



# **BASICS of HIGHWAY PROGRAM FINANCING**

**FHWA Office of Policy & Governmental Affairs**



# INTRODUCTION

# Objectives

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**At the end of this session, you will be able to describe:**

- ✓ **Scope and content of Federal-aid Highway Program**
- ✓ **Congressional actions**
- ✓ **Funding process**
- ✓ **Budgetary effects**
- ✓ **Correct terminology**

# The Four “A” Words

**Authorization  
Appropriation**

← **Types of Legislation**

**Apportionment  
Allocation**

← **Ways to Distribute Funds**

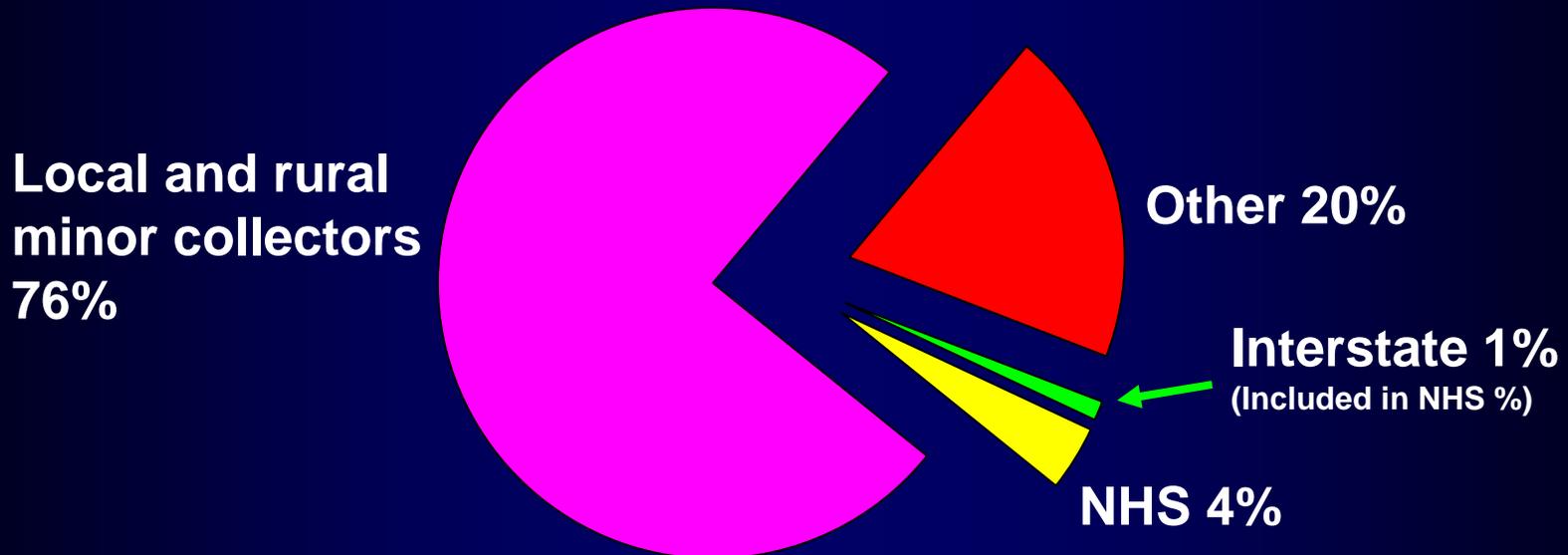
# Federal-aid Highway Program Characteristics

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- ✓ Federally assisted, State administered
- ✓ Funding tied to specific systems
- ✓ Requires States to have highway agency
- ✓ States pay for maintenance
- ✓ Matching requirements
- ✓ Contract authority

# Functional Classification

## Eligibility for Federal Financial Assistance



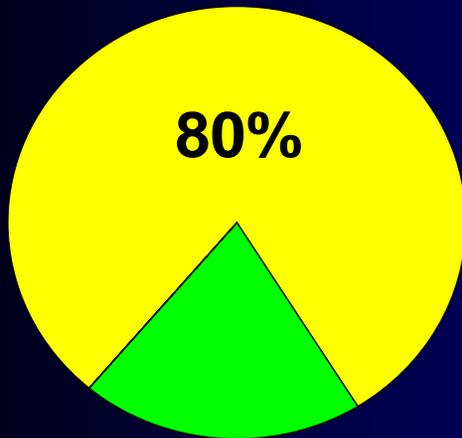
*Ineligible*

*Eligible*

4 million miles of public roads total

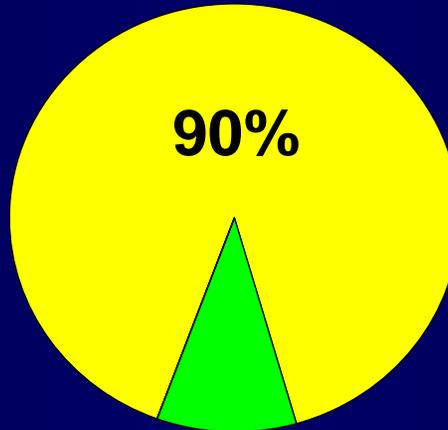
# Federal Share

NHS  
STP  
Bridge  
CMAQ



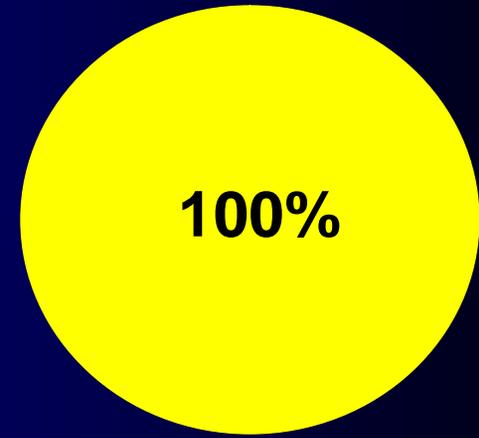
Matching Share

Interstate Maintenance



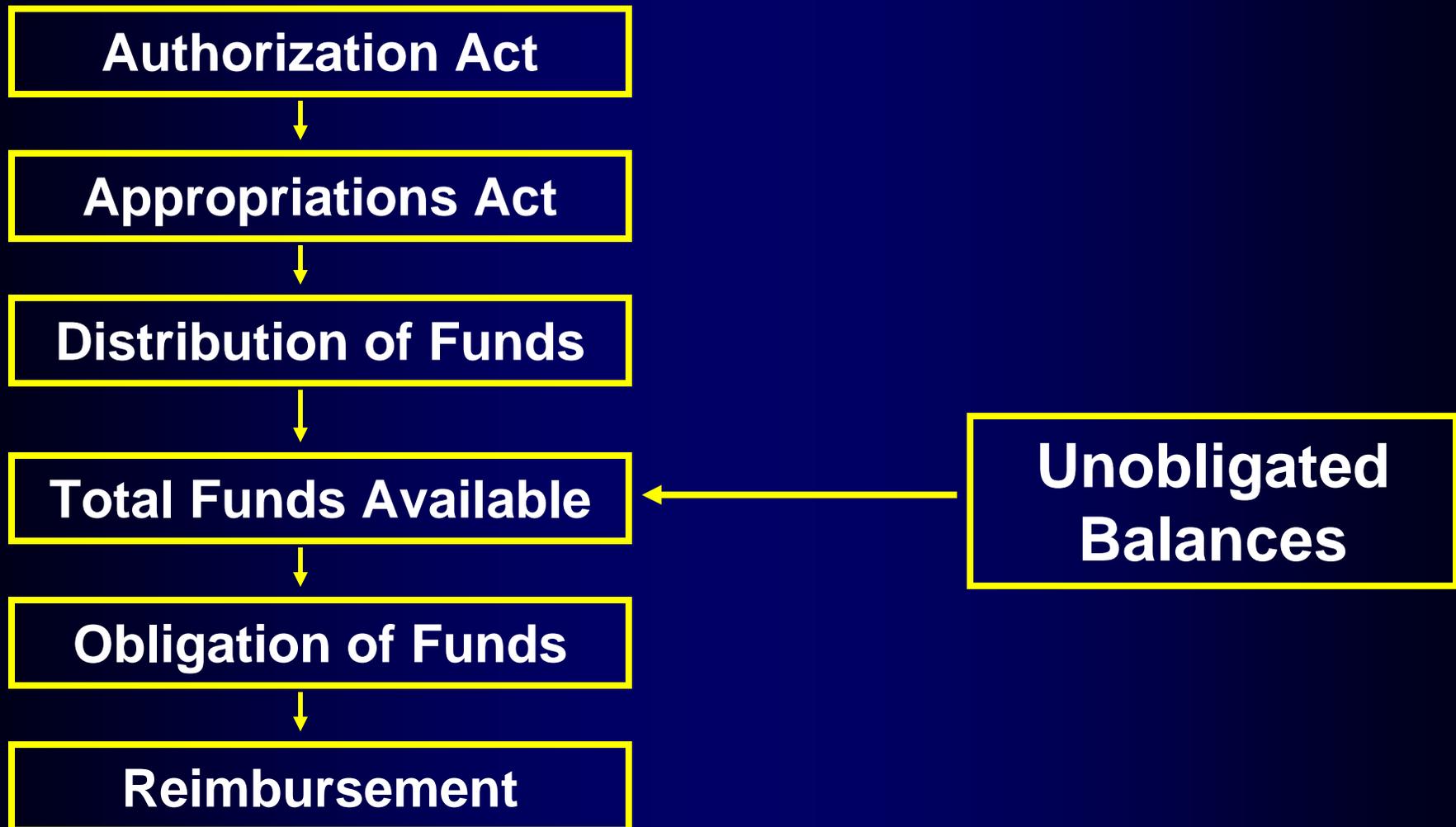
Matching Share

Federal Lands  
Emergency Relief



No Match

# Appropriated Budget Authority



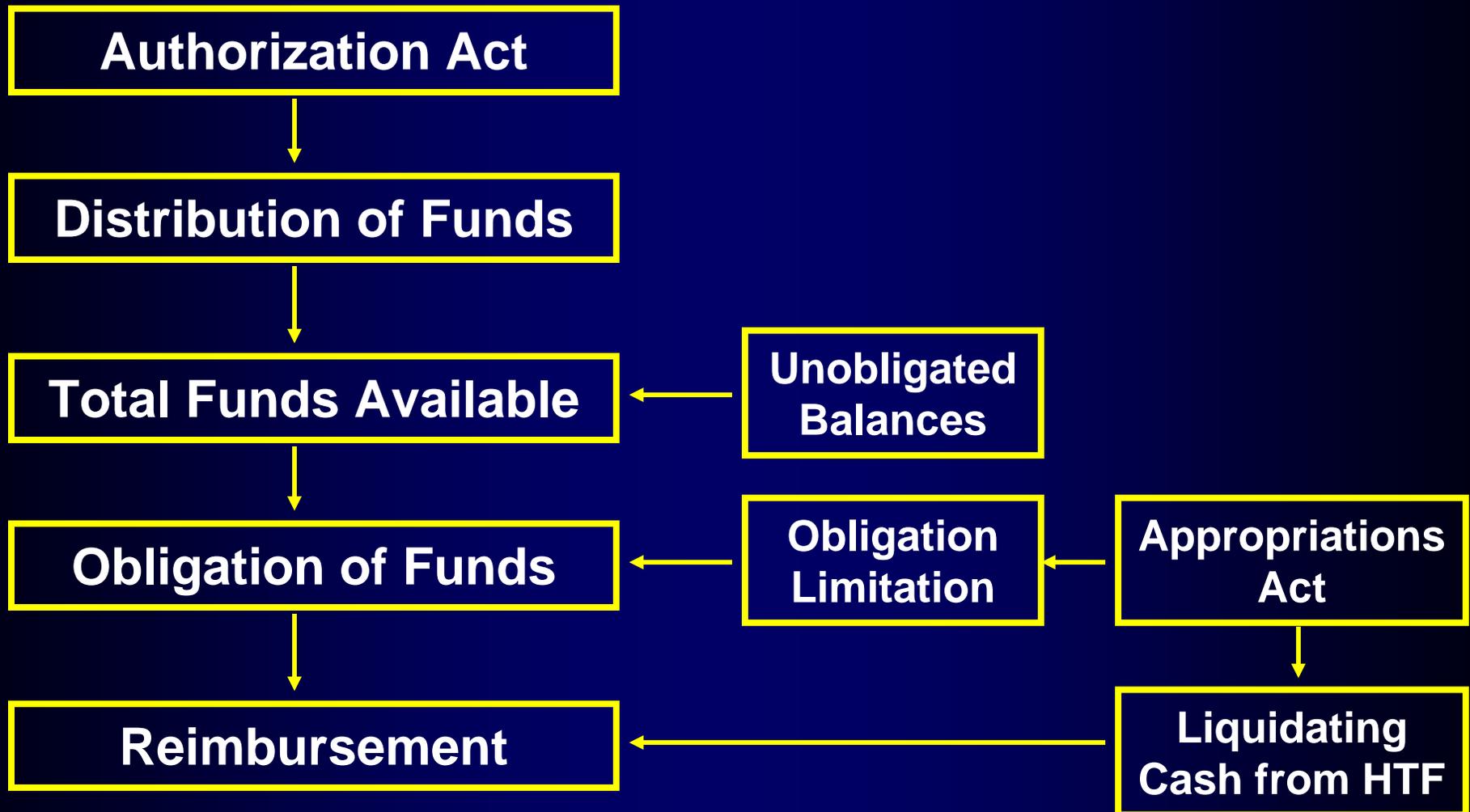
# Contract Authority (CA)

