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TRANSPORTATION
INFRASTRUCTURE

States Benefit From
Block Grant Flexibility





United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

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June 8, 1990

The Honorable Quentin N. Burdick, Chairman
The Honorable John H. Chafee, Ranking Minority Member
Committee on Environment and Public Works
United States Senate

The Honorable Daniel P. Moynihan, Chairman
The Honorable Steve Symms, Ranking Minority Member
Subcommittee on Water Resources, Transportation, and
Infrastructure
Committee on Environment and Public Works
United States Senate

In response to your February 27, 1989, request and subsequent agreements with your offices, we reviewed the experiences of the five states participating in the Federal Highway Administration's Combined Road Plan demonstration program (hereafter referred to as the "demonstration"). The demonstration is similar to a block grant in that it gives state officials greater latitude (than would be allowed under a traditional categorical program) in determining how certain federal-aid highway funds will be spent. Specifically, we agreed to

- review how states have benefitted from the funding flexibility provided by the demonstration,
- identify the administrative advantages states have derived from streamlined operating procedures provided by the demonstration, and
- review how states' administration of the federal-aid highway program compares with federal administration of the program.

In authorizing the demonstration, the Congress intended to test the feasibility of transferring greater responsibility to state officials for administering portions of the federal-aid highway program. It permits the five participating states—California, Minnesota, New York, Rhode Island, and Texas—to pool funds from several programs¹ into a single fund and to assume certain program functions previously performed by the Federal Highway Administration (FHWA). The demonstration's results should be particularly useful during the upcoming reauthorization process as the Congress considers options for structuring a highway program beyond 1991.

¹The eligible program areas include funds from 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 highway system.

Results in Brief

All five participating states have benefitted to a varying extent from the flexibility afforded them through the demonstration. The ability to pool funds has provided states with more flexibility to address state highway construction and system preservation needs. To date, three states have taken advantage of this flexibility and have targeted a substantial portion of their pooled funds towards needs within a single system. The remaining two states, who began participating in the demonstration later than the others, expect to realize these benefits during the remainder of the demonstration. However, states have identified a number of areas in which the demonstration could be expanded to provide even more flexibility. For example, states would like additional categories of federal-aid funds to be eligible for the program, and they would like FHWA to waive some of the restrictions attendant to funds already included in the program.

Regarding administrative advantages, states perceive that elimination of FHWA's approval for design exceptions and final inspections has resulted in time and paperwork savings. They report that the project approval process has been streamlined by having FHWA approve a group of projects annually instead of each project individually. Additionally, states report that the processing time for design exceptions and final inspections has decreased under state administration of these functions.

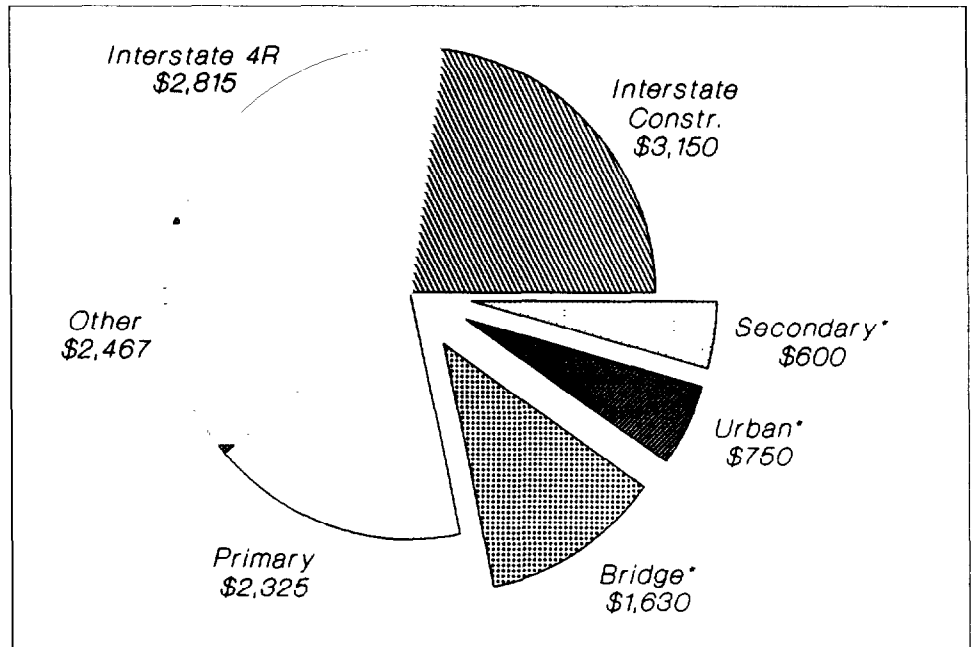
FHWA headquarters officials believe that there is little risk to safety in having the states perform final inspections. They said that of the approximately 14,000 final inspections conducted by FHWA in a previous year, only a few problems had been found. They indicated that any major flaws are usually discovered during ongoing construction reviews, not when the project is complete. However, a FHWA field office review of one state's final inspection activities identified several areas where the state's final inspection process could be strengthened to prevent negative safety impacts.

States' actions in approving design exceptions indicate a concern for maintaining safety standards. States have established formal review processes for exception requests, and FHWA has approved these processes. However, because design exception approvals rely heavily on judgment, a complete assessment of the impact of states' activities on safety depends upon a qualitative assessment of actual state decisions. Although most FHWA reviews to date have not tried to evaluate these decisions, states report that they are no more lenient than FHWA in approving exceptions. States indicated that they perceive an increased sense of responsibility for these decisions.

