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TRANSPORTATION
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Federal Highway Administration
FY 1992 Budget Request and
Highway Program Reauthorization
Proposal

Statement by
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Before the
Committee on Environment and Public Works
United States Senate

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Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to testify on issues concerning the Federal Highway Administration's (FHWA) budget request for fiscal year 1992 and federal-aid highway program reauthorization proposal. As you know, the Administration's National Transportation Plan, issued a year ago, acknowledged, among other things, significant highway and bridge needs. The Department of Transportation (DOT) estimates that about \$29 billion must be invested annually by all levels of government over the next 15 years to maintain the nation's highways at 1985 conditions and meet bridge needs. While the plan recognized these needs, it lacked specific funding strategies and suggested a major shifting of financial burden to the states.

FHWA's fiscal year (FY) 1992 budget and reauthorization proposal offers an ambitious, yet conceptually sound strategic framework for helping states address important highway and bridge investment requirements through increased funding and more flexibility in using those funds. Our testimony today will focus on the proposed FY 1992 through FY 1996 federal-aid highway program budget commitment and plan for restructuring the program. We will identify several areas where caution should be exercised as you consider the Administration's proposal. Our testimony draws upon a significant body of work, both completed and ongoing for this Committee and the Subcommittee on Water Resources, Transportation and Infrastructure.

Overall, our work suggests the following:

- First, although FHWA's proposed \$86.8 billion highway program is \$18 billion over the \$68.8 billion prior federal-aid highway program authorization, the proposed funding level could be increased by an additional \$5.1 billion between FY 1992 and FY 1996. This is because

revenues and interest credited to the highway account of the Highway Trust Fund, including carry-over balances from prior years, will exceed commitments.

- Second, pressures for budget deficit reductions will dim the prospects of obtaining the large increases in program funding levels planned for the latter years of the Administration's proposal. The budget's proposed annual funding levels range from \$15.8 billion to \$20.1 billion over the next 5 fiscal years, with the bulk of the proposed increase for the reauthorization period occurring in FY 1995 and FY 1996. These factors argue for effectively targeting federal funds to the most critical needs.

- Third, we agree with the Administration's premise that states must increasingly assume a larger portion of highway costs. However, we would urge that any significant shifting of financial burden to the states by reducing the federal share for most highway programs, as the Administration is proposing, be phased-in over time. Many states' finances are already severely constrained. As a result, the increased matching requirements may make it difficult for some states to actually realize the benefits of proposed funding increases.

- Fourth, consolidating most categorical highway programs into a two-tiered system would allow states greater funding flexibility to better target their federal dollars to address their individual needs. However, the proposal could better address such fundamental problems as balancing states' attention towards preservation with that of capacity enhancement.

- Lastly, while the Administration's reauthorization proposal offers potential benefits such as funding flexibility, our

work indicates several other issues that the new highway program should address to improve program effectiveness. These include using an improved methodology for identifying deficient bridges to effectively target federal funds to the most critically deficient bridges, and ensuring that states are not adversely affected by changes in funding distribution formulas. In addition, federal guidance will be needed for the states to successfully implement highway/mass transit funding flexibility.

PROPOSED FUNDING INCREASES WILL BE AFFECTED BY SPENDING CAPS AND OBLIGATION CEILINGS

In 1988, according to DOT, over 40 percent of the Interstate system--the nation's premier road system--was in poor or fair condition, and 40 percent of bridges were structurally deficient or functionally obsolete. In addition, 68 percent of urban Interstate peak hour travel was under congested conditions.

In recognition of these problems, the Administration's budget and reauthorization plan for FY 1992 to FY 1996 propose spending about \$87 billion--about \$18 billion more than was authorized in 1987 for the previous five-year highway Act. While the proposed reauthorization represents an average annual authorization of \$17.4 billion compared with \$13.8 billion during the previous five-year period--DOT estimates that about \$29 billion will be needed by all levels of government annually over the next 15 years just to maintain the federal-aid system at 1985 condition levels and to improve or replace bridges.