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- ✓ **A special type of budget authority that may be obligated without enactment of an appropriations act**
- ✓ **Since 1974, CA only possible for programs funded by trust funds**

# Contract Authority



# ABA vs CA

	<u>Appropriated Budget Authority</u>	<u>Contract Authority</u>
<b>Authorization</b>	<b>\$10 million</b>	<b>\$10 million</b>
<b>Appropriated</b>	<b>8</b>	<b>N/A</b>
<b>Distributed</b>	<b>8</b>	<b>10</b>
<b>Obligation Limitation</b>	<b>N/A</b>	<b>8</b>
<b>Obligation</b>	<b>8</b>	<b>8</b>
<b>Remaining Funds</b>	<b>0</b>	<b>2</b>

# **Federal, State and Local Relationship**

## **Federal Responsibilities**

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- ✓ **Review and approve State proposals**
- ✓ **Develop regulations and guidance**
- ✓ **Promulgate guidance**
- ✓ **Provide technical assistance**
- ✓ **Distribute line of credit**
- ✓ **Reimburse States their eligible expenses**

# **Federal, State and Local Relationship**

## **State and Local Responsibilities**

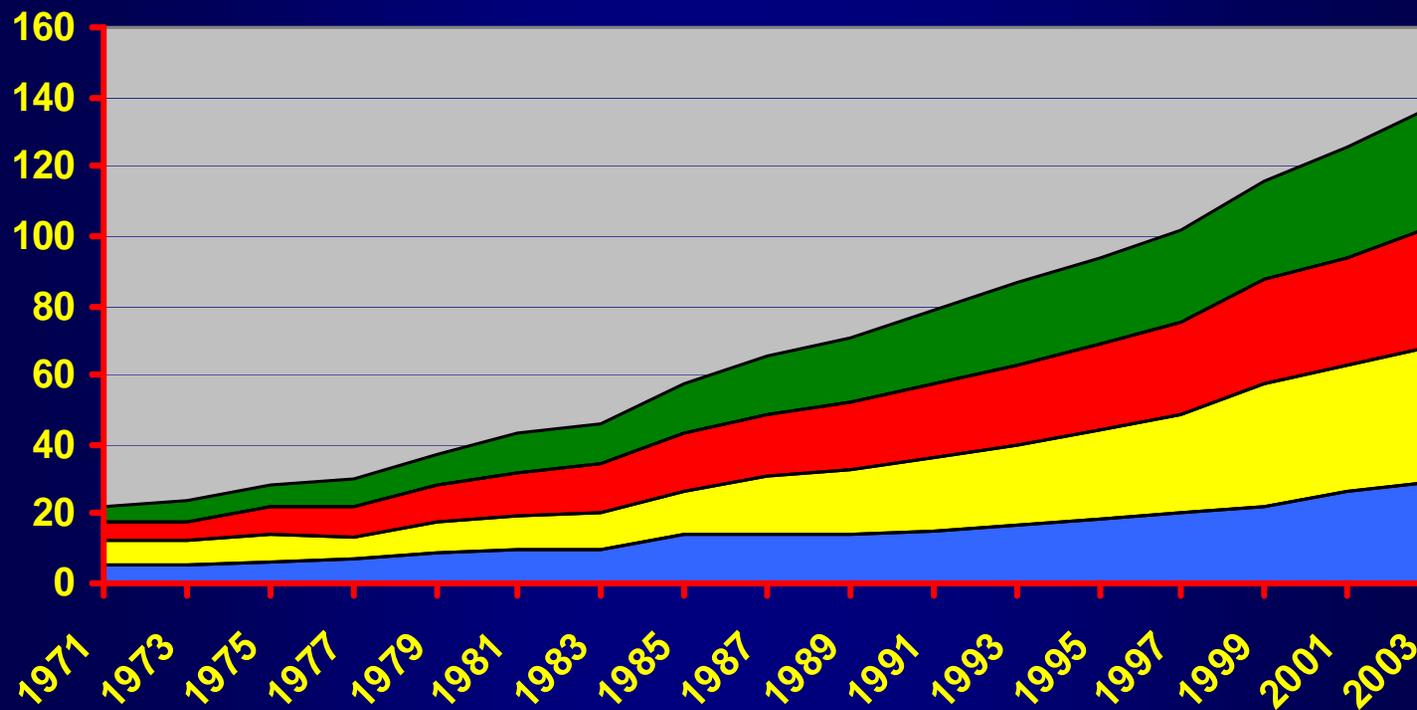
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- ✓ **Conceive, plan, design, initiate and construct projects**
- ✓ **Maintain and operate highways**

# Total U.S. Highway Spending

Federal, State and Local Governments



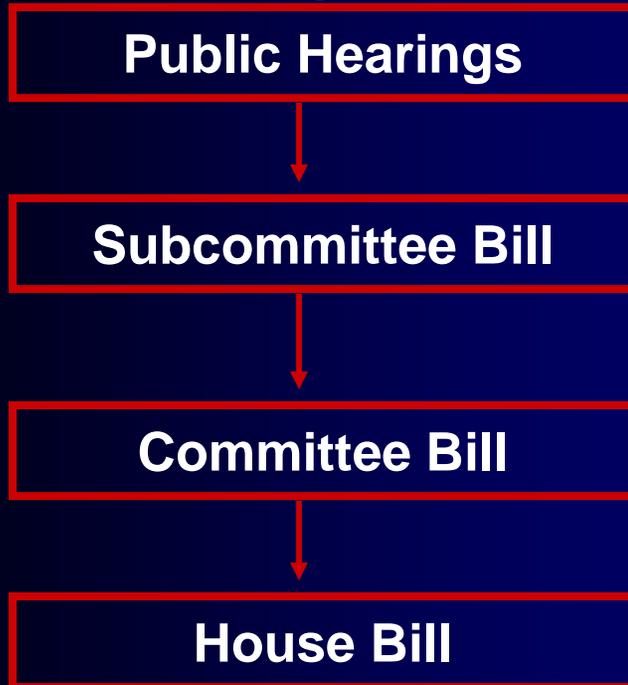
**Federal Capital is 43.8% of Total Capital**



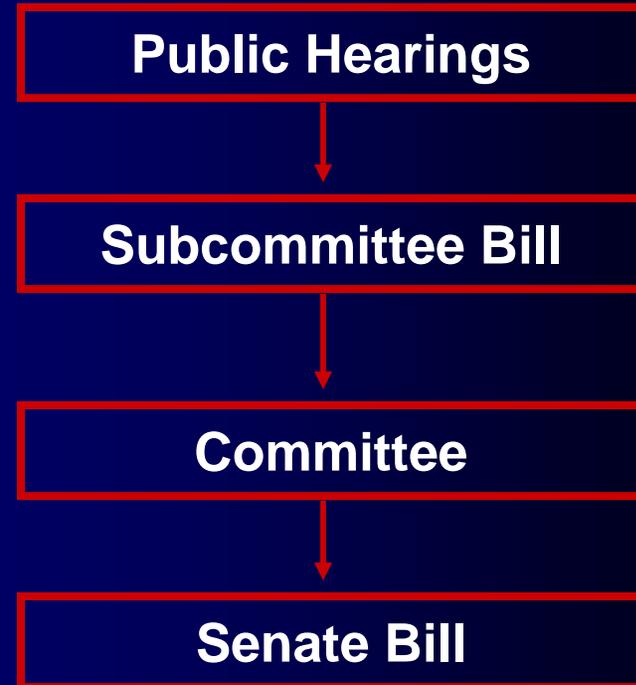
# **AUTHORIZATION ACT**

# Enactment of a Surface Transportation Act

## *House of Representatives*



## *Senate*

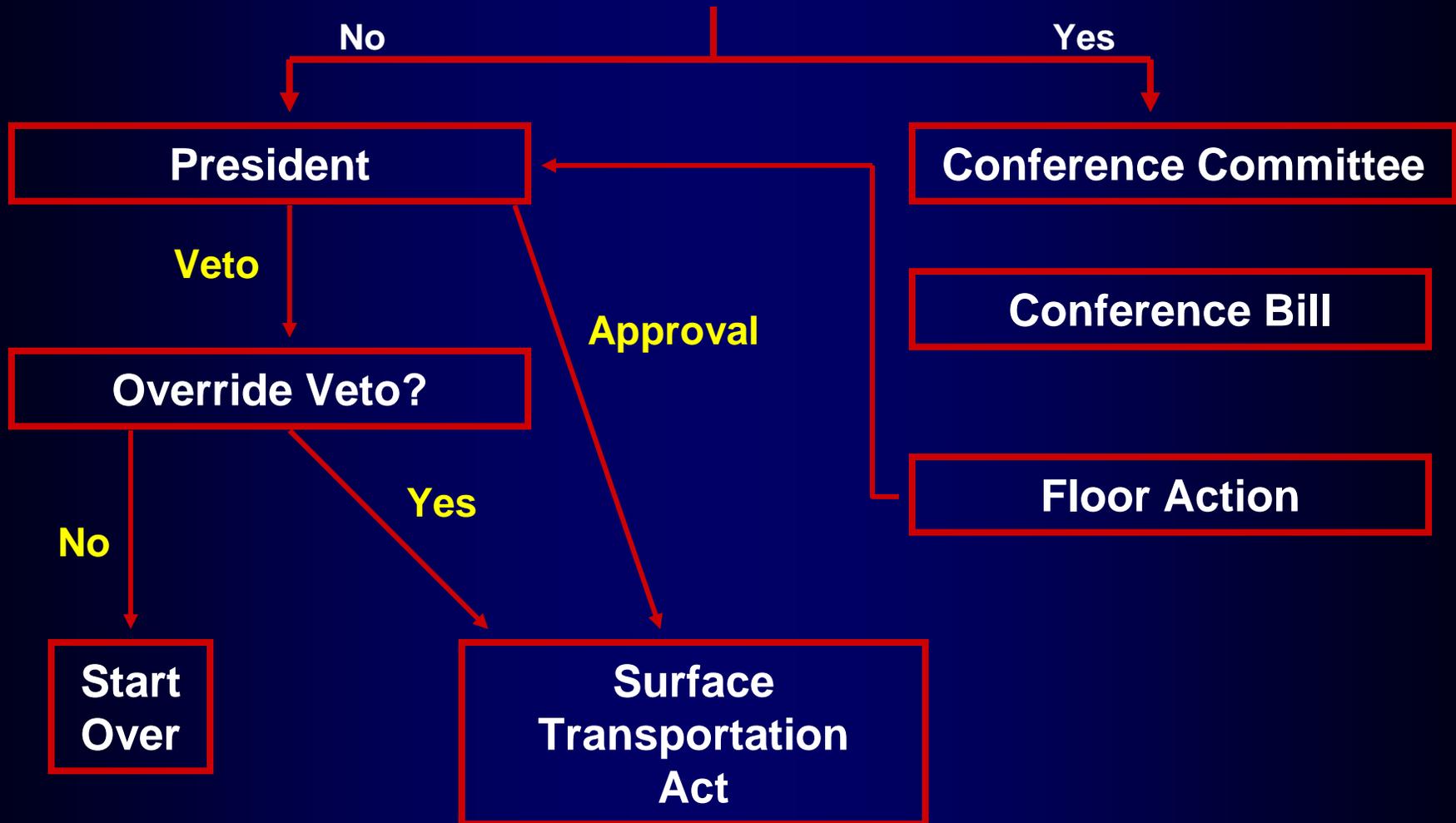


Any Differences?

