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Testimony

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Committee on Appropriations,
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**SURFACE
TRANSPORTATION**

**Tight Budget Environment
Requires Sound Investment
Strategy**

Statement of Kenneth M. Mead,
Director, Transportation Issues,
Resources, Community, and Economic
Development Division



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Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to testify on several issues affecting federal investment in our highway infrastructure on the basis of our past and ongoing work. At the federal level, deficit reduction concerns continue to weigh heavily on decisions about funding levels for transportation programs, as well as other federal programs, such as education and health care. Investment choices concerning transportation infrastructure are also becoming increasingly complex as the National Highway System (NHS) is being designated and decision-makers seek to ensure that every transportation dollar is spent in a cost-effective manner.

Our testimony today will address (1) a \$406-million imbalance in the fiscal year 1995 Federal Highway Administration (FHWA) budget, (2) the need for an FHWA project tracking system capable of providing status information on individual highway demonstration project authorizations, (3) the variability of states' use of life-cycle cost analysis as a means of maximizing our highway investments, and (4) the need for key refinements to the proposed NHS. In summary:

- The administration's fiscal year 1995 FHWA budget request proposes full funding of the core federal-aid highway programs, such as the NHS, as authorized under the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). In fiscal year 1995, full funding would translate into core program obligations of \$18.3 billion.¹ In the administration's budget, full funding is dependent on the assumption that highway demonstration projects will be nearly zeroed out through rescissions of budget authority.² However, the administration has not sent forward documents needed to propose such rescissions. If the rescissions do not occur, the administration projects that obligation levels specified in the budget request for core programs will result in spending that exceeds the governmentwide spending cap that is imposed annually to control the federal deficit by \$406 million for fiscal year 1995. If the needed savings are to be achieved through cuts in the highway program, fiscal year 1995 highway obligations would have to be reduced by about \$2.7 billion. (The magnitude of the reduction results from the slow-spending nature of highway programs, in which a dollar obligated today translates into actual spending over a number of years.) If highway programs are not reduced, severe

¹Additional obligations for other highway programs would bring the total fiscal year 1995 obligation limitation for federal-aid highways to \$19.969 billion.

²Demonstration, or special, projects are generally specific construction projects identified by name in legislation.

reductions in other transportation programs, or elsewhere in the administration's budget, could be needed to bridge the projected gap.

- FHWA does not track the financial and construction status of individual highway demonstration project authorizations, which number over 1,000 and collectively account for billions of federal dollars. Funds authorized for demonstration projects are available until expended--but only for the specific project for which they were authorized. Since our work has shown that some of these projects languish in early project development or never get started at all, individual project status is important to identify projects that are stalled or no longer needed. FHWA is developing a system to capture information on individual project authorizations, and working with them, we have identified two needed system refinements. FHWA officials have agreed that (1) obtaining reasons for project delays and (2) requiring at least annual updates of project information could further enhance the system's utility as a decision-making tool. FHWA estimates system implementation will be completed August 31, 1994.
- Life-cycle costing can help to ensure that limited capital dollars are spent effectively by analyzing all future costs expected to occur over a highway's useable life, rather than just initial costs. Approximately \$50 billion is needed now and will be annually by all levels of government through the year 2011 just to maintain the condition and performance of federally funded highways. This investment is nearly double the actual capital outlay of \$26 billion for federally funded highways in 1991, thus it becomes critical that the investments made are cost-effective ones. Life-cycle costing can help in this regard, however, states at times overlook this pivotal tool in determining cost-effective investments, or exclude it from consideration when evaluating pavement rehabilitation strategies.
- While the transportation community has made progress in developing a NHS, two factors could improve it even further. First, performance expectations related to the myriad of goals for the NHS, particularly in the areas of maintenance and improvements to pavement and bridge conditions, have not been established. Such expectations are particularly important given that FHWA data shows that only about 46 percent of the pavement is in good condition for principal nonInterstate highways in urban areas--a major component of the NHS. Without setting expectations for what a well-maintained system is, system enhancements such as alleviating congestion and improving the efficient movement of goods may not be fully realized. Second, the accomplishment of one of the major purposes of the NHS--connecting NHS roads with other transportation modes, such as ports, airports, and public

transit--is not expected to be completed until 1997. In our testimony last week before the House Public Works and Transportation Committee's Surface Transportation Subcommittee, we suggested that congressional approval of the NHS be conditional upon later review of these connections by the Congress.³

We will now address these points in greater detail.

