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GENERAL SESSION
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Good morning, everyone, it’s good to be here. I commend the co-sponsors of the Forum, both the Transportation Center and the Transportation Cabinet.

This morning I’d like to talk about three primary topics: (1) what the Budget Reconciliation Act means to us in the transportation-highway arena, (2) our current 1991 appropriations bill, and (3) the re-authorization efforts for surface transportation programs at the federal level, which will be considered in Congress next year. Then, most important in my mind, is that at the end of the session I want to provide an opportunity to hear from you in terms of your concerns, any questions or thoughts you may have. While I certainly appreciate the opportunity to share my thoughts with you, it’s equally as important in my mind to hear your thoughts.

Let me talk about budget deficit for a moment and make sure we all have a common understanding of what it is, particularly in relationship to the highway program. As you all well know, one element of the package was an additional five-cents-per-gallon gas tax that is to be imposed December 1 of this year. The provisions of that tax are sunset to expire in 1995. It is not a permanent, ongoing tax but targeted to sunset in conjunction with the expiration of the five-year budget reconciliation provisions on an overall basis. Now, I suspect you and I both may have some degree of skepticism as to whether or not that tax will really expire, but that is the current legislative provision.

Of that five-cent gas tax increase, 2.5 cents is dedicated to the highway trust fund and the other 2.5 cents for general deficit reduction purposes. The 2.5 cents for the highway trust fund is split 80 percent for the states.
the highway account element and 20 percent for the so-called mass transit account element. That relationship (80/20) is basically the same relationship that was adopted in 1983 with the nickel federal gas tax, so that distribution of user revenues is continued in this additional five-cents-per-gallon federal gas tax.

Let me mention a couple of other things that you may or may not be aware of that are included in the Reconciliation Act. The base federal gas tax (nine-cents-per-gallon federal gas tax) that exists today was originally scheduled to expire in 1993. The Budget Reconciliation Act extended that expiration date to 1995. Normally, what would happen in the legislative process in Washington is that the extension of that base federal gas tax would be one of the elements to be included in the re-authorization legislation next year but, to some degree, that has already been done. The extension is in place through 1995.

I will talk about the 1991 Appropriation Bill and then come back to the current appropriation bill and what it means versus reconciliation so we can get a picture of what level of federal funding we may expect in the foreseeable future for the highway program. In fiscal year 1991, the total level of federal funds that would be subject to the overall so-called obligation limitation or obligation ceiling is $14.5 billion. That compares to a level of $12.2 billion last federal fiscal year. We see an increase this year in the level of federal funding for the highway program from $12.2 billion to $14.5 billion—a 20 percent increase. That’s the largest one-year increase in the highway program, on a percentage basis, at the federal level in the history of the program (if you exclude years such as 1983 when there was a federal gas tax increase for the highway program). Bottom line: A very significant increase this year in the federal funds that are available for state and local governments in Kentucky through the federal program.

But, there’s another little part of the picture. When I mention the $14.5 billion subject to obligation ceilings, that really does not include total federal funding. If you look at total federal funding, including that funding outside the obligation ceiling limitations, the total level of obligations out of the highway trust fund will be $16.4 billion.

Let me give you two examples of what is in the increment of between $14.5 billion and $16.4 billion, what is outside the obligation limitation ceiling. One program is the so-called minimum allocation program. It’s a program of distributing federal funds to those states that through the regular formulas do not receive back at least 85 percent of their contributions. That program is funded outside the ceilings and is there for us in addition to that $14.5 billion. The total cost of that program today is a little over a billion dollars a year.

The second program is an example of what’s outside the obligation ceiling, such as the emergency relief program. Particularly in the case of the ongoing earthquake repairs in California, there is a substantial obligation beyond the ceiling for that program as well as any yet-to-be experienced emergency relief activities. That is an example of what’s outside the obligation ceiling.