No

Yes

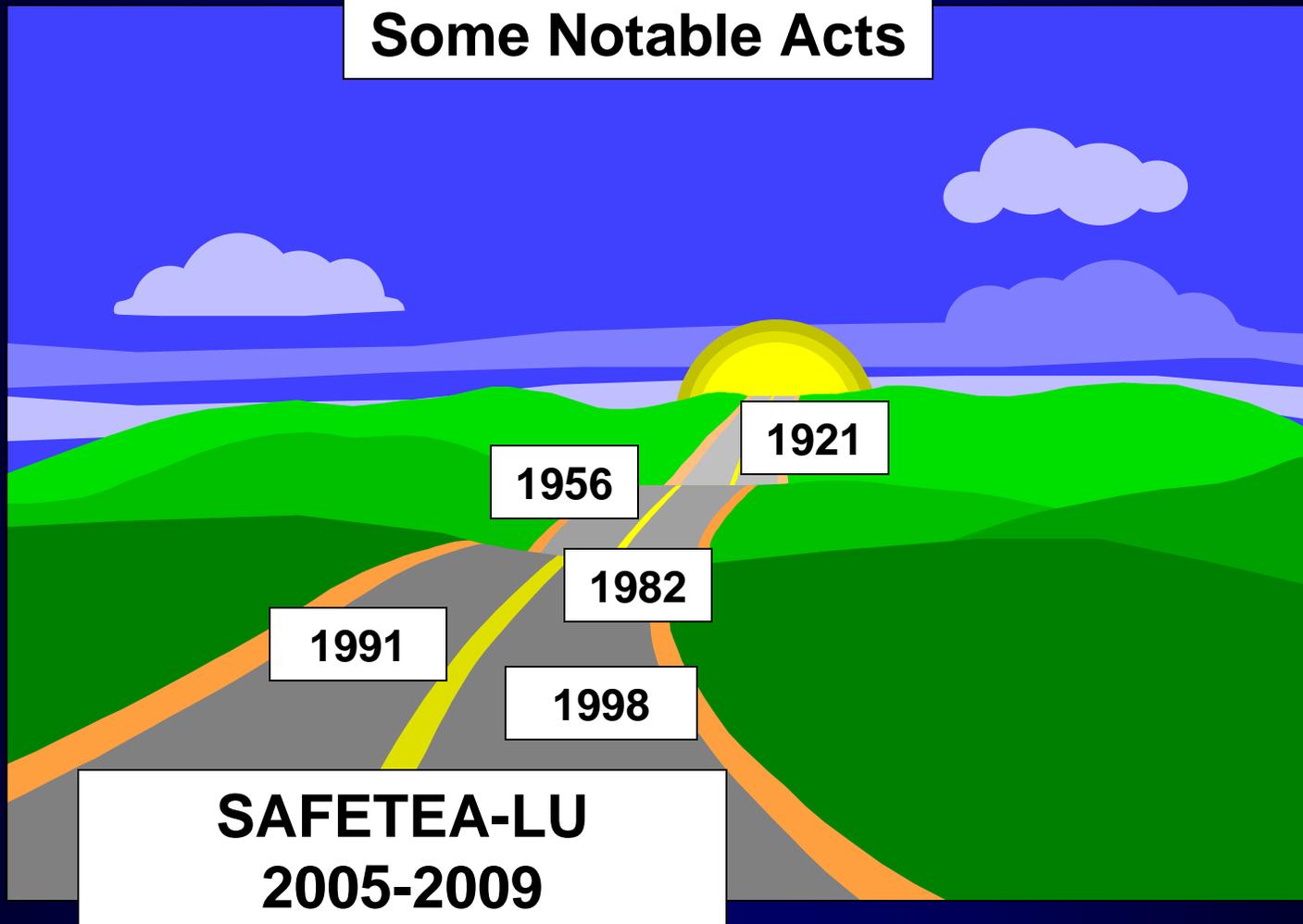
# Enactment of a Surface Transportation Act



# Authorization Acts

Congressional Continuations of Federal-aid Highway Program

## Some Notable Acts

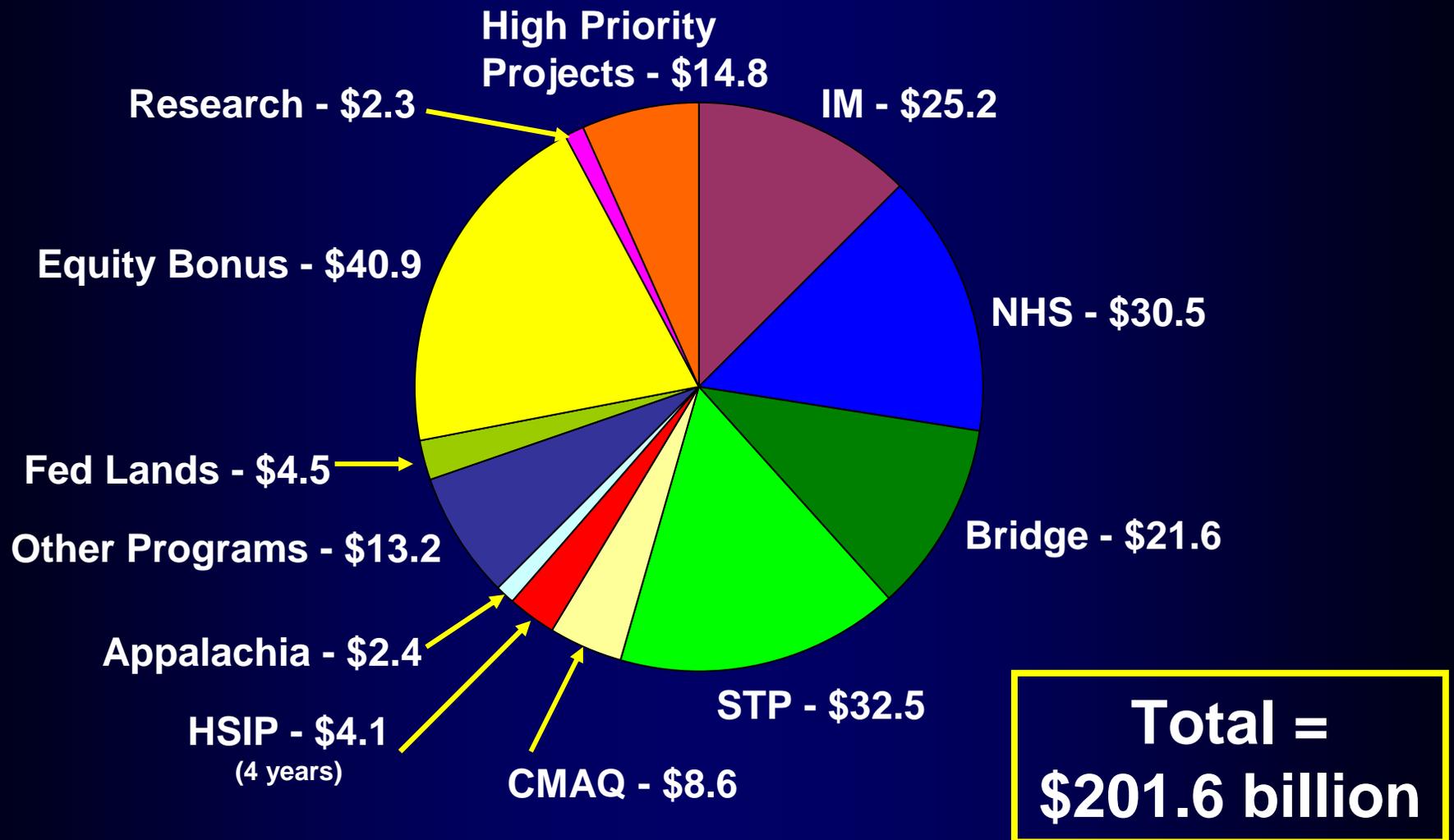


# **Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU)**

- ✓ **Highways, highway safety, transit**
- ✓ **5-year legislation – 2005-2009**
- ✓ **Signed into law August 10, 2005 (P.L. 109-59)**
- ✓ **\$252.6 billion authorized over 5 years**
  - **Highways - \$193.6 billion** (\$201.6 – \$8.5 B rescission + \$0.500 ER \$)
  - **Transit - \$45.2 billion**
  - **Highway & Motor Vehicle Safety - \$5.8 billion**

# Authorizations 2005 – 2009

(Before \$8.5B rescission)



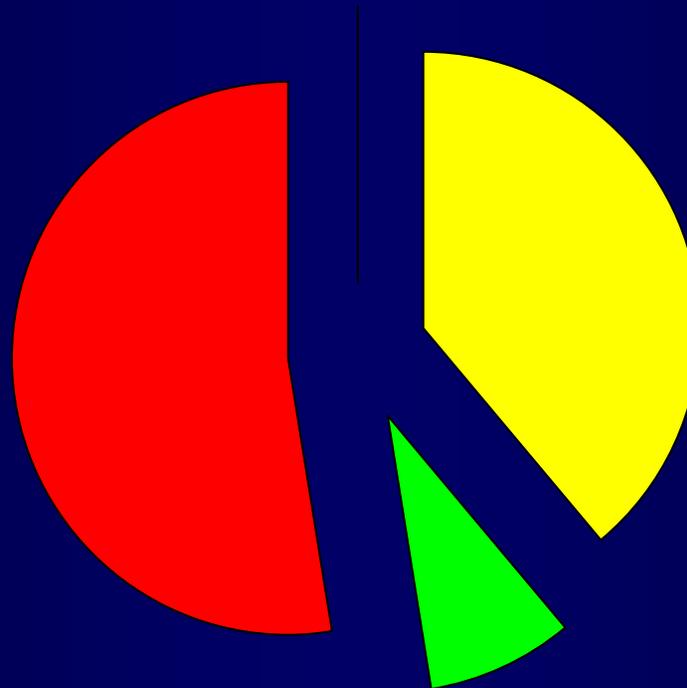
**APPROPRIATIONS ACT**  
**and**  
**GUARANTEED**  
**FUNDING**

# Federal Spending

## FY 2008 Outlays

**Mandatory  
(61%)**

- ✓ Social Security
- ✓ Medicare
- ✓ Entitlements
- ✓ Interest



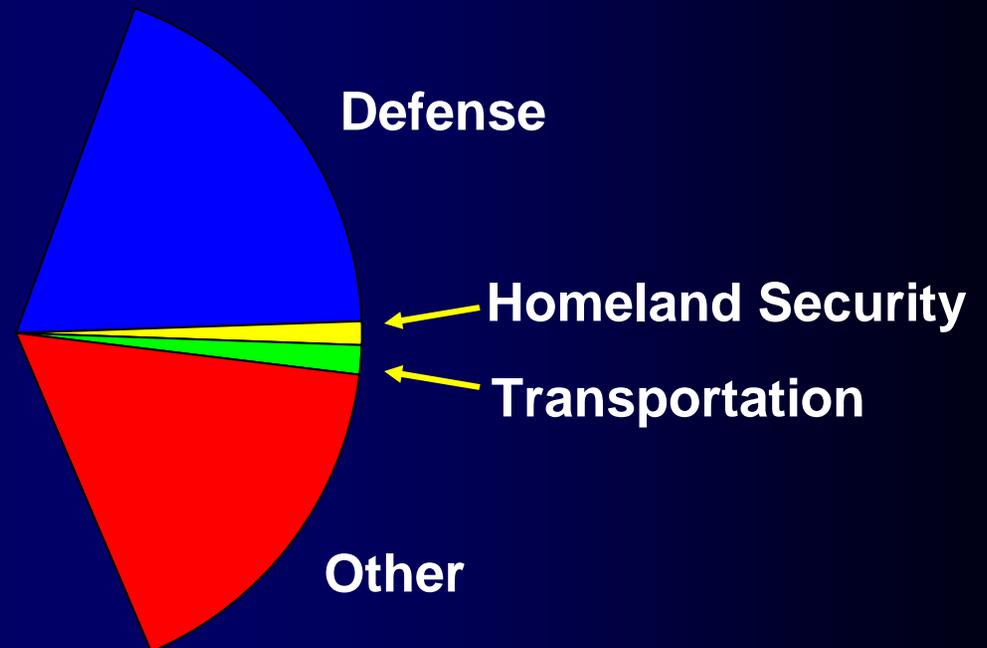
**Discretionary  
(39%)**

- ✓ Defense
- ✓ Highways
- ✓ Education
- ✓ Agriculture
- ✓ Etc.