Background

The federal-aid highway program is a federally assisted, state-administered program that distributes federal funds to the states to construct and improve urban and rural highway systems. Federal assistance is provided through several separately funded programs, including the Interstate, Interstate 4R², Primary, Secondary, and Urban funding programs. The states are responsible for selecting, planning, designing, and constructing highway improvements; the federal government reviews and approves work done with federal assistance. For fiscal year 1989, the Federal-aid Highway Act of 1987 authorized \$13.7 billion for these programs. Figure 1 illustrates the individual components of the act.

Figure 1: Federal-Aid Highway Act of 1987, Fiscal Year 1989 Authorizations (Dollars in millions)



*Cut slice denotes eligibility for CRP

Source: FHWA Highway Statistics

The Congress authorized the Combined Road Plan demonstration program on April 2, 1987, through the Surface Transportation and Uniform Relocation Assistance Act of 1987 (Public Law 100-17); the program has been authorized through fiscal year 1991. The program permitted the five participating states to pool funds from the urban, secondary, and

²Interstate Resurfacing, Restoration, Rehabilitation, and Reconstruction.

certain bridge programs (see fig. 1).³ In fiscal year 1989, these three programs were authorized a total of about \$3 billion, or 22 percent of the entire federal-aid program. The percentage of the states' federal-aid apportionments potentially eligible for pooling under the demonstration in fiscal year 1989 ranged from about 9 percent to about 33 percent of the apportionments in each state.

States also assumed responsibility from FHWA for approving exceptions to highway and bridge construction design standards. Design standards are the federally approved controls for the design of highway projects. Any proposed project design that deviates from the standards is handled as a design exception, which must be justified and approved before it can be incorporated into the final design for a project.

Additionally, the demonstration transfers responsibility for conducting final inspections from FHWA to the five participating states. Final inspections, which are conducted after construction work on a project is complete, function to ensure that construction is adequate and that the project is ready for public use.

States vary in the amount of operating experience they have had under the Combined Road Plan. Although the demonstration was authorized in 1987, all five states did not implement the program concurrently. Minnesota began operating under the program in October 1987, Texas in January 1988, Rhode Island in November 1988, New York in December 1988, and California in May 1989. FHWA requires each state to provide a report evaluating the program after 1 year of participation, with a final report to be submitted to FHWA at the end of the demonstration program. Initial evaluation reports have been prepared by each of the states except California. FHWA has been required by the Congress to provide an interim report assessing the states' experiences with the demonstration in the spring of 1990, and a final report at the end of the demonstration.

³Only the nonprimary portion of the Bridge Replacement and Rehabilitation program, which funds bridges on the federal-aid urban and secondary systems and bridges off the federal-aid system, is eligible for pooling.

States Realize Significant Advantages From Pooling Funds

Three of the five states have benefitted to a differing extent from the ability to use pooled funds for projects on a variety of systems. This flexibility has enabled the states to target funds towards higher priority state highway and bridge needs. However, states would like to see the program expanded to include funds from other highway programs. Additionally, states would like the Congress to waive some of the legislative restrictions still tied to the pooled funds which states believe limit the flexibility of the demonstration.

Pooling of Funds Allows States to Better Meet Highway and Bridge Needs

The demonstration gives the states discretion to choose what percentage of eligible funds they wish to pool annually. When states began operating under the demonstration, the percentage of eligible funds they chose to pool varied markedly. New York, for instance pooled \$59 million, which represented approximately one quarter of the funds eligible to be pooled. California, in contrast, pooled \$165 million, over 90 percent of its eligible funds. Table 1 illustrates the size of the state Combined Road Plan pools in proportion to the total available funds from which these dollars could be pooled.

Table 1: Percent of Available Funds Pooled by States

Dollars in millions

State	Funds available to pool	Funds actually pooled	Percent pooled
Minnesota ^a	\$169	\$50	30
Texas ^a	472	300	64
New York	227	59	26
Rhode Island	23	19	83
California	180	165	92

^aFigures represent totals for fiscal year 1988 and fiscal year 1989 as these two states began participating in the Combined Road Plan in fiscal year 1988

Once pooled, funds can be used interchangeably for urban and secondary roads and bridges and for bridges not on the federal-aid system. Because of this added flexibility, states can decide when and how much funding to target towards specific system needs.

Minnesota, Texas, and Rhode Island have all capitalized on the flexibility afforded through the demonstration program. For example, although only 20 percent of the Minnesota pool was composed of bridge funds, nearly 40 percent of its spending commitments from the pool was for

bridge projects. Likewise, only \$30 million of the \$300 million—10 percent—pooled by Texas in fiscal years 1988 and 1989 was from secondary road funds. Over this same period, Texas obligated nearly \$125 million for secondary roads—or 42 percent of the amount pooled. Rhode Island chose to address urban needs by targeting 70 percent of the pooled funds to projects on their urban road system. Urban funds represented about 21 percent of the original amount pooled in Rhode Island. New York officials, while acknowledging the potential flexibility of the program, reported that since fiscal year 1989 funding was adequate in each category they would not take advantage of this flexibility. However, the officials told us they expect to use the funding flexibility in the future. California officials cited their relatively short period of operations under the demonstration as reason for not yet realizing the advantages offered by the funding flexibility. They also, however, expect to take advantage of this flexibility in the future. Appendix II illustrates how states have used funds under the demonstration.

