

SUMMARY

In mid-May 2015, Congress passed a two-month extension of Moving Ahead for Progress in the 21st Century Act (MAP-21) (P.L. 112-141) through July 31, which means the passage of a long-term transportation authorization bill or another short-term extension will coincide with the insolvency of the Highway Trust Fund (“HTF” or “Trust Fund”). If Congress fails to pass another extension or find a funding solution for the HTF it’s likely that beginning in late July or early August reimbursements to state transportation agencies will be subject to funding delays and reductions, significantly impacting the delivery of transportation projects in Washington State.

In other words, the inability to find a long-term funding solution for surface transportation will culminate this summer when state transportation agencies will be faced with two federal funding crises: 1) the need for an extension of MAP-21 or a new long-term authorization bill; and 2) insolvency of the HTF. Both of these present unique challenges that will result in the delay of highway construction projects if not addressed.

WSDOT has numerous projects being designed or constructed this spring and summer that could be impacted if subjected to a delay in federal reimbursement. **There are currently 435 projects underway that have planned expenditures/reimbursement of about \$220 Million for the last two months of the federal fiscal year (August/September 2015).**

BACKGROUND

The Federal-Aid Highway Program (FAHP) is a reimbursement program. As work progresses on a federal-aid highway project, WSDOT pays the contractor for completed work from available state funds. Each week the state electronically transmits vouchers for the federal share of completed work and certifies the claims to FHWA for review and approval. Payment is transferred directly from the Highway Account of the HTF to state accounts by electronic fund transfer. FHWA’s payments are generally deposited in WSDOT’s account on the same day reimbursement is requested.

In July 2014, USDOT Secretary Anthony Foxx informed state transportation agencies that if Congress did not act to address the insolvency of the Trust Fund at that time, USDOT would institute a number of cash management procedures to manage the flow of federal dollars. USDOT has said that the procedures were developed to ensure equitable distribution of available cash resources and were provided in advance to allow DOTs to plan and prioritize reimbursement requests. While USDOT has not yet issued updated cash management guidance in the event of a summer 2015 shortfall in the HTF, WSDOT assumes similar guidance will be issued. Under this assumption the reimbursement to Washington will be limited to a share of the available cash in the HTF. The state’s share of the available cash balance is based on our proportion of the federal formula apportionment received in FFY 2015 (1.72 percent).

Under the process previously outlined by USDOT, twice a month as funds are deposited by the US Treasury into the Trust Fund, WSDOT will be informed of its allocation of the available cash balance in the HTF. Reimbursements submitted above the cap will be rejected by FHWA. If WSDOT requests an amount of cash less than our calculated share, the carryover allocation will be reserved and added to the next allocation.

The cash management procedures apply to all programs funded by the Highway Trust Fund and **do not** apply to TIFIA, Emergency Relief (the portion funded by the general fund), or TIGER programs.

Extending MAP-21 and Highway Trust Fund Solvency

MAP-21 has been extended twice since it was scheduled to expire in September 2014 and most recently was extended until July 31, 2015. If a new long-term authorization bill or another short-term extension is not enacted by July 31st, FHWA would be forced to shut down and would be unable to process reimbursements or provide project approvals for states.

In addition to the need to continue to extend MAP-21, or to pass a new long-term authorization bill, in early-February the U.S. Department of Transportation (USDOT) updated its HTF projections¹, which indicate the Highway Account would become insolvent by the end of August 2015. The Congressional Budget Office has issued similar forecasts. The Trust Fund is required under federal law to maintain a positive balance. If no Congressional remedy to the shortfall is enacted by July 2015, FHWA will likely begin implementing the cash management procedures described above. Such a cash management scenario assumes another short-term extension of MAP-21 or a long-term bill is passed by July 31st but does not include a patch of the HTF.

What WSDOT Has Done so Far Due to Federal Funding Uncertainty

Over the past six years, WSDOT has developed strategies to mitigate the impact of the uncertainty in federal funding, including moving federal funds away from larger, multi-year mobility and safety projects to pavement preservation projects that can be completed in a single construction season. This strategy allows the department to delay projects when issues with federal funding arise. Uncertainty in federal funding has changed the way WSDOT programs projects. Washington's Transportation Revenue Forecast Council (TRFC) adopts a federal forecast based on the latest information available for funding the surface transportation program. Uncertainty in the level of funding the state will receive resulted in the TRFC adopting conservative federal forecasts that approximates the state's contribution into the HTF. WSDOT develops its federal program using this conservative forecast to avoid programming projects that will never be constructed.

Potential WSDOT Highway Program Impacts

As noted above, WSDOT has numerous projects being designed or constructed this spring and summer that could be impacted if subjected to a delay in federal reimbursement. **There are currently 435 projects underway that have planned expenditures/reimbursement of about \$220 Million for the last two months of the federal fiscal year (August/September 2015).**

Included in the planned federal reimbursement, the State of Washington financed a portion of the seismically vulnerable SR 520 Floating Bridge through the issuance of two series of GARVEE bonds secured solely by the FAHP funds received by the state. Debt service payments are made in March and September of each year. If reimbursement is not provided by FHWA, the master bond resolution that governs the sale of the bonds requires the department to reimburse bond holders using federal reimbursement on deposit in the Motor Vehicle Account. The debt service requirement for September 1, 2015 and March 1, 2016 are \$82.2 million and \$18.0 million, respectively.

¹ <http://www.fhwa.dot.gov/highwaytrustfund/>

Below are planned federal reimbursements for August and September:

Description	Number of projects	Dollars	Percent of total
Garvee project	1	82,148,000	41%
Projects with over \$1 Million planned reimbursement	33	89,190,000	41%
Projects under \$1 Million planned reimbursement	401	41,057,000	19%
Total	435	219,525,000	100%

In addition to the reimbursement concerns, WSDOT could be forced to delay project phases for 101 projects that are planned to start Right of Way, Design, and/or Construction phase, which would cause high risk of project costs increases and durations.

If Congress should fail to extend MAP-21, creating the scenario whereby FHWA is unable to process FAHP reimbursement requests, **WSDOT estimates that the state's accounts could maintain a positive balance for only one to four months.**

If Congress should extend MAP-21 but fail to patch the Trust Fund, creating the scenario whereby FHWA must institute cash management procedures, **WSDOT could sustain proportionate payments from FHWA for four to six months** before the state's accounts would be drawn into a negative position.