**\$2.90 Trillion**

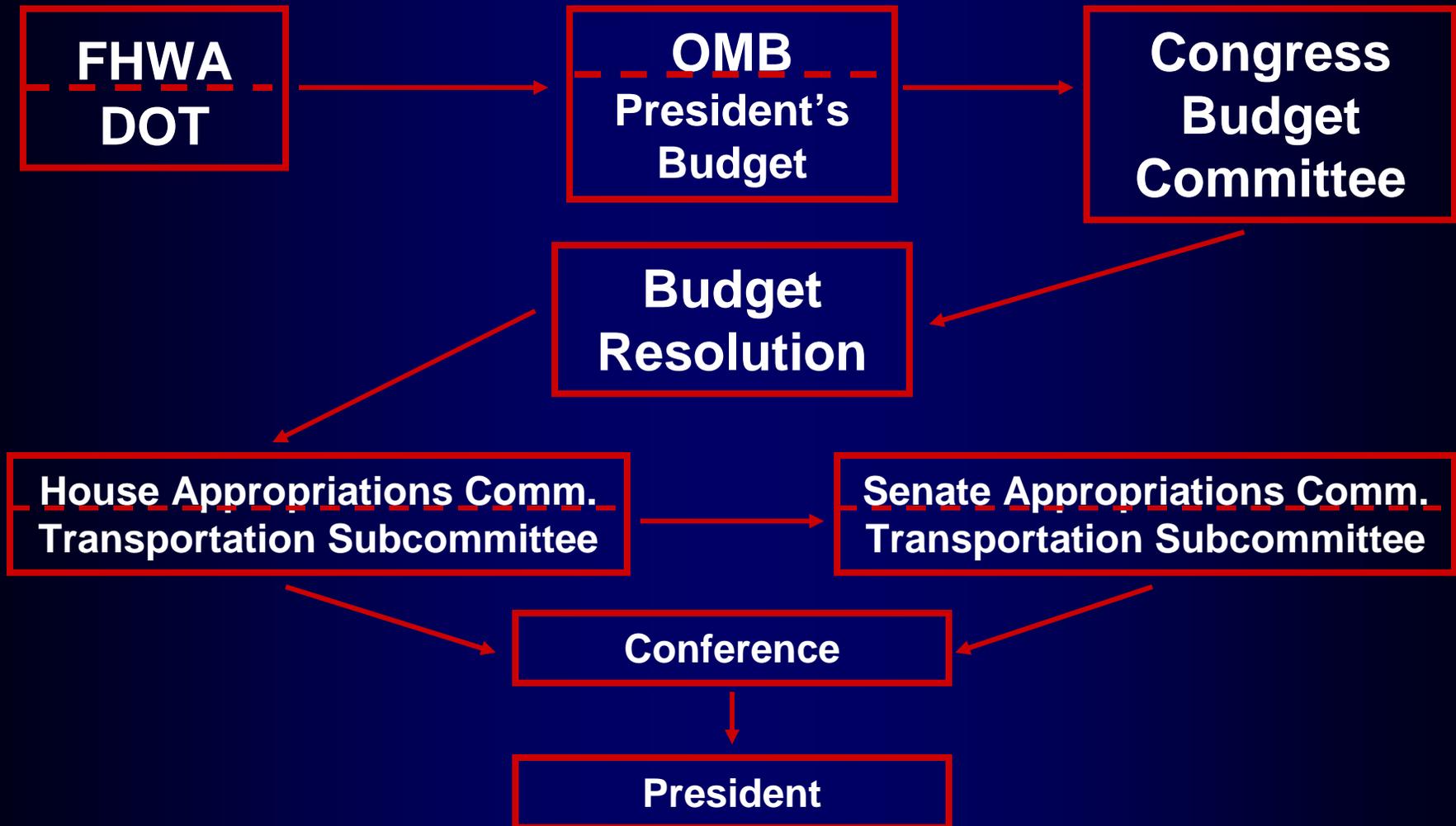
# Federal Spending

## Discretionary – FY 2008



**Total**  
**\$1.11 Trillion**

# Federal Budget Process



# Contents of FHWA Budget

- ✓ **Obligation Limitation**
- ✓ **General Operating Expense Obligation Limitation**
- ✓ **Liquidating Cash Amount**
- ✓ **Budget Authority (permission to obligate)**
- ✓ **Revenue Aligned Budget Authority (RABA) amount**

# **FY 2008 Appropriations**

## **What is in it?**

- ✓ **Limitation on Obligations - \$40,216,051,359**
- ✓ **Additional \$1B Obligation Limitation for Bridge Program**
- ✓ **Limitation on Administrative Expenses - \$377,556,000**
- ✓ **Liquidating Cash - \$41,955,051,359**
- ✓ **Additional authorization of \$195M for the I-35W Bridge Repair and Reconstruction**
- ✓ **Additional authorization of \$15,680,000 for West Virginia Corridor H of the ADHS**
- ✓ **Additional authorization of \$14,014,000 for the Delta Regional Transportation Development Program**
- ✓ **Earmarks**

# FY 2008 Appropriations

## What is in it?

### ✓ Rescissions of Unobligated Balances

- \$3,150,000,000 of contract authority from apportionments
- \$1,292,287.73 of ISTEA demo projects
- \$5,987,345.70 of TEA-21 High Priority Projects
- \$256,806,000 of TIFIA funds
- \$43,358,601 of FHWA administrative funds
- \$239,801,603 of FY 2005 and prior years' surface transportation research funds
- \$11,314 of Highway Related Safety Grants
- \$4,753,687.26 of old earmarks from various acts

# FY 2008 Appropriations

## What is in it?

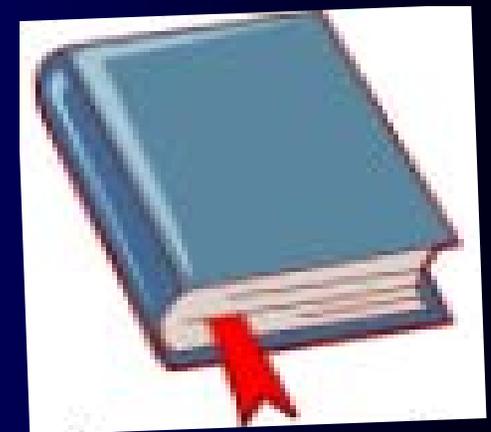
### ✓ Rescissions cont'd

- Contract authority remaining from FY 2008 RABA after providing funding for “Surface Transportation Priorities” (\$370,487,712)
- FY 2008 authorized amounts for Truck Parking Facilities (\$6), Highways for LIFE (\$20), and Innovative Bridge Research and Deployment (\$13.1)
- Contract authority remaining from FY 2008 authorizations for IM Discretionary (\$20.4), Ferry Boats (\$13.6), Public Lands Discretionary (\$21.3), TCSP(\$7.8), and Rail Xing Haz Elim (\$5.8) programs after providing funding for *eligible* designated projects

(\$ in Millions)

# Firewalls

- ✓ TEA-21 created a firewall between Highway, Transit, and other domestic discretionary spending
- ✓ SAFETEA-LU continues the firewall – beginning in 2007, the highway firewall will be adjusted according to newer projections of and actual receipts to the HTF



# Guaranteed Funding

## Highways & Other

- ✓ Keyed to receipts to Highway Account of Highway Trust Fund
- ✓ Adjusted up or down whenever firewall amount is adjusted to reflect changed estimates of Highway Account receipts

# Revenue Aligned Budget Authority (RABA)

- ✓ **Beginning in 2007 – serves to align budget authority with revised revenue**
- ✓ **Adjustments will be made in same years and same amounts as adjustments to firewall**
- ✓ **If the adjustment is an increase:**
  - a portion is reserved for allocated highway and highway safety construction programs & MCSAP
  - remainder is distributed proportionately to the States
- ✓ **If the adjustment is a reduction:**
  - will happen only if, as of Oct 1, the balance of the Highway Account is less than \$6 billion
  - will be applied proportionately to all Highway Account authorizations (except ER)
- ✓ **Special rule in effect for 2007**

