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TRANSPORTATION INFRASTRUCTURE

Flexibility in Federal-aid Funding Essential to Highway Program Restructuring

Statement of
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Before the
Subcommittee on Water Resources, Transportation, and Infrastructure
Committee on Environment and Public Works
United States Senate

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Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to testify on transportation issues of importance to the nation and Nevada. As you know, GAO is examining a number of issues for this subcommittee related to the federal-aid highway program reauthorization. The testimony today will draw upon our ongoing as well as completed work in this area.

The U.S. Department of Transportation estimates that about $29 billion will be needed annually by all units of government to maintain highways at 1985 levels and to meet bridge needs. As you noted at Nevada's transportation summit earlier this year, Nevada alone will need nearly a half a billion dollars annually to meet its transportation needs over the next ten years. This represents about $3 billion more than the $1.6 billion Nevada expects to have available.

It appears, however, that the nation's and Nevada's needs are not likely to be fully met for three reasons. First, federal funding formulas designed to achieve national goals are not always fully aligned with state highway and bridge needs. Second, recent budget agreements dim the prospects for additional federal assistance. Finally, the Administration is presently drafting a reauthorization proposal that would shift more of the financial responsibility for highway projects to the states.

Given future financial constraints, the congressional challenge will be to design a federal-aid highway program that strikes a balance between national investment priorities and individual state needs. The current highway program accommodates individual state needs, to a certain degree, by allowing all states to (1) transfer a portion of their total federal funds among the four highway systems (Interstate, primary, secondary, and urban systems), and (2) use their own funds in advance of federal reimbursements. In addition, a demonstration program in five states is testing how states might benefit from increased funding flexibility through pooling funds from their secondary and urban highway systems and bridge program. Our work suggests that any future highway program, at a minimum, should retain these flexibilities to allow states to continue to meet their highway and bridge needs. Further, federal attention must look beyond single mode boundaries to address the escalating traffic in the air and on our roads.

Our testimony today will (1) show how states have used existing federal-aid highway program flexibilities and other funding mechanisms to better meet their needs and (2) suggest options for restructuring the federal-aid highway program. Before discussing these topics, I will briefly comment on the status of the nation's and Nevada's highways.

DETERIORATION AND CONGESTION PLAGUE THE NATION'S HIGHWAYS

Serious deterioration confronts the nation's federal-aid highway system and bridge network. To illustrate, the Interstate system represents only 1 percent of all roads but carries over 20 percent of vehicle traffic. In 1988, the Department of Transportation (DOT) estimated that over 40 percent of the Interstate system was in fair or poor condition. Appendix I provides an illustration of poor pavement.

Increasing congestion is compounding the problems caused by deterioration on the nation's roadways. In 1989, about 53 percent of urban Interstate travel occurred under congested conditions. Travel on Nevada's urban Interstate's was under congested conditions 46 percent of the time in 1989. Congestion's growing severity is also illustrated by vehicle miles traveled. Nationwide, vehicle miles traveled increased approximately 38 percent between 1980 and 1989. Appendix II shows that Nevada's vehicle miles traveled increased more than 50 percent over this period--from just over 6 million miles to 9.4 million miles.

DOT anticipates that states will increasingly rely on the Interstate resurfacing, restoration, rehabilitation, and reconstruction (I-4R) program to address congestion relief through lane widening.[1] In fiscal year 1989, states used over 13 percent of I-4R funds for lane widening. DOT projects, based on state provided information, that about 50 percent of I-4R funds will be used for lane widening through the year 2005.

DOT's draft reauthorization proposal emphasizes federal funding for interstate preservation. However, it also recognizes the need for increased federal assistance in relieving congestion. DOT would require states to develop congestion management systems and would provide financial assistance for such operational improvements as preferential treatment of high occupancy vehicles on certain highway systems. This aspect of DOT's proposal may be a step in the right direction in developing an effective approach for mitigating congestion. However, DOT should ensure that its congestion relief strategy is coordinated on the federal and state levels and provides for an evaluation of program results.

Now I would like to turn to the matter of how states use federal funding mechanisms to better meet their needs.

FEDERAL FUNDING LEVELS NOT FULLY ALIGNED WITH STATE NEEDS

While federal-aid highway program funding levels must be aligned to address national priorities, they are not always in full accord with state needs. States have different transportation problems and the magnitude of any particular problem varies among

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[1]Under the I-4R program, reconstruction can include lane widening among other activities.

and within states. The challenge to the existing highway program is to provide enough flexibility so that individual states can meet their high priority needs while also addressing national priorities.

