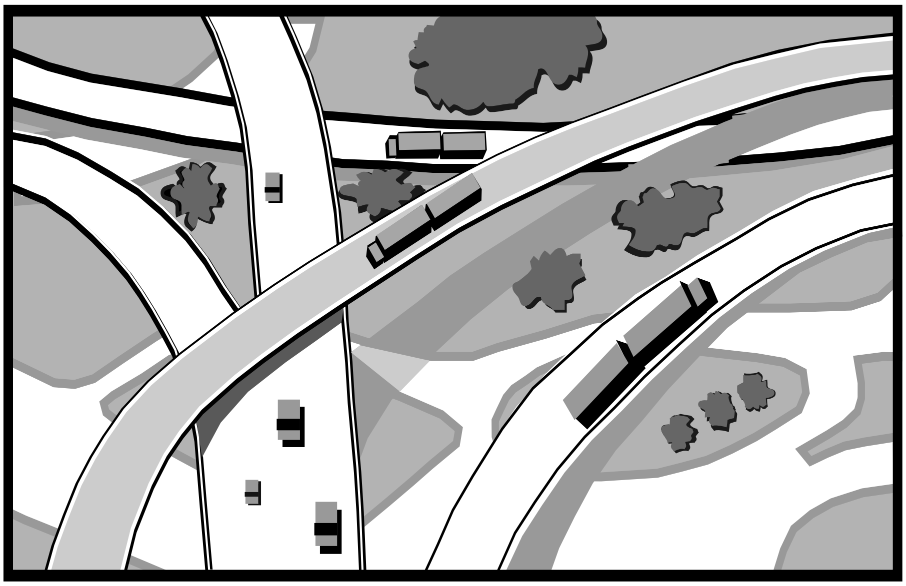

# Federal Highway Funding Formulas and the Reauthorization of ISTEA: What's at Stake for Texas

In 1991, Congress passed the **Intermodal Surface Transportation Efficiency Act (ISTEA)**. The landmark legislation authorized $155 billion over six years for the development of a national surface transportation system that included funding for highway construction, highway safety programs, and mass transit projects. The largest component of ISTEA is the federal highway program, under which $120 billion (over six years) is being distributed to the states for the construction and repair of highways and related projects. ISTEA was scheduled to expire on September 30, 1997, but disagreements in Congress have prompted a delay, perhaps for six months or more, in its reauthorization. Therefore, the debate in Congress over how to structure the next transportation legislation, particularly the distribution of highway aid, will continue.

Texas has much at stake in the ISTEA debate. In fiscal year 1995, Texas contributed $1.65 billion to the Highway Trust Fund and received $1.30 billion in ISTEA disbursements. Proposals to change the formulas which determine the distribution of highway funds among the states could have a profound effect on Texas' ability to meet its transportation needs going into the 21st century. This issue brief will serve as a primer on how federal highway funds are distributed, prospects for change in the 105th Congress, and the stakes for Texas.

In Brief

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# The Formulas

Although federal-aid highway funds are apportioned among the states in 13 funding categories, four major programs—the **National Highway System (NHS)**, **the Surface Transportation Program (STP)**, and **Interstate Maintenance and Bridge Replacement and Rehabilitation programs**—account for roughly 70 percent of the funds.

The NHS was conceived as a way of focusing federal resources on the nation's most important highways. While the NHS network consists of only four percent of the approximately four million miles of public roads, it handles about 40 percent of all vehicle miles traveled and 70 percent of all commercial truck traffic in the U.S. The STP, meanwhile, provides financial assistance through block grants for other roads eligible for federal assistance.