As Appendix I shows, there will be about \$8.1 billion in uncommitted funds remaining in the highway account of the Highway Trust Fund at the end of FY 1996. This balance is due to the excess of estimated trust fund revenues--tax receipts plus interest--over previous commitments. FHWA has indicated that a

safety cushion of about \$3 billion is needed in the Highway Trust Fund to guard against unforeseen decreases in highway user tax revenues or inaccurate revenue projections. Subtracting this cushion from the anticipated \$8.1 billion balance leaves an additional \$5.1 billion that could be made available over the five-year reauthorization period.

Legislation to reauthorize the federal highway programs will likely provide specified amounts of contract authority¹ for the highway programs. Traditionally, however, the actual spending or outlays for the federal-aid highway programs has been controlled by obligation limitations established annually by Transportation Appropriations Acts. In terms of the federal-aid highway program, the discretionary spending caps contained in the Omnibus Budget Reconciliation Act of 1990 and the Budget Enforcement Act (BEA) of 1990 apply only to highway outlays. Highway authorization levels, however, are not constrained by the discretionary caps.

In FY 1992 and FY 1993, the BEA provides discretionary spending limits in three categories: defense, international and domestic. In these years, outlays from the highway programs, which are included in the domestic category, must compete with outlays from other domestic discretionary programs such as health, energy and education for the limited amount of outlays under the domestic spending cap.

In fiscal years 1994 and 1995, there will only be a single cap on all discretionary spending. The highway program in these years will then have to compete with all discretionary programs, including defense, for the limited funds available. The

¹Contract authority is contained in federal-aid highway authorization acts and is made available to spend before an appropriations action. Contract authority, however, is unfunded and Congress must subsequently appropriate the funds necessary to liquidate (pay) the obligations incurred by the states under contract authority.

Administration's proposal assumes that \$1.4 billion of the total \$4.3 billion proposed annual funding increase over the five-year period will be achieved between these two years. The Administration's proposal also assumes that an additional \$2.0 billion of the total five-year annual funding increase will be achieved in fiscal year 1996 after all discretionary spending caps are slated to expire.

Even though the BEA does not provide discretionary spending limits for fiscal years after 1995, it is safe to assume that there will be continued pressure to control spending and reduce the deficit in 1996 and subsequent years. If the Administration's proposal for the highway reauthorization bill is enacted, the competition for limited funds under the BEA discretionary spending limits, coupled with the likely constraints on spending in FY 1996, raise questions about the level of highway funding that will actually be made available over the five-year period.

Reductions In Federal Cost Shares For Highway Projects Should Be Phased-In

We support increased leverage of federal funds through greater state cost sharing responsibility. However, we believe that a reduction in the federal cost share for federal highway projects, as proposed by the Administration, should be phased-in over time. The Administration's reauthorization proposal would require an increased state share for projects under most program categories. For example, under the current program the federal share for Interstate projects is generally 90 percent, and the federal share for primary, urban, and secondary system projects is 75 percent. Under the Administration's proposal, however, the existing 75-percent federal share, which applies to projects on about 700,000 miles of the federal-aid system, would be reduced to 60 percent. The states would be responsible for the remaining 40 percent.

As Appendix II shows, on the average, states already finance the construction and maintenance of 78 percent of our highways. Virtually all of the states have raised gasoline taxes over the last 10 years. States that have relatively high gasoline taxes, large geographical areas, yet smaller populations, as well as those with weak economic bases may face difficulties in assuming more financial responsibility through a significant reduction in the federal share for federal-aid highway projects. As a result, a phase-in of any reductions in federal cost shares may be advisable.

Toll Financing Is Helpful But Is Not a Financial Panacea

In a recently issued report to this Committee, we reported that the Toll Facilities Pilot Program demonstrated that tolls, while not a financial cure-all, can help states increase the total amount of state funds available for highway construction and maintenance on selected federal-aid highways.²

Financing federal highway construction through the use of tolls is a significant development, because their use for this purpose has generally been prohibited. Funding maintenance on federal-aid highways with tolls is also an important departure from current federal-aid financing practices since states have traditionally financed highway maintenance without federal assistance. Our work shows that keeping the federal financial participation on toll projects significantly lower than that set for non-toll federal-aid highway construction is important. A lower federal funding share will most likely limit toll use to roads with a high volume of traffic that generate sufficient revenues to make them financially feasible. Therefore, while the use of toll financing as an additional revenue source will benefit selected highway projects, we would caution against viewing this

²Highway Financing: Participating States Benefit Under Toll Facilities Pilot Program (GAO/RCED-91-46, December 17, 1990).

method as a panacea for federal-aid highway financing because of its potentially limited applicability.