States Would Like the Program Expanded to Provide Even More Flexibility

States suggest that the demonstration's flexibility could be enhanced if certain legislative restrictions were waived for funds administered through this program. Although the demonstration has given states significant latitude to determine where and how selected federal-aid funds will be spent, certain legislative restrictions still remain tied to the pooled funds. Under the categorical programs, the Congress enacted a number of spending requirements to assure a minimum amount of funding to certain systems or areas. For instance, one requirement mandates that states must spend at least 15 percent but not more than 35 percent of their federal-aid bridge funds for bridges not on the federal-aid system. Because the authorizing legislation for the demonstration did not waive these requirements (as outlined in app. III), FHWA determined that the requirements would still be applicable. According to FHWA, unless the Congress waives the restrictions, the states will be required to demonstrate that they have complied with these requirements by the end of the demonstration period. State officials told us that having to comply with these limitations inhibits their ability to target pooled funds to their priority needs.

State officials believe that the demonstration's objective of providing increased flexibility would be enhanced by making funds from additional programs eligible for the demonstration. The specific funds that

states have identified—Hazard Elimination⁴ and Rail-Highway Crossings⁵—are often used on urban and secondary highway system projects. In their interim report, Minnesota officials explained that having some funds eligible for the demonstration while other funds used on the same systems must be administered through alternative procedures—those traditionally used for categorical programs—can be confusing for people responsible for administering the programs. Additionally, using these other categorical funds along with demonstration funds results in the state forfeiting the administrative benefits inherent to the Combined Road Plan—state approval of design exceptions and final project inspections. Consequently, some states exclude projects involving these program funds from the demonstration.

The inclusion of Hazard Elimination and Rail-Highway Crossings funds would increase the size of the states' pools by as much as 18 percent. Table 2 illustrates the difference in funding available to states for pooling if fiscal year 1989 apportionments for these funds had been eligible for the demonstration.

Table 2: Potential Size of Expanded Combined Road Plan Program

State	Current maximum eligible ^a	Potential programs		Total expanded
		Hazard elimination	Rail-highway crossings	
California	\$154.9	\$14.2	\$10.2	\$179.3
Minnesota	42.8	3.5	4.2	50.5
New York	218.2	10.4	6.0	234.6
Rhode Island	10.0	0.8	0.4	11.2
Texas	139.0	10.6	10.8	160.4

^aDoes not include unobligated funds from prior years.

⁴Hazard Elimination funds are designated for highway safety improvement projects on all federal-aid systems except the Interstate.

⁵Rail-Highway Crossings was established by Section 203 of the Highway Safety Act of 1973 and authorized funds for the installation of protective devices at rail-highway grade crossings and for elimination of hazards at rail-highway grade crossings.

States Cite Additional Administrative Benefits Realized Under the Combined Road Plan

Although the most significant benefit of the demonstration for states has been the flexibility provided through pooling funds, most states cite the additional benefits of time and paperwork savings associated with streamlined processes for approving, implementing, and completing federal-aid projects. New York officials, however, believe that in their first 10 months of operations they did not realize the substantial time savings and flexibility benefits that they had anticipated. They added, though, that they anticipate making better use of the program as their experience grows. FHWA officials report as well, that state performance of Combined Road Plan responsibilities has enabled FHWA to make better use of its own resources. Officials in the FHWA division office in Minnesota, for instance, report that FHWA engineers can focus their attention on higher priority projects such as the Interstate.

Streamlined Project Approval Process Enables States to Undertake Projects More Quickly

States report that the project approval process under the demonstration enables them to initiate projects more quickly. Prior to the demonstration, states submitted a program of projects to FHWA. However, the states could not award contracts for individual projects without FHWA concurrence. Under the demonstration, states annually submit a program of projects, which FHWA reviews as a whole. Once FHWA approves the program of projects, the states may undertake projects from the list without further FHWA approval. New York officials noted that, prior to the demonstration, FHWA approved funding commitments on a project-by-project basis. With an average of 2 weeks needed for FHWA to turn around these approvals, New York officials estimate that theoretically they were able to save over 600 days in the processing of 47 projects.

Requests for Design Exceptions Are Processed More Quickly Under the Combined Road Plan

Officials from all five states believe that assuming responsibility for approving design exceptions has proven administratively beneficial. State officials estimate that processing time for exceptions has decreased between 2 weeks and 2 months as a result of not having to forward the requests to FHWA for approval. Some state officials report that prior to the demonstration, states conducted preliminary reviews of exception requests before forwarding them to FHWA. Under the demonstration, this review is final instead of preliminary.

State Final Inspections Viewed as More Timely

States believe that assuming responsibility for conducting final construction inspections has resulted in a significant savings in the time needed to close a project. After construction on a project is complete, the paperwork to close the project cannot be processed until the final

inspection has been conducted. Prior to the demonstration, state and FHWA officials coordinated to perform these inspections. Under the demonstration, state officials estimated that they have saved up to 3 months by not having to coordinate with FHWA for final inspections. In their first evaluation of the demonstration, New York officials estimated that a total of over 200 days processing time have been saved by not having to process 6 final inspection reports through FHWA. They added, however, that since other factors may affect the actual project closeout date, this savings may not translate to an identical savings in project closeout time.

States Have Developed Procedures to Meet Safety Standards

To evaluate the success of the demonstration, it is necessary to look not only at how states have benefitted from the additional flexibility provided by the program, but also at how states' actions under the program have impacted the federal-aid system—particularly in the area of safety. To ensure that appropriate attention is given to these issues, FHWA requires that the states develop procedures for reviewing requests for exceptions to design standards and for conducting final inspections. FHWA conducts periodic process reviews of specific demonstration activities. According to FHWA officials, these reviews focus on the procedures used to make decisions, not the decisions themselves.