# Guaranteed Highway Funding

## FY 2008





# **HIGHWAY TRUST FUND**

# Highway Trust Fund

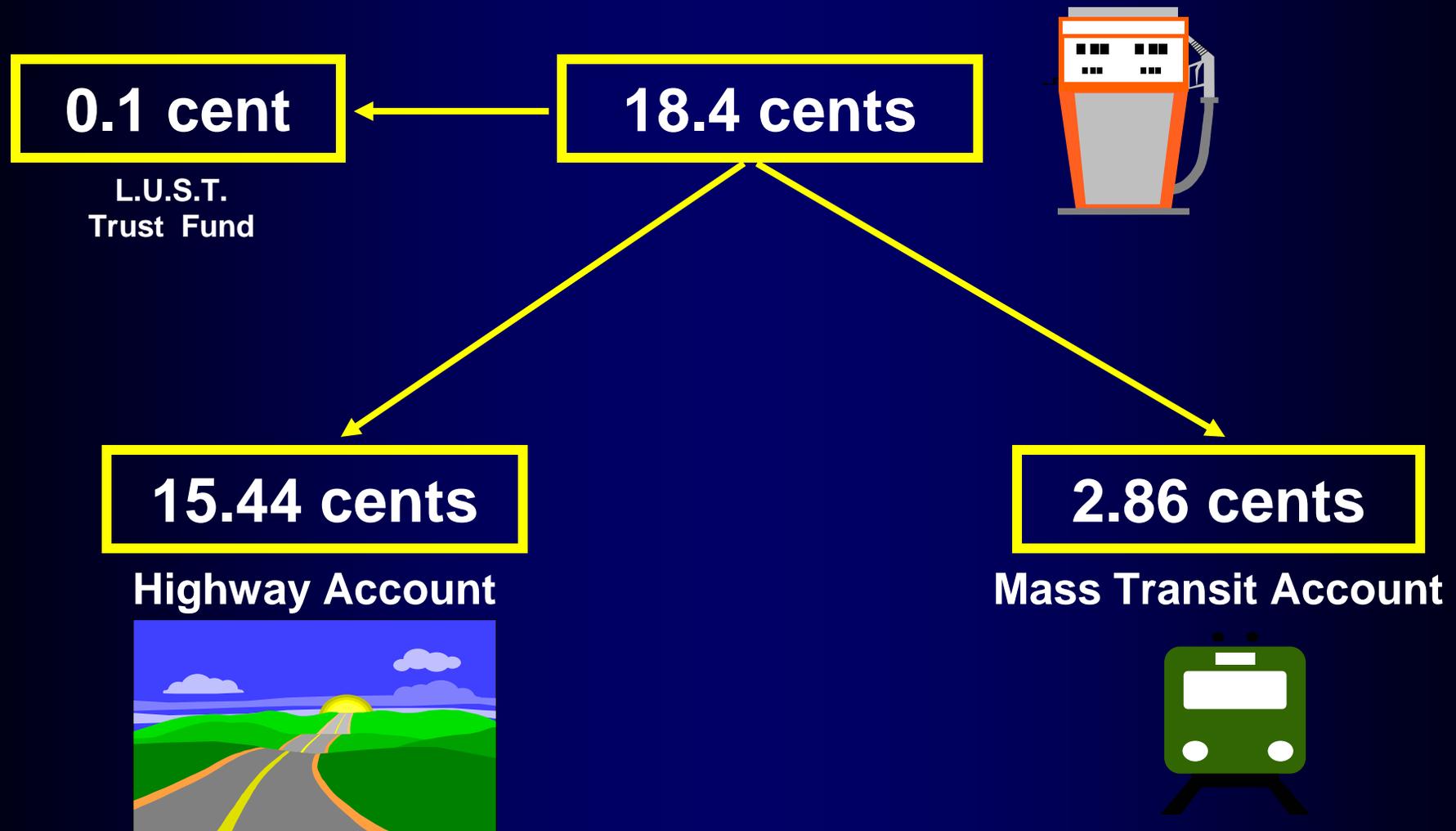
## *Federal-aid Highway Act of 1956*

- ✓ Provided authorizations for FY 1957 – 1969
- ✓ Established Trust Fund to collect revenues to pay for authorizations, FY 1957 – 1972

## *SAFETEA-LU*

- ✓ Extended authorizations for FY 2005 – 2009
- ✓ Extended Trust Fund through FY 2011