PROGRAM RESTRUCTURING BETTER FOCUSES FEDERAL ASSISTANCE BUT NEEDS STRENGTHENING TO ADEQUATELY ADDRESS HIGHWAY PRESERVATION

Our work suggests that restructuring the federal highway program into a two-tiered system, as proposed by the Administration, will better focus federal assistance on highways of critical importance to the nation. This contrasts sharply with the current program which provides federal assistance through several separately funded categorical programs including the Interstate, Interstate 4R³, primary, secondary, and urban programs. In addition, through the increased funding flexibility offered, a restructured program will allow states to better target their federal assistance to where it is really needed. The Administration's highway reauthorization proposal also addresses the need to draw states' attention to preservation of highways by establishing a higher federal share for preservation activities compared with highway capacity enhancement activities. However, there are no assurances that preservation will be a high priority.

Program Restructuring Will Better Focus Federal Highway Funds

To maximize the flexibility in how federal highway funds can be used and better focus federal funds on highways important to the nation, the Administration proposes to restructure the federal-aid highway program into essentially a two-tiered system. The first tier, the National Highway System (NHS), would consist of approximately 150,000 miles of highway, including the Interstate system and a portion of the primary highway system. The second tier would be a new block grant--the Urban/Rural Program. This is

³Interstate resurfacing, restoration, rehabilitation, and reconstruction (I-4R). These funds are used for Interstate preservation and capacity enhancement.

in contrast to the current categorical system in which federal assistance is provided through several separately funded programs. Our work has shown that this type of restructuring--that is, consolidating program categories into a more flexible system--would allow states to customize their spending of federal funds.

We reviewed a demonstration program authorized in 1987 by the Congress in which five states--California, Minnesota, New York, Rhode Island, and Texas--were allowed to pool money from the urban, secondary, and bridge programs and use the funds on any one or a combination of the three programs.⁴ At the time of our June 1990 report, we found that three states had taken advantage of the funding flexibility to target a substantial portion of their pooled funds towards a particular program area.⁵ This not only allowed them to better target their federal funds where the need was greatest but also provided them additional flexibility to address high-priority highway construction and preservation needs. It should be noted, however, that the demonstration did not change the federal share of the costs for projects undertaken.

Our examination of states' use of transfers of funds between program categories further supports the benefits of a more flexible program. Currently states are permitted to transfer a limited percentage of their federal highway funds between certain program categories.⁶ Thirty-five (35) states have taken advantage of these provisions to transfer over \$800 million over the last 3 fiscal years. A tier system, as proposed by the Administration, in

⁴Transportation Infrastructure: States Benefit From Block Grant Flexibility (GAO/RCED-90-126, June 8, 1990).

⁵The remaining two states, which began participating later than the others, also expect to realize benefits during the remainder of the demonstration.

⁶For instance, currently a state may transfer 20 percent of its I-4R funds to the primary program. A higher percentage may be transferred with FHWA approval.

which funds could be used as needed within each tier, would offer some of the flexibility needed to facilitate the realignments now sought by states through fund transfers.

As Appendix III shows, most fund transfers have been from the I-4R to the primary highway program. Because the majority of the primary highway system--where states have identified the most significant needs--will be in the Urban/Rural tier and not the NHS, we support the Administration's proposal to allow fund transfers between the two tiers.

Highway Preservation Should Be Better Balanced With Capacity Enhancement

While a restructured program offers the benefits of more focus on the Interstate system and selected primary roads, as well as increased flexibility in how funds can be used, we believe that the Administration's highway proposal does not adequately address the fundamental need to preserve the federal investment on the Interstate system. Specifically, the proposal does not provide assurances the Interstate will be preserved.

