March 10, 2013

**SEQUESTRATION, APPROPRIATIONS, and the FY 2014 FEDERAL BUDGET**

**Sequestration/Budget Control Act:** Under the terms of the Budget Control Act of 2011, the failure of the Congress to pass deficit-control legislation (that was to be produced by the Joint Select Committee on Deficit Reduction) triggered automatic cuts known as sequestration. These cuts apply to both defense and nondefense General Fund programs, with the Office of Management and Budget (OMB) outlining how those cuts would impact Federal departments, agencies and programs. Initially scheduled to take place on January 2, 2013, the “fiscal cliff” agreement delayed the effective date for sequestration until March 1, 2013. With Congress and the Administration unable to find an alternative approach, President Obama instructed the OMB to direct Federal agencies to cut their Fiscal Year (FY) 2013 budgets as prescribed by the Budget Control Act. These cuts do not impact Highway Trust Fund (HTF)/Mass Transit Account (MTA) programs, but do affect funds transferred from the General Fund to the HTF/MTA, as well as General Fund programs, such as New Starts, FTA Administration, Research, Hurricane Sandy recovery funds, and Amtrak and WMATA grants.

**FY 2013 Appropriations:** The Federal Government continues to operate under the Continuing Resolution (CR) agreed to at the end of FY 2012, but the CR expires on March 27, 2013. The CR permitted some programmatic changes found in MAP-21 to be implemented, but did not provide for the increased inflationary increase MAP-21 authorizes and it did not allow for new programs to be implemented. The House of Representatives approved a full year CR that does not address the sequestration shortfall, and does not provide full funding for the MAP-21 authorized spending levels, extending FY 2012 levels. However, this funding is also subject sequestration, meaning programs such as New Starts will see their number in the proposed CR cut by 5 percent, and the same for other programs affected by sequestration. The current CR and any full-year funding measure may also need to address anomalies, including aligning language for New Starts, Formula programs, and safety programs. The Senate will also need to act on the CR and it is uncertain what changes will be proposed in that body.

**Federal Budget:** The Obama Administration’s FY 2014 budget proposal is not expected to be released until later this month. It is anticipated that the Administration’s FY 2014 budget for transportation will reflect the charges enacted in MAP-21 while also including proposals mentioned in President Obama’s State of the Union address. The President has advanced a Fix-It-First proposal – a call for $50 billion in advance investments that includes $40 billion for the “most urgent upgrades” to highways, bridges, public transportation systems and airports, and $10 billion for a national infrastructure bank. Both the House and Senate Budget Committees have indicated they will attempt to produce Budget Resolutions in time to meet the statutory deadline of April 15. It is important that any Budget Resolution passed by Congress supports the full funding of MAP-21 and the continued investment in our nation’s infrastructure.

**APTA POSITION**

- APTA strongly urges Congress to fully fund MAP-21 at authorized levels for the remainder of FY2013, and to find a way to restore programs affected by sequestration to full-funding.
- APTA asks Congress to fix all relevant anomalies before adopting a full-year funding bill.
- APTA urges Congress to enact a Budget Resolution that allows for full funding of the new surface transportation law, MAP-21. Investment in the nation’s surface transportation infrastructure is vital for long-term economic growth, and there is a clear need to increase investment to bring the current system into a state of good repair and meet our growing transportation needs.
March 10, 2013

TRANSPORTATION'S FISCAL CLIFF: HIGHWAY TRUST FUND REVENUE SHORTFALL

A predictable, long-term Federal commitment to public transportation investment is essential to economic growth in the United States and its competitiveness in the global economy. Public transportation needs now far surpass current resources from all levels of government. At the Federal level, inflation has reduced the purchasing power of fuel tax revenues last raised in 1993 and higher CAFE standards and hybrid/electric vehicles are further reducing revenues from fuel taxes. Since Fiscal Year (FY) 2008, General Fund transfers to the Highway Trust Fund (HTF) have been required to supplement existing revenues that do not fully fund authorized transit and highway programs. Current HTF revenues cannot fund even existing transit and highway programs levels past FY 2014. If revenues to the HTF are not increased by the end of FY 2014, federal transit and highway programs would have to be cut deeply, as the HTF cannot by law run a negative balance. Projected revenues in FY 2015 would fund only 57 percent of the current trust fund portion of the federal transit program, and only 82 percent of the current highway program. Further, current program levels for both the federal transit and highway programs should be increased to preserve existing infrastructure and address system needs for a growing population.

