontractors. The compensation was provided through a specific contract provision used only in DOT's own direct contracts for highways on federal lands. Even as to this compensation program, the Supreme Court's opinion merely establishes that federal race-conscious programs, like state and local programs, are subject to strict scrutiny. The Court made clear, however, that such scrutiny is not "fatal in fact," and that the federal government has a compelling interest in remedying the lingering effects of discrimination through properly tailored programs.

2. How do you conclude that Section 1111 of the ISTEA bill was not before the Supreme Court in Adarand v. Peña and has not been declared unconstitutional?

The Supreme Court's opinion in Adarand addresses only the DOT's subcontracting compensation program, not the ISTEA DBE program. The Supreme Court's remand in Adarand makes this clear -- it states that the courts below were to determine only "whether any of the ways in which the Government uses subcontractor compensation clauses can survive strict scrutiny." 515 U.S. at 238. Only one district court judge -- the judge who is considering the remand in Adarand -- has found the compensation clause program unconstitutional. While that district court judge also ruled the ISTEA program unconstitutional, the constitutionality of ISTEA was not properly before the court. The Justice Department has argued on appeal to the Tenth Circuit that the district court improperly addressed the constitutionality of ISTEA and, in any event, erroneously concluded that ISTEA was unconstitutional.

3. Section 1111 of the ISTEA bill states, "not less than 10 percent of the amounts made available under the program shall be expended with small business concerns controlled by socially and economically disadvantaged individuals." In view of this language, why is the DBE program not a mandatory set aside or rigid quota program?

The 10 percent figure contained in the statute is not a mandatory set aside or rigid quota. First, the statute explicitly provides that the Secretary of Transportation may waive this goal for any reason -- specifically, the language quoted above is preceded by the phrase "[e]xcept to the extent that the Secretary determines otherwise." Second, in no way is the 10 percent figure imposed on any state or locality. Under the program, it is the states that really set goals for contracting. They may set goals higher or lower than 10 percent depending upon the local availability of DBEs, projected contracting needs and past results of their efforts. Moreover, state agencies are permitted to waive goals when achievement on a particular contract or even for a specific year is not possible.

The DBE program does not set aside a certain percentage of contracts or dollars for a specific set of contractors. Nor does the program require recipients to use set asides. The DBE program is a goals program which encourages participation without imposing rigid requirements of any type. Neither the Department's current or proposed regulations permit the use of quotas. The DBE program does not use any rigid numerical requirements that would mandate a fixed number of dollars or contracts for DBEs.

4. The comments to the new rule states, "[i]f race-neutral means are the first resort under this proposed section, then set asides and other more intrusive means, such as a conclusive presumption, are the last resort." In view of this language, why is this not a mandatory set aside or rigid quota program?

The comment is intended to make clear that race- and gender-neutral mechanisms (e.g., outreach, technical assistance) are the means of first resort for recipients to use in seeking to meet overall goals. In fact, the rule itself prohibits setting aside particular contracts unless the state has been unable to meet its goals for a number of years and there is a court-order or state law which directs the recipient to use set asides. Such set asides would not be permitted, even where state law authorizes their use, unless it can be shown that less restrictive measures, including race neutral programs and flexible contract goals, were insufficient to address the demonstrated effects of discrimination. As discussed above, the DBE program thus neither mandates set asides nor permits the use of rigid quotas.

5. Are there sanctions, penalties or fines that may be imposed on any recipient who does not meet DBE program goals? In the fifteen years that this program has been in operation, has any state been sanctioned for not meeting its program goals? In answering please provide specific examples to support your conclusion.

No state has ever been sanctioned by DOT for not meeting its goals. Nothing in the statute or the regulations imposes sanctions on any state recipient that has attempted in good faith, but failed, to meet its self-imposed goals. In 1995, two states failed to meet their goals; in

1996, two other states failed to meet their goals; and, in 1997, three states failed to meet their goals. There were no sanctions, penalties or fines of any kind imposed against any of those states.

6. Is this program only for minorities and women?

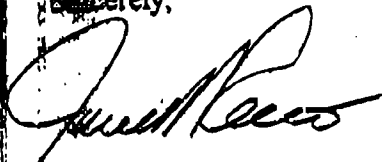
No. Any individual owning a business may demonstrate that he is socially and economically disadvantaged, even if that individual is not a woman or minority. Both the current and proposed regulations provide detailed guidance to recipients to assist them in making individualized determinations of disadvantaged status. And, in fact, businesses owned by white males have qualified for DBE status.

7. What recourse is available to low bidders who have made good faith efforts to meet DBE contract goals, but despite those efforts were not able to do so? Is it true that low bidders who have tried but failed to meet the contract's DBE goal are automatically eliminated from consideration for the contract?

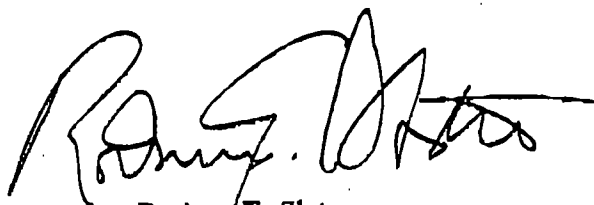
Under the current regulations, if a prime contractor is unable to find available and qualified DBEs to meet a specific contract goal, the goal may be waived. Under the proposed rule, the goal must be waived. No low bidder who tried in good faith but failed to meet the goal is automatically eliminated from receiving the contract.

Thank you for your interest in, and support of, this important program.