Clearly, highway preservation will increasingly compete with capacity enhancement for federal resources. In 1989, DOT reported that from \$4.7 billion to \$6.1 billion a year would be needed between 1987 and 2005 by all levels of government to address Interstate preservation needs. In contrast, the current federal commitment to I-4R activities is only \$2.8 billion annually. Reviewing the DOT estimate, we observed that up to 50 percent of the I-4R investment requirements will be for major lane widening projects--that is, capacity enhancement. At the same time, Interstate preservation needs are also accruing: in 1988, over 40 percent of the Interstate highway system was in fair or poor condition.

The Administration's proposed highway program recognizes the importance of Interstate preservation by allowing a 90-percent federal share for preservation-type activities as compared to 75-percent share for reconstruction. In addition, the plan would require states to develop Pavement Management Systems to assist them in optimizing their highway maintenance and capital improvement decisions.

While these are important steps, they may not be enough. States will continue to have wide latitude in selecting and programming preservation and capacity enhancement projects. Consequently, in light of competing capacity enhancement and preservation demands, there are no assurances that the approximately \$130 billion investment in the Interstate will be protected. Although the Secretary of DOT may require states to program NHS funds to bring their Interstate highways up to adequate conditions, the Administration's plan does not require that a minimum portion of a state's NHS funds be devoted to either preservation or capacity projects. As a result, states may increasingly undertake capacity enhancement activities in lieu of highway preservation activities. In our final report to the Congress, we will discuss options the Congress may wish to consider in addressing the need for minimum investment levels in Interstate preservation.

I would now like to discuss some other issues which are not adequately addressed by the Administration's proposal.

CHANGES NEEDED TO FURTHER IMPROVE HIGHWAY PROGRAM EFFECTIVENESS

The new highway program should address several other issues to improve program effectiveness. These issues include using an improved criterion to effectively target federal bridge funds to the most critically deficient bridges, ensuring that changes in highway funding apportionment factors minimize potential adverse

impacts on states, and providing guidance to states for the successful implementation of highway/mass transit funding flexibility. Each of these will be important for ensuring that funds will be used in the most effective way possible, regardless of the level of highway funding made available.

A Level-of-Service Methodology Would Better Target Federal Funds For Bridge Improvements

In 1989, DOT reported that 40 percent (about 238,000) of the nation's approximately 578,000 bridges were structurally deficient or functionally obsolete and that over \$50 billion would be needed to bring them up to current standards. Since 1987, the federal government has authorized states to spend about \$1.4 billion a year to replace or rehabilitate bridges. Under the Administration's reauthorization proposal, apportioned bridge funds over the next five-year period will range from \$1.6 billion to \$2.3 billion a year.

The Administration has also proposed adopting a Level-of-Service (LOS) methodology to identify deficient bridges eligible for federal funding. Our ongoing work for this Committee suggests that LOS is significantly more effective in identifying deficient bridges than FHWA's current methodology--called the sufficiency rating--because it not only establishes adequacy standards for bridges on different classes of highways,⁷ but gives more adequate consideration to traffic volume and detour length. However, FHWA does not plan to take full advantage of the benefits that LOS can provide.

⁷Functional classification groups streets and highways according to the service they are intended to provide. The hierarchy of functional classification consists of principal arterials (for main movement), minor arterials (distributors), collectors, and local roads and streets. The roads making up the functional classifications differ for urban and rural areas.

Under its LOS methodology, FHWA does not plan to gauge the magnitude of problems with each bridge by assigning a numerical score based on its deficiencies. Consequently, all deficient bridges that FHWA identifies as being eligible for funding will be considered equally deficient regardless of the extent of their deficiencies. If FHWA assigned each bridge a deficiency rating and ranked the bridges from most to least deficient, it could link the most deficient bridges with the available resources and categorize them by highway system. By using LOS to make this type of analysis, FHWA could provide the Congress more accurate information to target federal dollars to highway systems that have the most critical bridge needs.