Many stakeholders, including APTA, see this year’s likely tax reform package as the best opportunity to ensure that HTF revenues support transportation investment in the short term and provide reliable, sustainable revenue for long term growth of federal surface transportation programs. Highway Trust Fund revenue increases have often been enacted in legislation separate from the authorization bills they fund, so any legislation to preserve the solvency of the HTF is potentially on a faster track than MAP-21 reauthorization. With diminishing support for more general fund transfers and the increased Federal deficit they produce, now is the time to push for new or expanded sources of user-based revenues.

APTA has not endorsed any specific HTF revenue source proposals, of which there are many. APTA would consider any politically viable proposal to boost HTF revenues, and we urge Congress to solve this funding problem now, before dramatic funding cuts must be considered in FY 2015.

APTA POSITION

- The Federal surface transportation program is facing its own fiscal cliff: Highway Trust Fund revenues have no kept pace with needs and will only cover program obligations through the end of FY 2014.
- The time to solve this funding shortfall is now. House and Senate tax committees plan to take up comprehensive tax reform bills this year; a funding fix for the HTF should be included in these bills.
- Without increased revenues to the HTF, all Federal transit and highway programs would suffer debilitating funding cuts in FY 2015, leaving us with a transportation network increasing unable to meet our nation’s economic and mobility needs going forward.
March 10, 2013

TAX ISSUES: TRANSIT/PARKING BENEFIT PARITY; ALTERNATIVE FUELS TAX CREDIT; MUNICIPAL BONDS

Two tax provisions critical to the transit industry expired in 2012 – the transit commuter fringe benefit and the alternative fuels tax credit. As a result, in January 2012, the transit commuter benefit was immediately reduced from a maximum level of $230/month to $125/month, instantly increasing transit costs for hundreds of thousands of transit riders, and the expiration of the alternative fuels tax credit eliminated tens of millions of dollars of federal support to transit agencies operating environmentally-friendly, compressed natural gas (CNG) and liquefied natural gas (LNG) vehicles.

APTA and industry partners continued to advocate for the restoration of both tax provisions after seeing them eliminated in 2012 and those efforts paid off as the American Taxpayer Relief Act of 2012 (a.k.a. the fiscal cliff bill), signed on January 2, 2013, included extensions of the transit commuter benefit and the Alternative Fuels Tax Credit through December 2013. The transit benefit now equals the parking benefit at a maximum of $245/month in 2013. These extensions encourage transit ridership and support use of domestic energy, and both provisions should be permanently extended so that federal law incentivizes transit and alternative fuel use.

Additionally, under a longstanding provision of Federal tax law, interest earned on most bonds issued by State and local governments is exempt from Federal taxation. These tax-exempt municipal bonds have long been used as a cost-effective means for state and local governments to finance billions of dollars in infrastructure projects, as government issuers are able to pay lower interest rates on these bonds than if they issued taxable debt. Some in Congress are now considering a cap on exemptions for interest income, including income from municipal bonds. Any such tax-benefit cap would reduce market demand for municipal debt, thereby driving up the borrowing costs of state and local governments relying on municipal bonds to fund infrastructure projects. Government issuers would have to offer higher interest rates to attract investors to benefit-capped municipal bonds.

APTA POSITION

- APTA urges Congress to enact permanent parity between the transit benefit and the parking benefit, establishing fair, long-term tax savings for participating transit riders and employers.
- APTA urges Congress to permanently extend the alternative fuel tax credit. The tax credit is needed to support natural gas transit fleets, which reduce dependence on imported fuels and expand the affordability and diversity of agency fueling options.
- APTA urges Congress to preserve the current full tax exemption for municipal bonds, which have long provided a very cost-effective way for States and local governments to attract private investment to infrastructure projects. Capping this exemption would burden states and local governments with higher borrowing costs, which would hamper infrastructure investment, cost jobs, and reduce economic competitiveness.
March 10, 2013

POSITIVE TRAIN CONTROL

The Rail Safety Improvement Act of 2008 (RSIA, P.L. 110-432), requires all passenger railroads and most Class 1 freight railroads to install Positive Train Control (PTC) technology by December 31, 2015. The bill authorized $250 million over 5 years to assist in implementing this technology, far short of the estimated $12 billion cost of implementation. Commuter railroads face major challenges in implementing PTC by 2015, related to funding and technology. As such, APTA and the Association of American Railroads have both concluded that a nationwide interoperable PTC network is not achievable by the deadline.

