ISSUE BRIEF

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Senate Bill Should Cut Wasteful Programs and Provide Long-Term Sustainability for Highway Programs

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The Senate will soon consider the Transportation, Housing and Urban Development (THUD) appropriations bill. The THUD bill provides funding for the Departments of Transportation and Housing and Urban Development.

The 2017 bill provides a total of $56.5 billion in discretionary budget authority. This represents an $827 million decrease below the current funding level and $2.9 billion below the President's 2017 budget request. This is only half the story. When other budget resources that are not subject to the discretionary spending caps are taken into account, the total budget authority doubles to nearly $114 billion.

The THUD bill provides funding for many wasteful, inefficient, and duplicative programs, and it fails to address unsustainable spending on highway programs. This *Issue Brief* identifies programs that should be eliminated, places where spending cuts can be made, and other ways in which the THUD bill can be improved.[1]

Limit Highway Trust Fund Spending to Gas Tax Revenues

THUD follows the fiscally irresponsible lead of the Fixing America's Surface Transportation (FAST) Act, the most recent surface transportation reauthorization, passed in December 2015. The five-year FAST Act increased chronic deficit spending out of the Highway Trust Fund (HTF). The HTF is supposed to fund federal highway and transit projects with revenues from gas taxes and other related fees. Instead, the FAST Act transferred $70 billion to the HTF to paper over yet another revenue shortfall, "paid for" with unrelated provisions. This bailout came on top of $70 billion in previous bailouts, bringing the total transfers into the trust fund to $140 billion since 2008.[2]

The higher spending levels in the FAST Act put the trust fund on a course to spend $188 billion more than will take in over the next 10 years. This cash infusion will go in part to maintaining wasteful spending on mass transit and other local projects that should not be funded by the federal government in the first place.[3] Because the authorization increased spending without pursuing any reforms to improve the solvency of the HTF, it sets the trust fund up to require an even larger bailout after it is projected to begin incurring shortfalls again in 2021.[4]

Despite the bleak fiscal outlook for the Highway Trust Fund, the THUD bill blindly follows the FAST Act's recommendation and increases spending out of the trust fund. The bill allows for a total of roughly $54 billion in spending for 2017, divided between $44 billion out of the Highway Account and $9.7 billion out of the Mass Transit Account. The Congressional Budget Office projects highway trust fund revenues to total only $42 billion for 2017, which would result in a $12 billion deficit.

Although the FAST Act provides contract authority that enables deficits through 2020, Congress should be proactive this year in addressing the

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TABLE 1

Senate Transportation, Housing and Urban Development (THUD) Appropriations: Summary

FIGURES IN MILLIONS OF DOLLARS	FY 2016 Enacted	FY 2017 Request	FY 2017 302(b)	FY 2017 Senate Bill
Discretionary Budget Authority*	$57,301	$59,407	$56,474	$56,474
Obligation Limitations, Not Subject to Limits**	$55,782	$74,225	$0	$57,140
Total Budgetary Resources	$113,083	$133,632	$56,474	$113,614

* Excludes emergency funds.
** Obligation limitations allow for the contract authority to be obligated, which counts as mandatory spending not subject to 302(b) caps. The resulting funds spent, or outlays, are credited to discretionary spending. There are no spending caps on discretionary outlays, only on the budget authority. Therefore, spending from trust funds is not restricted by budget spending cap limits.
NOTE: The annual congressional budget resolution is the mechanism for setting the overall spending caps, also known as the 302(a) allocations, as required by the Budget Control Act. The Appropriations Committee is responsible for subdividing the 302(a) allocation among the 12 appropriations subcommittees through what is known as the 302(b) suballocations. Each subcommittee is prevented from exceeding that respective 302(b) suballocation. Since no budget resolution has been approved by the Senate, the FY 2017 spending cap has been set at the $1.070 trillion level, consistent with the Bipartisan Budget Act of 2015.
SOURCE: U.S. Senate, Committee on Appropriations, http://appropriations.senate.gov/ (accessed May 12, 2016).