State Design Exception Approval Processes Meet With FHWA Approval

To ensure safety and uniformity in the design of federal roads and bridges, design standards define such criteria as acceptable widths for travel lanes and shoulders, characteristics of road curvatures and sightlines, and guardrail placement. When highway designers request an exception to these standards, the states need to decide what potential effect on safety may result.

The five states involved in the demonstration have developed formal review procedures for making decisions on design exception requests; these procedures have been approved by FHWA. One example of such a process is Minnesota's procedures which require that requests be sent to the Office of Technical Support or the State-Aid Engineer and that they consider the effect of the exception on the safety and operation of the facility and its compatibility with adjacent sections of roadway. The request should consider, for example, such factors as the amount and type of traffic, the type of project, the accident history of the roadway, and the cost of attaining full standards. Another example is Texas, which has established special committees for the specific purpose of reviewing requests for exceptions received from their various highway districts. Requests submitted to the committees must explain why the

design standard cannot be attained and note its conformity with the adjacent roadway, provide information on the accident history of the road section, discuss the alternatives considered and cost differences involved, and describe the consequences if a request is not approved.

The FHWA division office in Minnesota has collected data on the number and types of exceptions granted prior to the demonstration which indicates that the types of exceptions granted by the state have not changed significantly from the types that were formerly approved by FHWA. About two-thirds of the design exceptions that FHWA approved in calendar year 1987 were for deviations from standards for horizontal or vertical curves on roadways. About 87 percent of the exceptions approved by Minnesota state officials under the demonstration have also been for deviations from standards for horizontal or vertical curves.

Most of the FHWA division offices plan to review the process followed by the states in approving design exceptions. In this type of review, FHWA reviews the procedures to determine if they have been documented, if they comply with demonstration guidelines, and if the state has followed the procedures. FHWA does not evaluate the appropriateness of the state's decision. In April 1989 the FHWA Texas division issued a report on a process review of design exceptions. The report stated that the procedures being followed by Texas, while not fully documented, were in compliance with the guidelines. According to the FHWA report, the state appeared to be making a conscientious effort to arrive at proper decisions on design exception requests.

According to FHWA officials, it is difficult to establish absolute criteria for determining whether a design exception is warranted. Consequently, judgment plays a large role in the decision. While process reviews can provide valuable insights on how well the program is being administered, we believe that a complete assessment of whether a design exception impacts on safety can be best achieved by reviewing the propriety of the actual state decisions. Although FHWA has not reviewed state decisions, the states contend that the increased sense of responsibility for evaluating requests for design exceptions has caused them to be no more lenient than FHWA in approving design exceptions.

**FHWA Believes States' Final
Inspection Activities Maintain
Integrity of Nation's Roads**

When construction on a project is complete, a final inspection is conducted to ensure that construction is adequate and that the road is ready for public use. Before the demonstration took effect, most states

were already conducting their own final inspections to ensure construction adequacy, according to state officials; the demonstration only eliminated the requirement to coordinate these inspections with FHWA.

According to FHWA officials, final inspections usually do not uncover major construction problems; if such problems exist, they would be identified during inspections performed earlier in the construction process. According to FHWA officials, only a few problems were recently found during approximately 14,000 final inspections.

FHWA officials told us that there are no standards for what constitutes a final inspection. Inspecting officials may perform a number of different activities, such as inspecting the physical construction, reviewing materials delivery reports, and comparing design plans to actual construction. FHWA officials told us that, as a result, it is difficult to assess how or if state inspections differ from FHWA inspections; however, both state and FHWA officials told us they believe that state inspections are essentially the same as those previously conducted by FHWA.

To monitor state final inspection activities, FHWA division offices have conducted or are planning to conduct process reviews similar to those planned for design exception activities. These reviews focus primarily on the procedures states follow to assess the final acceptability of a construction project. However, in an FHWA process review of final inspection activities in Rhode Island, the division office took the additional step of performing its own final inspection of a sample of projects that had been inspected by the state. In doing so, FHWA identified several items that it believed the state inspection team should have noted in its report. FHWA suggested that one of these items presented a potential safety impact. The division office recommended that Rhode Island enact a number of changes to improve its process. These recommendations included providing better training to those conducting final inspections and that more experienced personnel be placed on the final inspection teams.

The standard process reviews being conducted in the states focus primarily on the procedures used to reach decisions. Generally, these reviews do not attempt to validate the adequacy of the procedures by testing the results of the process, for example, by reviewing a sample of the decisions. We believe that such a test is necessary to validate the adequacy of state procedures in ensuring that safety objectives are being maintained through state actions.

Conclusions

All five states participating in the demonstration are either taking or planning to take advantage of the additional funding flexibility afforded to them through pooling. However, this flexibility could be enhanced in two ways. First, greater program flexibility could be achieved by allowing states to administer demonstration funds absent some of the title 23 legislative requirements—such as the 15-percent minimum/35-percent maximum off-system bridge requirement. Unless the legislative mandates are lifted and states are allowed to make their own decisions on how to allocate highway program funds, the Congress will be unable to determine how states would administer these federal-aid programs if given such flexibility permanently.

Second, some state officials believe that the Combined Road Plan demonstration could be improved by expanding the number of categories eligible for pooling. We believe that including Hazard Elimination and Rail-Highway Crossings funds could benefit the demonstration program. This inclusion would alleviate some of the confusion associated with administering these funds in conjunction with demonstration funds on a single project. Additionally, states would not forfeit the administrative benefits inherent to the demonstration—state-approved design exceptions and final inspections—on projects where Hazard Elimination and Rail-Highway Crossings funds are used in conjunction with demonstration funds.