The current federal-aid highway program accommodates individual state needs to a certain degree by allowing states to (1) transfer funds among programs for the four highway systems, and (2) use their own funds in advance of federal reimbursements.

States Are Transferring Funds Among Federal-Aid Highway Programs

Existing federal legislation permits states to transfer a percentage of their federal highway funds between specified programs for the four federal-aid highway systems. For instance, a state may transfer 20 percent of its Interstate preservation (I-4R) funds to the primary program.[2] A state may also transfer up to 50 percent of its federal urban funds to the primary system and vice-versa.

Thirty-five (35) states have transferred a total of over $800 million, representing about 2 percent of total highway program obligations, among programs during fiscal years 1988 through 1990. Nevada also transferred about $19 million, or about 8 percent of the $233 million the state obligated over this period. Most of Nevada's funds ($13.5 million) were transferred from the I-4R program to the primary program. Nevada state transportation officials told us that while substantial Interstate needs exist, even more pressing needs were on its primary roads. Appendix III shows highway funds transferred by Nevada during the last several fiscal years.

[2]It should be noted that the 20 percent limitation on I-4R transfers to the primary program may be higher with Federal Highway Administration approval.

Although current transferability between highway programs helps states better align federal assistance with their high priority needs, flexibility may also be needed to allow states to find intermodal solutions to surface transportation problems. According to DOT, for the most part, federal highway funds may not currently be used for mass transit or other transportation modes. However, DOT's draft reauthorization proposal includes provisions that allow for such flexibilities. Nevada also believes states should be allowed to transfer highway funds to plan for high speed rail. As we have previously reported, we believe greater coordination and cooperation among the various transportation modes is needed to ensure the prudent investment of scarce transportation dollars and improve mobility.

States Are Using Their Own Funds
To Maintain Program Continuity

Since the late 1970s, in an effort to control federal spending on the highway program, the Congress has annually imposed limitations--called obligation ceilings--on the amount of federal-aid highway funds made available to states. This means that even though the Congress authorizes federal-aid highway funds there is no guarantee that the total amount authorized will be available for states to use in any given year. Faced with these limitations, yet a desire to maintain continuity in their highway programs, states are permitted to use their own funds in advance of available federal reimbursements to begin or continue federal-aid highway projects. At the end of fiscal year 1990, 38 states had an advance construction balance of approximately $3.1 billion outstanding. States may convert advance construction projects to regular federal-aid funding and receive reimbursement in the next year, or in later years, as federal-aid funds become available.

Our work shows that many states are using advance construction to meet their important highway needs and maintain highway program continuity. For example, seven states we have contacted disclosed that they have used advance construction in this way.[3] As Appendix IV shows, Nevada has been active in advance constructing projects. In fact, as a percentage of total federal highway funds authorized annually to the state, Nevada's year-end advance construction balances are some of the highest in the nation.

As Appendix V shows, the unobligated balance of the Highway Trust Fund--funds not available to states to meet highway needs--has increased from $6.7 billion to $8.1 billion between 1987 and 1990. Obligation ceilings on the federal-aid highway program have contributed to increases in this balance. The Federal Highway Administration projects a drop in the unobligated balance to $6.2 billion by the end of fiscal year 1991 due to an increase in the obligation ceiling over fiscal year 1990.

We have previously reported that the federal-aid highway program could sustain a higher level of program activity of at least $3 billion.[4] However, the Omnibus Budget Reconciliation Act of 1990 and Budget Enforcement Act of 1990 make it unlikely that new revenues credited to the Highway Trust Fund, such as those generated from increases in the federal excise tax on gasoline, will be fully available in the immediate future. This is the case because the legislation imposes an annual spending cap on all federal domestic discretionary spending programs which includes the federal-aid highway program. The federal-aid highway program will have to compete with other domestic programs such as aviation and the Coast Guard for funds within these annual spending caps. In

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[3]California, Georgia, Maryland, Missouri, Nevada, Tennessee, and Virginia.

[4]Highway Trust Fund: Condition and Outlook for the Highway Account, (GAO/RCED-89-136, May 1989).

the current budget environment, the reality is that any drawdown of the Highway Trust Fund balance can only be accomplished at the expense of other federal programs.