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chronic spending problem plaguing the trust fund. It should leverage every legislative opportunity to end the irresponsible and unsustainable practice of trust-fund bailouts.

Elimination of Wasteful and Duplicative Programs

The THUD bill is rife with programs that are wasteful or that fund projects outside the federal government's responsibility. The following programs should be eliminated from the Department of Transportation:

- **Federal Transit Administration (FTA).** Most of the FTA's budgetary resources are drawn from the Mass Transit Account of the Highway Trust Fund, from which the bill provides $10.8 billion in contract authority for transit formula grants and other operations, as is consistent with the FAST Act. The bill places an obligation limitation of $9.73 billion on the contract authority drawn from the trust fund for 2017. In addition, the bill provides $2.6 billion in discretionary budget authority for FTA operations and other grant programs, totaling FTA's budgetary resources at $12.3 billion. The FTA funds transit projects that are not federal concerns and provides incentives for localities to build wasteful projects through generous grant subsidies. The agency and its grant programs should be eliminated.

- **Capital Investment Grants (New Starts).** The bill provides $2.34 billion for the deleterious New Starts program, which administers discretionary

1. Many of the recommendations in this paper can be found in The Heritage Foundation, "A Blueprint for Balance: A Federal Budget for 2017," February, 2016, http://www.heritage.org/research/reports/2016/02/a-blueprint-for-balance-a-federal-budget-for-2017.
2. See Michael Sargent, "Going Nowhere FAST: Highway Bill Exacerbates Major Transportation Funding Problems," Heritage Foundation *Issue Brief* No. 4494, December 3, 2015, http://www.heritage.org/research/reports/2015/12/going-nowhere-fast-highway-bill-exacerbates-major-transportation-funding-problems.
3. Congressional Budget Office, "Projections of Highway Trust Fund Accounts—CBO's March 2016 Baseline," March, 2016, https://www.cbo.gov/sites/default/files/51300-2016-03-HighwayTrustFund.pdf (accessed May 16, 2016).
4. Ibid.

grants for new mass transit projects. The bill increases New Starts funding by a whopping $161 million (7 percent) over 2016 levels. This program should be eliminated.

- **Subsidies to the Washington Metropolitan Area Transit Authority (WMATA).** The bill provides $150 million for fiscal year (FY) 2017, the same as current funding. The WMATA is the only transit agency in the country to receive direct appropriations from Congress. Federal subsidies for the WMATA should be abolished.

- **Grants to the National Railroad Passenger Service Corporation (Amtrak).** The bill provides $1.42 billion in capital and operating subsidies for Amtrak, an increase of $30 million from 2016. Though the bill makes a minor reform by formally separating the funding for the Northeast Corridor—which covers its operating costs with revenues—all federal subsidies for Amtrak should be phased out and the viable portions of the corporation privatized.

- **National Infrastructure Investments.** Formerly known as Transportation Investment Generating Economic Recovery (TIGER) Grants, the bill provides $525 million for FY 2017—a $25 million (5 percent) increase. Funding for TIGER grants was originally meant to be temporary in coordination with the stimulus plan. This program is long overdue for termination.

- **Federal Aviation Administration (FAA).** The bill provides a large funding increase for the FAA, upping its 2016 funding by $131.6 million to a total of $16.4 billion. The vast majority of the FAA's budgetary resources are allocated to the Air Traffic Organization (ATO) for Air Traffic Control (ATC) operations and capital investment. There is bipartisan agreement that ATC is not necessarily a governmental function and that the ATO should be privatized.[5] Sadly, the bill ignores the shortcomings of government-controlled ATC. According to the bill report, "The Committee strongly believes that air traffic control should remain an inherently governmental function," and the bill provides no language that would allow movement on removing the ATO from government control.[6] This is a cynical position that concentrates power for the benefit of congressional appropriators at the expense of the traveling public. The bill should not seek to impede congressional efforts to move toward ATC privatization, which would then allow appropriators to phase out FAA funding for all non-safety provisions.

