

Current Federal Programs of Transportation Financing

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INTRODUCTION

In leading off discussion on financing transportation needs, it was thought best to set the stage by reviewing current federal programs. The subject of financing transportation is very high in some people's minds these days for several reasons. Programs and financing are being reviewed by them, and by us today, because needs are thought by some to be changing. Changes in programs are at this present time being proposed in Congress to meet these needs, changes to finance mass transit, and to finance revenue sharing, for instance. Change is proposed to increase outlays for primary highway improvements and to provide unrestricted flow of funds from the trust fund. Many of these proposed changes are a result of, or an outgrowth from, action taken or programs formed in the federal establishment over the past four or five years. I would like to speak of these recent happenings.

FEDERAL-STATE RELATIONSHIP

In the past, and at present, the lion's share of federal financing for ground transportation was directed towards highway transportation with good reason, of course, since the vast majority of all trips made by people are on the nation's highways and streets.

There is some misunderstanding as to the actual operations of the federal-aid highway program, the specific role of the federal government and the various state governments. So first, let me try to briefly describe the federal-state relationship as it relates to the highway program and as it has developed over the past 50 years.

Broadly speaking, the highway program provides financial and technical assistance through the state highway departments to the states or to political subdivisions of the states. In the program, the state highway department acts as the legal representative of the state and its political subdivisions in receiving federal-aid monies.

The state highway departments select and propose to FHWA the sections of highways to be constructed or improved with the available

federal-aid funds. The state highway departments are responsible for the planning, surveys, design, right-of-way acquisition and construction supervision. The state's actions, however, are subject to approval by FHWA.

As a practical procedure, FHWA has representatives in each state working closely with the state highway departments. By this, there is avoidance of planning or actions that might inadvertently result in a project that would be ineligible for federal-aid financing.

Federal funds are paid to the state as reimbursement covering the federal pro rata for work actually accomplished. The federal pro rata has been 50 percent of the costs of primary, secondary and urban projects and 90 percent of the cost of interstate projects. The federal pro rata has been changed to 70 percent for primary, secondary and urban projects starting with appropriations for fiscal year 1974.

Federal-aid highway funds are authorized by Congress for the several classifications of federal-aid highways, selected by the states:

- (a) The federal-aid primary system, comprised of the more important highways, serving essentially through traffic; the 42,500 mile system of interstate highways is part of the federal-aid primary highway system.
- (b) The federal-aid secondary system, essentially comprised of lesser travelled rural feeder roads.
- (c) The federal-aid urban system, comprised of highways serving major centers of activity in urbanized areas.

Federal-aid highway funds are authorized in specific amounts, separately for the interstate system, for the primary system and for the secondary system. The total funds authorized for the primary and secondary systems are distributed by law between urban and rural areas with 25 percent of the funds designated to go to urban areas. Forty-five percent of the funds go to the primary system and 30 percent to the secondary system.

SECONDARY ROAD PROGRAM

Let me add a word or two about the secondary road program because the way it works may have influence on other future federal-aid programs.

The FAS program is intended to help serve the more local highway needs of the nation, in contrast with the interstate and primary programs. These other federal-aid programs are intended to help serve the needs of longer-trip, and higher-volume intercity and interstate travel. To accomplish its intended purpose, the secondary portion of

the federal-aid highway program requires a very high degree of cooperation with local governments. This cooperation with local governments is specifically required in the federal highway law in selecting the system, the projects and in preparing design standards and construction specifications. In addition to these legal requirements for cooperation, the Federal Highway Administration has required that at least half of the FAS funds first be made available to counties.

In the early years of the program, FAS projects were handled just like any other federal-aid highway project: our federal engineers made a detailed review of the plans for each project and then made monthly inspections of the construction. The 1954 Federal-Aid Highway Act brought about a big change in the Federal Highway Administration's handling of secondary projects. The act permitted FHWA, by agreement with the individual states, to delegate most of its responsibility for approval of plans and construction to the state highway departments. This is known as the "Secondary Road Plan" and is now in effect in every state.

SOURCES OF REVENUE FOR THE HIGHWAY PROGRAM

The source of federal revenue for highways in the past years has, of course, been the highway trust fund. The bulk of the revenues into the trust fund has been from the four cents per gallon tax on motor fuel. The rest of the revenues are nearly all accounted for from various taxes on motor vehicles, tires, tubes and other automotive parts. Income from interest in fiscal year 1972 is up to about three percent of total income. The interest comes from the invested trust fund balance which presently is about \$4.4 billion.

The principal highway related tax not coming into the trust fund is the federal excise tax on new automobiles. This tax yields about \$1.7 billion annually to general funds of the treasury.

The states, like the federal government, find their principal source of revenue for highways from road-user taxes.

At the local level, the counties and municipalities receive the bulk of their highway money from property taxes.

EXPENDITURES FOR THE HIGHWAY PROGRAM

The federal Government spent nearly all trust fund revenues for capital improvements—new and reconstructed highways. The federal government does not give financial aid to maintain highways.

The states spent over \$12 billion of their own funds for highways in 1969. State expenses on the federal-aid systems were about \$7½ billion for which they were reimbursed about half that amount in federal-aid funds.