Sincerely,



Janet Reno



Rodney E. Slater

Daily Report for Executives

No. 45

Monday March 9, 1998

Regulation, Law & Economics

Transportation

Lott Seeks to Wrap Up ISTEA Debate

As Lawmakers Maneuver for Changes

With some key funding issues already settled, Senate Majority Leader Trent Lott (R-Miss) said he will take steps to force lawmakers to wrap up their debate on the reauthorization of the Intermodal Surface Transportation Efficiency Act by March 13.

Although more than 200 amendments are pending to the six-year ISTEA bill (S 1173), Lott planned as a first step a cloture vote late March 9 that is aimed at limiting debate and forcing final action on the bill later in the week.

"We get cloture, 30 hours, we're finished with this bill," Lott said shortly before the Senate adjourned March 6 after spending several days on the legislation.

But many senators expressed concern about Lott's plan and indicated that the first cloture vote to cut off debate on the ISTEA bill will not succeed. And Lott himself said the real purpose of the vote may be simply to force senators to winnow down the long list of changes proposed to the bill.

"The list we have from the hotline is 250 amendments," Lott said before filing the cloture motion. "We need to get serious now about getting this [bill] done."

Sen. Minority Leader Thomas Daschle (D-SD), whose state will be among the first to feel the effects of another lapse in the federal aid highway program May 1, said he supports Lott's attempt to force early action on the ISTEA bill. But he told reporters later in the day that he doubts the first cloture vote will succeed.

"I think we're going to be on the bill for some time yet, even though there are many of us who would like to see it come to a close," Daschle said.

Banking, Finance Titles to Be Added

Lott filed the cloture petition shortly after the Senate disposed of one of the most controversial amendments proposed to the bill: Sen. Mitch McConnell's (R-Ky) plan to upend ISTEA's program to encourage minority-owned business participation in the federal aid highway program. The amendment was tabled after a lengthy debate (see related story in this section).

In addition, senators managed to resolve many other difficult issues raised by the ISTEA rewrite in recent days, including whether to increase the highway and transit authorizations in the bill. After many rounds of negotiations, lawmakers agreed to boost the bill's highway authorizations by \$26 billion and the transit title's funds by another \$5 billion.

With those and other issues settled, Lott said he now wants to finish up the legislation and move to other items, including the issue of NATO enlargement. The bill, Lott said, already has taken up three weeks of Senate floor time, including two weeks last fall.

But Lott's plan to invoke cloture and limit debate also raises some problems, Daschle said. The Senate,

he said, still has not taken up as amendments the Banking Committee's transit title or the Finance Committee's title to extend the gas taxes that finance the programs.

Late in day, Lott attempted to address that situation, asking for a unanimous consent agreement that would permit those titles to be brought up even if cloture is invoked on March 9. But that move was opposed by senators still unhappy with their states' share of funding under the bill.

Among those expressed concern about Lott's plan was Sen. Carl Levin (D-Mich), who with other so-called donor state lawmakers wants to offer an amendment to improve their states' share of ISTEA funding. Levin, who has raised many questions about how the extra \$26 billion is shared by the states, said the agreement Lott sought would prevent the donor state amendment from being offered.

Lott, who is also from a donor state, said he also has concerns about the bill and how it distributes funds. But the legislation, which he described as "very delicately balanced," must be approved soon. Then, he said, there will be pressure on the House to also act on the ISTEA reauthorization soon and keep needed transportation dollars flowing to the states.

"I think senators have had enough time to analyze what's in this bill," Lott said.

"I don't think you could find a senator more sympathetic to donor state concerns than I am," Lott continued. "But I realize this just has to be adopted."

Davis-Bacon Amendment Said Possible

Levin and other lawmakers are concerned that S 1173 will not give their states the 91 percent return on gas tax monies that members of the Senate Environment and Public Works Committee said would result from the addition of \$26 billion in funds.

But donor states are not the only ones unhappy with the bill's provisions. Among others, Appropriations Committee Chairman Ted Stevens (R-Alaska) again criticized the legislation on the floor, telling Lott that he, too, wants to fine-tune the bill.

"I don't want to be at cross purposes with the leader, but I will have to vote against cloture," Stevens said.

Although Alaska gets far more in highway funding than it sends to Washington in the form of gas taxes, Stevens said S 1173 still shortchanges his state. Earlier in the week, Stevens suggested that unless changes are made to improve his state's funding, he will not be supportive of the \$26 billion deal when the Appropriations Committee takes up the issue.

Meanwhile, Daschle said other controversies are ahead, including a possible fight over the Davis-Bacon Act as it applies to highway projects funded with federal dollars.

That law requires firms receiving government contracts, particularly in the construction industry, to pay workers at the same level as the prevailing union scale in the area where the work is being done. Sen. Jeff Sessions (R-Ala) is said to be planning an amendment to repeal the act.

"It may be that we go into the following week," Daschle said.



By Nancy Ognanovich

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GIS NOTES

Mort

Rodney Slater

Mort Downey

~~Joe Garvey~~ - was acting head of ^{Federal} Highway
Administration before going to FAN

Steve Palmer

Frank Raines

Jack Lew

Michael Drich

David Warzala + his team

Larry Stein

Katie McGrady

~~Jack Basso~~

Steve Palmer

Noddy Slater + Long Slater

D 07

Mont Pours
Steve Palmer
Jack Basso

Team

OMB

OMB (Randy R + Lee)
Michele Reed + David Warzels

Mike Reed

~~Note Money~~ ~~Don't, Ruby~~
~~Long Slater~~

Wt

~~Clubs Monty~~

~~Don't Ruby~~