- **Essential Air Service (EAS) program.** The bill provides $150 million in discretionary budget authority for FY 2017, a $25 million cut from 2016 levels. The bill also allows for the collection of an estimated $104 million in overflight fees, providing EAS with $254 million in total budgetary resources.[7] While the discretionary cut is commendable, this wasteful program should be eliminated outright.

- **Maritime Administration (MARAD).** The bill provides $485 million for MARAD, an $86 million increase over FY 2016. The bill should instead shutter MARAD and repeal the protectionist Jones Act.

- **Saint Lawrence Seaway Development Corporation (SLSDC).** The bill provides $36 million for the SLSDC, a $7.6 million—nearly 27 percent—increase over FY 2016 levels. The SLSDC should be privatized, as Canada has done with their corresponding agency.

5. See Dorothy Robyn, "Alternative Governance Models for the Air Traffic Control System: A User Cooperative Versus a Government Corporation," Brookings Institution, April 6, 2015, http://www.brookings.edu/blogs/fixgov/posts/2015/04/06-faa-user-cooperative-government-corporation-robyn (accessed May 16, 2016), and Robert W. Poole, Jr., "The Urgent Need to Reform the FAA's Air Traffic Control System," Heritage Foundation *Backgrounder* No. 2007, February 20, 2007, http://www.heritage.org/research/reports/2007/02/the-urgent-need-to-reform-the-faas-air-traffic-control-system.
6. Transportation and Housing and Urban Development, and Related Agencies Appropriations Bill, 2017, S. Rep. 114–223, 114th Cong., 2nd Sess., April 21, 2016, http://www.appropriations.senate.gov/imo/media/doc/FY2017%20Transportation,%20Housing%20and%20Urban%20Development%20Appropriations%20Bill%20Report%20114-243.pdf (accessed May 16, 2016).
7. Ibid.

- **Appalachian Regional Commission.** The bill provides $2.5 million for FY 2017, a decrease of roughly $725,000. Federal funding for the Appalachian Regional Commission should be eliminated.

The bill includes a total of $39.2 billion for the Department of Housing and Urban Development (HUD). This amount represents an increase of $891 million over the 2016 level and $446 million less than the figure the Administration requested. This total is somewhat misleading, however, because the Federal Housing Administration (FHA) is part of HUD, and the bill stipulates that the FHA can guarantee up to $400 billion in single family home loans. Congress should eliminate the following HUD programs:

- **The Federal Housing Administration.** The Federal Housing Administration's (FHA) main function is to provide lenders with mortgage insurance.[8] The FHA charges fees to provide lenders with full loan-loss coverage when a borrower defaults on a loan. The FHA has a history of not charging high enough fees to cover all of its losses, and taxpayers are liable for the difference. Furthermore, the FHA's operation crowds private firms out of the market because they cannot easily compete with underpriced government insurance. The FHA has consistently had trouble meeting safety and soundness guidelines, has undermined the stability of the housing market, and in recent years has needed several billion dollars to cover its losses. In return for the substantial costs to taxpayers, the FHA's mortgage insurance programs have had minimal impact on homeownership rates.

  History suggests that additional reforms to the various FHA insurance programs will, at best, merely provide temporary financial improvements to the agency, without appreciable benefits to the housing market. Congress should therefore eliminate the FHA and get the federal government out of the home financing business.

- **Community Planning and Development.** The bill contains $6.7 billion for Community Planning and Development programs, of which more than $3 billion goes towards Community Development Block Grants (CDBG). In general, CDBG programs have been fraught with waste and abuse for decades.[9] After more than 40 years—and more than $100 billion of CDBGs—it is virtually impossible to argue they have revived communities and increased economic growth in distressed neighborhoods.[10] These programs should be eliminated.