Pooling Allows For Better Targeting of Federal Funds

In 1987 Congress authorized a demonstration to test the feasibility of giving state officials greater responsibility in administering portions of the federal-aid highway program. The demonstration permits five states--California, Minnesota, New York, Rhode Island, and Texas--to pool money from the urban, secondary and bridge programs and use the funds on any one or a combination of the three programs. However, other federal-aid highway funds, such as the I-4R and primary programs, are not eligible for pooling.

We reported in June 1990 that three states participating in the demonstration program had taken advantage of the funding flexibility and targeted a substantial portion of their pooled funds towards needs within a single system.[5] The remaining two states, which began participating later than the others, also expect to realize benefits during the remainder of the demonstration. To maximize funding flexibility provided by the demonstration and to more closely approximate a block grant concept, we recommended that the Congress consider expanding the number of programs eligible for pooling.

The Administration is currently considering expanding the pooling concept by restructuring the existing highway program. Federal-aid would be focused on two basic tiers, or essentially two block grants--a national highway system and an urban/rural system.

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[5]Transportation Infrastructure: States Benefit From Block Grant Flexibility, (GAO/RCED-90-126, June 1990).

The national highway system would consolidate the Interstate and a portion of the primary highway program and allow funds to be used interchangeably between the programs. The balance of the primary program and most of the other highway programs would be consolidated into the urban/rural system.[6] The Administration's proposal does not delineate what criteria will be used to decide which primary roads will be included in the national highway and urban/rural highway systems. As discussed below, this decision will be critical in determining how much additional financial responsibility a state would have to assume.

A fundamental difference between the demonstration and the Administration's proposed program restructuring is that the demonstration did not change the federal share for projects undertaken. The Administration's proposal generally provides for a reduced federal share on most highway projects. This means that under the Administration's proposal state and local governments will have to assume up to about 15 percent more of the financial responsibility for most highway projects.

States such as Nevada that have relatively high excise taxes on gasoline, yet smaller populations, may face difficulties in assuming this responsibility. On the average, states finance the construction and maintenance of 78 percent of the nations highways. Nevada bears the cost for 88 percent of its road network, as shown in Appendix VI.

The majority of federal funds transferred in the last three fiscal years has been from the Interstate and secondary systems to the primary system. Because the primary road system accounts for nearly 30 percent of vehicle miles traveled, caution should be exercised in making significant reductions in the federal cost

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[6]There would also be a separate bridge program.

share on this and other systems that states have identified as being in need of additional resources.

TOLL FINANCING MAY BE AN EFFECTIVE
REVENUE SOURCE FOR FEDERAL-AID HIGHWAYS

Given a potential increase in state responsibility for federal-aid highways and insufficient federal funds, toll financing may be an effective alternative for raising highway funds. Existing federal law generally prohibits toll charges on roads built with federal-aid highway funds. However, the DOT reauthorization proposal offers states an opportunity to generate toll revenues and to use such revenues to help meet federal-aid highway needs. Under the proposal, states may improve or construct non-Interstate toll roads at a federal matching share of 35 percent. Increased reliance on toll revenue is consistent with the national transportation policy of allowing greater use of toll financing on federal-aid highways.

In response to a request from your subcommittee, we have evaluated the demonstration Toll Facilities Pilot Program authorized in the Surface Transportation and Uniform Relocation Assistance Act of 1987. Our forthcoming report finds that toll financing will provide participating states with additional revenue sources to construct roads and to maintain the roads once they are completed. Funding federal-aid highway maintenance with tolls is a significant development since states have traditionally financed maintenance without federal assistance.

We also found that by keeping the federal financial participation low--such as 35 percent of total funding--participating states had the incentive of selecting high traffic volume roads for tolls. This contributes to reduced congestion in other transportation corridors. Through the use of innovative techniques, such as automated vehicle identification equipment, congestion may also be reduced at toll collection plazas--a problem considered to be one of the major disadvantages of tolls.