FISCAL YEAR 1995 BUDGET PRESENTS PRESSING FUNDING DILEMMA

The President's fiscal year 1995 budget calls for full funding of the core federal-aid highway programs as authorized under ISTEA, resulting in obligations of \$18.3 billion for these programs. As defined by FHWA, the core programs are those for which funds are distributed to all states by formula, including the Surface Transportation Program, the NHS, and Interstate Maintenance. In the administration's budget, full funding is only possible if another component of the federal-aid highway program, demonstration projects, is nearly eliminated. If demonstration projects are not rescinded or other actions taken, the administration projects that resulting fiscal year 1995 FHWA outlays will cause total federal outlays to exceed by \$406 million the fiscal year 1995 cap on outlays.

Fully Funding Core Programs Assumes Demonstration Project Rescissions

Each year, FHWA and other federal agencies must abide by a statutory annual outlay cap designed to control the federal deficit.⁴ While the President's budget assumes certain outlay levels for individual agencies, during the appropriations process, the Congress may either accept the mix of levels incorporated in the President's budget or allot a different mix of outlay levels among individual government agencies, as long as they stay within the overall governmentwide cap.

Under the fiscal year 1995 outlay level assumed by the administration for FHWA, fully funding core highway programs as proposed in the President's budget is only possible if obligations and resulting outlays in other areas are reduced. The fiscal year 1995 budget assumes that unobligated budget authority for demonstration projects would be rescinded. Rescissions of prior years' budget authority affect current and future years' outlays because of the nature of highway programs.

³National Highway System: Refinements Would Strengthen the System, (GAO-T-RCED-94-136, Mar. 1994).

⁴Budget Enforcement Act of 1990, Public Law No. 101-508, as amended.

In brief, highway construction activities tend to span a number of years, so obligations and outlays typically occur some years after initial project authorization. For example, for demonstration projects authorized under ISTEA, funds are allocated to the states over 6 years. After the allocation of a given year's demonstration project funds, states are usually free to obligate as much of their allocated demonstration project funding as they wish. However, on the basis of historical state behavior, states on average only choose to obligate about 26 percent of demonstration project funding available through that year. The remainder of the year's funds are obligated in subsequent years.

Funds are outlayed at an even slower pace, as typically only 15 percent of the funds obligated in a given year are actually outlayed in that same year. The remaining 85 percent of the funds obligated in that year translate into actual federal outlays in future years.

Through fiscal year 1995, the President's budget assumed the rescission of about \$3 billion in authorized demonstration project funding that has not yet been obligated.⁵ As noted above, authorizations translate into outlays over a number of years into the future. Because of this characteristic of the highway program, under administration estimates, the total \$3 billion rescission is estimated to result in \$406 million in outlay savings in fiscal year 1995, with remaining outlay savings projected to occur in subsequent years. It is the projected \$406 million in fiscal year 1995 outlay savings that permit FHWA to propose full funding of the core programs while still staying within the agency's fiscal year 1995 outlay level proposed by the administration.

Demonstration Project Rescissions Not Reflected in Administration Actions

Despite the apparent outlay savings built into the President's budget, a disconnect exists between the budget's presumption that unobligated demonstration project funding is to be rescinded and the lack of an official rescission request letter from the administration to the Congress.⁶ To address the disconnect, the

⁵Of the \$3 billion total assumed rescission, \$2.2 billion represents funding authorized but not obligated during fiscal years 1991 through 1994, and about \$800 million in demonstration project funds authorized for fiscal year 1995. Projects authorized under ISTEA as well as projects authorized under various appropriations acts are affected.

⁶The Impoundment Control Act of 1974 provides for the President to propose that funds be rescinded and permits such funds to be withheld for up to 45 days while the Congress determines whether to enact the rescissions. If the Congress does not enact the

White House proposed a budget amendment on February 8, 1994, that would to give the Secretary of Transportation the authority to reduce total fiscal year 1994 obligations sufficiently to bridge the \$406 million gap in outlays projected for fiscal year 1995.