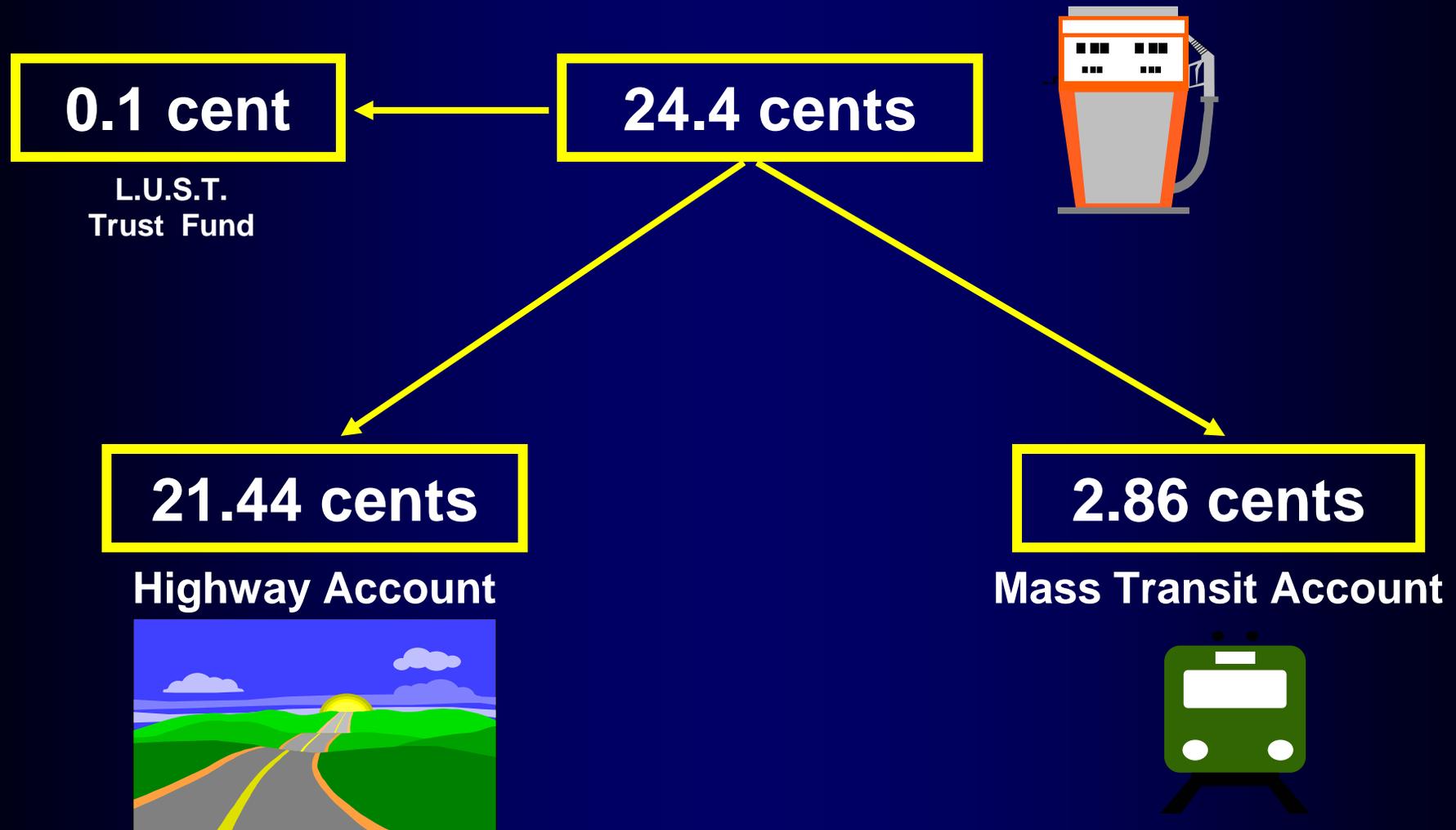
# Federal Gasoline Tax



Effective October 1, 1997

In cents per gallon

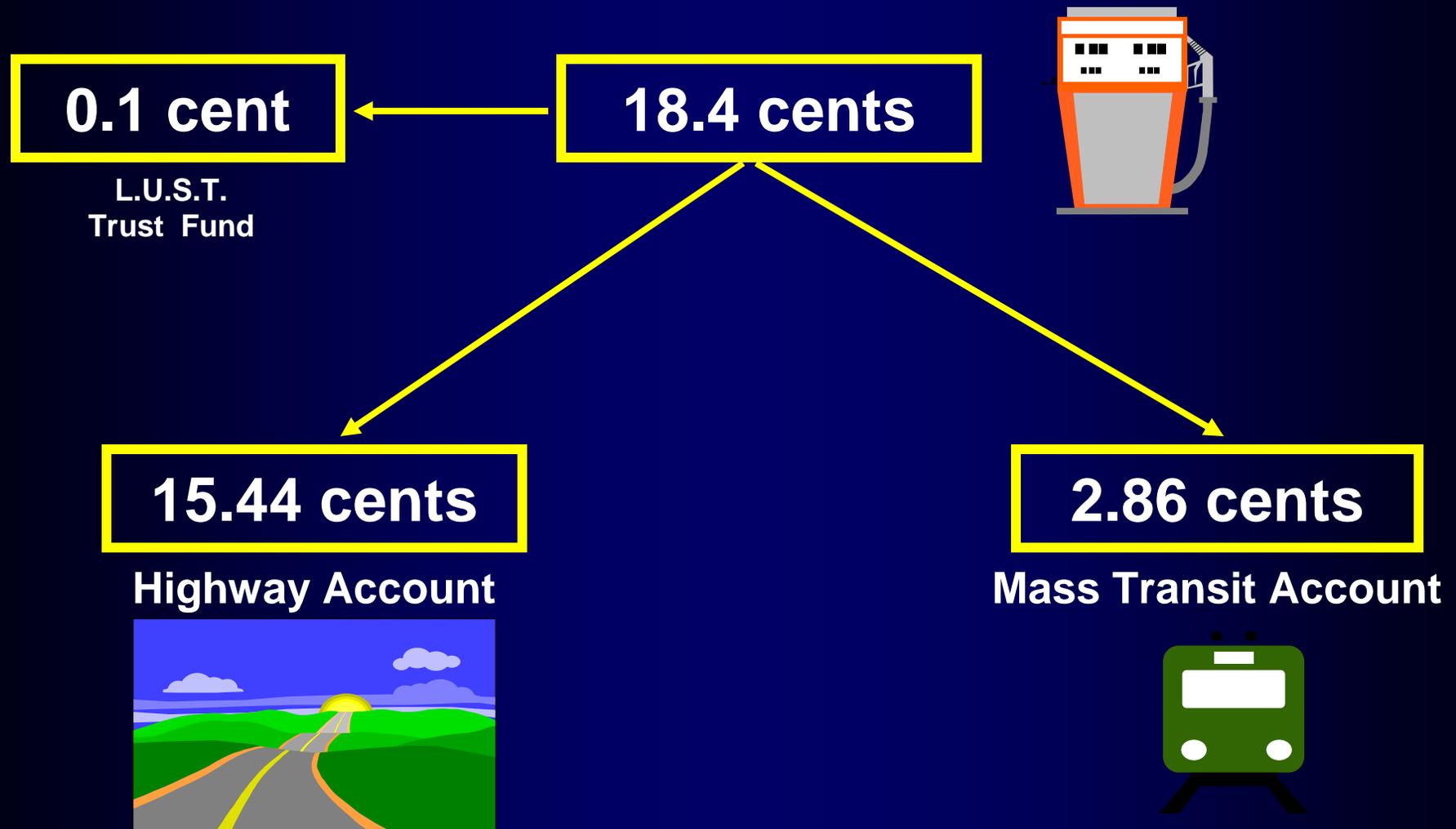
# Federal Diesel Tax



Effective October 1, 1997

In cents per gallon

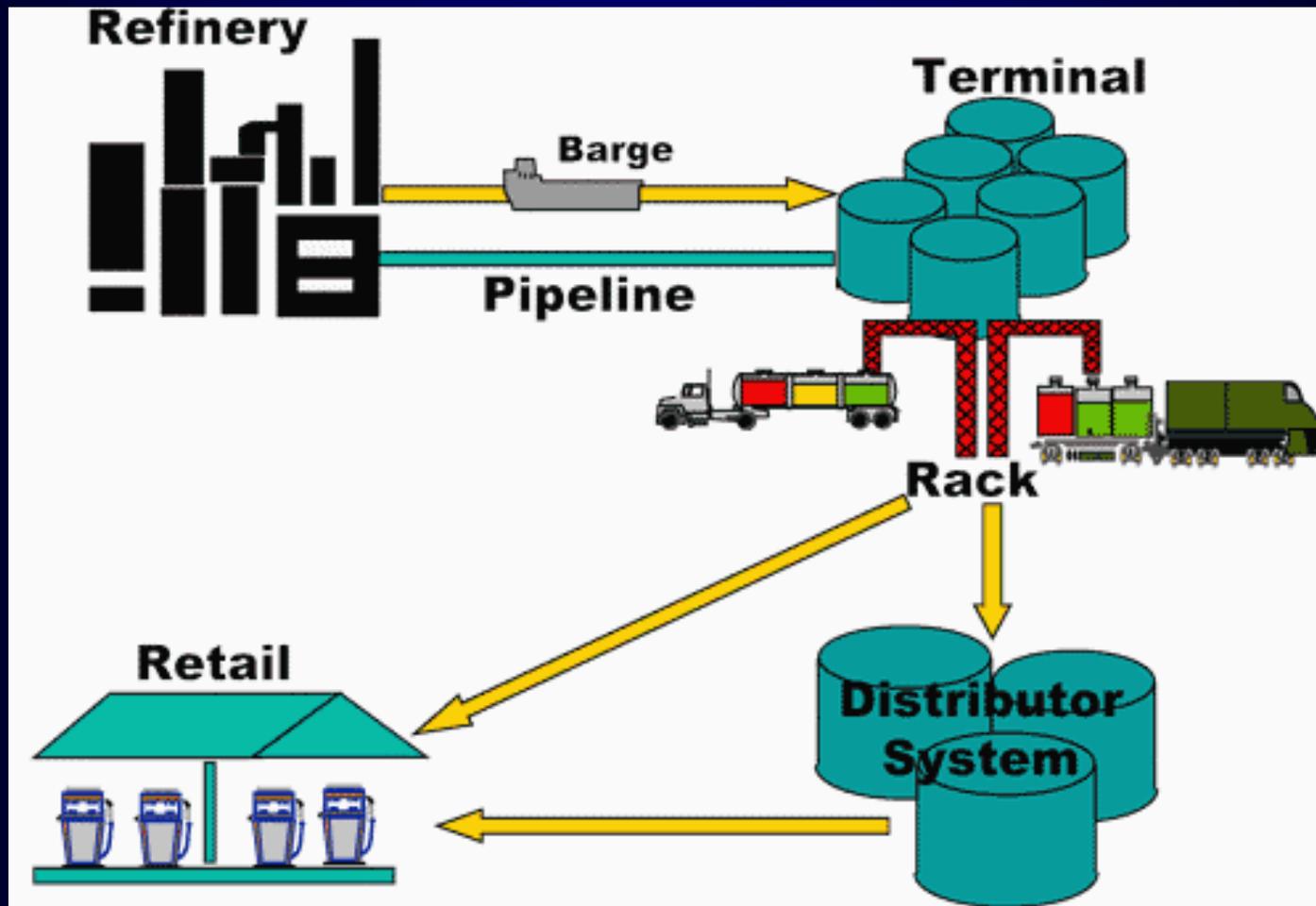
# Federal Tax on 10% Gasohol



Effective January 1, 2005

In cents per gallon

# Fuel Distribution System



# Federal Truck User Taxes

**Truck Sales:** 12% of retail price for trucks over 33,000 lbs. or trailers over 26,000 lbs. GVW

**Truck Use:**

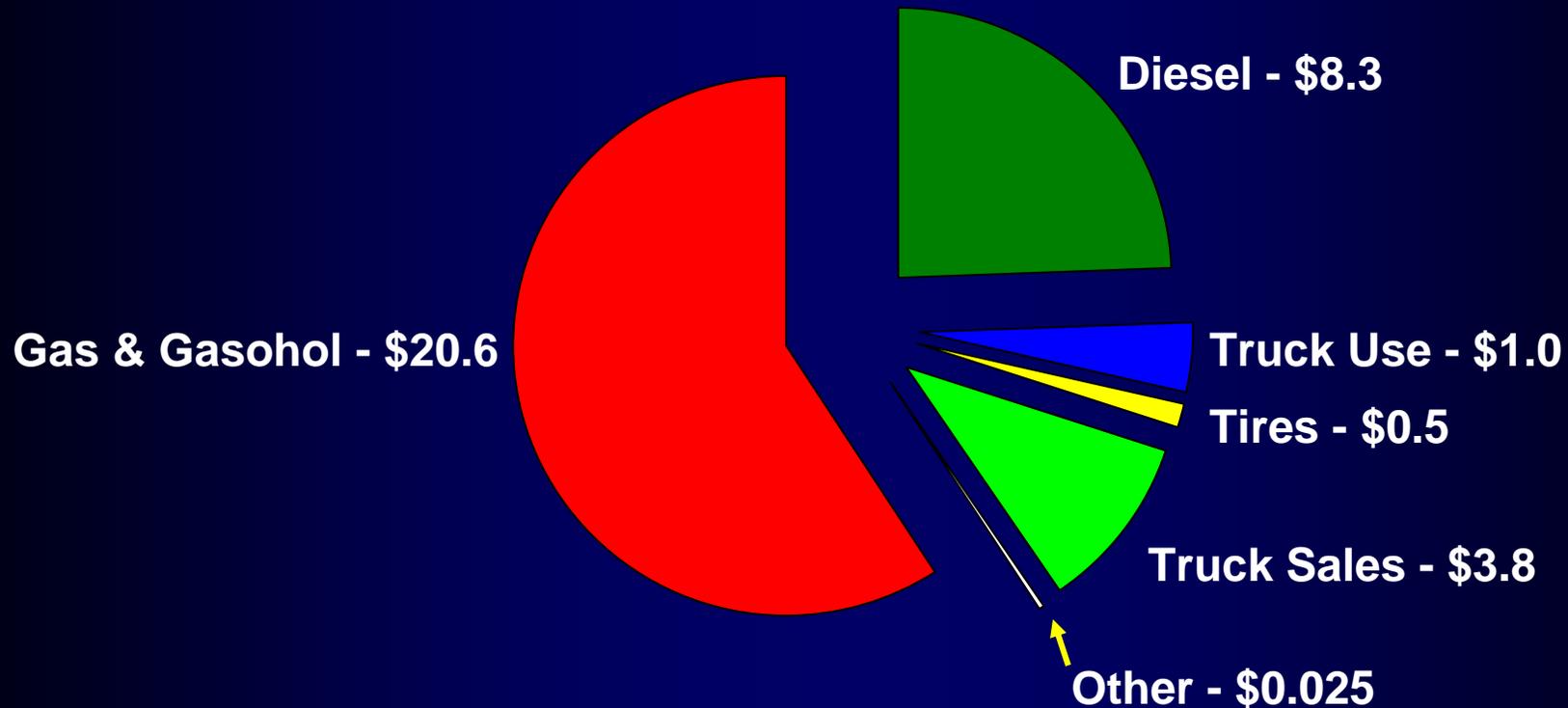
Up to 55,000 lbs.	No tax
Over 55,000 lbs.	\$100 + \$22/1000lbs. \$550 maximum

**Tires:** 9.45 cents for each 10 lbs. exceeding 3500 lbs. maximum rated load capacity (4.725 cents for bias-ply or super single tire)

