



Highlights of [GAO-04-802](#), a report to the Ranking Minority Member, Subcommittee on Transportation and Infrastructure, Committee on Environment and Public Works, U.S. Senate

Why GAO Did This Study

In 2004, both houses of Congress approved separate legislation to reauthorize the federal-aid highway program to help meet the Nation's surface transportation needs, enhance mobility, and promote economic growth. Both bills also recognized that the Nation faces significant transportation challenges in the future, and each established a National Commission to assess future revenue sources for the Highway Trust Fund and to consider the roles of the various levels of government and the private sector in meeting future surface transportation financing needs.

This report (1) updates information on trends in federal, state, and local capital investment in highways; (2) assesses the influence that federal-aid highway grants have had on state and local highway spending; (3) discusses the implications of these trends for the federal-aid highway program; and (4) discusses options for the federal-aid highway program.

What GAO Recommends

Congress may wish to consider expanding the mandate of the proposed National Commission to consider options to redesign the federal-aid highway program in light of these issues.

DOT officials commented on a draft of this report and said that the report raised important issues that merit further study.

www.gao.gov/cgi-bin/getrpt?GAO-04-802.

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Hecker at (202) 512-2834 or heckerj@gao.gov.

FEDERAL-AID HIGHWAYS

Trends, Effect on State Spending, and Options for Future Program Design

What GAO Found

The Nation's investment in its highway system has doubled in the last 20 years, as state and local investment outstripped federal investment—both in terms of the amount of and growth in spending. In 2002, states and localities contributed 54 percent of the Nation's capital investment in highways, while federal funds accounted for 46 percent. However, as state and local governments faced fiscal pressures and an economic downturn, their investment from 1998 through 2002 decreased by 4 percent in real terms, while the federal investment increased by 40 percent in real terms.

Evidence suggests that increased federal highway grants influence states and localities to substitute federal funds for funds they otherwise would have spent on highways. Our model, which expanded on other recent models, estimated that states used roughly half of the increases in federal highway grants since 1982 to substitute for state and local highway funding, and that the rate of substitution increased during the 1990s. Therefore, while state and local highway spending increased over time, it did not increase as much as it would have had states not withdrawn some of their own highway funds. These results are consistent with our earlier work and with other evidence. For example, the federal-aid highway program creates the opportunity for substitution because states typically spend substantially more than the amount required to meet federal matching requirements—usually 20 percent. Thus, states can reduce their own highway spending and still obtain increased federal funds.

These trends imply that substitution may be limiting the effectiveness of strategies Congress has put into place to meet the federal-aid highway program's goals. For example, one strategy has been to significantly increase the federal investment and ensure that funds collected for highways are used for that purpose. However, federal increases have not translated into commensurate increases in the nation's overall investment in highways, in part because while Congress can dedicate federal funds for highways, it cannot prevent state highway funds from being used for other purposes.

GAO identified several options for the future design and structure of the federal-aid highway program that could be considered in light of these issues. For example, increasing the required state match, rewarding states that increase their spending, or requiring states to maintain levels of investment over time could all help reduce substitution. On the other hand, the ability of states to meet a variety of needs and fiscal pressures might be better accomplished by providing states with funds through a more flexible federal program—this could also reduce administrative expenses associated with the federal-aid highway program. While some of these options are mutually exclusive, others could be enacted in concert with each other. The commission separately approved by both houses of Congress in 2004 may be an appropriate vehicle to examine these options.