Our analysis of the National Bridge Inventory (NBI) using a LOS methodology shows that the Administration's proposal to require states to spend between 10 and 25 percent of their federal bridge funds on local bridges (primarily off-system bridges) is questionable. Our LOS analysis showed that over 90 percent of the nation's most critically deficient bridges are located on the proposed National Highway System and Urban/Rural Program (primarily on-system bridges). To determine funding priorities by highway system, we also coupled our NBI analysis with the proposed \$9 billion, five-year bridge replacement and rehabilitation program. As Appendix IV illustrates, this analysis showed that 72 percent of the proposed bridge funding would be needed for NHS bridges, about 27 percent for Urban/Rural bridges, and only about 1 percent for local (primarily off-system) bridges.

In our final report to this Committee, we will make recommendations that the Congress may wish to consider in better targeting federal bridge funds to the most critical bridge needs.

Apportionment Factors Should Minimize Potential Adverse Impacts On States

We reported in 1986 that the factors used to apportion certain highway funds to the various states--land area, urban and rural population and postal road miles--are not closely related to the needs of states to preserve today's highway system.⁸ These factors were established between 40 and 70 years ago and are not the best indicators of highway use. Rather factors such as motor fuel consumption and vehicle miles travelled better reflect how much highways are being used. Because these factors can be updated more frequently than those currently used, they would also improve the responsiveness of federal assistance to changing state needs. In line with our 1986 recommendations, the Administration's proposed highway program would place greater weight on highway use factors when apportioning federal highway funds to the states.⁹

However, as we suggested in 1986, the Congress may wish to provide for a transition period during which changes in state funding would be gradually introduced so as not to adversely impact individual states. An individual state's apportionment depends on the factors used to apportion funds and the weights given those factors. Some states will receive a larger share and some states will receive a smaller share of available funding depending on the weight given particular apportionment factors.

The Administration's proposed FY 1992 apportionments of \$12.6 billion are about 35 percent greater than FY 1991 apportionment

⁸Highway Funding: Federal Distribution Formulas Should Be Changed (GAO/RCED-86-114, March 31, 1986).

⁹NHS funds would be apportioned 70 percent on motor fuel use, 15 percent on public road mileage, and 15 percent on land area. Apportionments would be adjusted upwards for those states with low population density. The maximum adjustment would be 50 percent for those states with a population density of under 5 persons per square mile.

levels of \$9.3 billion. This increase in funding allows the apportionment formulas to be changed without significant reductions in funding for any state. For example, changes in state apportionments range from a 103 percent increase in one state to a 1 percent decline in another. Although the proposed 35 percent increase in authorized funding appears to prevent significant reductions in apportionments for individual states, a smaller increase in the authorization level could result in significant cuts for some states.

Guidance Needed For Successful Implementation of Highway/Mass Transit Funding Flexibility

One of the flexibilities included in the Administration's proposed highway program is the eligibility of mass transit capital projects for Urban/Rural highway funding. Urban Mass Transportation Administration mass transit projects would likewise be eligible for highway funding, as long as there was a "balanced local approach" for funding transit needs. We support an intermodal investment strategy for responding to infrastructure needs. However, as we reported in 1988, the ability to successfully implement an intermodal strategy is not well served by DOT's practice of preparing separate needs studies for highways, bridges, and mass transit.¹⁰ In addition, DOT's separate modal approach precludes the effective ranking of intermodal needs and development of an integrated transportation strategy. Therefore, the federal government's ability to successfully implement intermodalism may be limited by the lack of a long-term investment strategy.

Our preliminary work suggests that the criteria used to assess highway and transit projects may not easily facilitate choices

¹⁰Transition Series: Transportation Issues (GAO/OGC-89-25TR, November 1988).

between the two modes. Therefore, guidance to the states may be needed to successfully implement highway/mass transit funding flexibility. Both federal and metropolitan planning organization (MPO) officials agreed problems could be encountered because of the differences between the criteria. In general, highway criteria is oriented towards movement of vehicles, while transit criteria is oriented towards movement of people. As a result, as one MPO official stated, it is generally easier to demonstrate the benefits of increased highway capacity and how new or modified highways would increase capacity, than to demonstrate the benefits of increased transit capacity through acquisition of additional buses. Other MPO officials have also noted difficulties in funding transit projects compared with highway projects. Consequently, highway projects may receive more funds than transit projects when one project is ranked against another.

