# ACTION NEEDED TO PRESERVE FEDERAL HIGHWAY INVESTMENT COMMITMENTS

As noted in AASHTO's "A New Vision for the 21st Century" report, leaders in this country need to muster the political will to provide the quantum increase in transportation investment necessary to ensure a thriving economic future for generations to come. Unfortunately, transportation investment in the US is increasingly falling short of what is needed to just maintain what we already have. Furthermore, there are now a number of challenges facing the highway program that are symptomatic of this lack of will to ensure adequate investment in our transportation system. Failure to meet these challenges will result in jobs lost, reduced economic prosperity, more congestion, and greater limitations and constraints to freedom of mobility made possible by past investments like the Interstate Highway System.

## HIGHWAY TRUST FUND CRISIS

Enacted in 2005, SAFETEA-LU guaranteed at least $223 billion for federal highway program investments through FY 2009. This investment level was predicated on a forecast of anticipated revenues collected for the Highway Trust Fund's (HTF) Highway Account over the life of SAFETEA-LU. The FY 2008 mid-session budget review forecasts revenues for the Highway Account will fall short of meeting these commitments and result in a negative $4.3 billion balance during FY 2009, the last year of SAFETEA-LU authorizations (see table below). In addition, if the House-Senate Conference Report of the FY 2008 Transportation-Housing and Urban Development Appropriations Act, which includes an additional $1 billion in spending for bridges, is signed into law (resulting in a $700 million budget impact), the projected HTF highway account shortfall will reach $5 billion in FY 2009.

The highway program is permitted to make obligations in excess of the revenues in the Highway Account of the Highway Trust Fund. As a result, federal projects pay out over a number of years, with the first year payout rate at approximately 27 percent. Therefore, an estimated $16 billion cut in highway commitments would be required to address a projected $4.3 billion shortfall in the Highway Account.

| Fiscal Year | Guaranteed Highway Investment | Projected Highway Account Balance | Potential Highway Investment Cut | Net Highway Investment | Percent Change from Guaranteed Investment Level |
|---|---|---|---|---|---|
| 2008 | $42.2 billion | $1.3 billion | $0 | $42.2 billion | 0% |
| 2009 | $43.2 billion | -$4.3 billion | -$16 billion | $27.2 billion | 37.0% |
| 2009 Including FY 2008 DOT Appropriations Bill ($700 million) | $43.2 billion | -$5.0 billion | -$18.5 billion | $24.7 billion | 42.8% |

## Potential Outcomes

There are a number of outcomes that can occur in the coming years based on the kinds of actions that are taken today.

### Action 1 – Reduce the Highway Program

The Highway Account of the HTF will be in red ink by billions of dollars, resulting in an extremely constrained program where new highway obligations will be cut by $16 billion (37 percent) or more from the SAFETEA-LU guaranteed levels in FY 2009.

*Outcome:* Under this scenario, our nation could lose up to 760,000 or more jobs, as every billion dollars in highway spending has the potential to support 47,500 jobs.

<u>Action 2 – Address the Short-Term Problem in FY 2009</u>

The Senate Finance Committee introduced a set of measures to avert the HTF insolvency crisis in FY 2009. These measures include:

- Crediting the HTF for Emergency Relief Program spending above the originally authorized levels from 1998 to 2005 – $3.3 billion;
- Cracking down on fuel tax evasion – $845 million; and
- Providing a payment to the HTF equal to six months' worth of foregone HTF receipts due to a fuel tax exemption enjoyed by publicly-owned vehicle fleets - $830 million.

These measures have been incorporated into the conference report of the FY 2009 transportation appropriations bill. However, this legislation faces a veto threat from the President since the Administration is committed to holding down domestic spending, including spending for transportation.

*Outcome*: This action provides a temporary stopgap solution. If no long-term solution is found, the HTF deficit and the attending program cuts will recur in FY 2010.