Now let me come back to that $16.4 billion, which is a fairly significant number if you compare it with the level of current revenues that flow into the highway trust fund from the existing nine-cent-a-gallon
federal gas tax. That gas tax plus the interest in the account produces a total revenue level of $14 billion a year; so current revenues total about $14 billion, obligations $16.4 billion. My point is that it's obviously a very significant step forward in terms of the concern that many of us within the highway industry have expressed in recent years, i.e. the significant balance of funds within the federal-aid highway program. Therefore, the '91 budget, the '91 appropriations bill, takes a major step forward in terms of spending down that balance just by looking at the $2.4 billion difference between revenues and interest versus new obligations.

Quite frankly, I recognize that three or four weeks ago, I would not have expected that we would wind up at the budget level (that $16.4 billion total) we have in this current federal fiscal year. Let me stress the particular significance of that from another aspect. I'll try to simplify this and I hope I don't make it too complicated as the Budget Reconciliation Act is fairly complex. During the two years, fiscal year '92 and '93, the Act provides that all so-called discretionary domestic spending, which includes all our transportation programs and the highway program, will be capped at the '91 level plus inflation (general inflation allowances into '92 and '93). There is a self-imposed cap on spending in the next two federal fiscal years, but that cap does not apply to the highway program alone. It applies to a broader category of funding discretionary domestic spending, of which the highway program represents about 8 or 9 percent. What that really means is that over the next two years, to increase funding in the federal-aid highway program beyond the '91 level, we will be in essence competing with other discretionary domestic spending. I think it is very important, therefore, to recognize that the base from which we start fiscal year '91, puts us in a relatively good position for that competition.

The second item that I think is significant is the fact that there is a lot of sensitivity "on the Hill" and within the Administration to the fact that, for the first time, the so-called sacredness of the highway trust fund and user fund fee revenues dedicated solely to the highway trust fund has been somewhat broken (i.e., the 2.5-cents gas tax going to deficit reduction). In general, I think there's a sympathy and understanding for that. That, in essence, is what led to 50 percent being dedicated to the highway trust fund and I think we can build upon that understanding and compete very actively for that discretionary domestic spending pot over the next two years.

In the last two years of budget reconciliation, the three categories of discretionary domestic spending, international spending, and defense are then wrapped into an overall budget level and everyone competes against a total budget level cap that is provided in the budget reconciliation.

We will say there is some bad news (bad news in the sense that the gas tax is now being or will soon be dedicated to deficit reduction) in the action that was taken and there is no guarantee that the highway program will receive additional spending in future years. The '92, '93, '94, '95 time frame is not guaranteed. But, on the other hand, there is the opportunity to compete in that category. So, while there are down sides, I would suggest that the sunset provisions of the additional gas tax and the major increase that we see in fiscal year '91 and the fact that, as I said, in my mind at least, there is a fairly significant level of support within Congress and within the Administration for the recognition that we, in transporta-
tion, are vitally interested in the highway program and have shouldered a major component of the overall effort to reduce the deficit.

I suggest that as we enter next year's deliberation, we try to take advantage of re-authorization of some of those positive elements. I believe we can if we continue to work closely together and on a mutual basis.

While I'm here, I would be remiss if I did not also commend both the Transportation Center and the Transportation Cabinet for the Advantage I-75 effort they have initiated. We certainly look forward to being an active partner with your efforts in that regard. That effort is one which is building upon technology to improve the conditions on our highway system—the so-called Intelligent Vehicle Highway Systems. This effort is one component in terms of commercial traffic flow in that corridor. We commend your effort in Kentucky and the leadership you are providing. I will also mention that the department, in its '91 budget, proposed $13 million for the continuation and expansion of that program nationwide. In the end, in our '91 Appropriations Bill, we received $20 million. We look forward to moving forward on the Advantage I-75 corridor in conjunction with both the Transportation Center and the Transportation Cabinet. That relatively small sub-component of our overall budget in '91 is certainly one that we envision as being very significant.

Let me move to the specifics of re-authorization for a moment and mention some of the objectives (in our minds at least) as we look forward to a renewal of the federal-aid highway program. As you all well know, over the last 34 years, we have basically completed a 44,000-mile interstate system in this country. That's been the major thrust of our federal program during those intervening years. That system is literally complete today and it's time to look to the future; and some of the key elements that we see as being very important in terms of the future program is that the federal program needs to be streamlined and somewhat simplified.