- **Financial Responsibility for Subsidized Housing**. The bill provides $10.9 billion for project-based rental assistance and $20.4 billion for tenant-based rental programs for FY 2016. The spending levels are about $1.1 billion more than current funding. The Department of Housing and Urban Development (HUD) provides rental assistance to low-income individuals in various ways, including both project-based and tenant-based programs. While project-based vouchers provide subsidies to housing project owners, tenant-based vouchers provide subsidies to private landlords. The Housing Choice Vouchers program, commonly referred to as Section 8 vouchers, is the main tenant-based subsidy. HUD distributes nearly twice as much in Section 8 vouchers compared to project-based rental assistance.

  More than $18.3 billion of this latter amount is budgeted for renewals of Section 8 vouchers. In general, Section 8 vouchers are limited to families with incomes at or less than 50 percent to (in

8. See John Ligon and Norbert J. Michel, "The Federal Housing Administration: What Record of Success?" Heritage Foundation *Backgrounder* No. 3006, May 11, 2015, http://www.heritage.org/research/reports/2015/05/the-federal-housing-administration-what-record-of-success (accessed May 12, 2016).
9. See Ted DeHaven, "Community Development," *Downsizing The Federal Government*, The Cato Institute, 2009, http://www.downsizinggovernment.org/hud/community-development#_edn6 (accessed May 12, 2016).
10. CDBGs were authorized under Title I of the Housing and Community Development Act of 1974 (P.L. 93–393), and the HOME program was authorized by the Cranston-Gonzalez National Affordable Housing Act of 1990 (P.L. 101–625). See Eileen Norcross, "Community Development Block Grant: The Case for Reform," testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Government Affairs, U.S. Senate, June 29, 2006, http://mercatus.org/publication/community-development-block-grant-case-reform (accessed May 16, 2016).

TABLE 2

Senate Transportation, Housing and Urban Development (THUD) Appropriations: Breakdown

DISCRETIONARY BUDGET AUTHORITY IN MILLIONS OF DOLLARS	FY 2016 Enacted	FY 2017 Senate Bill	Change in Dollars	Percentage Change
Title I, Department of Transportation				
Office of the Secretary	832	854	22	2.6%
Federal Aviation Administration	12,931	13,062	132	1.0%
Operations	9,910	10,048	139	1.4%
Facilities and Equipment	2,855	2,838	–17	–0.6%
Federal Railroad Administration	1,678	1,754	76	4.5%
Federal Transit Administration	2,410	2,599	189	7.8%
Capital Investment Grants (New Start)	2,177	2,383	206	9.5%
St. Lawrence Seaway Development Corporation	28	36	8	26.8%
Title I, Subtotal Subject to 302(b) Spending Caps	**18,648**	**16,933**	**–1,715**	**–9.2%**
Limitations on Obligations				
Federal Aviation Administration (Grants-in-Aid, Airports)	3,350	3,350	0	0.0%
Federal Highway Administration (Highway Funding)	42,361	43,266	905	2.1%
Federal Motor Carrier Safety Administration	580	644	64	11.0%
National Highway Traffic Safety Administration	143	146	3	2.1%
Federal Transit Administration	9,348	9,734	386	4.1%
Subtotal, Limitations on Obligations	**55,782**	**57,140**	**1,358**	**2.4%**
Title I, Total Budgetary Resources	**74,430**	**74,073**	**–357**	**–0.5%**
Title II, Department of Housing and Urban Development				
Tenant-Based Rental Assistance (Section 8)	19,629	20,432	803	4.1%
Community Development Fund	3,060	3,000	–60	–2.0%
HOME Investment Partnership Programs	950	950	0	0.0%
Project-Based Rental Assistance (Section 8)	10,620	10,901	281	2.6%
Federal Housing Administration*	-7,627	-7,868	–241	3.2%
Government National Mortgage Association*	-862	-1,200	–338	39.2%
Title II, Subtotal Subject to 302(b) Spending Caps	**38,311**	**39,201**	**891**	**2.3%**
Other Agencies Subject to 302(b) Spending Caps	342	339	–3	–0.7%
Total Discretionary Spending	**57,301**	**56,474**	**–827**	**–1.4%**
Total Budgetary Resources	**113,083**	**113,614**	**531**	**0.5%**

