

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad
Hearing on the Effect of the President's Fiscal Year 2003 Budget Proposal
on the Army Corps of Engineers, the Federal Highway Administration,
and the Department of Education
February 26, 2002**

Opening Statement:

We want to welcome the witnesses who are here today with us to share their expertise. Today we are going to look at the President's budget and its impact on three major areas of the federal government, our highway and bridge building program, the construction projects of the Corps of Engineers, and education.

We have all said what a difference a year makes. Last year, we were all told that we were going to see budget surpluses as far as the eye could see. And now we see budget deficits as far as the eye could see. Certainly, trust fund surpluses that continue throughout the next decade, and they are very large deficits.

Last year we were told that outside the trust funds, we would have some \$2.7 trillion of surpluses over the next decade. Now we see instead of surpluses outside the trust funds, deficits of \$2.2 trillion. That means \$2.2 trillion will be coming out of the trust funds of Social Security and Medicare. Many of us think that is unwise given the fact that baby boomers start to retire in six years. But that is the factual circumstance we face.

The areas that we are going to examine today include construction programs for highways and bridges. We see in the President's budget about a 27 percent cut from last year. Last year, we provided roughly \$32 billion. This budget will be roughly \$23 billion, so about a \$9 billion cut, actually something a little less than that. It is a 27 percent reduction, and we will go into some of the reasons for that.

Earlier this month, the OMB Director said that these proposed highway cuts were not a policy decision – but the result of a simple calculation based on the law. The fact is there is nothing in TEA-21 and nothing in the Budget Act that prevents the President or the Congress from providing additional funding for the highway and bridge program beyond the funding levels that are guaranteed in TEA-21. We can add, the President could have added, so that they would be reducing the level of cut that is before us.

I am concerned that the President's proposed highway and bridge building budgets will force a loss of over 300,000 jobs across the country, just as the economy is starting to rebound. In addition, the President's budget will significantly reduce federal funding for highway construction and maintenance at the same time as nearly 40 states are being forced to scale back their state budgets in light of their constitutional requirements to run balanced budgets.

The second area that we will examine is how the President's budget would reduce the Army Corps of Engineers' ability to carry out and complete crucial water and flood control projects across the country.

The total for the Army Corps, the budget provides \$1.4 billion for the primary project construction account. This is roughly \$300 million less, or an 18 percent cut, from the 2002 enacted level of \$1.7 billion.

Now what does that mean? For people in the community of Grand Forks, North Dakota, in my home state, it means they will have to wait an additional year or more to be safe from floods. That's not a result any of us want, and we need to work together to see if we can't do better.

I am afraid that my state's story is not unique. Projects from Texas to Missouri to Washington State will also be funded substantially below what is needed to get the job done in a cost efficient way.

Not only are projects being delayed, but in order to stay within the proposed 2003 funding level, the Corps may actually have to terminate ongoing construction contracts, at a cost of up to \$190 million to taxpayers. So again, we have to find a way to work together here to address these challenges.

In education, which is the third area that we will examine today, the President's education budget promises to "leave no child behind." At a time when more is being demanded from our schools – more accountability, more testing, and better results – I was particularly disappointed to find that just one month after the President signed into law the landmark education reform bill – the No Child Left Behind Act – his budget cuts funding for these programs by \$90 million.

Again, I want to thank our witnesses for being here to testify.

Conrad Statement on Highway and Bridge Funding:

The President has said to this Congress: cut highway and bridge funding in this country by nearly \$9 billion – that's 27 percent. Now, to suggest that is just a matter of law is just not true. The President could have determined to supplement the budget to make up for these dramatic cuts. You're talking about cutting road building and bridge building in this country by 27 percent. Do you have any idea what the job loss would be associated with that?

.....

If we used your formula, \$8.6 billion, and we applied for every billion, 38,000 jobs, that would be over 350,000 jobs affected over time. Would that not be the case?

Mary Peters, Administrator, Federal Highway Administration:

That is accurate, sir.

Conrad:

At the time we have the administration calling for a stimulus package to provide more jobs, the President gives a speech saying his focus is jobs, he sends up a budget that cuts 350,000 jobs and at the same time damages economic efficiency of the economy because it leads to more gridlock.

.....

Conrad:

I think you see overwhelmingly Congress is saying the administration's proposal here doesn't make a whole lot of sense. You're talking about cutting highway and bridge funding 27 percent effecting over 300,000 jobs at a time when the President is calling for more jobs. This is a contradictory policy that makes no earthly sense. It doesn't make any sense to the Governors, it doesn't make any sense to the people of Congress to come in here and talk about a 27 percent cut, and say well it's not our fault, it's immaculate conception, this just came out of a formula. A budget is not immaculate conception. It is choices. And the President has chosen to cut highway and bridge funding 27 percent; and I can't find anybody who agrees with it, not on an economic basis, not in terms of strengthening the economy, not in terms of keeping the commitment that the states thought had been made to them under TEA-21. I find very little support for what the President has sent us.

Conrad Statement on Army Corps of Engineers Funding:

Let me ask you this. Last year, there was \$4.6 billion. The President cut that by \$600 million on a fair comparison basis to \$4 billion. What are the implications of those reductions? What will it mean? I'm told that it could require the agency to terminate ongoing project contracts prematurely resulting in an estimated \$190 million loss. Is that correct?

Lt. Gen. Robert Flowers, Chief of Engineers, Army Corps:

With the budget as it stands, we would in fact have to terminate projects, and the total amount would be about \$190 million is what it would cost us roughly to terminate those projects and the resulting job loss could be in the neighborhood of 45,000 jobs.

Conrad:

So you would have no choice but to terminate contracts?

Flowers:

Yes sir. That's correct.

Conrad:

And then you'd have to pay termination fees I take it?

Flowers:

Yes sir, the costs that I mentioned are in fact the termination fees, an estimate of termination fees.

Conrad:

So we'd be spending several hundred million dollars and not get anything for it?

Flowers:

Correct sir.

Conrad:

It doesn't sound like it makes much sense to me. Does it make much sense to you General Flowers, knowing what those projects are? Would it make any sense to you to terminate these projects?

Flowers:

Sir, it doesn't.

....

Conrad:

We all know what is going on here. They know full well this funding is going to, at least in some measure, is going to be restored. And then, they're going to turn around and say, "There goes those spenders down in Congress." I just think it is a kind of tired old game that is being played here, and the same with the Corps. Cutting the Corps from the amount of money they had last year that would actually require terminations of projects that are currently contracted for doesn't make any sense. General Flowers thinks it doesn't make any sense. I don't think it makes any sense. But this is more 'rope-a-dope.' It's kind of a clever game, but it's tedious and it's silly. If there's anything that's clear, Congress is not going to be terminating contracts that are underway. That is irresponsible. Congress is not going to cut 27 percent from highway building and bridge building and cut 350,000 jobs at the same time the administration is asking us for a stimulus package to generate jobs. Does anybody connect the dots down there on these kinds of questions? I don't know, but apparently not.