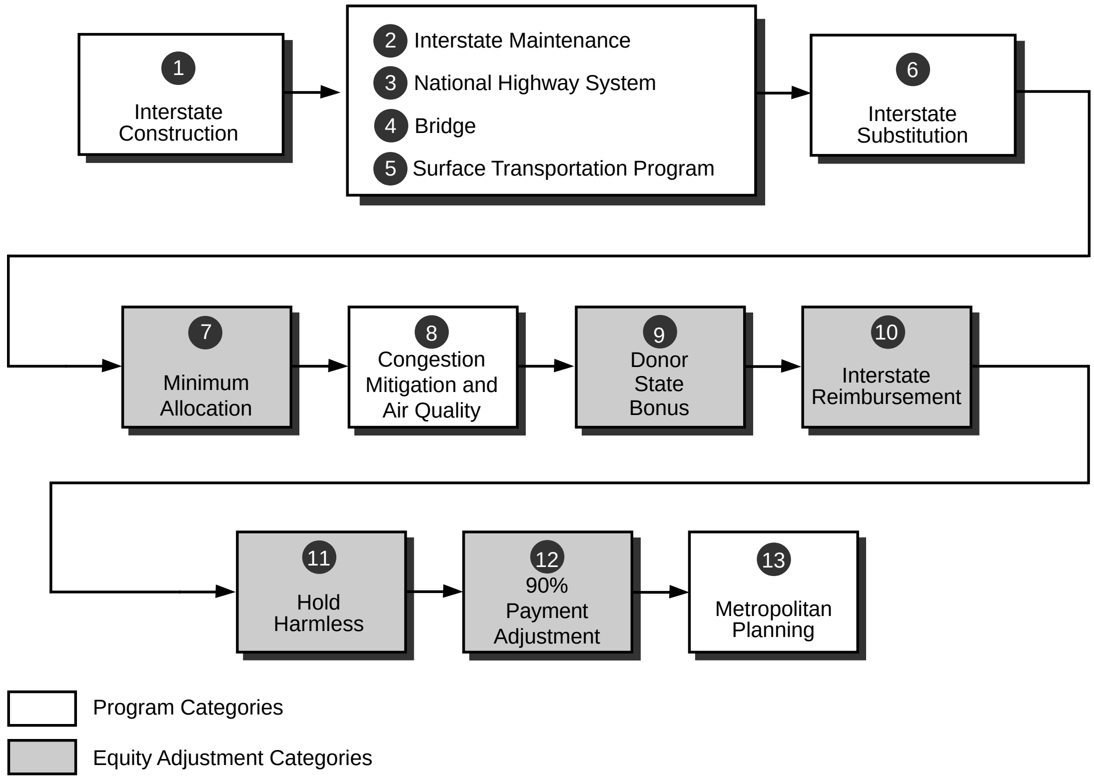
ISTEA also continued authorizations for an array of other separate highway program initiatives, including separate Interstate Maintenance and Bridge Replacement and Rehabilitation programs as well as addressing various equity issues, such as each state's share of funding as compared with what it received in past years.

The formula for apportioning federal-aid highway funds established in ISTEA is a complex arithmetic tool used by the Federal Highway Administration to determine each state's share of the funds. On the basis of the formula, funding is provided for eight programs, including the NHS and STP, and for five separate mechanisms to raise individual states' funding levels to achieve certain goals for equity among the states. The calculations that determine the level of funding that each state receives for these various categories occur in a strict sequence, as illustrated on *page 3*.

While each state's share of funds is calculated annually for each of the separate programs, the total funding for the four major programs mentioned above is fixed over the six-year authorization period for ISTEA. Consequently, the total funding for the four programs does not respond to changing conditions in a state, such as increased highway use.

A further concern with the existing formula is that irrelevant or outdated factors are used to calculate funding for certain programs. The General Accounting Office reported in 1986 that two of the factors underlying certain key decisions about apportionment—postal road mileage and land area—were irrelevant to either the extent or use of the modern highway system. While ISTEA restructured the major highway programs, the states' funding for the two largest programs—the NHS and STP, which together account for 40 percent of all the apportioned funding—remain linked to these irrelevant factors originally established for the federal highway program in 1916.