We recognize states' interest in maintaining safety through their final inspection and design exception activities. States and FHWA believe that the design exception and final inspection processes performed by the states are generally equivalent. In the one case where FHWA actually evaluated state final inspection decisions, FHWA found substantive problems with a potential impact on safety. The fact that these issues might not have surfaced through the more prevalent FHWA process reviews underscores the need for such qualitative evaluations to be performed.

Matters for Congressional Consideration

To maximize the funding and administrative flexibility provided by the Combined Road Plan demonstration program and to more closely approximate the block grant concept, the Congress may wish to consider (1) removing some or all of the title 23 legislative restrictions attendant to the use of funds eligible for the demonstration and (2) expanding the list of eligible programs for the demonstration.

Recommendation

We recommend that the Secretary of Transportation direct the Administrator of the Federal Highway Administration to evaluate, on a test basis, the impact of states' actions on safety by evaluating the appropriateness of states' final inspection and design exception decisions.

We performed our work at the five participating states and appropriate FHWA offices between March 1989 and March 1990. Our work was done in accordance with generally accepted government auditing standards. (Further details on our objectives, scope, and methodology are provided in app. IV.) We discussed the information in this report with state and federal officials. They agreed with the facts as presented in this report. We are sending copies to the Secretary of Transportation; the Administrator, FHWA; interested congressional committees; participating states; and other interested parties upon request. Our work was performed under the direction of Kenneth M. Mead, Director, Transportation Issues, who may be reached at (202) 275-1000 if you or your staff have any questions. Other major contributors to the report are listed in appendix V.



J. Dexter Peach
Assistant Comptroller General

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Abbreviations

FHWA	Federal Highway Administration
GAO	General Accounting Office

Federal-Aid Highway Program Fiscal Year 1989 Authorizations—Surface Transportation and Uniform Relocation Assistance Act of 1987 (Title 1)

Dollars in millions	
Program	Authorization
Interstate Construction	\$3,150
Interstate 4R	2,815
Interstate Substitution-Highways	740
Primary	2,325
Primary Minimum (estimate)	48
Secondary	600
Urban	750
Bridge	1,630
Hazard Elimination	170
Rail-Highway Crossings	160
Indian Reservation Roads	80
Forest Highways	55
Public Lands Highways	40
Parkways and Park Highways	60
FHWA 402	10
FHWA 403	10
Railroad Relocation Demo	15
New Demo Projects	178
Minimum Allocation (estimate)	800
Emergency Relief	100
Feasibility Study-Highway Electrification	1
	\$13,737

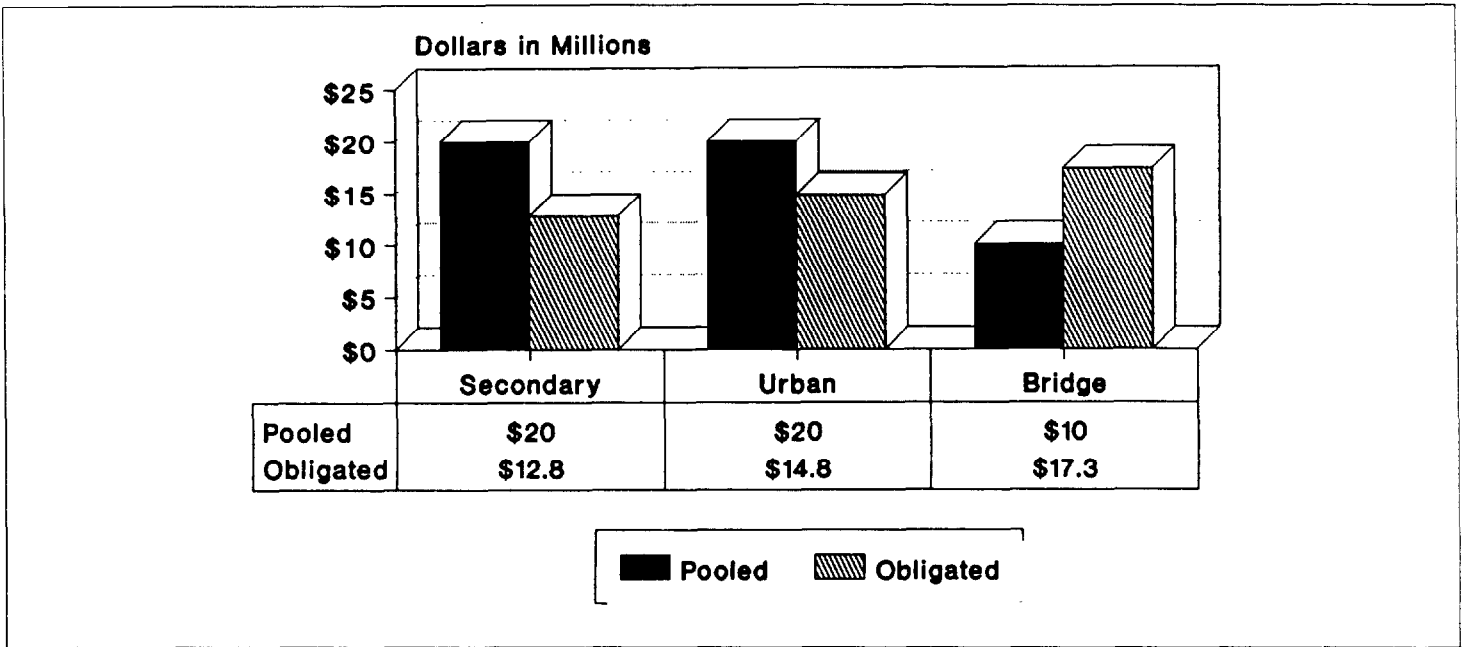
States Use of Funds to Meet Priority Needs