<u>Action 3 – Increase Investment Levels</u>

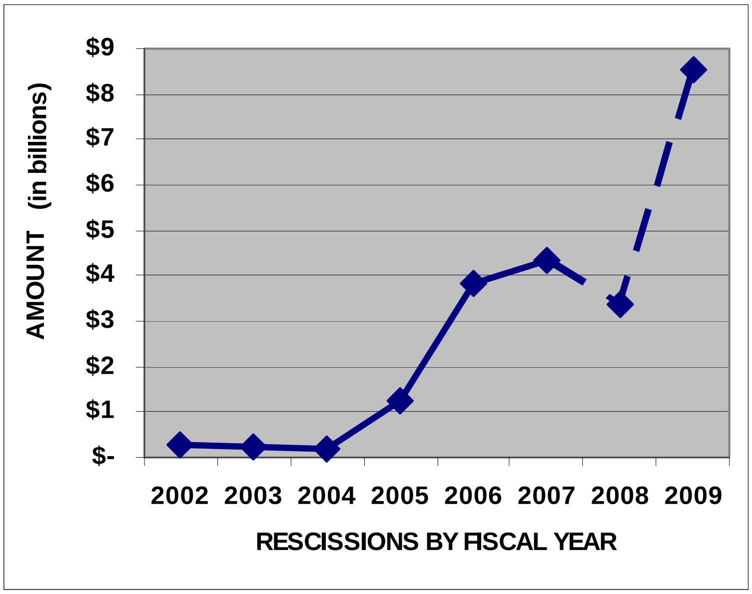
Total highway and transit capital investment needed to maintain conditions and performance of the existing system is expected to grow from $130.6 billion in 2007 to $259 billion by 2030. Furthermore, the level of investment needed to improve our current highway and transit system will increase from $185.3 billion to $367 billion by 2030. While the needs are growing, the motor fuel taxes underpinning the HTF continue to lose purchasing power due to inflation, increases in the price of commodities used in transportation projects such as concrete and steel, and the increased cost of fuel used by contractors during construction. To ensure adequate revenue for the long-term, we must:

- Honor the guaranteed funding levels in SAFETEA-LU until the end of FY 2009 by utilizing a menu of options such as a General Fund subsidy to the HTF for the value of various motor fuel tax exemptions, capturing HTF interest earnings, imposing further fuel tax fraud prevention mechanisms, and other measures;
- Consider the equivalent of a three-cent per gallon increase in motor fuel taxes in order to avert a major cut in the highway program in FY 2009;
- Consider the equivalent of an additional seven-cent per gallon increase to restore the purchasing power of the program in FY 2010; and
- Index all motor fuel taxes (existing and new) to the Consumer Price Index beginning in 2010.

*Outcome:* These rational and appropriate actions represent constructive steps that can be taken to preserve the solvency of the Highway Trust Fund and deliver needed transportation improvements both in the near term and for the future. Congress should act as soon as possible to ensure revenues are available to support SAFETEA-LU's highway investment commitments and to put in place additional revenue streams that will support transportation improvements and our economy in the future in a stable and predictable way.

### IMPACT OF RESCISSIONS

It has been the practice of Congress starting in 1970 to apply obligation limitations to restrict the amount of state apportionments that can actually be spent. While states would prefer that full funding of authorizations be provided, this practice of distributing more contract authority has resulted in balances of unobligated funds that, until recently, provided states with flexibility to choose among the Federal-aid Highway Program categories based on priorities. However, starting in FY 2002, Congress began to rescind portions of these balances in amounts that have greatly increased over time (see graph), totaling $13.6 billion (including rescissions included in the FY 2008 Appropriations bill).




Additionally, there has been pressure from Congress to direct that rescissions be taken proportionately across all federal highway program categories. If this were required, it would hamper the flexibility for states to program funds that best meet their priorities. The need to preserve this program flexibility is critical because it allows the states to retain the most flexible funding for use on high priority projects that are programmed and ready for letting. In addition, it allows for state and local governments to manage their limited resources to best leverage federal funds.

Even more troubling, SAFETEA-LU contains a provision that will require rescinding about $8.5 billion in FY 2009. This has serious ramifications for our nation's highway program.