As the installation of PTC on nearly 4,000 locomotives and passenger cars with control cabs, and 8,000 track miles progresses, costs are beginning to mount. The total cost of implementation on commuter railroads is expected to far exceed initial estimates, with estimates doubled in some cases. Meanwhile, Congress has appropriated only $50 million of the $250 million that was authorized. A federally mandated deadline, coupled with virtually no federal funding is forcing agencies to commit extremely limited capital budgets to implement PTC. Commuter railroads that have begun to install PTC are facing difficult choices as some will have to celer critical safety sensitive infrastructure maintenance projects to pay for PTC.

Technology remains a major hurdle as most of it is still under development and has not been fully tested in the commuter railroad operating environment. There is also a limited number of qualified PTC related personnel and vendors to supply this technology. Further complicating the issue is the acquisition of radio spectrum required under the mandate for interoperability. Purchasing spectrum on the secondary market is not a simple task. A majority of commuter railroads have either been unable to acquire or have encountered significant difficulty in acquiring spectrum on the secondary market due to issues such as public agency budget constraints, prohibitive local procurement rules, multimillion dollar costs and questions about ownership.

In August 2012, as required by law, the Federal Railroad Administration (FRA) released its interim report to Congress on the status of PTC implementation. In its report, the FRA concluded that “most railroads will likely not be able to complete full RSIA-required implementation of PTC by December 31, 2015. Partial deployment of PTC can likely be achieved; however, the extent of which is dependent upon successful resolution of known technical and programmatic issues and any new emergent issues.” Further, the FRA stated that, “were Congress to make legislative changes, FRA recommends Congress consider allowing FRA to approve a railroad to use alternative safety technologies on specified line segments in lieu of PTC, particularly in areas with lower safety risks, if appropriately and properly justified to FRA.”

APTA POSITION

- A nationwide interoperable PTC network is not achievable by December 31, 2015.
- Extend the PTC implementation deadline to December 31, 2018 on commuter railroads.
- Increase authorized and appropriated funding to cover 80 percent of PTC implementation costs on commuter railroads.
- Direct the FCC to provide radio spectrum, without cost, for PTC implementation on commuter railroads.
March 10, 2013

HIGH SPEED AND INTERCITY PASSENGER RAIL

The U.S. Census Bureau estimates that the U.S. population of our nation will grow by more than 100 million over the next 40 years. Such increases will overwhelm America’s aviation, road and existing rail transportation infrastructure. To accommodate the needs of an every-growing and highly mobile population, the United States must develop and continually expand a fully integrated multimodal high-speed and intercity passenger rail (HSIPR) system. Investing in infrastructure ensures the efficient movement of people and goods that is essential to continued economic growth and other national policy goals. High speed intercity passenger rail would ultimately serve both densely populated mega-regions as well as rural and small urban communities which will benefit from the increased transfer points and feeder services connecting with new high-speed rail corridors.

Passenger rail projects are advancing in 32 states and the District of Columbia, with each project supporting economic growth by creating construction and manufacturing jobs for American workers and attracting small businesses and new development that will generate domestic business growth. High-speed rail will create a revitalized domestic transportation industry supplying more products and services, with more dollars retained in our economy.

The Administration’s Fiscal Year 2014 budget request to Congress is not available, however, it is widely expected to include funding for construction of a national high-speed and intercity passenger rail network. The Administration’s Fiscal Year 2013 request included a proposal for $47 billion over six years for passenger rail. The proposal represents a long term investment in HSIPR that would ultimately fund a national high-speed and intercity passenger rail network.

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) expires in September 2013. This comprehensive legislation set forth a framework for intercity passenger rail in the United States as well as authorized funding for Amtrak. The bill also created three new Federal intercity rail capital assistance grant programs Reauthorization of passenger rail programs and funding is needed to strengthen intercity passenger rail and provide transportation choices for the 21st century.

APTA POSITION

- Support the reauthorization of long term high speed and intercity passenger rail programs.
- Support a long term investment in high-speed and intercity passenger rail programs to meet the rapidly expanding needs of a growing and mobile population.
- Oppose attempts to cut funding to Amtrak.