**Sequence of Calculations to Determine States' Highway Apportionments**




Source: U.S. General Accounting Office

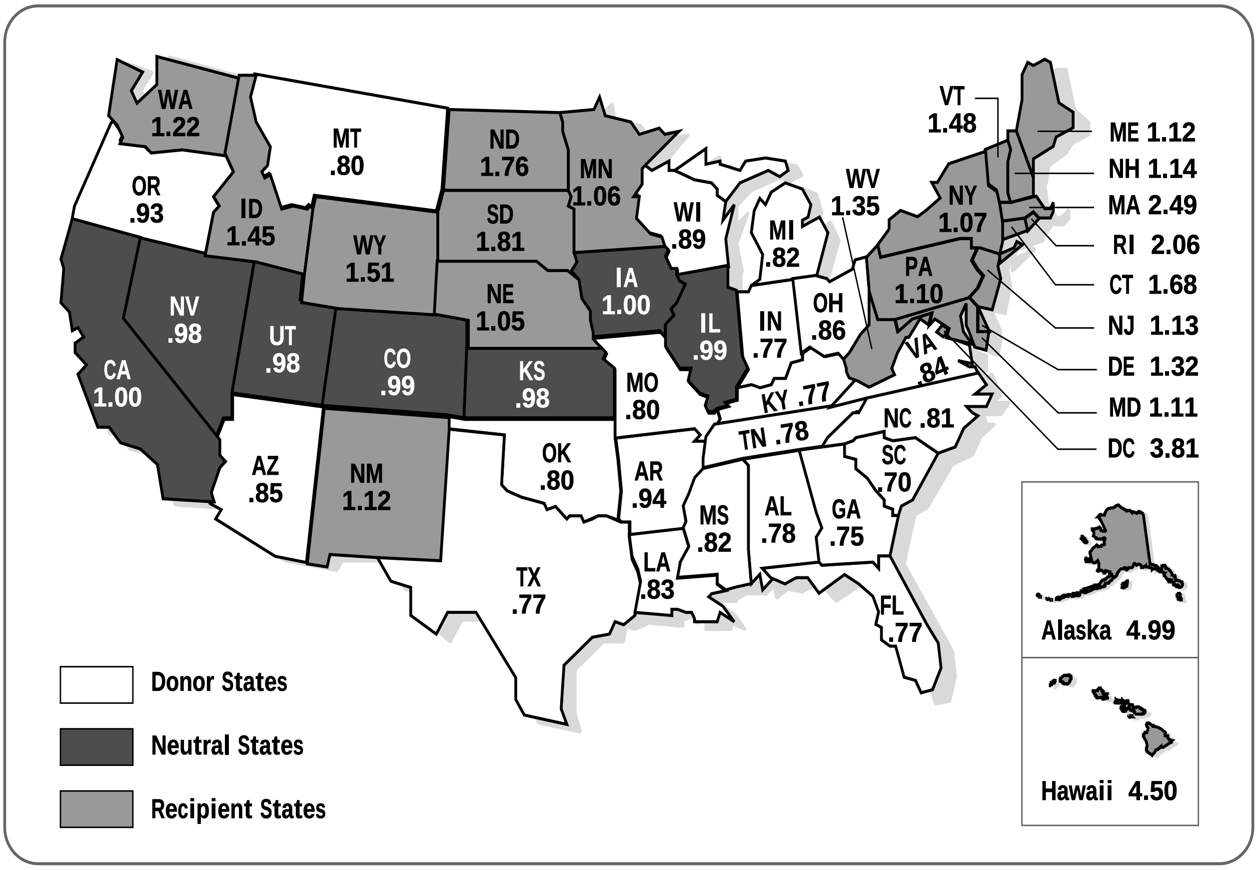
# Donor States vs. Recipient States

Reauthorization of ISTEA provides an opportunity to reassess not only the program's objectives, but the formula governing the distribution of highway funds. Federal highway funding is supported through federal highway user taxes on, among other things, motor fuels, tires, and trucks. Revenues from these taxes are credited to the Highway Trust Fund. The use of outdated factors in the formula means that some states, particularly those in the Sunbelt, Midwestern, and Western states pay more into the Trust Fund than they receive in federal highway aid. (These states are commonly referred to as "donor" states.)

