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Issues to Be Considered During Deliberations To Reauthorize the Federal-Aid Highway Program

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Transportation, and Infrastructure
Committee on Environment and Public Works
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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify on issues this Subcommittee will deliberate as it begins the legislative process to reauthorize a possible $70 billion, 5-year, federal-aid highway program. The Congress faces difficult decisions on how best to spend available federal dollars to meet highway and bridge needs. However, the federal government cannot be expected to meet these transportation challenges alone. Federal, state, and local governments must all find new and better ways to address the nation's transportation problems.

Our testimony today will focus on our work that parallels several issues to be considered by this Subcommittee. In summary, our work to date has shown that:

-- Increased funding will be needed for the Interstate 4R Program (restoration, resurfacing, rehabilitation, and reconstruction).

-- Projected Highway Trust Fund revenues are expected to exceed authorized commitment levels.

-- Tolls are a viable, alternative revenue source that can provide states with additional funds to meet their highway needs.

-- The Combined Road Plan demonstration block grant is allowing states increased flexibility to target spending to their priority needs.

-- State highway laws vary in the degree to which they parallel federal statutes. In this regard, there are options available if Congress decides to relax state compliance with federal laws on environmental protection, prevailing wage, minority contracting, and highway design.

I would like to discuss each of these issues in more detail, starting with our work on the Interstate 4R program.

INTERSTATE 4R NEEDS ARE INCREASING

Although construction of the Interstate component of the federal-aid highway system is nearly complete, continual attention is needed to preserve the nation's investment in the Interstate System. The Administration's national transportation policy [1] endorses the need to preserve the nation's transportation facilities and provides that federal-aid highway programs will emphasize capital maintenance. The Interstate System represents only 1 percent of all road mileage, but it accounts for over 20 percent of the total vehicle miles driven. The Congress recognized the need to protect this investment in the 1987 reauthorization, when it provided, through fiscal year 1992, an annual funding level of $2.8 billion for the Interstate 4R Program. This level, however, falls considerably short of what is presently needed to preserve the system. According to the Department of Transportation (DOT), 4R needs are expected to run between $4.7 billion and $6.1 billion annually, or a total of between $88.6 billion and $116.4 billion, through 2005, just to maintain 1985 road conditions.

According to our preliminary analysis of these estimates, 3/4 of these funds will be needed to improve existing road conditions and to add approximately 10,000 lane miles. The remaining funds will be needed to address future repair needs. Even with additional lane miles, Interstate congestion is expected to increase,

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[1]Entitled Moving America: New Directions, New Opportunities, dated February 1990.

particularly in urban areas. Overall, DOT estimates that between 21,000 and 25,000 additional lane miles are needed to accommodate additional capacity. In addition, because DOT accounts for highway and bridge needs separately, the estimated $24 billion that states require for 4R bridge work is not reflected in DOT's 4R needs estimate.

TRUST FUND COMMITMENTS CAN BE INCREASED

Over the past few years a great deal of discussion has focused on a perceived surplus balance in the highway account that could be spent on the nation's highways and bridges. In a May 1989 report to the Senate Appropriations Committee, we pointed out that the highway account balance, which was about $10.5 billion at the end of fiscal year 1989, was not actually a surplus. These funds will be needed to pay outstanding commitments. However, the account can support a higher level of program activity because future total revenues over the fund's authorized life are expected to exceed the level of future authorized commitments. At the time of our review, the anticipated amount of uncommitted funds at the end of the authorization period was $7.4 billion. However, if the authorized level of commitments were increased, DOT believes that a safety cushion of at least $1 billion would be necessary to guard against unforeseen disruptions to highway tax revenues or inaccurate revenue projections.

Unfortunately, the severity of the General Fund deficit and the use of various trust fund balances to mask the deficit have made the concept underlying trust funds quite different in reality. In the current budget environment, the reality is that any drawdown of the Highway Trust Fund balance can only be accomplished by increasing the deficit or at the expense of other federal programs.

TOLL FINANCING OFFERS ATTRACTIVE REVENUE SOURCE

Increasingly, the Congress, states and DOT are viewing toll financing as a funding mechanism that can give states more flexibility and control over transportation spending. Although tolls are generally prohibited on roads built with federal funds, the 1987 highway act authorized a toll pilot program. Under the 9-state pilot program, federal funding is limited to 35 percent of project costs, as compared to 75 to 90 percent under other highway programs. The work we are performing for this Subcommittee shows that states have made limited progress on the pilot projects. Only Delaware, Georgia, and Pennsylvania have started construction on their projects. Five other participating states--California, Florida, Texas, South Carolina, and West Virginia--are in the planning stages. One state, Colorado, has decided not to proceed with its project unless it receives additional federal money.