### IMPACT OF RESCISSIONS ON STATES IN 2009

In FY 2009, the federal highway program is expected to undergo a reduction in unobligated apportionments to states that is equivalent to 22.3 percent of authorized funds for FY 2009. This reduction is a result of a provision in SAFETEA-LU, which requires an $8.543 billion rescission of contract authority. As seen on the table on Page 4, the amount of authorized highway funds available to states will be significantly reduced in FY 2009. This means many vital projects to improve mobility in all states around the country may have to be either deferred or deleted from existing capital plans, as there will be a significant funding reduction. This failure to fully utilize all available transportation resources as represented by such rescissions of contract authority is symptomatic of the lack of national political will needed to ensure adequate transportation investment. Attached is a table that portrays a possible impact of these rescissions. Because unobligated balances for each state vary greatly and apportionments cannot be determined accurately in advance of the final distributions, **these figures are only meant to illustrate the potential impact on states, not accurately quantify the final reductions.**

# Impact of Rescissions on FY 2009 Apportionments

**11/16/2007**

Based on information from FHWA (http://www.fhwa.dot.gov/reauthorization/rta-000-1664ar.xls)

**Notes**

1/ Summary of SAFETEA-LU FY 2009 apportionments for RTA-000-1664A by FHWA HPLS-30 (Before penalty/Before programmatic distribution/Before Byrd Test)

2/ Based on SAFETEA-LU language for rescission of funds on 9/30/09 as noted in RTA-000-1664AR by FHWA HPLS-30

**3/ ESTIMATED FY 2009 apportionments due to the $8.5 billion rescission of contract authority applied at state level based on FHWA data. This estimate is for ILLUSTRATIVE purposes only, where rescission amounts are taken only from the FY 2009 apportionments. Because prior-year unobligated funds can vary by each state, final apportionment figures for individual states in FY 2009 will be different from this illustrative estimate.**

