121284
~~25041~~

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

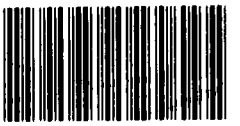
FOR RELEASE ON DELIVERY
EXPECTED AT 9:00 A.M.
SEPTEMBER 22, 1982

TESTIMONY OF

CHARLES A. BOWSHER

COMPTROLLER GENERAL

OF THE UNITED STATES


121284

BEFORE THE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

HOUSE OF REPRESENTATIVES

ON

H.R. 6591

THE FEDERAL CAPITAL INVESTMENT BUDGET ACT OF 1982

Mr. Chairman and Members of the Committee:

I am very pleased to appear before you today to discuss planning and budgeting for capital investments. The Federal Capital Investment Budget Act of 1982, H.R. 6591, is designed to provide better information on the public capital infrastructure, identify deficiencies in public investments, allocate funds based on priorities, reduce duplication of effort among various levels of government, and improve legislative oversight over the public infrastructure and new capital investments. Based on our analysis of the President's budget data, we estimate the Federal

121284
025462

Government is spending in fiscal year 1982 about $80 billion for the construction, rehabilitation, and acquisition of physical assets. This includes about $46 billion for military and international programs and about $34 billion for domestic programs. The domestic component is down from the $37 billion level in 1981, which is a significant reduction after taking account of inflation. The President's budget for 1983 proposed further reductions to about $29 billion. Questions have been raised about whether this level of public investment will permit a healthy rate of long-run economic growth. These concerns are magnified by the observations that there are also constraints on capital investment now being experienced by many State and local governments, as well.

In addition to questions about the adequacy of funding, however, there are also questions about the process by which we decide both the level of public investment and the allocation of those investment funds. There should be greater visibility and a better framework for capital investment decisions than is now provided in the budget process.

The General Accounting Office has studied these subjects and we are pleased that your committee is giving them attention. We have previously provided your committee with written comments concerning the technical aspects of H.R. 6591. Therefore, my comments today will deal with the general subject of planning and budgeting for capital investments.

Many GAO studies have dealt with specific categories of public infrastructure such as highways, dams, transit and water systems, and airports. These specific reports have

provided the Congress and the public with information on the conditions and trends of specific infrastructure elements and identified and emphasized the need for more comprehensive and reliable information on conditions, trends, costs, and benefits. In studies of highways, transit and water systems, and airports we attributed poor conditions to deferred maintenance and the lack of preventative maintenance. In reports on transit systems and unsafe dams we made recommendations for better definitions of roles and responsibilities. Furthermore, in our reports on transit systems, unsafe bridges, and deteriorating highways we made specific recommendations for identifying, prioritizing, and better targeting existing financial resources.

For example, we have reported and testified on the decline in the condition of Federal-aid highways and the cost of their maintenance. When major sections of highways become so severely deteriorated, as are some sections of the Interstate System, routine maintenance is no longer effective. At that stage, capital improvements would be needed to resurface, restore, or rehabilitate the road. Also, revenue primarily from a fixed cents-per-gallon motor fuel tax, has not kept pace with construction and maintenance costs. We have recommended a congressional reassessment of the Federal-aid highway program to include, for example, modification of preservation policies and revising the motor fuel tax.

In another series of studies, GAO addressed the broader issue of planning, budgeting, and management of capital investments. To determine how organizations should handle these

matters, we looked at the experiences of 24 organizations: four private businesses, four cities, four counties, four States, one regional authority, and seven Federal agencies. We assessed the practices of these organizations in relation to their degrees of success in maintaining a healthy infrastructure and thus identified the most critical factors.

We did not explore the details of infrastructure programs nor did we collect data on the amount of capital investment. Extensive information on capital investments was developed in a 1980 study by the Department of Commerce. The Urban Institute has also issued reports on the condition of major cities' infrastructures.

Our work is summarized in our report "Federal Capital Budgeting: A Collection of Haphazard "Practices" (PAD-81-19, February 26, 1981), and in two other studies we are just completing on "Pros, Cons, and Alternatives to a Separate Capital Budget for the Federal Government" and "Effective Planning and Budgeting Practices Can Help Arrest the Nation's Deteriorating Infrastructure."

From our work, it is evident that certain elements are present in those organizations which successfully manage their capital investments.