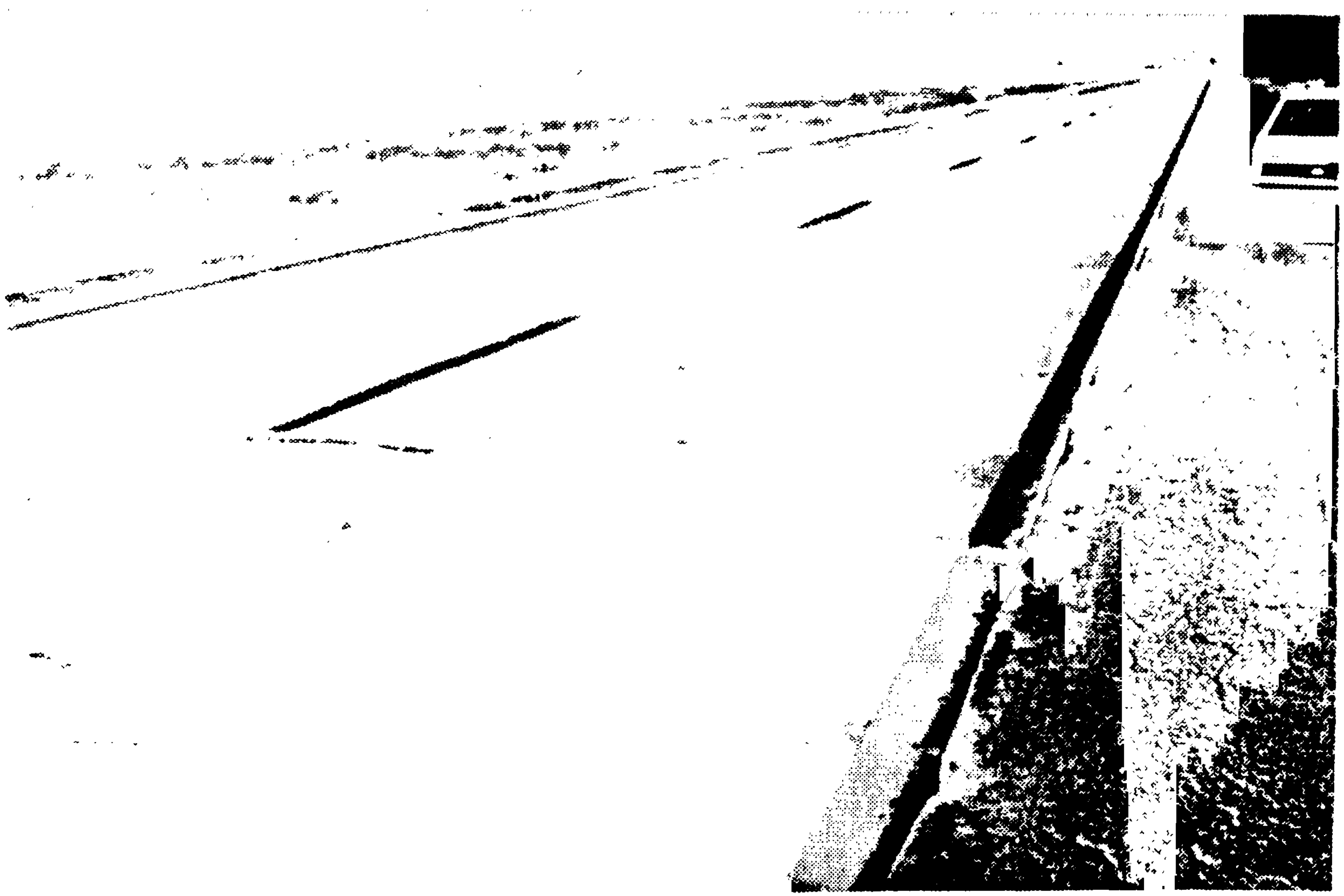
CONCLUSIONS

While the federal-aid system must address national priorities such as preservation of the interstate, individual state needs must also be accommodated through program funding flexibilities. We have previously endorsed the benefits derived through federal funding flexibility such as through pooling of highway funds. In addition, burgeoning transportation problems such as traffic congestion require the federal government to be open to intermodal solutions.

The Administration, however, is proposing restructuring the entire federal-aid highway program into essentially two broad block grants that would be accompanied by a substantial reduction in the federal share for most federal-aid highway projects. Therefore, states' abilities to meet their highest priorities may be jeopardized in the future given a potentially significant and sudden reduction in federal support. Because of the additional financial responsibility that states will have to assume, caution should be exercised in reducing the cost share on those systems, such as the primary system, that states have identified as being in need of additional resources. Further, any efforts to expand the use of toll financing should consider setting the maximum federal share below that set for non-toll, federal-aid highway construction.