Budget analysts with whom we spoke, however, do not consider this budget amendment an adequate means of solving the imminent FHWA outlay predicament. The amendment provides no particulars on what types of specific categories of highway funding are to be affected, nor in what amounts. According to Congressional Budget Office (CBO) analysts, the language incorporated in the budget amendment is not sufficient to ensure that agency action in fiscal year 1994 will be adequate to solve the \$406 million imbalance in the President's fiscal year 1995 budget for FHWA. Instead, definitive legislative language to yield spending levels that comply with the fiscal year 1995 outlay cap is needed.

Potential Means to Address Budget Imbalance

The \$406 million in excess outlays that are incorporated in the fiscal year 1995 budget place this Subcommittee in a difficult position. Options for addressing this imbalance are somewhat limited. They include the following.

- Under one option, the Subcommittee could seek to obtain higher Department of Transportation outlay levels from the full Appropriations Committee than are assumed in the President's budget. The advantage of this approach is that it would essentially enlarge the total transportation pie, permitting full funding of all aspects of the federal-aid highway program, including demonstration projects, without taking anything away from other transportation modes covered by the Department's allocation. The downside of this approach is that it would reduce outlay authority available for other discretionary uses, such as agriculture or education programs.
- A second option available to the Subcommittee would be to fund demonstration projects, as well as to fully fund the core federal-aid highway programs, by means of drawing funds away from other activities within the jurisdiction of the Transportation Subcommittee--areas such as aviation, mass transit, highway safety, rail, and maritime programs.
- A third option would be to constrain obligations for the core federal-aid highway programs by reducing the obligation limitation. This would result in funding for demonstration projects, though obligations for the core programs would have to be reduced by as much as \$2.7 billion to achieve the needed outlay savings for fiscal year 1995 under CBO estimates.

rescissions within 45 days, any withheld funds must be released.

-- Fourth, funding available for obligation could be reduced through means other than the obligation limitation. For example, if the 1994 bonus for timely obligations were eliminated, outlay savings of about \$90 million could be realized in fiscal year 1995.⁷ Over \$300 million in needed outlay savings for fiscal year 1995 could be achieved if each state were to obligate no more than 13 percent of the funding it receives for demonstration projects in fiscal year 1994 and fiscal year 1995. Thirteen percent is one-half of the 26 percent of allocated funding that the Office of Management and Budget estimates is obligated annually, on average across all states, for demonstration projects. One downside of this approach is that constraining obligations in no way reduces total funding that federal coffers are ultimately obliged to provide to the states. Thus, constraining obligations in the short-term simply shifts the commitment to provide states their shares of authorized funding and resulting outlays into future years.

While none of the four options noted above is without pain, the fact is that without the rescissions assumed in the administration's budget, the Subcommittee faces difficult choices. The pain of each option might be partially mitigated, however, by the fact that the options are not mutually exclusive. If the Subcommittee fashions a solution that blends two or more of the options to achieve total required outlay savings, each option used could be implemented in a less radical fashion. For example, if the option to reduce the obligation limitation for core highway programs (Option 3) was used in conjunction with the option to restrict obligations for demonstration projects (Option 4), the constraints imposed on obligations for each program group could be less severe than would be the case if either option was used in isolation.

IMPROVED TRACKING OF INDIVIDUAL DEMONSTRATION PROJECT STATUS CAN SUPPORT DECISION-MAKING PROCESS

As we have stated in a previous report and testimony, highway demonstration projects frequently encounter difficulties that can cause them to languish in early project development stages or never

⁷In any given year, not all states obligate their entire share of the annual obligation limitation. To ensure that total available obligational authority is used, authorizing legislation provides for the August 1 redistribution of unused obligational authority to those states that are able to obligate more than their initial share of the total limitation. Additionally, under certain circumstances, states can receive a bonus that permits them to obligate additional funds. The total bonus nationally cannot exceed 2.5 percent of the total obligation limitation for the year in question.

get started at all.⁶ If projects that are of a low priority and/or stalled are to be considered potential candidates for rescission, project information capable of evidencing these characteristics is essential. However, FHWA's current system to fiscally manage demonstration projects neither provides complete and up-to-date information on the status of individual project authorizations, nor contains sufficient management controls. We have been working with the agency to remedy the lack of project-specific information.