* The Federal Credit Reform Act requires federal loan guarantees, including FHA loans, to be scored in a precise way in the budget. Scored as a credit subsidy, this requires the cost of loans to be recorded as the present value of all future cash flow. Historically, this credit subsidy has been negative, delivering a profit to the federal government. The negative credit subsidy is counted as an offsetting receipt, allowing it to offset other HUD spending.

NOTES: Some figures have been rounded. Not all programs included in this bill are listed. The annual congressional budget resolution is the mechanism for setting the overall spending caps, also known as the 302(a) allocations, as required by the Budget Control Act. The Appropriations Committee is responsible for subdividing the 302(a) allocation among the 12 appropriations subcommittees through what is known as the 302(b) suballocations. Each subcommittee is prevented from exceeding that respective 302(b) suballocation. Since no budget resolution has been approved by the Senate, the FY 2017 spending cap has been set at the $1.070 trillion level, consistent with the Bipartisan Budget Act of 2015.

SOURCE: U.S. Senate, Committee on Appropriations, http://appropriations.senate.gov/ (accessed May 12, 2016).

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some cases) 80 percent of the median income for their county or metropolitan areas. Recipients pay approximately 30 percent of their income toward rent, and the government-provided voucher pays the difference between that figure and the gross rent to a private landlord.[11] HUD's own research has shown that, overall, Section 8 vouchers have had no beneficial impact on self-sufficiency and welfare dependency.[12] This finding is not surprising given that no time limits are associated with the voucher program, thus lowering families' incentive to stop relying on the subsidies.

Section 8 vouchers are just one of numerous programs operated by HUD that provide subsidized housing assistance to low-income families. Overall, the cost of subsidized housing assistance programs came to roughly $53 billion in FY 2015.[13] Nearly all of these dollars come from the federal taxpayer. Housing assistance programs are just one portion of a $1 trillion means-tested welfare system that provides cash, food, housing, medical care, and social services to poor and low-income Americans. Over 10 years, financial responsibility for all subsidized housing programs should be gradually returned to the states. This would promote greater efficiency in subsidized housing assistance, as states have greater incentive to spend wisely if the money is coming out of their own coffers.

Conclusion

The House Transportation, Housing and Urban Development appropriations bill continues to provide billions of dollars in funds to wasteful and inefficient programs. The bill also provides a tremendous amount of uncapped budgetary resources to a Highway Trust Fund that is ultimately unsustainable in its current form. Until these long-term solvency issues are solved, appropriators should take a careful approach in the amount of funding that they provide. If they fail to do so, it is only a matter of time before another bailout will be required. There are numerous other opportunities to save money within this bill. A significant portion of the funding in HUD could be devolved to states or eliminated outright. When it comes to cutting government waste and reducing spending, the THUD appropriations bill is a great place to start.

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11. See Katherine Bradley and Robert Rector, "Confronting the Unsustainable Growth of Welfare Entitlements: Principles of Reform and the Next Steps," Heritage Foundation *Backgrounder* No. 2427, June 24, 2010, http://www.heritage.org/research/reports/2010/06/confronting-the-unsustainable-growth-of-welfare-entitlements-principles-of-reform-and-the-next-steps.
12. David B. Muhlhausen, *Do Federal Social Programs Work?* (Santa Barbara, CA: Praeger, 2013), pp. 190–204. Furthermore, Section 8 vouchers effectively serve as a price floor, thus distorting rental (and sales) markets and raising prices, especially for those who do not receive vouchers.
13. Heritage calculations based on data from the U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017: Appendix*, https://www.whitehouse.gov/omb/budget/Appendix (accessed May 16, 2016).