Historically, Texas has contributed much more to the Federal Highway Trust Fund than it has received. Since ISTEA's inception in 1991, Texas' average rate of return has been 77 cents for every dollar the state contributed to the Trust Fund. Massachusetts, by contrast, receives $2.49 for every dollar it contributes to the Trust Fund; New York gets back $1.07. In fact, since the mid-1950s when the Trust Fund was created, Texas has contributed some $3 billion more to the Fund than it got back—more than any other state. The map below illustrates each state's return on its contribution to the Trust Fund.

## Tracking Transportation Dollars:

### A state-by-state look at how much federal transportation money states get back for every dollar they contribute to the Federal Highway Trust Fund




Source: Federal Highway Administration

# The Congressional Debate–Part I
# Forming Coalitions

It became clear early in the reauthorization debate that donor states would make a concerted effort to change the apportionment formula. The donor states won some concessions on equity adjustments during the original ISTEA debate in 1990. But since that time, the balance of power in Congress has shifted in favor of the Sunbelt states, which also tend to be donor states. In the current debate, a coalition of primarily Northeastern recipient states supports a status quo measure dubbed "ISTEA Works!" Meanwhile, a number of donor states, including Texas, banded together to support an alternative to the current funding formula in ISTEA. The coalition's proposal, known as **STEP 21—Streamlined Transportation Efficiency Program for the 21st Century**,was supported by over 20 state departments of transportation, had over 100 co-sponsors in the U.S. House of Representatives, and was backed by every member of the Texas delegation in the U.S. House and Senate. Although the name "STEP 21" has not survived the congressional process, the proposal's key concepts form the underpinnings of the highway portion of the reauthorization bills that will be debated in the months to come.

**STEP 21 focused on a few critical issues in the federal highway program such as flexibility, equity, streamlining, and funding distribution. Key provisions of STEP 21 included the following:**

- consolidation of highway funding categories and granting states and localities greater flexibility in using federal highway funds for different transportation purposes;

- modification of the highway apportionment formula so that the top three factors in the calculation would be vehicle miles traveled, annual Highway Trust Fund contributions, and NHS lane miles;

- allocation of 40 percent of total federal highway aid for the NHS and returning the other 60 percent to states through a "Streamlined Surface Transportation Program"; and

- a guarantee that all states receive at least 95 percent of what they had contributed to the federal Highway Trust Fund. Donor states, such as Texas, would be assured that no more than five cents of each dollar they contribute would be transferred to other states.

There were other proposals in Congress besides those advocating the ISTEA status quo and STEP 21. Early in 1997, the Clinton administration proposed the **National Economic Crossroads Transportation Efficiency Act (NEXTEA),** which would have provided for a transition to more equitable apportionment of Highway Trust Fund money. NEXTEA called for at least a 90 percent return of states' contributions to the Trust Fund.

The STARS 2000 Coalition in Congress was primarily made up of Western states seeking changes in the apportionment formula that favor the large land area and small population density that characterizes their region. Yet another coalition was characterized not by region but by fiscal ideology. The so-called "Turnback" Coalition advocated phasing out many of the federal transportation programs and turning them back to the states along with block grants.

# The Congressional Debate–Part II
# The Endgame

By September 1997, the congressional debate over reauthorization had essentially reached an impasse. In the Senate, supporters of the STEP 21 and STARS 2000 proposals reached a compromise that cleared the Environment and Public Works Committee. Called ISTEA II, the compromise bill retains significant portions of the current ISTEA structure and includes a transition adjustment to ensure that no state gets significantly fewer funds than it received under the original ISTEA. Also included in the bill is an equity provision to guarantee funds to large land area states as well as densely populated states, a measure designed to win over both STEP 21 and STARS 2000 proponents. Nevertheless, many of the large population states of the Northeast are not satisfied with the changes made to the funding formulas which correspond closely to those found in STEP 21. Under ISTEA II, the structure of the federal-aid highway programs is streamlined and the funding formulas are changed to give more weight to factors that measure the extent and use of the highway system.