The Combined Road Plan demonstration permits the five participating states to pool funds from several program areas. The eligible program areas include funds from 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 highway system. Once funds are placed in the pool, the funds can be used for projects on any of these systems. Over a 2-year period, Minnesota used demonstration funds to address bridge needs, pooling \$10 million in bridge funds, then committing over \$17 million for bridge projects. Texas used most of the demonstration funds to address secondary system needs, pooling only \$30 million in secondary funds over 2 years but committing almost \$125 million for secondary projects during this period. Rhode Island committed \$13 million of its original \$19 million pool for urban projects after pooling only \$4 million in urban funds. New York chose not to change the distribution of pooled/committed funds; the state did not commit more funds to any category than the amount pooled. Figures II.1, II.2, II.3, and II.4 provide additional information on the source and use of the pooled funds for Minnesota, Texas, Rhode Island, and New York. California is not presented as it had less than 1 year of operating experience. The figures show the total amounts pooled and obligated by each state.

Federal-aid highway funds generally remain available for a 4-year period. State officials expect to obligate all their pooled funds within the demonstration period.

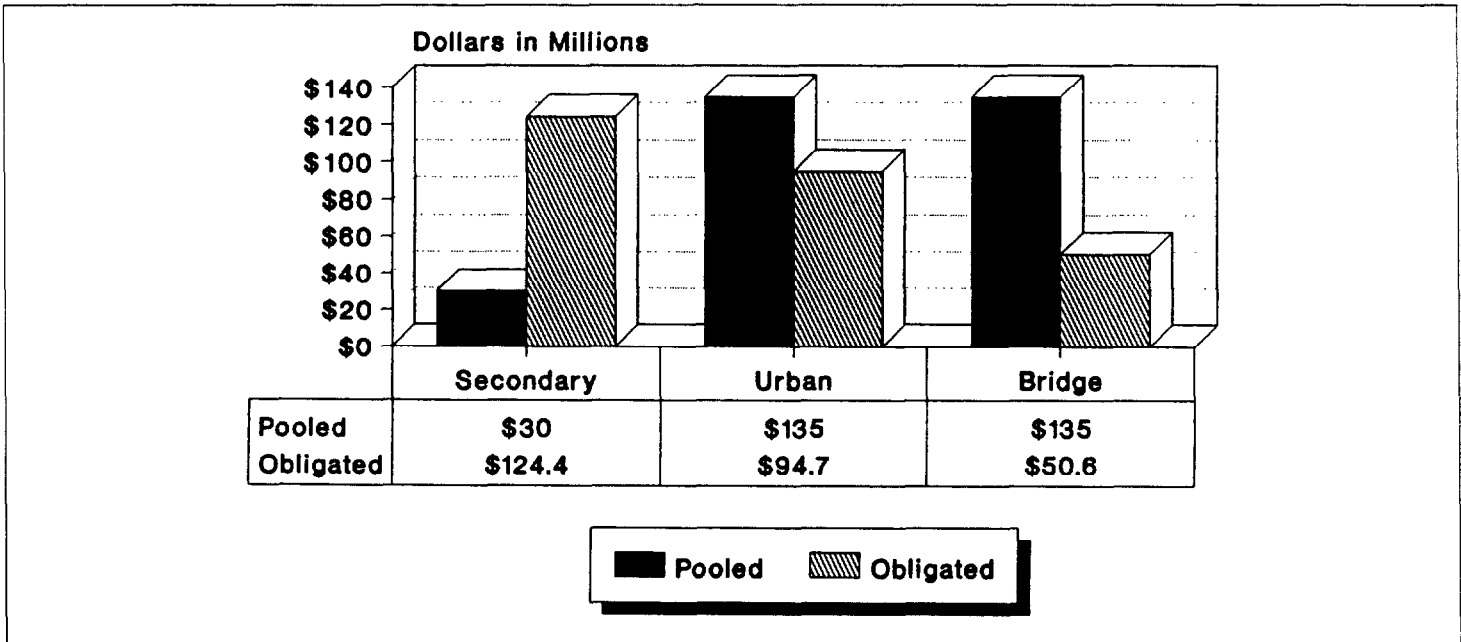
Appendix II
States Use of Funds to Meet Priority Needs