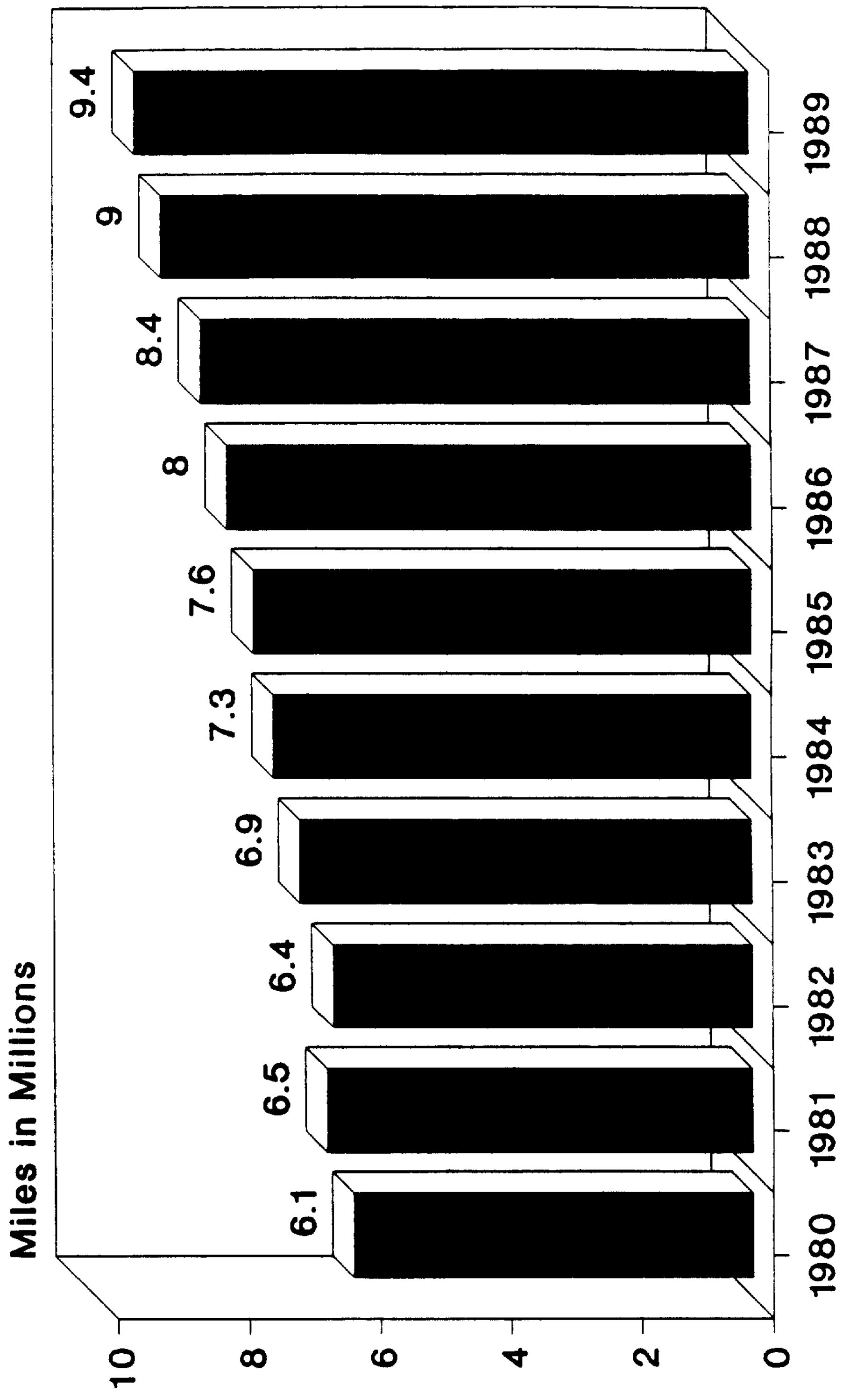
This concludes my testimony. I will be glad to answer any questions at this time.