The federal-aid highway program is composed of a series of thirty-some categories of funding. We believe consolidation, streamlining, and simplification has to be a very basic objective. We also believe, and have confidence in, the capability of state and local governments to make decisions that are right for Kentucky as well as each and every one of our 49 states throughout the country. We want to see a program that provides state and local government with additional flexibility to best address the problems here in Kentucky as elsewhere throughout the country. That is important in our mind.

We believe a federal bill must have some significant time frame to provide for dependability and the stability that we need to effectively develop and implement our highway program. You all know better than I that we cannot at the turn of a faucet turn on a highway program or turn off a highway program. That, in fact, if you look back over the years, the strengths of the federal-aid highway program until recent years have been its dependability, the relative assurance. We want to renew that to the best of our ability—to provide you that dependability by trying to achieve a multi-year plan. We prefer, and our efforts will be dedicated towards, a five-year program so that we have a federal program that provides that longer term dependability.
What about the program elements? Let me mention just very briefly about the three major elements. One is the so-called highway system of national significance or national highway system. The concept in our mind is to look beyond the interstate system, that very essential system that we certainly recognize as the backbone of the highway system today, and look short of the total, what is called federal-aid primary system today. The federal-aid primary system today through our country is about a 300,000-mile system coupled with the interstate that would be really 35,000 miles. That system is too extensive to really bring a clearly-focused federal effort to a true system that serves as the commercial backbone of our company.

We envision a system of highways somewhere between 130,000 or 180,000 miles that would provide a target and a focus for this one element of the federal program. Now, let me be frank. We have worked hand-in-hand with state highway agencies to this point and there are some very legitimate concerns in terms of what the scope and size of the system may be. Your Transportation Cabinet in Kentucky has some of those concerns. We are well aware of that. I think there are some very legitimate concerns in that regard, but I remain somewhat optimistic that in the end, throughout our country, we can achieve a balance that certainly recognizes the uniqueness between our urban-oriented states and more rural-oriented states such as Kentucky. We’re not in agreement yet and I don’t mean to suggest that we are. I do mean to suggest that I think we can ultimately be there.

In Kentucky, you also are blessed in another area since, as most of you probably know, your Governor is the chairman of the NGA Transportation Committee and, in that position, obviously is in a very influential position. My boss, Secretary Skinner, is certainly committed to extensive outreach in shaping surface transportation re-authorization. We do believe in a strong federal-state partnership, and NGA and the Transportation Committee will certainly be a key partner in our effort, and we look forward to maintaining the communication in that regard. The Governor has met, at least a couple of times that I know of, with the Secretary already to this point, so we’ll look forward to working with your Governor and NGA in this effort as well.

The second major element of the program is what we call a rural/urban program, which would be dedicated obviously to the balance of what we know today as the federal-aid system, a portion of the primary system, and the secondary and urban system. We would envision one category that combines those rural and urban funds into a statewide category with the latitude for state and local governments to develop their priorities within that category.

A third essential element of the program in our mind is a dedicated bridge program to continue the federal bridge program that began in 1967. We also believe that the continuation of a discretionary bridge program element also is important to be able to help state and local governments in the case of unusually costly bridges. Those are the three basic elements and there are other sub-components, such as components that focus on the safety objectives that we have in mind. That is the fundamental notion upon which we’re trying to build. To a large degree, I
believe there is a fairly widespread base of support in a general consensus regarding those concepts and those generalizations.

One other element (which is certainly of concern and is less than a consensus perspective at this point), however, is how the matching ratios should be handled in the federal-aid highway program. This too, I know, is a concern for your Transportation Cabinet here in Kentucky. If you look at the overall federal program today (and that's the whole series of categories that I mentioned) and if you averaged it all together, the typical average project is about 83 percent federal with about 17 percent matching funds from either state or local government. We believe it's important to increase the matching ratio to go hand-in-hand with the streamlining and flexibility, that we mentioned earlier, to again assure us all that the federal matching doesn't become a project decision-making element of the program and that, in fact, there's enough matching funds required that we assure sound decision-making.