At the completion of our ongoing work for this Committee, we will offer recommendations on how to use the proposed funding flexibility between highways and mass transit more effectively.

CONCLUSIONS

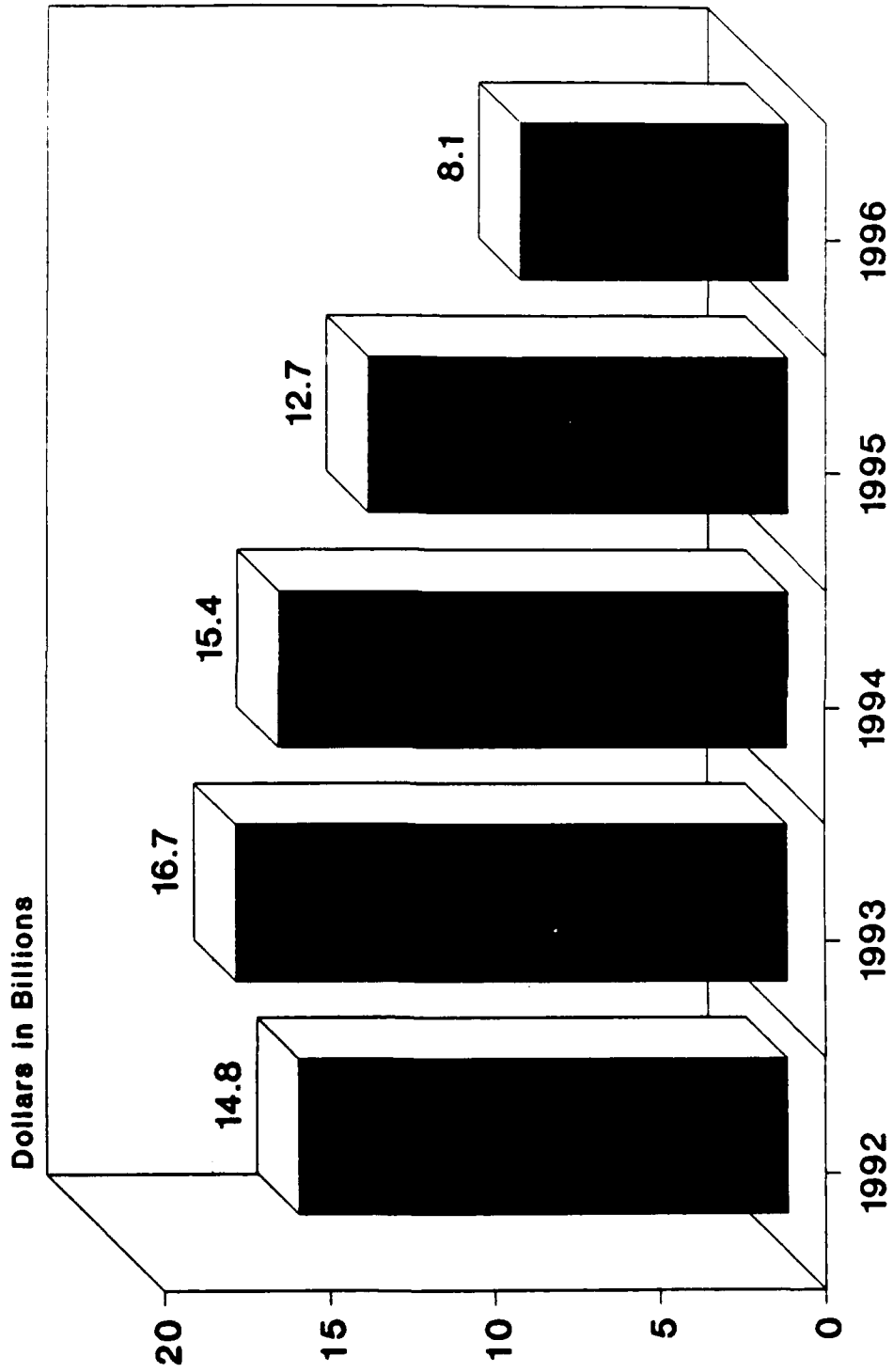
In summary, the nation faces significant challenges in meeting burgeoning highway and bridge needs--an estimated \$430 billion investment requirement over the next 15 years. The budget deficit reduction environment will force tradeoffs between highways and other federal programs in order to fund the increases proposed by the Administration. This could be particularly difficult in the proposed five-year program because the largest increases are scheduled for the out years when the three domestic discretionary program spending caps expire and federal-aid highway program spending must compete with all other federal discretionary programs. A phased-in approach to any increases in state cost share requirements for federal-aid projects would also be desirable to ease states' financial burden.