Pavement in Poor Condition

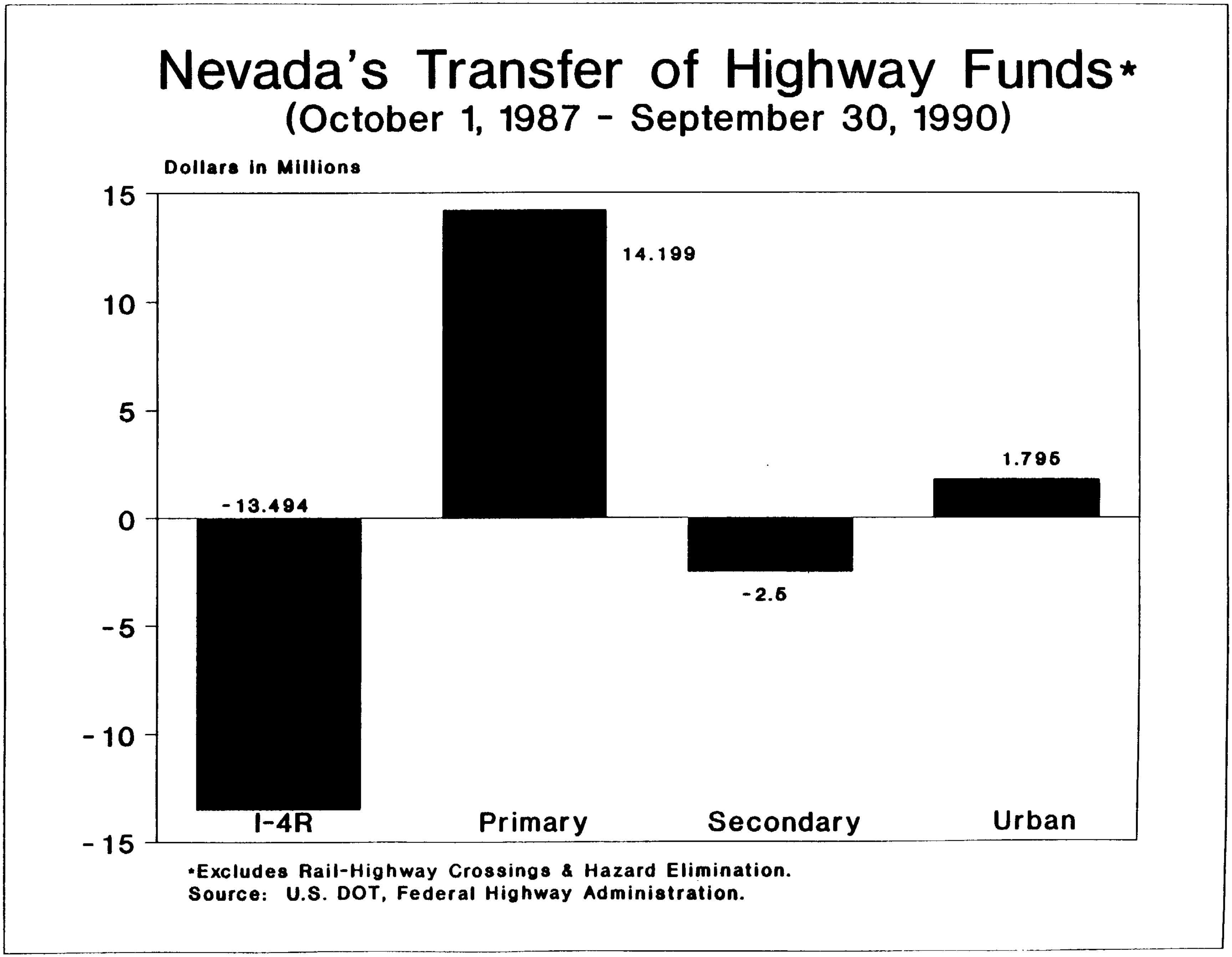


APPENDIX I

Nevada's Vehicle Miles Traveled (1980-1989)