There are certainly some very legitimate concerns in terms of the capability of state and local governments to provide an increased level of matching funds, depending upon where you go throughout our country. I'll try to quantify it for you in the order of magnitude.

At this point we are looking at something along the lines of increasing that federal share (that I mentioned today is typically 83-17) to something like 75-25. That may not sound like too much of an increase, but I do realize that by increasing the matching ratio from 18 percent to 25, on the average, that's roughly a 15-percent increase and I'm not trying to deny that. But, I'm also suggesting that we recognize the capability to provide those matching funds may not necessarily be there and, therefore, we may have to look at further adjustments in that regard.

Based upon what I've heard from people throughout our country as we've talked re-authorization, I believe that right now there are those two major concerns on the part of states and local governments throughout the country. One is the inadequacy of the size and scope of the national highway system, particularly in our rural areas. I think that is a very legitimate question. We'll continue to look at that and hopefully be able to come to a mutually acceptable resolution.

The second concern is the one of matching ratios and, again, I hope that we would continue to look at that so that ultimately we can come to a relatively common understanding. Those are the two major concerns at this point. That means that 95 percent of the goals and objectives in our mind, in terms of re-authorization in general, are pretty much the same as state and local government throughout our country. I look forward to hearing, at the end of my remarks, your thoughts in that regard and seeing how accurate I may be in that aspect.

With regards to the timing of the bill, the Administration expects to submit its actual legislative language in conjunction with the President's budget in late January or early February of next year. We continue to refine our thoughts, and to try and keep communication links open with our constituents throughout the country, and refine our legislation. Expect introduction early next year. Meanwhile, within both the House and Senate Committees there have been some field hearings on the subject. I expect the pace of that to pick up early next year. The staffs of both com-

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mittees are beginning to actually develop their legislative language. We, within the FHWA, have a fairly frequent contact with those staffs, and the actual legislative development process in Congress also is beginning.

Our goal at this point is to try to bring forward an administration proposal early next year that we hope and think will provide a basis that many of you and certainly many of your counterparts throughout the country view as a responsive program. From a funding standpoint, and what may happen and what we may be proposing in those later years, I really can't get into specifically at this point, other than to offer the assurance that, from our perspective, that significant increase in the current fiscal year (that I referred to earlier) is certainly sending us down the right path. We will look at funding that would continue to draw down that existing highway trust fund balance and look at proposing funding that recognizes the fact that there is an additional 2.5-cents-per-gallon per year coming into the highway trust fund and try to develop a funding plan for the five years of the program that enhances and increases our commitment on behalf of federal government to our highways throughout our nation.

I think there are some dangers next year, given what we've seen in Congress quite recently. We should not assume that just because the Federal-Aid Highway Act expires on October 1, 1991 that there will automatically be a new one enacted. This continues to be a concern and I think something on which we will have to focus throughout next year.

Back to the theme of this Forum—transportation, economic viability, productivity, international competitiveness. I think one of the things we all must do between now and re-authorization is to continue to build upon some of the very same themes and information that you've heard yesterday and will continue to hear today. This nation’s economy does rest to a large degree upon the effectiveness and the efficiency of our transportation system. We all know that the highway system is the true backbone of our overall transportation system. Our highway system is certainly what makes rural America economically viable. We must continue to build the case of why that's important. We've got jobs in the highway industry. Increased programs not only lead to more effective, efficient movement of goods and people, but it employs people internationally. Our world is shrinking. Twenty-five percent of the cost of all exports is transport cost. Efficiency in our transportation system therefore directly enhances our international competitiveness. We've seen many studies by leading economists over recent years that suggest our nation's productivity is declining because of our disinvestment in our transportation system. I believe that's a powerful argument. Increase our nation’s productivity through investment in our transportation system.

I want to stop right there, thank you for the time.