Effective January 1, 2005

# Highway Trust Fund

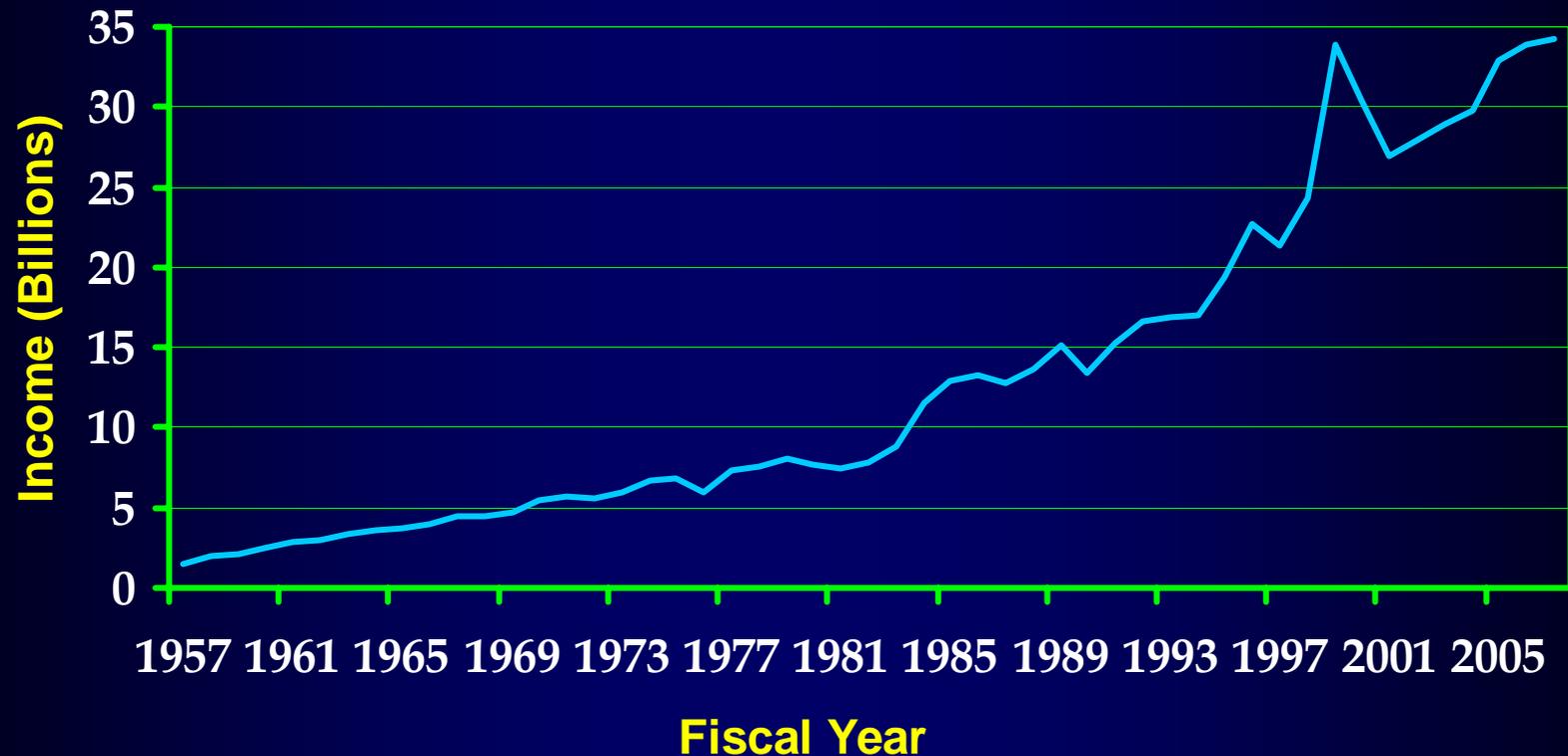
Net Highway Account Income – FY 2007



**Total = \$34.3 Billion**

# Highway Trust Fund Income

## Highway Account 1957 – 2007



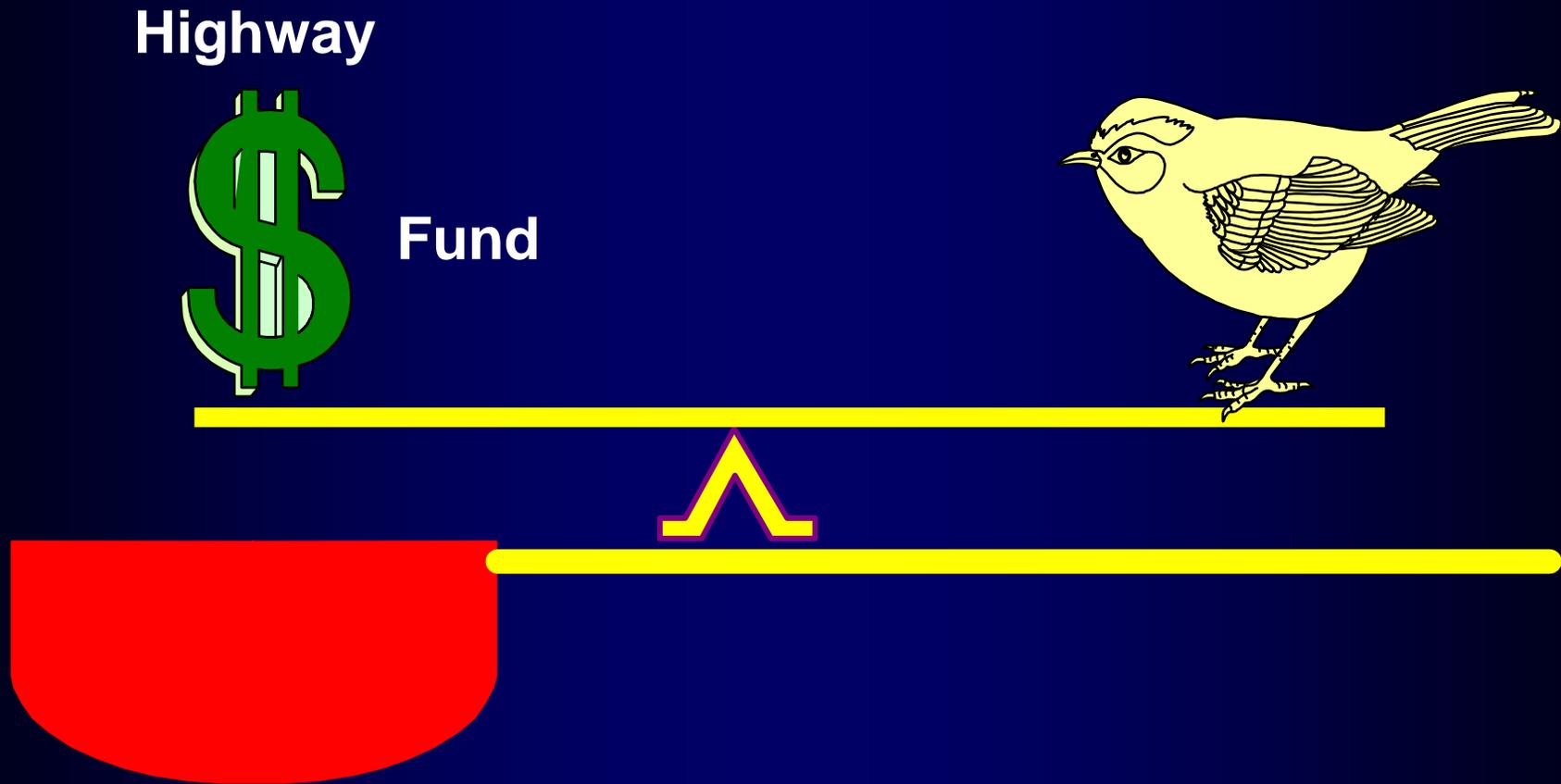
# Highway Trust Fund Balance

Highway Account – End of FY 1957 – 2007



# Byrd Amendment

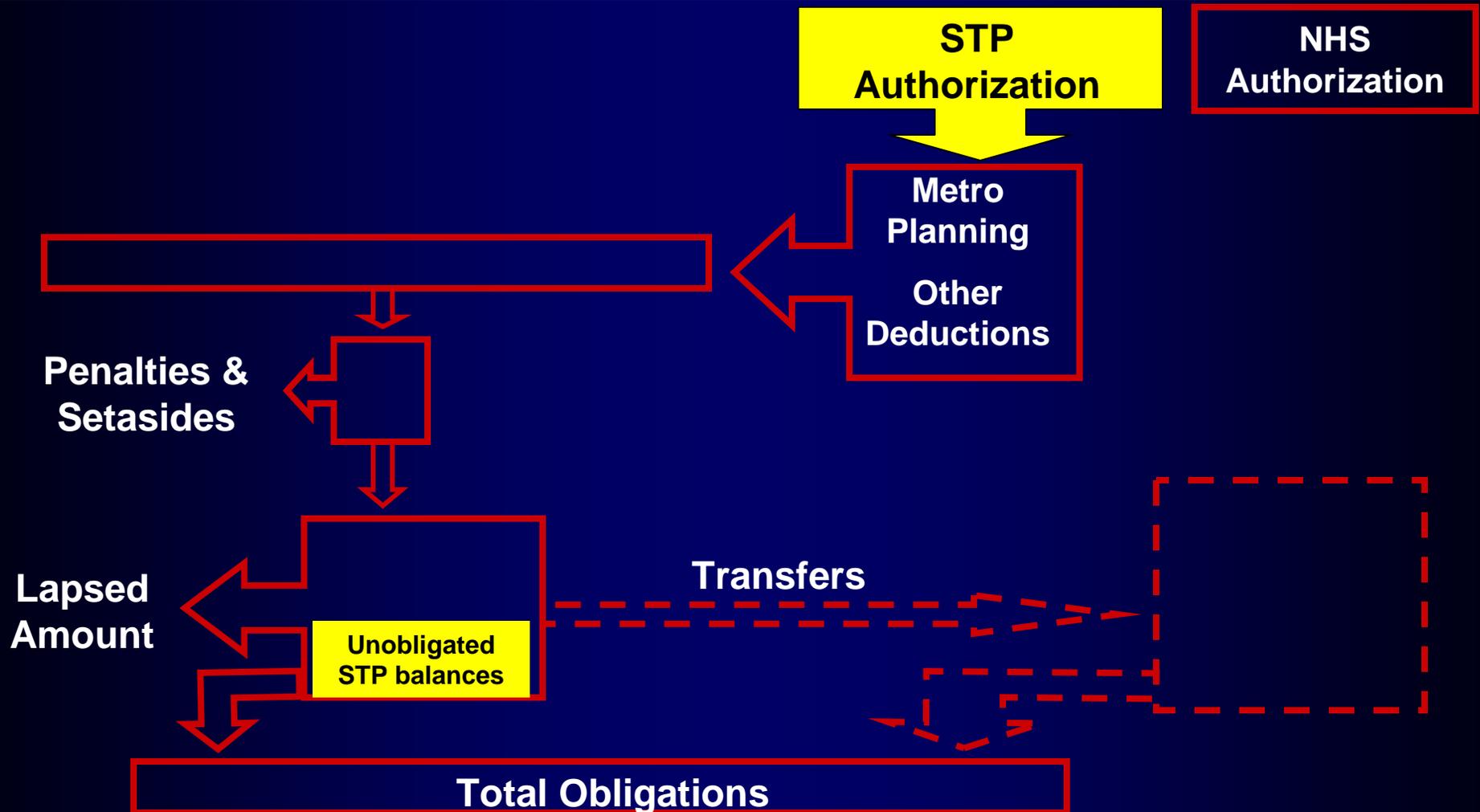
Keeps the Highway Account Out of the Red





# Fiscal Procedures

# Funding Distribution Process



# Distribution of Funds

## Apportionments

(STP, NHS, IM, CMAQ, etc.)

- ✓ Distributed by formula specified in law
- ✓ Distributed on October 1
- ✓ Withdrawn only by law
- ✓ All eligible States are recipients

## Allocations

(IM Discretionary, Ferry Boats, etc.)

- ✓ No method specified in law
- ✓ Distributed throughout year
- ✓ Discretionary grants may be withdrawn by administrative action
- ✓ Only some States are recipients

# Apportioned Programs

- ✓ Interstate Maintenance
- ✓ National Highway System
- ✓ Bridge
- ✓ Surface Transportation
- ✓ Congestion Mitigation & Air Quality Improvement
- ✓ Highway Safety Improvement
- ✓ Recreational Trails
- ✓ Appalachian Development Highway
- ✓ Metropolitan Planning
- ✓ Railroad Grade Crossing
- ✓ Coordinated Border Infrastructure
- ✓ Safe Routes to School
- ✓ Equity Bonus



# **EQUITY BONUS**

**The Final Apportionment**

# Equity Bonus

## Guaranteed Return on Contributions

### COMMON MISCONCEPTION

For FY 08 – State's apportionments and high priority projects will be not less than 92% of the State's contributions to the Highway Account of the Highway Trust Fund

State apportionments  $\geq$  92% State contributions

# Equity Bonus

## Guaranteed Return on Contributions

### THE REAL STORY

For FY 08 – State's *share* of apportionments and high priority projects will be not less than 92% of the State's *share* of its contributions to the Highway Account of the Highway Trust Fund

State apportionments	>		State contributions
U.S. apportionments	=	92%	U.S. contributions

*However.....*

# Equity Bonus

## Criteria for Identifying Special Rule States

States with *certain characteristics* will receive a share of apportionments and High Priority Projects that is the greater of the relative rate of return just described or their average annual share of total apportionments and HPPs under TEA-21. Applies to States with:

- ✓ a population density of < 40 persons/square mile and at least 1.25% of the total acreage is under Federal jurisdiction; or
- ✓ a total population less than 1 million; or
- ✓ a median household income of less than \$35,000; or
- ✓ a 2002 Interstate fatality rate greater than 1 per 100M VMT; or
- ✓ a State with an indexed State motor fuel tax rate higher than 150% of the Federal motor fuel tax rate on the date of enactment of SAFETEA-LU

# Equity Bonus

## Establishing the Dollar Floors

In any given year, no State is to receive less than a specified percentage of its average annual apportionments and HPPs under TEA-21. These percentage floors are:

- ✓ 2005 – 117%
- ✓ 2006 – 118%
- ✓ 2007 – 119%
- ✓ **2008 – 120%**
- ✓ 2009 – 121%

# Equity Bonus

## Distribution to the States

**Total Amount Distributed to State**

**Equity Bonus**  
(First \$2.639 B)

**Core Programs**  
(After first \$2.639 B)

**State's Portion of \$639 M**

**Remainder Distributed to  
the Six Core Programs**

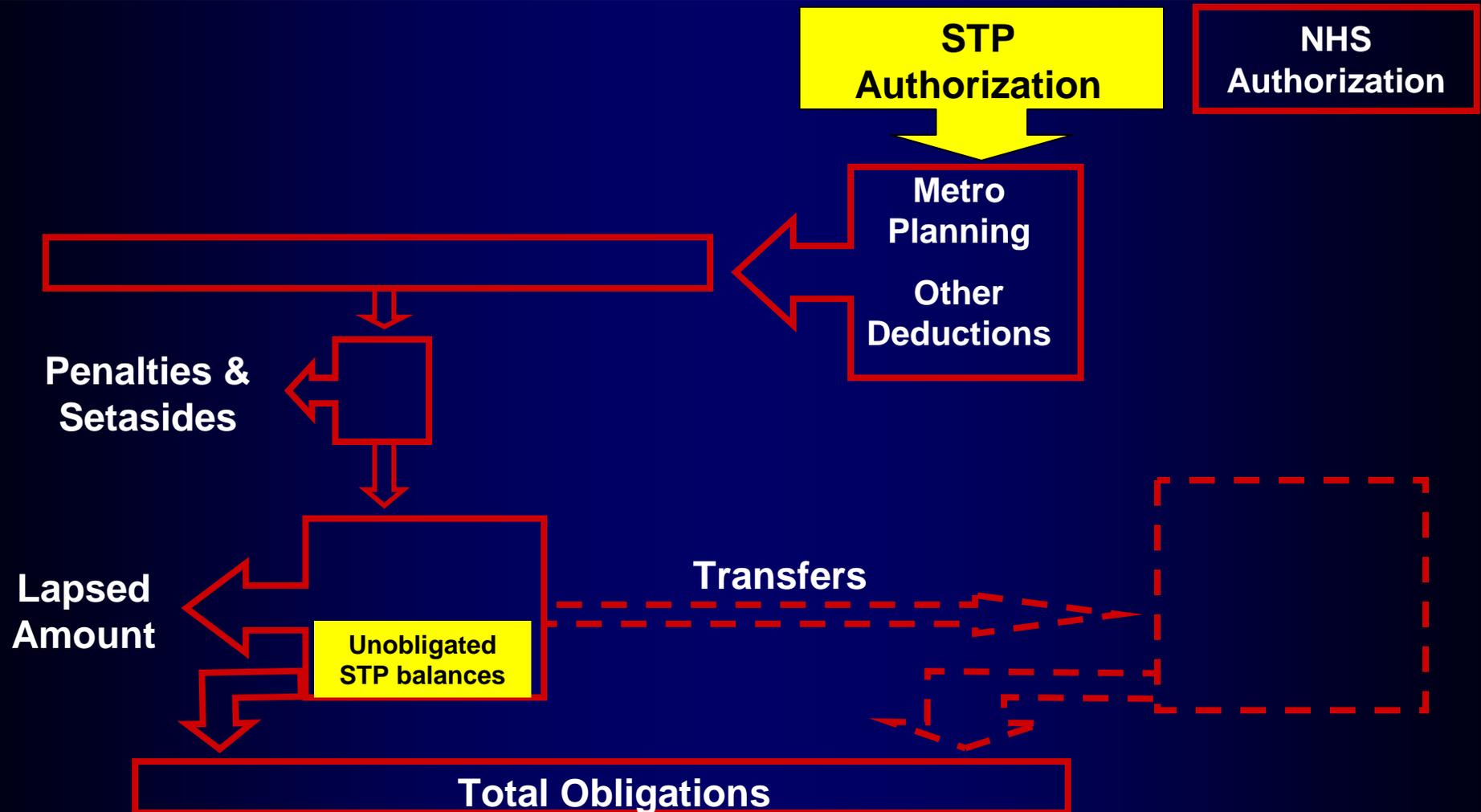
**+**

**State's Portion of \$2 B**

IM	STP
NHS	Bridge
CMAQ	HSIP

**2% SPR**

# Funding Distribution Process



# Mandatory Deductions – FY 2008

## (Takedowns)

<u>Category</u>	<u>Metro Planning</u>	<u>Other</u>
IM	1.25%	\$100 M
NHS	1.25%	\$80 M (07-09)
STP	1.25%	\$20 M
CMAQ	1.25%	
Bridge	1.25%	\$100 M
HSIP		\$220 M