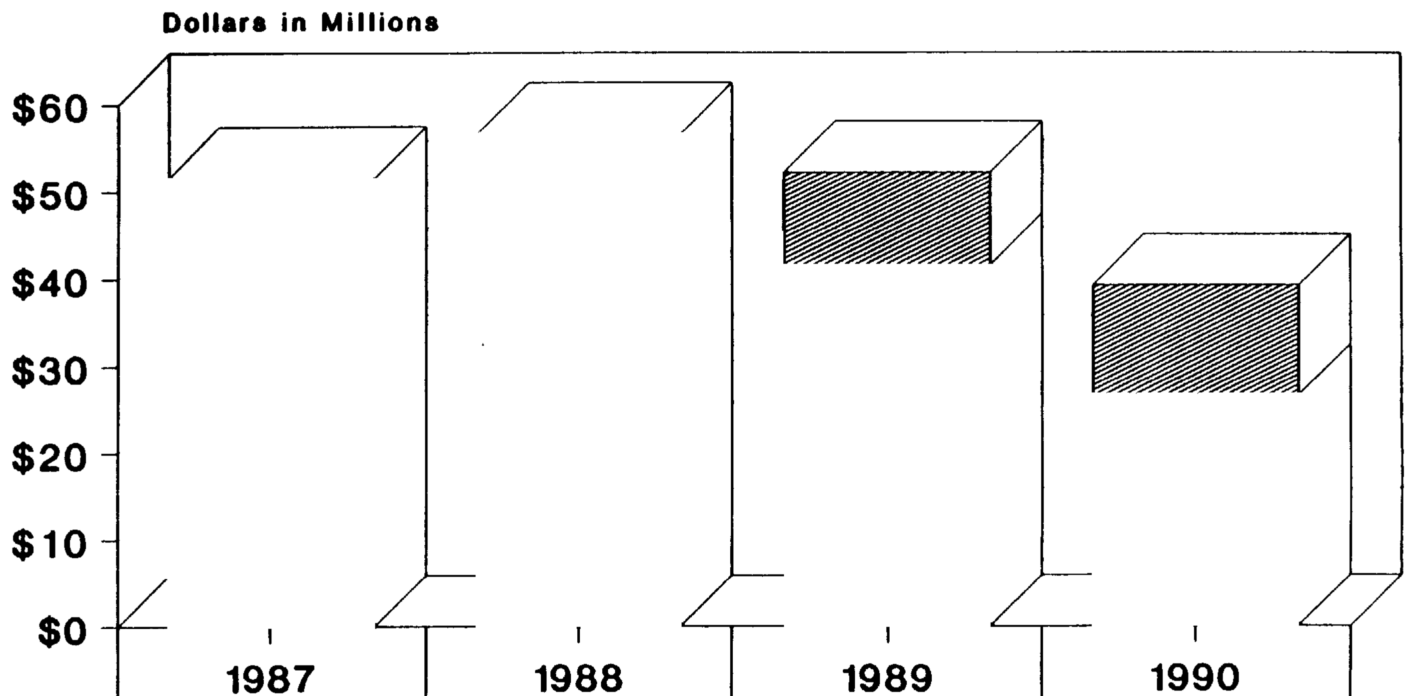


Source: U.S. DOT, Federal Highway Administration.



APPENDIX III

Nevada's Advance Construction Balances*
(1987-1990)