Local governments spent over \$3 billion for highways in 1969.

The Federal-Aid Act of 1970 authorized about \$5.8 billion for federal-aid highway programs. The sum of about \$4.1 billion has been authorized for the interstate system. Over 70 percent of the federal-aid funds are for the interstate system. \$1.1 billion was authorized for the primary and secondary program. There are additional authorizations of \$100 million each for the TOPICS program, the new urban system and the Special Bridge Replacement Program.

FLOW OF FUNDS

What has been happening to the total national highway financing for the past four years? Presently there are certain proposals before Congress and in the president's budget for fiscal 1974. The cumulative yearly apportionments from Congress are virtually uniform including the projected apportionment for 1974. The federal-aid highway program operates within the limits of revenues available in the trust fund, it was necessary in 1959 to set a limit on reimbursable obligations to insure that they would not exceed the amounts that would subsequently come into the trust fund. This limitation has been used since 1966 to help control inflation. The gap between apportionments and the limitation on obligations has been widening—creating a projected surplus in the trust fund.

Obligations are being incurred at such a rate so as to equal receipts by the end of this year. If the federal-aid highway program and trust fund receipts were completely shut down at the end of this year, presently authorized expenditures, which would continue for about two more years, could be paid from the trust fund balance.

The total federal-aid highway funds have decreased since 1972 but have held the same for 1973 and 1974. There has been a steady reduction in available interstate funds for the last three years. The 1974 level of available interstate funds is about the same as for 1970. Since interstate funds make up a sizable portion of the total federal-aid funds, this reduction would have had a similar effect on total funds. But the fact of the matter is that reimbursable obligations for the primary, secondary and urban programs have not been reduced below apportionments as have interstate funds. Congress, in addition has increased apportionments for some of these programs.

Besides some direct financial changes over the past few years Congress also passed provisions for the development and promotion of highway public transportation facilities. The Federal-Aid Highway Act of 1970 made regular federal highway funds available to finance exclusive or preferential bus lanes, traffic control devices, and bus passenger loading areas including fringe parking facilities. Improvement of such facilities will result in a large step for improved mass transit in the nation since 70 percent of the mass transit trips are on highways, that is to seven out of ten mass transit users, mass transit means buses.

Improvements on limited-access facilities offer the greatest potential for improving public transportation characteristics. The control of access assures high speeds and reliability, characteristics which are crucial in a public transportation system. The usual freeway facility for buses is an exclusive busway on regular vehicular freeway right-of-way or reserved freeway lanes.

To achieve an integrated system of highway public transportation facilities, it is necessary to include auxiliary improvements, such as fringe parking, terminal shelters, and other types of highway-related projects.

Fringe parking is potentially one of the most important elements in an overall program for improving urban highway public transportation. The success of properly located and properly designed fringe parking facilities has been demonstrated repeatedly. Of course, fringe parking cannot be considered as a separate element. It must be combined with other elements to create a successful program. For example, fringe parking must be served by fast and frequent service to the central business district to maximize its effectiveness.

The Urban Mass Transportation Administration, that can provide the buses to utilize these facilities, has a major financial program directed towards the improved mass transit, that being a program for capital improvement grants. The program was authorized by the Urban Mass Transportation Act of 1964 which has been amended several times since then.

The funds are meant to assist in financing the acquisition and construction of facilities and equipment for use in mass transportation service in urban areas. Eligible facilities and equipment include land, buses, and other rolling stock. Public agencies or private transportation companies through a contractual arrangement with a public agency are eligible for the funds.

The grants are made for two-thirds the project cost. The total amount of UMTA grants has been increasing greatly in the past

years—\$285 million in 1971, \$510 million in 1972 and \$841 million in 1973. \$875 million is estimated in the 1974 budget for capital facilities.

The 1971 grants were committed to 64 projects; 15 for rapid rail and 49 for bus projects of which 21 went to cities with populations under 100,000. The funds in 1972 looked to major improvements to rapid transit and commuter rail systems in some larger cities.

UMTA funds come from the general treasury.

CONCLUSION

It is self-evident that our transportation needs continue to increase at an ever increasing rate each year. Urban travel to and from the central city areas is suffering because of a lack of people capacity and an amenable transportation system to improve that capacity. Although the completed sections of the interstate system have greatly improved the level of traffic service for intercity traffic, there is still a very critical need to reconstruct and modernize our rural road network. Highway safety is becoming very critical in many rural areas because of sub-standard highways and structures.

It is not an enviable position to be in Congress today and have to decide among all these needs. However, it is apparent that greater flexibility in the use of federal funds is desirable so that state and local officials have the greatest possible freedom in utilizing the available limited financial resources to fulfill the highest priority transportation needs. This premise has been incorporated in both Senate Bill 502 and the administration's bill which was recently introduced in the U. S. Senate by Senator Baker of Tennessee. It, therefore, appears probable that the anticipated Federal-aid Highway and Public Transportation Act of 1973 will provide greater funding flexibility for state and local governments.

State and local highway officials will be expected to continue to accomplish the very challenging task of providing needed highway and transportation facilities with limited financial resources. By economic and technological ingenuity our transportation needs, so vital to the economic growth and well being of our communities and country, will continue to be met.