Figure II.1: Minnesota: CRP Pool and Obligations, Fiscal Years 1988-89



Source: Minnesota Department of Transportation

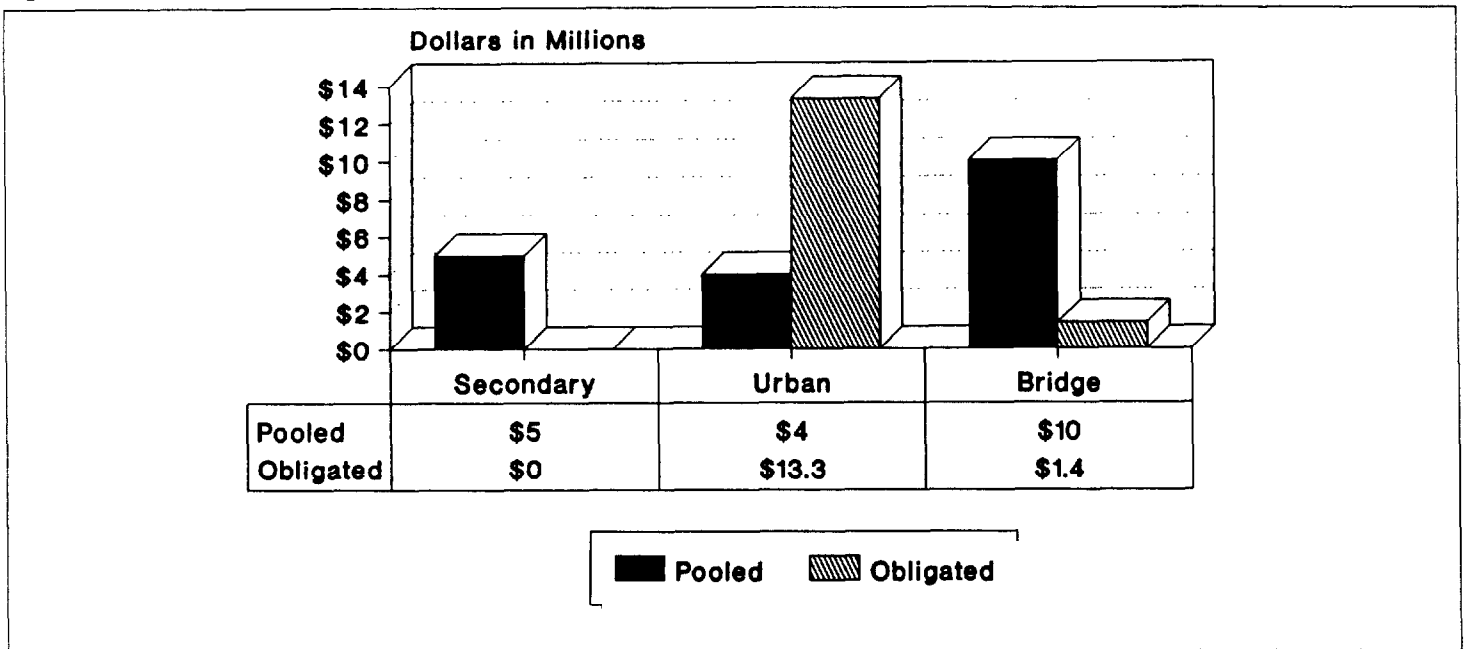
Figure II.2: Texas: CRP Pool and Obligations, Fiscal Years 1988-89



Source: Texas State Department of Highways and Public Transportation

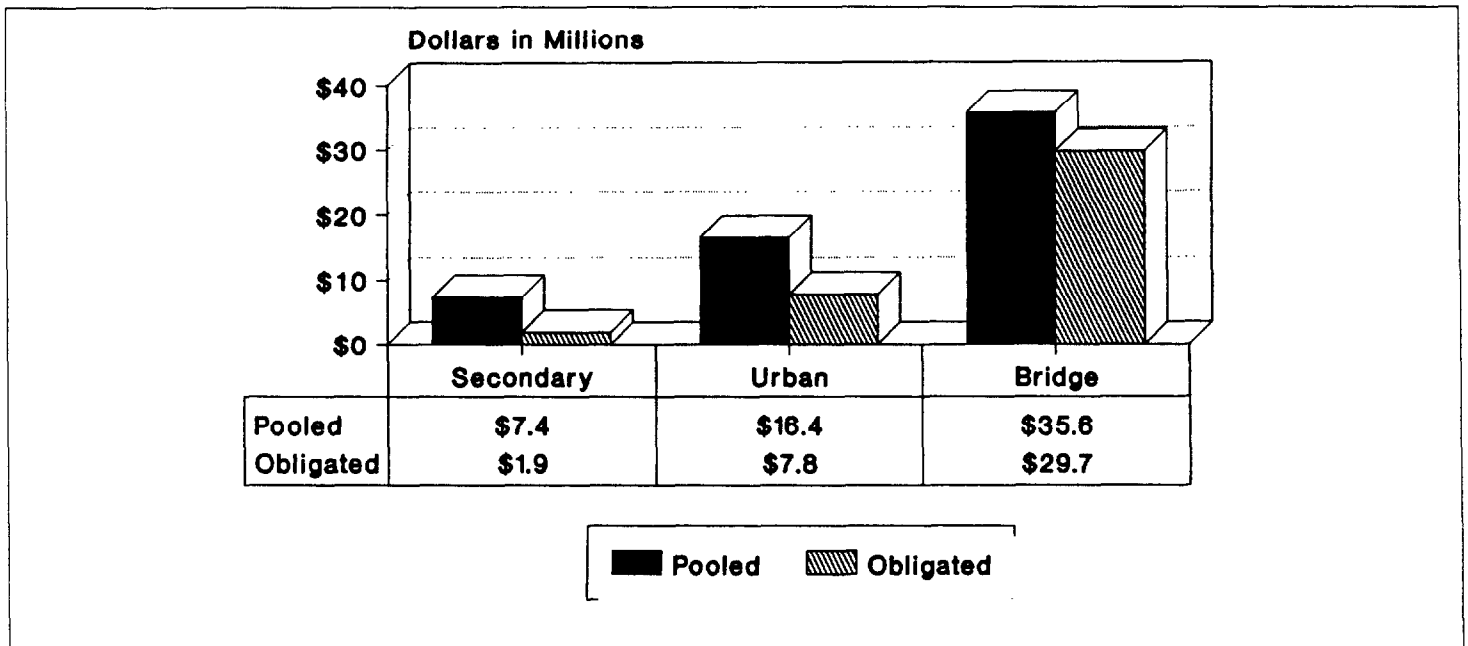
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Figure II.3: Rhode Island: CRP Pool and Obligations, Fiscal Year 1989