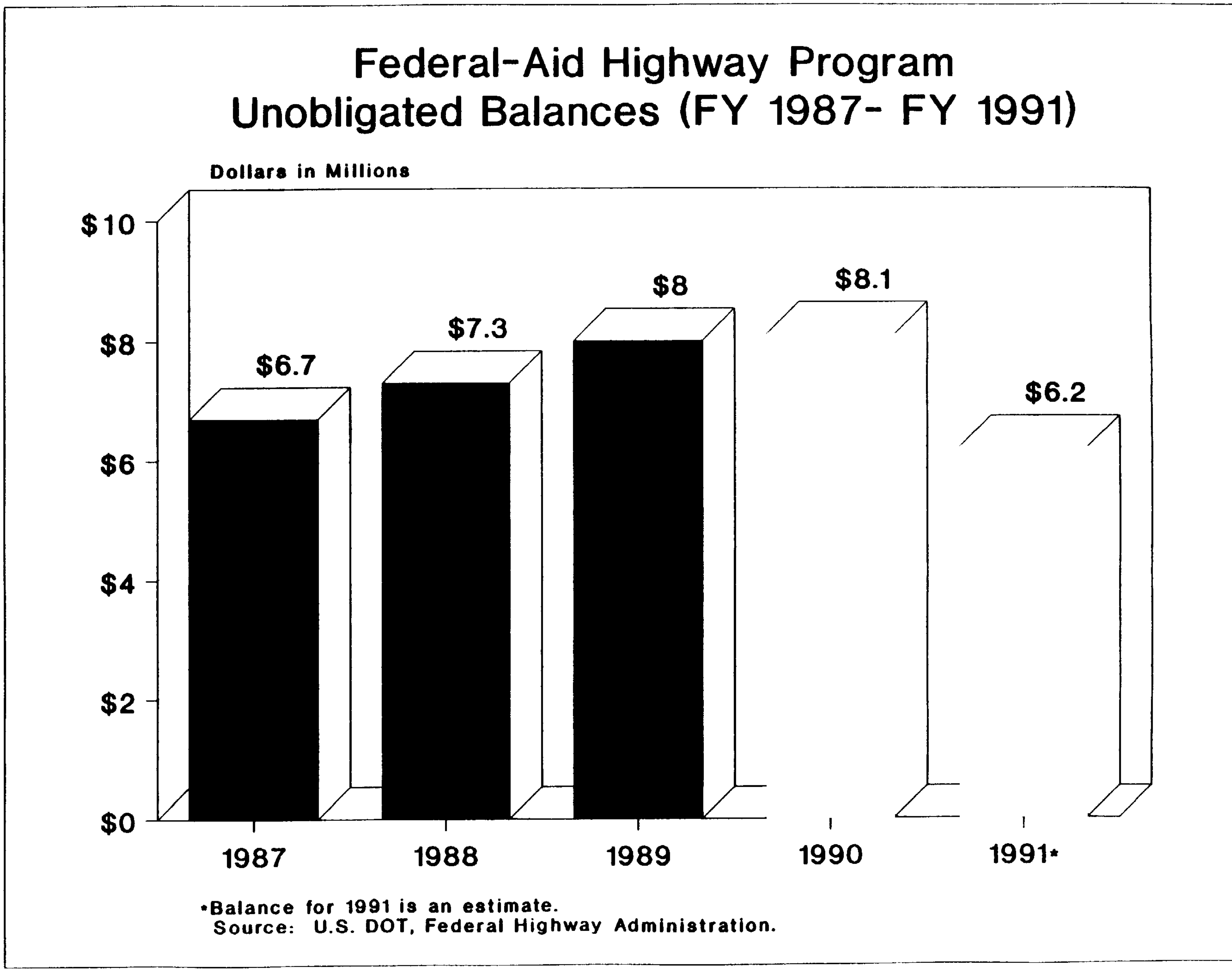


	1987	1988	1989	1990
I-4R	$0	$0	$10.6	$12.6
Primary	$51.6	$56.6	$41.6	$26.6

Primary I-4R

*Figures represent fiscal year-end balances.
Source: U.S. DOT, Federal Highway Administration.

APPENDIX IV

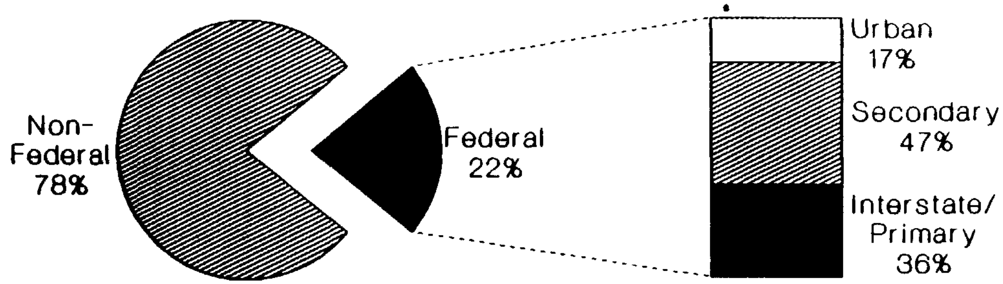

Federal-Aid Highway Program
Unobligated Balances (FY 1987- FY 1991)
Dollars in Millions
$10
$8
$6
$4
$2
$0
$6.7
$7.3
$8
$8.1
$6.2
1987
1988
1989
1990
1991*
*Balance for 1991 is an estimate.
Source: U.S. DOT, Federal Highway Administration.

APPENDIX V

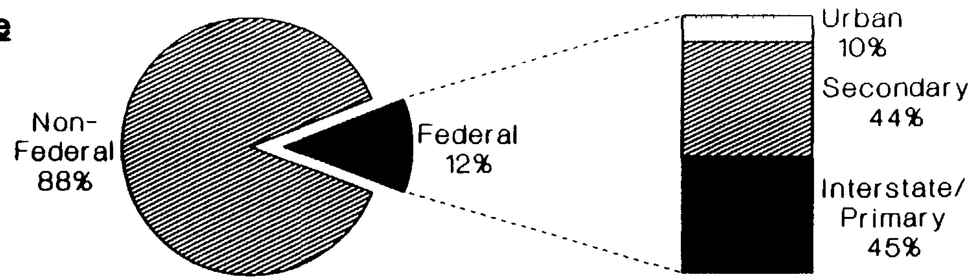
APPENDIX VI

Comparison of Total U.S. and Nevada Federal-Aid and Non-Federal Aid System Mileage (1989)

U.S. Mileage



Nevada Mileage



Source: U.S. DOT, Federal Highway Administration.