We believe a two-tiered program will provide states more flexibility in meeting their highway and bridge needs. However, the Administration's proposed highway program does not adequately ensure that preservation will be a high priority in light of states' anticipated needs to enhance highway capacity. Although the Administration's proposal provides an incentive for states to fund highway preservation projects, a minimum level of investment in Interstate preservation may ensure continued attention to Interstate preservation.

Finally, our work suggests several additional areas where program effectiveness can be increased. These include designing a more efficient method to allocate bridge funds; ensuring that apportionment formulas minimize adverse impacts on states, and providing guidance for the successful implementation of highway/mass transit funding flexibility. Each of these will help to ensure that a more effective use is made of scarce transportation funding.

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

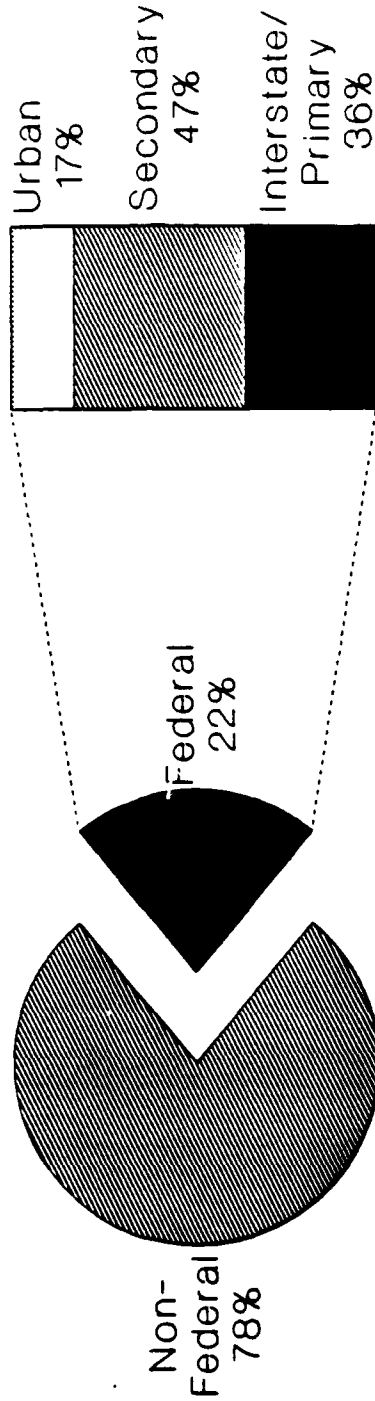
Projected Uncommitted Highway Funds (FY 1992-1996)



Source: U.S. DOT, Office of the Secretary.

