BASICS of HIGHWAY PROGRAM FINANCING

FHWA Office of Policy & Governmental Affairs
Objectives

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
<table>
<thead>
<tr>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federally assisted, State administered</td>
</tr>
<tr>
<td>Funding tied to specific systems</td>
</tr>
<tr>
<td>Requires States to have highway agency</td>
</tr>
<tr>
<td>States pay for maintenance</td>
</tr>
<tr>
<td>Matching requirements</td>
</tr>
<tr>
<td>Contract authority</td>
</tr>
</tbody>
</table>
Functional Classification

Eligibility for Federal Financial Assistance

- Local and rural minor collectors: 76%
- Interstate: 1%
- Other: 20%
- NHS: 4%

Ineligible

Eligible

4 million miles of public roads total
Federal Share

Interstate Maintenance

80% Matching Share

90% Matching Share

100% No Match

Matching Share

Federal Lands Emergency Relief

NHS
STP
Bridge
CMAQ

No Match
Appropriated Budget Authority

- Authorization Act
- Appropriations Act
- Distribution of Funds
- Total Funds Available
- Obligation of Funds
- Reimbursement

Unobligated Balances
Contract Authority (CA)

✓ 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

Authorization Act

Distribution of Funds

Total Funds Available

Obligation of Funds

Reimbursement

Unobligated Balances

Obligation Limitation

Appropriations Act

Liquidating Cash from HTF
<table>
<thead>
<tr>
<th></th>
<th>Appropriated Budget Authority</th>
<th>Contract Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorization</td>
<td>$10 million</td>
<td>$10 million</td>
</tr>
<tr>
<td>Appropriated</td>
<td>8</td>
<td>N/A</td>
</tr>
<tr>
<td>Distributed</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Obligation Limitation</td>
<td>N/A</td>
<td>8</td>
</tr>
<tr>
<td>Obligation</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Remaining Funds</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>
Federal, State and Local Relationship

Federal Responsibilities

- 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

- 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**
- Public Hearings
- Subcommittee Bill
- Committee Bill
- House Bill

**Senate**
- Public Hearings
- Subcommittee Bill
- Committee
- Senate Bill

Any Differences?
- **No**
- **Yes**
Enactment of a Surface Transportation Act

President

Veto

Override Veto?

Yes

Approval

Surface Transportation Act

Start Over

No

Yes

Conference Committee

Conference Bill

Floor Action

Override Veto? - No

Yes

Override Veto? - Yes

Veto

Approval - No

Yes

Approval - Yes

Start Over

Start Over

Override Veto? - No

Override Veto? - Yes

Approval - No

Approval - Yes

Conference Bill

Floor Action
Authorization Acts
Congressional Continuations of Federal-aid Highway Program

Some Notable Acts

1921
1956
1982
1991
1998

SAFETEA-LU
2005-2009
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)

Total = $201.6 billion
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

- FHWA DOT
- OMB
  - President’s Budget
  - Budget Resolution
    - House Appropriations Comm.
      - Transportation Subcommittee
    - Senate Appropriations Comm.
      - Transportation Subcommittee
    - Conference
      - President
- Congress Budget Committee
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
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

Guaranteed Funding
$39.6 B

$630.9 M
RABA
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

In cents per gallon

Effective October 1, 1997

0.1 cent
L.U.S.T. Trust Fund

1.84 cents
Highway Account

15.44 cents

2.86 cents
Mass Transit Account

In cents per gallon
Federal Diesel Tax

0.1 cent
L.U.S.T. Trust Fund

24.4 cents

21.44 cents
Highway Account

2.86 cents
Mass Transit Account

Effective October 1, 1997
In cents per gallon
Federal Tax on 10% Gasohol

0.1 cent
L.U.S.T. Trust Fund

18.4 cents

15.44 cents
Highway Account

2.86 cents
Mass Transit Account

Effective January 1, 2005
In cents per gallon
Fuel Distribution System
# Federal Truck User Taxes

