

Financing the Needs of the Indiana Highway System— The Federal Perspective

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Two subjects discussed herein are highway finance, and the future directions of the national transportation program.

CURRENT HIGHWAY FINANCING PROBLEMS

All highway people know that highway financing is a critical problem today. State highway departments are caught in a fund shortage due to a triple squeeze of interrelated elements. This condition is probably unique in the U.S. economy. We now face inflation, which has caused a general cost increase; the energy crisis, which has increased the cost of bituminous materials while decreasing the flow of gasoline tax revenues earmarked for highway programs; and impoundment of federal-aid highway funds.

Inflation

Inflation, including rising petroleum costs, has caused a 30% increase in highway construction costs. And these costs have more than doubled since 1967.

The Energy Crisis—Gas Tax Money Down

What about the energy crunch? When the sheiks turned off the oil supply, all of us felt the immediate effect in our gas tanks and our pocketbooks. Although the gas lines and prices have been reduced somewhat, the basic problem remains. America's oil demand is presently about 17 million barrels a day, and it is growing. To meet this need we produce 10 million barrels of oil a day from 500,000 wells. That's an average of 20 barrels of oil per well. Saudi Arabia, by contrast, can easily produce an equal amount of oil from about 700 wells—wells that average over 15,000 barrels per day.

It is obvious that the balance of energy power has shifted to the Middle East, together with \$60 to \$70 billion per year of the world's monetary resources.

Directly related to the energy shortage and reduced travel is the reduction in gasoline tax revenues. The state gasoline tax represents a major revenue source for all states. This revenue source has generally increased 5½% per year over the last ten years. During the last fiscal year, however, the growth has slowed to .5%.

Impounded Federal Funds

Funds available for transportation improvements have also been reduced by impoundments. About \$4-1/3 billion of fiscal year 1975 and prior year funds and the entire \$6.35 billion authorized for fiscal year 1976 are presently impounded. This totals about \$10.7 billion. This figure will, of course, be reduced significantly when funds are released for obligation next July 1.

Although a number of states have filed suits challenging the impoundment of funds, I believe this whole issue is becoming academic. Last June, Congress passed the new Congressional Budget and Impoundment Act of 1974 which will provide Congress with additional controls over the impoundment of federal funds by the Office of Management and Budget.

If the administration intends to withhold any obligation authority, the President must so inform Congress in a written communication showing the amounts that he intends to either defer or to rescind. The Congress has 45 days in which to refer the matter to committee, hear committee reports, and take action either to sustain or override the proposed impoundment.

Consequently, in the future, Congress will either sustain the administration's action in impounding funds, thus making it clearly legal, or it will override and prevent the impoundment. Impoundment will then become a moot issue because in the final analysis it will be up to Congress, which authorized the funds in the first place.

AVAILABILITY OF FEDERAL-AID HIGHWAY FUNDS

With that orientation on some of the major problems facing transportation managers at all levels today, let me cover some of the specific items which the Purdue Road School cochairmen have requested. I'm sure you're interested in the availability of federal-aid highway funds. For fiscal years 1973 through 1975 the figures in millions of dollars were as follows:

<u>Fiscal Year</u>	<u>National Authorization</u>	<u>Indiana Allocation</u>
1973	\$5,742	\$ 92
1974	5,263	103
1975	6,106*	101
1976	6,243*	109

* Does not include funds authorized by the F. A. Highway Amendments Act of 1974.

Apportionment of Interstate Funds

One point I would like to emphasize is the basis for apportionment of the funds. The apportionment, or allocation of funds to each state, is determined by formulas established by Congress. In the case of interstate funds, each state's share is determined by comparing the estimated cost to complete the system in each state with the estimated nationwide cost to complete the entire system. This system was devised to allow all states to complete the system at the same time. One problem noted with this system is that states which have attained greater progress than the national average, or have completed their high cost urban sections, receive proportionally less interstate funds each year. Here in Indiana, your foresight in obtaining early acceptance of the urban segments and diligence in completing the interstate routes are readily apparent. This chart shows a comparison of the national and Indiana status of completion for the interstate system.

	<u>Status of Interstate System</u>	
	<u>U.S.</u>	<u>Indiana</u>
Open to traffic	85%	91% (1,026 mi.)
Under construction	7	8 (89 mi.)
Preliminary	8	1 (14 mi.)

Since the interstate system funds represented over 53% of the total federal-aid highway funds in fiscal year 1974, you can see how a lower interstate-fund apportionment can reduce the federal funds available to any state. For instance, in 1957 Indiana received over \$53 million out of the total of \$2.2 billion in interstate funds available that year. This amounted to 2.4% of the nationwide figure. By contrast, in fiscal 1974 Indiana received \$30.3 million out of \$2.54 billion in nationwide interstate funds. This amount represented less than 1.2% of the national total.