| State | SAFETEA-LU Apportionments /1 | Rescission Amounts /2 in 9/30/09 | Reduced Amount based on FY 2009 Apportionments /3 | Percent Reduction based on FY 2009 Apportionments |
|---|---|---|---|---|
| Alabama | $ 766,127,206 | $ 156,644,332 | $ 609,482,874 | 20.45% |
| Alaska | $ 448,466,316 | $ 55,037,829 | $ 393,428,486 | 12.27% |
| Arizona | $ 685,475,379 | $ 140,806,116 | $ 544,669,263 | 20.54% |
| Arkansas | $ 501,635,862 | $ 105,435,603 | $ 396,200,259 | 21.02% |
| California | $ 3,640,724,861 | $ 849,635,190 | $ 2,791,089,670 | 23.34% |
| Colorado | $ 529,670,662 | $ 118,978,987 | $ 410,691,675 | 22.46% |
| Connecticut | $ 503,829,364 | $ 106,325,006 | $ 397,504,358 | 21.10% |
| Delaware | $ 166,589,264 | $ 39,500,204 | $ 127,089,060 | 23.71% |
| Dist. of Col. | $ 156,779,577 | $ 43,521,301 | $ 113,258,276 | 27.76% |
| Florida | $ 1,820,444,150 | $ 336,641,256 | $ 1,483,802,894 | 18.49% |
| Georgia | $ 1,331,431,858 | $ 261,295,478 | $ 1,070,136,380 | 19.63% |
| Hawaii | $ 171,769,264 | $ 42,211,746 | $ 129,557,518 | 24.57% |
| Idaho | $ 291,328,644 | $ 56,695,562 | $ 234,633,082 | 19.46% |
| Illinois | $ 1,352,349,770 | $ 297,113,701 | $ 1,055,236,069 | 21.97% |
| Indiana | $ 956,803,964 | $ 183,452,997 | $ 773,350,968 | 19.17% |
| Iowa | $ 437,280,342 | $ 113,618,346 | $ 323,661,997 | 25.98% |
| Kansas | $ 392,132,820 | $ 110,868,243 | $ 281,264,577 | 28.27% |
| Kentucky | $ 666,141,289 | $ 152,706,925 | $ 513,434,363 | 22.92% |
| Louisiana | $ 610,742,053 | $ 138,442,393 | $ 472,299,660 | 22.67% |
| Maine | $ 197,994,871 | $ 50,282,613 | $ 147,712,258 | 25.40% |
| Maryland | $ 611,361,472 | $ 145,489,864 | $ 465,871,607 | 23.80% |
| Massachusetts | $ 630,617,368 | $ 166,624,020 | $ 463,993,348 | 26.42% |
| Michigan | $ 1,199,369,558 | $ 272,564,402 | $ 926,805,156 | 22.73% |
| Minnesota | $ 679,925,353 | $ 140,442,570 | $ 539,482,783 | 20.66% |
| Mississippi | $ 473,045,959 | $ 107,802,158 | $ 365,243,802 | 22.79% |
| Missouri | $ 907,948,473 | $ 205,557,331 | $ 702,391,142 | 22.64% |
| Montana | $ 373,884,361 | $ 72,450,883 | $ 301,433,478 | 19.38% |
| Nebraska | $ 292,570,336 | $ 75,748,542 | $ 216,821,794 | 25.89% |
| Nevada | $ 272,904,244 | $ 59,215,607 | $ 213,688,637 | 21.70% |
| New Hampshire | $ 171,693,814 | $ 42,742,215 | $ 128,951,599 | 24.89% |
| New Jersey | $ 986,627,008 | $ 228,251,217 | $ 758,375,791 | 23.13% |
| New Mexico | $ 371,913,547 | $ 80,714,856 | $ 291,198,691 | 21.70% |
| New York | $ 1,712,268,412 | $ 442,318,955 | $ 1,269,949,457 | 25.83% |
| North Carolina | $ 1,080,060,116 | $ 226,499,568 | $ 853,560,548 | 20.97% |
| North Dakota | $ 246,761,333 | $ 61,166,098 | $ 185,595,236 | 24.79% |
| Ohio | $ 1,411,332,894 | $ 299,406,598 | $ 1,111,926,295 | 21.21% |
| Oklahoma | $ 584,422,783 | $ 146,720,464 | $ 437,702,319 | 25.11% |
| Oregon | $ 466,285,449 | $ 113,114,136 | $ 353,171,314 | 24.26% |
| Pennsylvania | $ 1,674,237,909 | $ 412,086,190 | $ 1,262,151,719 | 24.61% |
| Rhode Island | $ 208,302,209 | $ 55,394,852 | $ 152,907,357 | 26.59% |
| South Carolina | $ 611,356,868 | $ 131,483,644 | $ 479,873,224 | 21.51% |
| South Dakota | $ 274,418,215 | $ 60,016,495 | $ 214,401,720 | 21.87% |
| Tennessee | $ 835,237,451 | $ 182,374,652 | $ 652,862,799 | 21.84% |
| Texas | $ 3,038,231,690 | $ 633,930,128 | $ 2,404,301,563 | 20.87% |
| Utah | $ 296,408,464 | $ 68,237,861 | $ 228,170,603 | 23.02% |
| Vermont | $ 181,825,066 | $ 47,284,725 | $ 134,540,341 | 26.01% |
| Virginia | $ 996,098,423 | $ 217,959,560 | $ 778,138,863 | 21.88% |
| Washington | $ 661,448,671 | $ 176,994,441 | $ 484,454,230 | 26.76% |
| West Virginia | $ 425,343,126 | $ 99,744,867 | $ 325,598,259 | 23.45% |
| Wisconsin | $ 749,567,420 | $ 147,129,687 | $ 602,437,732 | 19.63% |
| Wyoming | $ 262,801,629 | $ 64,319,588 | $ 198,482,041 | 24.47% |
| **TOTAL** | **$ 38,315,987,138** | **$ 8,543,000,000** | **$ 29,772,987,138** | **22.30%** |