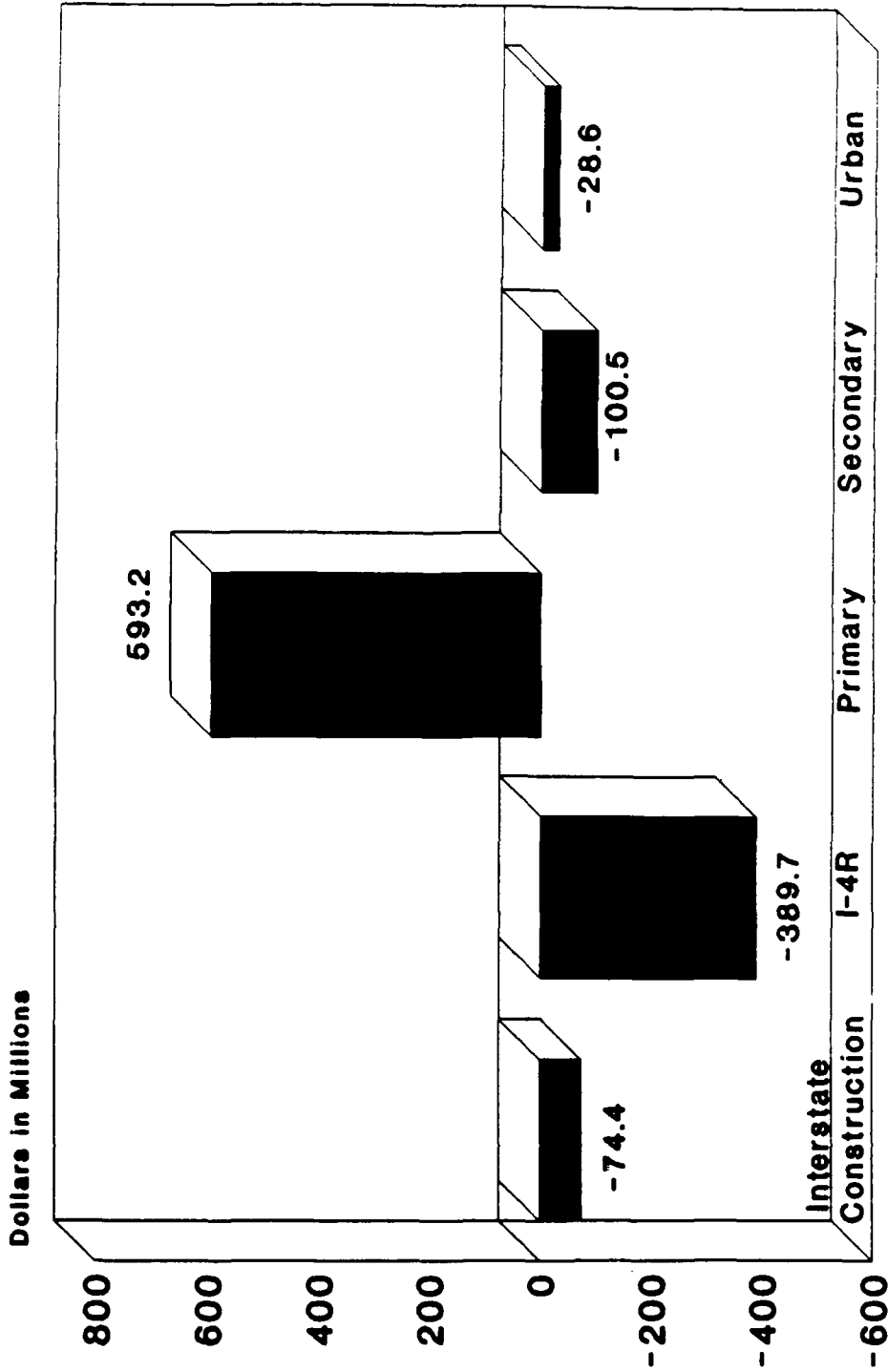
Total U.S. Federal-Aid and Non-Federal Aid System Mileage (1989)

U.S. Mileage



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

States' Transfer of Highway Funds (October 1, 1987 - September 30, 1990)*



*Excludes Rail-Highway Crossings & Hazard Elimination.
Source: U.S. DOT, Federal Highway Administration.

GAO Analysis of Bridge Investment Requirements By Highway System (FY 1992-1996)

<u>System</u>	<u>Required Investment</u> (In Billions)	<u>% of Total</u>
National	\$5.937	71.5%
Urban/Rural	\$2.260	27.2%
Local	<u>\$.101</u>	<u>1.2%</u>
Total	\$8.298*	100%

*Figure expressed in 1992 constant dollars using a 4 percent annual inflation rate over the 1992-1996 reauthorization period (excludes discretionary bridge funds).

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