I believe that completion of the interstate system is very important and should continue to receive a high national priority. However,

interstate progress should not be obtained at the expense of other needed improvements. We must recognize the transportation needs of the urban areas and continue our efforts to improve highway safety. Even a quick reading of the 1973 Federal-Aid Highway Act will demonstrate the congressional mandate for emphasis and improvements in these areas.

Federal Funds for Urban Areas

The 1973 act provides more funds for urban improvements. It eliminates the previous single authorizations for the primary and secondary systems combined with their urban extensions, and substitutes separate categories for rural and urban portions of these systems. Rural-urban funding equality will result from substantially-increased funding for the federal-aid urban system. These federal-aid urban system funds are now available for funding projects in urban areas (over 5,000 population) as well as urbanized areas (over 50,000 population). Depending on the needs of each state, the act allows for the transfer of up to 40%, instead of the previous 20%, of a state's apportionment between rural primary and secondary systems. A similar transfer may also be made between the urban primary and secondary extensions and the urban system. However, urban system funds cannot be transferred by a state from the allocated amounts for urbanized areas of more than 200,000 population without the approval of local officials.

The role of local officials is also expanded in the area of federal-aid highway system selection. A major provision of the 1973 act requires the realignment of the federal-aid primary, secondary, and urban systems by the end of fiscal 1976. In this system realignment, the secondary system will consist of rural major collector routes. These will be *selected by state and local officials*. The urban system will consist of urban arterial and collector routes. These routes will be selected by appropriate local officials with the concurrence of the state. I think these features of the act illustrate the continued need for good coordination and cooperation between state highway agencies and local officials.

Federal Funds for Highway Safety Improvement

I also mentioned that highway safety must receive a high priority. Title II of the 1973 act, referred to as the Highway Safety Act, introduced several new categorical grant programs which are directed toward reduction of accident losses, and authorized more than \$2 billion for the next three years. New emphasis has been placed on roads which are off the federal-aid highway system. As an added incentive, the financial matching ratio for several of the major safety programs

is 90% federal to 10% state and local funds. Specific programs in Title II include rail-highway crossing improvements, elimination of roadside obstacles, elimination of hazards at high accident locations, and demonstration programs for pavement markings and safer roads.

FUTURE DIRECTIONS OF THE NATIONAL TRANSPORTATION PROGRAM

Will There Be a Highway Trust Fund in the Future?

Will there be a Highway Trust Fund in the future? I believe that the trust fund will be continued beyond the present termination date of 1977. However, there are strong indications that the fund will only be used to finance the interstate system. And incidently, this fund might be used to cover the substantial maintenance costs for completed interstate segments. After 1977 it appears that all federal-aid highway programs other than the interstate may be financed from the general fund.

Interstate May Go to 2007

Along with continuation of the trust fund, efforts will be continued to complete the interstate system as quickly as possible. At the present rate of funding, and with the current inflationary trends, it could be the year 2007 before the system is completed. We expect this matter to be considered by the new Congress.

The Oil Shortage and Changes in Auto Use

I don't think that I need a crystal ball to predict that the energy shortage will be with us in the future. To meet this problem, our short range goal is the reduction of oil imports by about one million barrels per day below the present level. To meet this goal, it is obvious that we are going to have to take some positive action to find better and more efficient ways of using our automobiles (for example, carpooling). We are going to have to produce more energy-efficient automobiles, and we must have more attractive alternatives to the automobile, particularly in the large and congested urban areas. The recently passed Emergency Urban Mass Transportation Act of 1974 should accelerate the improvement of public transportation alternatives in the large urban areas.

Certification Acceptance Was to Cut Red Tape

As a final matter, I would like to address the issue of federal red tape. We had hoped that the new certification acceptance (CA) procedure provided by the 1973 Highway Act was a good step in this direction. The intent was to reduce red tape by permitting a state

to build all but its interstate federal-aid highways under state laws and regulations if they were at least equivalent to Federal Title 23 requirements. However, since CA can apply only to Title 23 requirements, many other requirements such as environmental impact statements, right-of-way acquisition methods, relocation assistance, minimum wage rates, and so forth, are not exempted. Consequently, few states have chosen to adopt CA in its present form.

We still feel that CA is a basically sound principle, one which will eventually reduce a lot of existing red tape. We hope that we can get some amendatory legislation in the next session of Congress so that the CA process can meet its true potential.

CONCLUSION

I've described a number of problems facing all of us today, problems which do not seem to respond to the solutions which have worked in the past. These times call for new and innovative thinking as well as a great deal of patience. And they call for complete dedication to making our democratic society work. Through mutual understanding and cooperation, I believe that we can rise to meet these new challenges.