<table>
<thead>
<tr>
<th><strong>Truck Sales:</strong></th>
<th>12% of retail price for trucks over 33,000 lbs. or trailers over 26,000 lbs. GVW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Truck Use:</strong></td>
<td>Up to 55,000 lbs. No tax &lt;br&gt; Over 55,000 lbs. $100 + $22/1000 lbs. &lt;br&gt; $550 maximum</td>
</tr>
<tr>
<td><strong>Tires:</strong></td>
<td>9.45 cents for each 10 lbs. exceeding 3500 lbs. maximum rated load capacity (4.725 cents for bias-ply or super single tire) &lt;br&gt; Effective January 1, 2005</td>
</tr>
</tbody>
</table>
Highway Trust Fund
Net Highway Account Income – FY 2007

Total = $34.3 Billion

Gas & Gasohol - $20.6
Diesel - $8.3
Truck Use - $1.0
Truck Sales - $3.8
Tires - $0.5
Other - $0.025
Highway Trust Fund Income
Highway Account 1957 – 2007
Byrd Amendment

Keeps the Highway Account Out of the Red
Fiscal Procedures
## Distribution of Funds

<table>
<thead>
<tr>
<th>Apportionments (STP, NHS, IM, CMAQ, etc.)</th>
<th>Allocations (IM Discretionary, Ferry Boats, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Distributed by formula specified in law</td>
<td>✓ No method specified in law</td>
</tr>
<tr>
<td>✓ Distributed on October 1</td>
<td>✓ Distributed throughout year</td>
</tr>
<tr>
<td>✓ Withdrawn only by law</td>
<td>✓ Discretionary grants may be withdrawn by administrative action</td>
</tr>
<tr>
<td>✓ All eligible States are recipients</td>
<td>✓ Only some States are recipients</td>
</tr>
</tbody>
</table>
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 > 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 > 92% 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
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)
State’s Portion of $639 M

State’s Portion of $2 B

2% SPR

Core Programs (After first $2.639 B)
Remainder Distributed to the Six Core Programs
IM  STP
NHS  Bridge
CMAQ  HSIP
Funding Distribution Process
<table>
<thead>
<tr>
<th>Category</th>
<th>Metro Planning</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>IM</td>
<td>1.25%</td>
<td>$100 M</td>
</tr>
<tr>
<td>NHS</td>
<td>1.25%</td>
<td>$80 M (07-09)</td>
</tr>
<tr>
<td>STP</td>
<td>1.25%</td>
<td>$20 M</td>
</tr>
<tr>
<td>CMAQ</td>
<td>1.25%</td>
<td>$100 M</td>
</tr>
<tr>
<td>Bridge</td>
<td>1.25%</td>
<td>$220 M</td>
</tr>
<tr>
<td>HSIP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**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

<table>
<thead>
<tr>
<th>Category</th>
<th>State Planning &amp; Research</th>
<th>Off System Bridges</th>
<th>Transportation Enhancements</th>
</tr>
</thead>
<tbody>
<tr>
<td>IM</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NHS</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>STP</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CMAQ</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BRIDGE</td>
<td>2%</td>
<td>15%</td>
<td>The greater of 10% of the State’s STP apportionment or the dollar amount of the TE setaside in FY 2005</td>
</tr>
<tr>
<td>HSIP</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Availability of Funds

Funds For:
- FY06
- FY07
- FY08
- FY09

Good Through:
- 06
- 07
- 08
- 09
- 10
- 11
- 12
### Transferabilities Between Program Categories

<table>
<thead>
<tr>
<th>Program</th>
<th>Transferability</th>
<th>Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>NHS</td>
<td>Up to 100%</td>
<td>STP</td>
</tr>
<tr>
<td>Bridge</td>
<td>Up to 100%</td>
<td>IM, Bridge, CMAQ, HSIP, Rec Trails</td>
</tr>
<tr>
<td>IM</td>
<td>Up to 50%</td>
<td>NHS, STP, Bridge, CMAQ, HSIP, Rec Trails</td>
</tr>
<tr>
<td>HSIP</td>
<td>Up to 50%</td>
<td>IM, NHS, STP, Bridge, CMAQ, HSIP, Rec Trails</td>
</tr>
</tbody>
</table>
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

Good for 1 Year

Applies to Total Program

Oct 2007

1

Sep 2008

30
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!!