# Types of Penalties

- ✓ **Serious – Transfer Apportionments**
  - Open Container
  - Repeat Offenders
- ✓ **Very serious – Withhold Apportionments**
  - Minimum Drinking Age
  - .08 BAC Law
- ✓ **Most serious – Withhold Project Approval**
  - Maintenance of Federal-aid Projects
  - Ambient air quality standards

# Mandatory Setasides

## From State Apportionments

<u>Category</u>	<u>State Planning &amp; Research</u>	<u>Off System Bridges</u>	<u>Transportation Enhancements</u>
IM	2%		
NHS	2%		
STP	2%		The greater of 10% of the State's STP apportionment or the dollar amount of the TE setaside in FY 2005
CMAQ	2%		
BRIDGE	2%	15%	
HSIP	2%		

# Availability of Funds

Funds For:

Good Through:

FY06



FY07



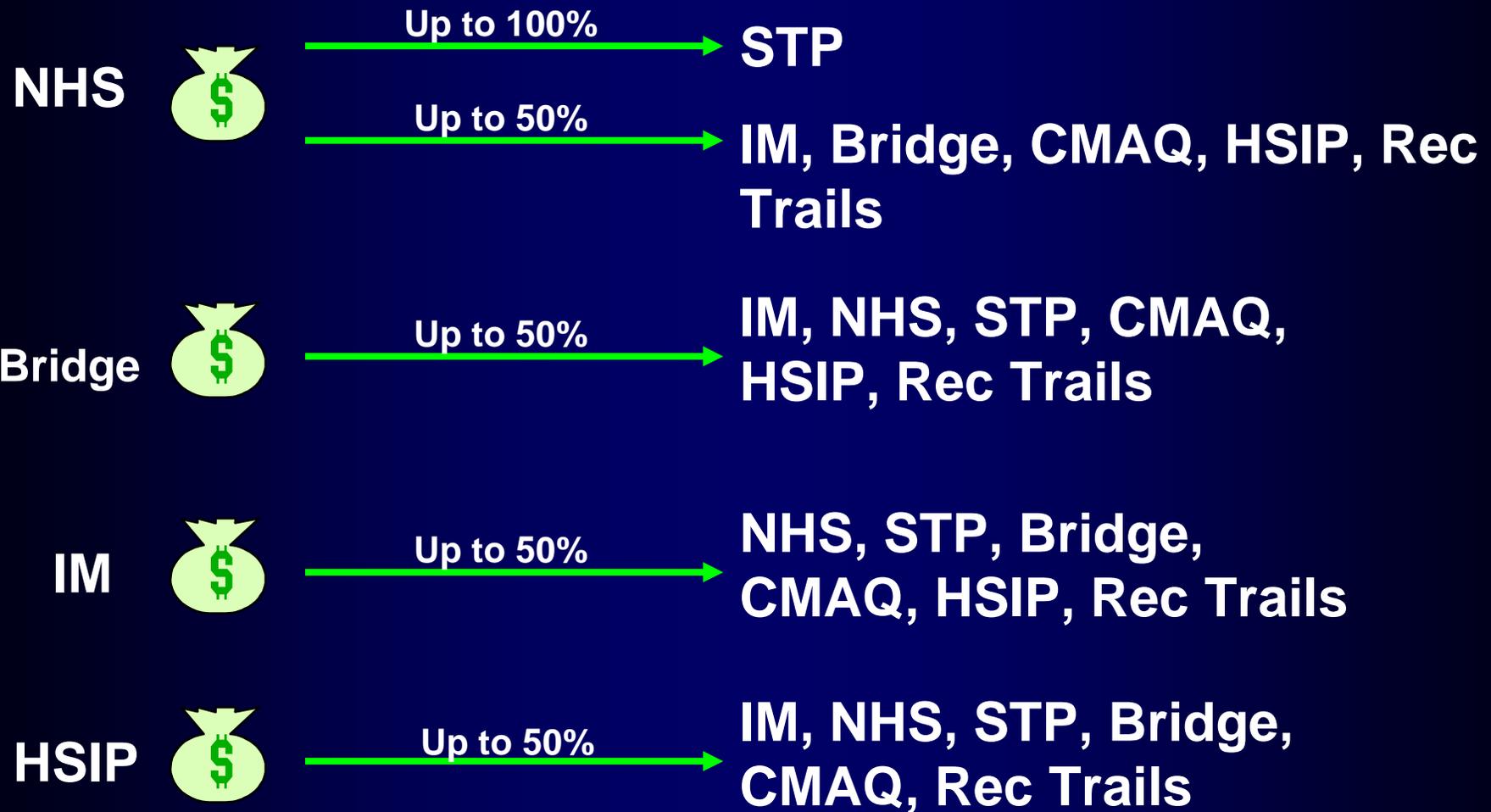
FY08



FY09



# Transferabilities Between Program Categories



**OBLIGATION**

# Obligations

- ✓ **State request, Federal approval**
  - **Commits State's line of credit**
  - **Commits Federal Government to reimburse State**
- ✓ **Based on estimates**
- ✓ **Protects funds from lapsing**
- ✓ **Traditional point of budgetary control**

# Obligation Limitation

## *What is it?*

- ✓ A budgetary mechanism to control Federal spending

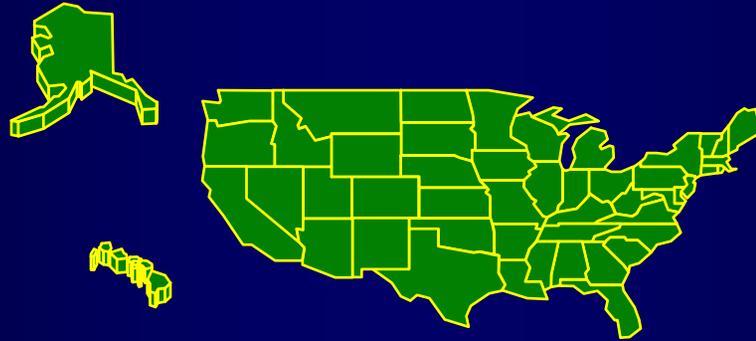
## *Who does it?*

- ✓ Congress – through legislation

## *Why?*

- ✓ To be responsive to current budget policies

# Obligation Limitation Characteristics



## State-by-State Limit

Oct 2007						
1						

Sep 2008						
30						

Good for 1 Year



Applies to  
Total Program

# FY 2008 Obligation Limitation

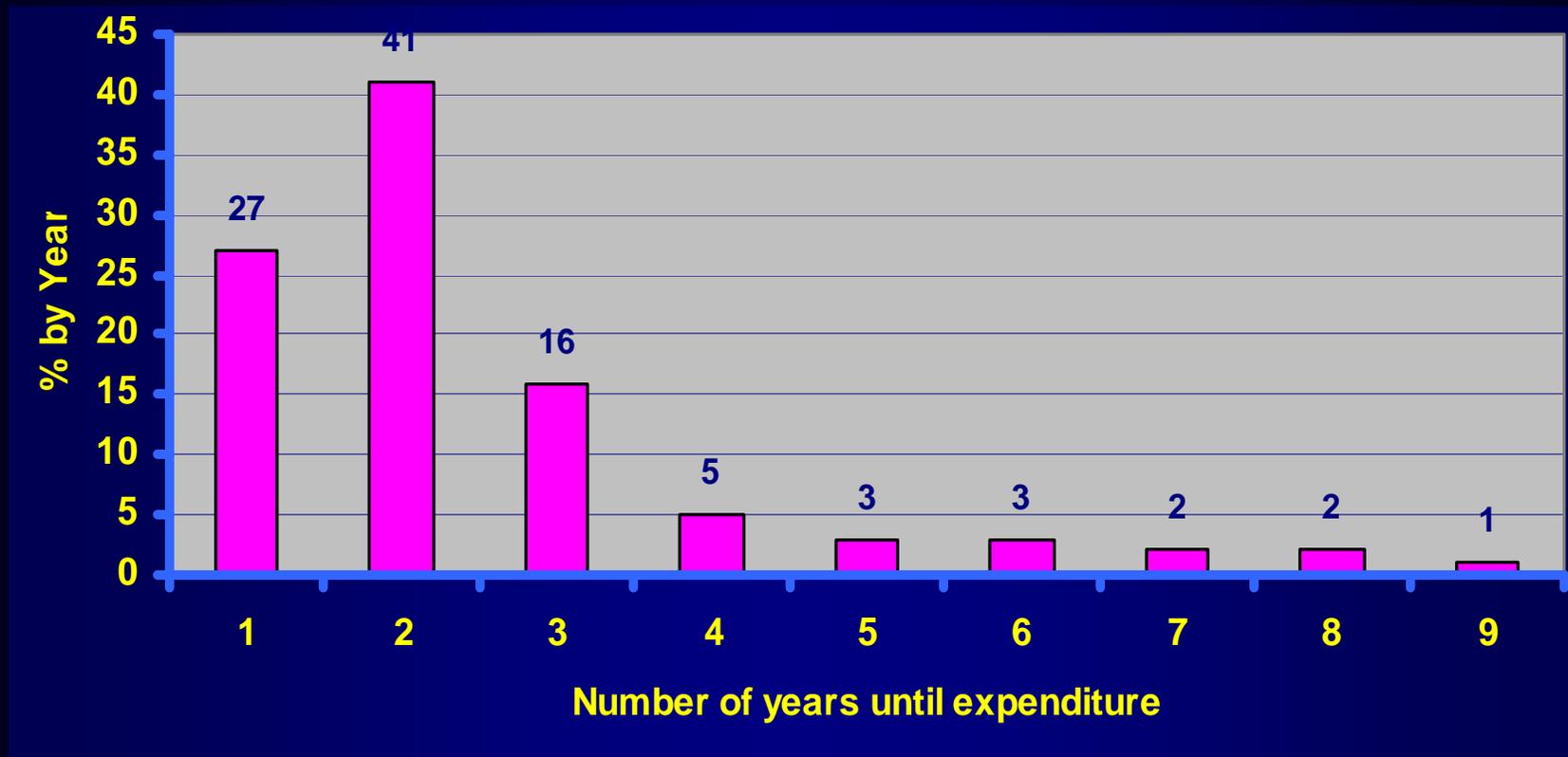
## Federal-aid Highway Program

- ✓ Ceiling is \$40,216,051,359\*
- ✓ Additional \$1B OL for Bridge Program
- ✓ Exempt Programs:
  - Emergency Relief
  - Equity Bonus (\$639 million per year)
  - Formerly exempt programs  
(ISTEA, STURAA, STAA'82)

\*\$39,585,075,404 (FY 2008 Ob Limit) + \$630,975,955 (RABA)

# Rate of Liquidating Cash

How fast obligated funds become expended



# Reimbursement

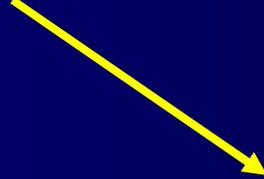
Contractor does work

State pays contractor

State submits voucher to FHWA

FHWA sends to Treasury

Treasury sends check to State



**THANK YOU!!**