Source: Rhode Island Department of Transportation

Figure II.4: New York: CRP Pool and Obligations, Fiscal Year 1989



Source: New York State Department of Transportation

Title 23 Requirements Still Applicable to Federal-Aid Funds Administered Under the Combined Road Plan

Several states participating in the Combined Road Plan demonstration program have indicated that the legislative restrictions imposed by title 23 restrict the flexibility of pooled funds. These requirements set restrictions such as what percent of a state's bridge funds must be used on off-system bridges, or how much of a state's total appropriation may go for employee training. Although the demonstration's authorizing legislation did not specify whether these restrictions would still apply to the funds included in the state's pool, FHWA made an initial determination that absent the specific legislative waiving of such requirements, the restrictions would still be applicable. Title 23 contains numerous requirements and limitations, and although only a small number are specifically noted in the FHWA Combined Road Plan model agreement and subsequent state proposals, FHWA determined that the states should comply with those limitations. Following is a list of those requirements specifically noted by FHWA in the model agreement:

1. Bridges not on the federal-aid system (section 144) Not less than 15 percent nor more than 35 percent of the amount apportioned to a state for its bridge program can be spent for projects to replace or rehabilitate highway bridges located on public roads, other than those on a federal-aid system.

2. Allocation of urban systems funds (section 150)

A percentage of apportioned highway funds must be available for expenditure in urban areas with populations exceeding 200,000. This percentage is to be based on a fair and equitable formula devised by the state and approved by FHWA.

3. Ten-percent limitation requirement for projects funded under section 120(d)

Not more than 10 percent of a state's total federal-aid apportionment may be spent on projects including hazard elimination of railway-highway crossings, traffic control signalization, pavement marking, or for commuter carpooling and vanpooling. The federal share for construction may amount to 100 percent of the total project cost, as long as no more than 75 percent of the right-of-way cost or property damage costs are paid for with federal highway funds.

4. Limitation on training funds (section 321)

Not more than one-quarter of 1 percent of a state's total yearly apportionment of federal-aid primary and Interstate funds may be spent in connection with the education and training of state and local highway department employees. The federal share shall not exceed 75 percent of the cost of tuition and direct educational expenses, excluding travel, subsistence, or salaries.

5. Local official role in project selection (section 105(b),(d))

Projects on the federal-aid secondary system shall be selected by state highway department officials in cooperation or consultation with appropriate local officials. Federal-aid urban projects will be selected by appropriate local officials with concurrence of the state highway department and in accordance with the required planning process.

6. Urban planning (section 134)

State and local officials, in cooperation with the Secretary of Transportation shall develop transportation plans and programs formulated on the basis of transportation needs giving due consideration to comprehensive long-range land use plans, development objectives, and overall social, economic, environmental, system performance, and energy conservation goals and objectives. Due consideration will be given the probable effect on the future development of urban areas with a population exceeding fifty thousand.

7. Interstate Substitution (section 103(e)(4))

If any route or portion thereof of the Interstate is not deemed essential to the completion of a unified and connected Interstate system, the funds earmarked for completion of that segment may be used for public mass transit projects or substitute highway projects. Highway projects must be on a public road, serve the area or areas from which the Interstate route was withdrawn, and be selected by responsible local officials. The federal share on such projects shall not exceed 85 percent.

**Appendix III
Title 23 Requirements Still Applicable to
Federal-Aid Funds Administered Under the
Combined Road Plan**

8. Minimum apportionment Interstate construction (section 102(c) of the STURAA of 1987)

No state may receive less than one-half of 1 percent of the total federal apportionment for the Interstate system. Whenever amounts made available through this apportionment exceed the state's estimated Interstate needs, the excess funds shall be eligible for expenditure on the state's primary, urban, and secondary systems, as well as for projects undertaken with the goal of eliminating safety hazards.

Objectives, Scope, and Methodology

Our objective was to evaluate the experiences of each of the five states participating in the Combined Road Plan demonstration program and how each state has benefitted from the additional flexibility provided by the program.

We performed our work at the five states participating in the demonstration. We interviewed officials at the California Department of Transportation, Sacramento, California; the Minnesota Department of Transportation, St. Paul, Minnesota; the New York State Department of Transportation, Albany, New York; the Texas State Department of Highways and Public Transportation, Austin, Texas; and the Rhode Island Department of Transportation, Providence, Rhode Island.

We also interviewed officials at the FHWA headquarters in Washington, D.C.; at regional offices located in Albany, New York; Homewood, Illinois; San Francisco, California; and Fort Worth, Texas; and at divisions located in Providence, Rhode Island; Albany, New York; St. Paul, Minnesota; Sacramento, California; and Austin, Texas.

We interviewed state and federal officials to obtain their views on the demonstration and their respective state and federal experiences, obtained statistical and financial data on program operations, and identified benefits and problems encountered. In each state we interviewed officials responsible for managing the program and discussed why the state was interested in the demonstration, their experiences to date, and their analysis of the benefits received from the program. We discussed with FHWA officials how the demonstration has affected their operations, their analysis of benefits of the program to the states and the program's effect on the federal-aid highway program, and the methodology employed by FHWA to monitor and evaluate state activities.

We obtained and reviewed documentation relevant to the demonstration, such as pertinent laws, agreements with each state, financial and statistical operating data, the interim reports prepared by the states, and FHWA monitoring plans and process review reports. We did not independently verify information given to us by state and FHWA officials.

Our work was conducted between March 1989 and March 1990 in accordance with generally accepted government auditing standards. We discussed the information in this report with responsible state and FHWA officials, and their suggested clarifications have been incorporated where appropriate.

Appendix V

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