1. They incorporate up-to-date information on their physical assets in their decisionmaking process.
2. They are aware of and concerned about the long-term effects of capital investment decisions.

3. They extensively link their long-term planning to their budgeting processes.

In looking at the Federal Government, however, we found these critical elements missing.

1. There is no process for integrating Federal activities affecting the Nation's infrastructure.
2. There is a program-by-program or project-by-project approach to infrastructure decisions.
3. There is a short-term approach to long-term problems.

Presently, the Federal Government does not take a comprehensive cross-cutting look at capital programs to see how they fit into a national strategy for maintaining and improving the Nation's infrastructure. Both the executive branch and the Congress tend to set priorities for physical capital investment program-by-program. There is no consistent basis for setting priorities among projects and programs and there is no framework in which to identify those having similar objectives and those which are at cross-purposes. This program and project orientation makes infrastructure planning vulnerable to short-term factors, thus impairing the stability and predictability needed for an efficient capital investment program.

Improving the public infrastructure requires a longer-term perspective. However, many of the indirect Federal programs, which can be used to maintain or expand the infrastructures of cities and States, go to small, short-term projects. These projects are not necessarily related to the implementation of a long-term strategy.

To provide the Federal Government with the needed emphasis and procedures to effectively plan, budget, and manage the public infrastructure, we have made recommendations for

--policy level responsibility;

--improved capital infrastructure information; and

--restructuring the Federal budget.

We recommended that the responsibility for assessing the amount and condition of, and advising on the policy for, the Nation's infrastructure be assigned to policy and oversight units in the Congress and the executive branch. In making this recommendation, we stressed the creation of broadly based and informed policy advisory units. We think this would yield greater visibility for the government's capital investment program and the necessary degree of coordination. We do not believe it is necessary or desirable to establish central management control over the various parts of the investment program. That should be left with the operating agencies.

We made a number of specific recommendations for improved information on the public infrastructure and capital investments. The agencies should develop, use, and submit information on (1) long-term needs, (2) long-term plans for meeting needs, (3) status of projects already approved, (4) budget year plans addressing long-term needs, and (5) periodic assessments of infrastructure conditions.

We believe that public infrastructure is an important issue that warrants policy consideration in the budget. Separately

identifying capital needs within the unified budget is also an essential step to focusing responsibility for infrastructure decisionmaking. The use of a separate capital budget is one way of providing budget information on capital investments. Although a dual budget system could produce benefits, the complexity of establishing a separate capital budget and its implications for weakening aggregate debt and spending controls suggest that other alternatives be used. We believe that a restructured unified budget, designed to identify Federal capital investments, and clearly distinguish them from current expenditures, would serve this objective.

In addition to the work we have done on planning, budgeting, and managing the public infrastructure, we are looking at some of the related financing approaches. The spectrum of financing alternatives is quite broad and many experts are advocating such devices as increased reliance on the private sector for infrastructure development, the expanded use of charges for public services, and more State assistance to local governments. Some advocate increased Federal grant and loan support of infrastructure financing.

Our work on specific infrastructure elements has shown that the use of some alternative funding sources is quite realistic. For example, reports on urban water system and sewage treatment facility financing have demonstrated that public utilities and municipalities are not establishing realistic user charges to cover operation and maintenance costs and to provide for future

replacement and upgrading. We have also recommended increased user charges for parks and recreation areas and revised motor fuel taxes for highway improvements as feasible alternative funding sources.

In a current effort, we are examining the Federal role in the municipal tax exempt bond market, which has been influenced by changes in both Federal monetary and tax policies. We are attempting to understand how these changes affect the abilities of States and localities to finance their own infrastructure needs. By pinpointing Federal policies which may be working at cross purposes, we hope to identify changes which might improve the capacity of State and local governments to finance their own capital investment programs.

H.R. 6591 is designed to respond to a number of the needs that we have identified in our work. It is an important step in creating better methods for addressing not only our current infrastructure needs, but those of the future. This Nation has undergone a number of dramatic technological and demographic changes in the last decade. These changes will continue into the decades ahead and lead to shifts in demands for our public infrastructure. Therefore, we believe that a long-term comprehensive approach should be taken to the infrastructure policy area. I offer our assistance as you continue your work.