State highway officials we spoke with favor expanding the use of tolls on federal-aid highways and view tolls as an additional revenue source that can allow them to complete projects sooner than anticipated. We believe that limiting the federal funding share to 35 percent makes it incumbent upon states to carefully select projects for toll financing. If the selected project does not generate sufficient revenue, a state could contribute more to finance the toll project than it would under a conventional federal-aid highway project. Only the Texas project is anticipated to be totally financed with federal and toll revenues.

The Administration's national transportation policy endorses the concept of increasing opportunities to implement toll financing for transportation projects. Under the policy, state and local governments would be allowed the flexibility to impose tolls even if the roads are built with federal funds.

Four states--Texas, California, Florida, and Georgia--have committed themselves to using state-of-the-art equipment to reduce congestion and the costs of collecting tolls. For example, under the system Texas plans to use on its pilot project, a computer chip is placed inside vehicle windshields to keep track of toll charges. Vehicles with the chips do not have to stop to pay the toll; equipment reads and charges the user's account number as the vehicle passes through the toll plaza. According to state officials, using this system on the North Dallas Tollway has added the equivalent of two lanes of highway during rush hour and is drawing traffic from other congested roads in the area.

STATES REALIZE SIGNIFICANT ADVANTAGES WITH A BLOCK GRANT

The Administration's national transportation policy calls for a significant change in the traditional relationships among federal, state, and local governments. Under the new approach, the federal government would focus its transportation resources on highways of national significance, such as interstate and primary roads that are important to national defense and commerce. State and local governments would, in turn, assume greater responsibility for addressing their transportation needs. DOT acknowledges that state and local governments are frequently the most appropriate level for decisionmaking and management, and, given the appropriate tools and flexibility, they have a clear incentive to maintain the transportation infrastructure.

According to the new transportation policy, the restructuring of federal, state, and local roles could be accomplished in part by replacing the predominant categorical grants with broader and more flexible funding alternatives. The five-state Combined Road Plan demonstration program is designed to give states more control over how they spend federal funds received for the secondary and urban highway systems as well as bridge funds for these systems and for a certain percent of bridges off the federal-aid system. Our ongoing review of this program, which was initiated at the request of this Subcommittee, offers some insight into how states, under current funding levels, might respond to assuming additional management responsibilities.

Under the demonstration program, participating states are permitted to combine funds received for secondary and urban highway systems, and bridges off the federal-aid highway system, and to target their expenditures in accordance with their needs and priorities. States participating in the demonstration pooled between 9 percent and 33 percent of their annual highway apportionment. The states are also responsible for approving design exceptions and making final inspections of their projects--activities that traditionally have been federal responsibilities.

According to our preliminary results, states have benefited from the flexibility of being able to pool categorical grant funds and reportedly have been better able to target the funds to meet state priorities. Additionally, state officials believe that the flexibility provided under the demonstration could be improved by adding additional categories of funds, such as Hazard Elimination and Rail-Highway Crossing funds, to the pool of block grant funds. States also have reported time savings from performing their own final inspections and approving design exceptions. However, DOT has not determined how state actions in approving design exceptions and conducting final inspections might affect highway safety.

Furthermore, states would like to have certain legislative restrictions under the federal-aid highway program waived for projects in the demonstration, such as the 15 percent minimum/35 percent maximum for funding off-system bridges. Since no funding level changes were incorporated in the demonstration, we cannot project what the results would be if funding levels were to decline.

FEDERAL/STATE HIGHWAY LAWS
ARE LARGELY COMPARABLE

An early plan for the block grant demonstration program, proposed by the prior Administration, would have waived legislative requirements for states' compliance with federal laws on prevailing wages, minority contracting, environmental protection, and highway design. Had this proposal been incorporated into the enacted block grant, it would have permitted states to administer federal-aid highway projects as if they were state-funded projects--responsive only to their state laws affecting highway project administration. The block grant demonstration enacted did not relinquish the federal requirements.

State laws and administrative guidance in the five demonstration states vary in the degree to which they approximate federal statutes. The presence of state laws or administrative guidance similar to federal laws does not in itself predict how states would respond if federal requirements were lifted. State statutes may be repealed or amended, and state administrative guidance may change from year to year. However, the fact that states have afforded largely comparable protections to state laborers, minority contractors, the environment, and highway safety suggest that federal and state governments attach similar values to these concerns. At the conclusion of our work, we expect to provide the Congress with options to consider if it decides to relax state compliance with federal laws on environmental protection, prevailing wages, minority contracting, and highway design.

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