ISTEA II also makes changes to the equity adjustment portion of the highway-aid formula. The most important equity adjustment calculation for donor states is a 90 percent minimum guarantee program. The minimum guarantee adjustment in ISTEA II is similar to the current ISTEA minimum allocation program. However, the current minimum allocation provision was supposed to bring donor states' share of highway funds up to 90 percent of their contributions to the Trust Fund, but in reality never resulted in anything close to a 90 percent return for many donor states. (As noted earlier, Texas' return under ISTEA has been about 77 cents on the dollar.)

Over in the House, Transportation and Infrastructure Committee leaders unveiled the **Building Efficient Surface Transportation and Equity Act of 1997, or "BESTEA"** for short. The bill proposes spending $103 billion in just three years, rather than the six years envisioned in other reauthorization proposals. Like ISTEA II, BESTEA incorporates STEP 21 funding formulas and guarantees states at least a 90 percent return on their Trust Fund contributions. The bill's price tag, however, would exceed the spending limits established in the balanced budget agreement. Because House leaders could not resolve the impasse, they agreed to a six-month extension of current ISTEA spending levels.

## What Adoption of a New Transportation Bill Would Mean for Texas

When Congress does ultimately pass a transportation bill, it seems likely that donor states will receive a higher return on their contributions to the Trust Fund. The two bills currently framing the debate—ISTEA II and BESTEA—incorporate STEP 21-type formula modifications. Under either bill, Texas stands to gain millions of dollars in additional highway money. According to the Texas Department of Transportation, Texas will receive from $1.52 billion to $1.66 billion in highway funds per year depending on which bill is enacted, representing about 6.9 percent of total highway funds distributed to the states. Texas currently pays 7.65 percent of the motor fuels taxes contributed to the Highway Trust Fund. Moreover, Texas has received about $1.20 billion in program funds per year under ISTEA. While neither bill guarantees the 95 percent return envisioned in STEP 21, each approaches a 90 percent guarantee, translating into an additional $320 million to $460 million a year for Texas.

**Side-by-Side Comparison of the Two Major Proposals Before Congress and Current Law.**

| | ISTEA II (Senate) | BESTEA (House) | ISTEA (current law) |
|---|---|---|---|
| **Total Funding** | $145 billion (6 years) | $103 billion (3 years) | $125 billion (6 years) |
| **Core Programs** | Expanded NHS and STP, Congestion Mitigation and Air Quality (CMAQ) | Same as ISTEA, with new High Risk Road Safety Improvement program | NHS, STP, Bridge, Interstate Maintenance, CMAQ, Highway Safety, Transit |
| **Equity Programs** | Minimum Guarantee, ISTEA Transition, and Large Land Area/Densely Populated States Adjustment | Minimum Allocation (new formula factors) | Minimum Allocation, Hold Harmless, Donor State Bonus, 90% of Payments Guarantee |
| **Average Texas Highway Funding Per Year** | $1.52 billion | $1.66 billion | $1.20 billion |
| **Texas Return on Highway Trust Fund Contributions** | 90 cents on the dollar (formula programs only) | 90 cents on the dollar (formula programs only) | 77 cents on the dollar (formula & discretionary* programs) |

*Discretionary funds are often awarded to states above and beyond those apportioned by formula.

Source: Texas Department of Transportation

# A Final Word on Texas' Transportation Needs

As Texas continues to grow rapidly, so do its transportation needs. Currently, only about 33 percent of the state's transportation needs are being met. Additional federal funding is badly needed to maintain and repair the state's highway system. According to the Texas Department of Transportation, the state's roads are exceeding their life span and the pavement surface is deteriorating rapidly. The deterioration is likely to accelerate with the growth in population and increases in heavy truck traffic associated with the North American Free Trade Agreement. The state's bridges are deteriorating as well. It is estimated that one out of every five bridges in the state highway system is deficient or obsolete. Unless it has additional funds, the state cannot make the required highway improvements without postponing planned and approved capacity expansion projects necessitated by the state's rapid growth. Therefore, the reauthorization process currently underway in Washington offers a tremendous opportunity for the state to achieve a more equitable return on its transportation dollars, enabling it to better meet the enormous challenges of the 21st century.

—by Steve Schamberger

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