Demonstration projects authorized under the 1991 ISTEA alone number 539 and account for budget authority totaling \$6.2 billion. Additional projects have also been authorized by annual appropriation laws and past authorizing legislation, such as the 1987 Surface Transportation and Uniform Relocation and Assistance Act, bringing the total number of projects to over 1,000. FHWA currently does not have a comprehensive system to tag individual project authorizations and regularly track their progress from authorization, to obligation, to completion. Without such a system, neither FHWA nor the Congress has the means to obtain accurate and timely information on dollars spent on individual projects as well as the projects' status. Thus, project-specific information is not readily available to support or refute potential demonstration project rescissions.

Project-specific tracking is also needed in order to avert a potential internal controls problem. Funds authorized for demonstration projects are generally targeted to specific, individual projects; the funds cannot be used for other purposes. However, under FHWA's current fiscal management system, projects are tracked in groups, as they are coded by overall account number instead of a unique project number. In the case of ISTEA, groups of demonstration projects such as "Congestion Relief Projects" or "High Cost Bridge Projects" appear under one legislative section, and FHWA tracks the projects by category, by state. Thus, because one state received eight projects under the "Congestion Relief" heading, all these projects are lumped together under one such accounting code for the purpose of tracking. Given this amalgamated approach to tracking, the existing system does not have the capacity to recognize if a state has obligated more funds for an individual project than the project had been allocated. This outcome could occur if funds allocated for another project within the same accounting code were used.

Given congressional interest in projects' status, FHWA recognized the need for improvements in the agency's capacity to track and report on individual projects. FHWA is developing a

⁶Highway Demonstration Projects: Improved Selection and Funding Controls Are Needed (GAO/RCED-91-146, May 1991); Surface Transportation: Funding Limitations and Barriers to Cross-Modal Decision Making (GAO/T-RCED-93-25, Mar. 1993).

system that will have the ability to track projects by individual identification numbers as well as by associated public law and section numbers. This capability will address the internal controls concern. The system will further provide project descriptions; information on amounts of funding authorized, allocated, and obligated; estimated date of project construction; and status of project construction.

The agency currently expects to have computer programming and data entry completed by early July 1994, with full implementation by August 31, 1994. Early indications are that the tracking system will provide critically needed information on demonstration projects' financial status. Working with FHWA staff, however, we identified two key system refinements that can enhance the system's utility as a decision-making tool. First, capturing information on the reasons for any project delays--such as citizen opposition or potential project intrusion on wetlands--would assist decision-makers in understanding why given projects might be lying idle over a span of time. Delays might be defined under a variety of formulations, but one likely candidate would be to tag a project for closer scrutiny if no activity or obligations occurred over a 12-month period. Second, updates of project status information need to be made at least once a year in order to ensure that information is current and comprehensive. FHWA has indicated that the agency intends to follow through with such improvements.

LIFE-CYCLE COSTING: AN UNDERUTILIZED TOOL

Approximately \$50 billion will be needed annually by all levels of government through the year 2011 to maintain the condition and performance of federally funded highways, according to FHWA estimates. This investment need is nearly double the actual capital outlay of \$26 billion for construction and capital maintenance of federally funded highways in 1991. Therefore, it is critical that the investments made are cost-effective. A pivotal tool--life-cycle cost analysis--for assuring such cost-effective investments, however, is at times overlooked by states or its utility is handicapped because considerations, such as maintenance and user costs, are not analyzed. Furthermore, attention is increasingly turning from constructing new highways to maintaining existing ones. Although life-cycle cost analysis could play a vital role in choosing the most cost-effective repair strategies, it is often not used for this purpose.

A life-cycle cost analysis ensures that the selection of highway designs is not based solely on initial costs but instead considers all the future costs expected to occur over a highway's useable life. FHWA encourages states to complete life-cycle costing when selecting pavement type--asphalt or concrete--and for assessing alternative strategies for rehabilitating existing pavements approaching the end of their useful life. However, life-cycle costing is an elusive term subject to varying interpretations

of what such analysis should entail. In addition, FHWA provides limited criteria as to what constitutes an acceptable life-cycle cost analysis. As a result, state practices vary considerably and many states do not routinely perform the analysis or they omit critical factors.

A sizable number of states make highway investments without using life-cycle cost analysis. According to data from a 1993 American Association of State Highway and Transportation Officials (AASHTO) survey, nearly 30 percent of the responding states (11 of 38 states) reported that they did not use life-cycle cost analysis in making highway investment decisions. This percentage of nonusers may be conservative since 12 states did not respond to the survey.

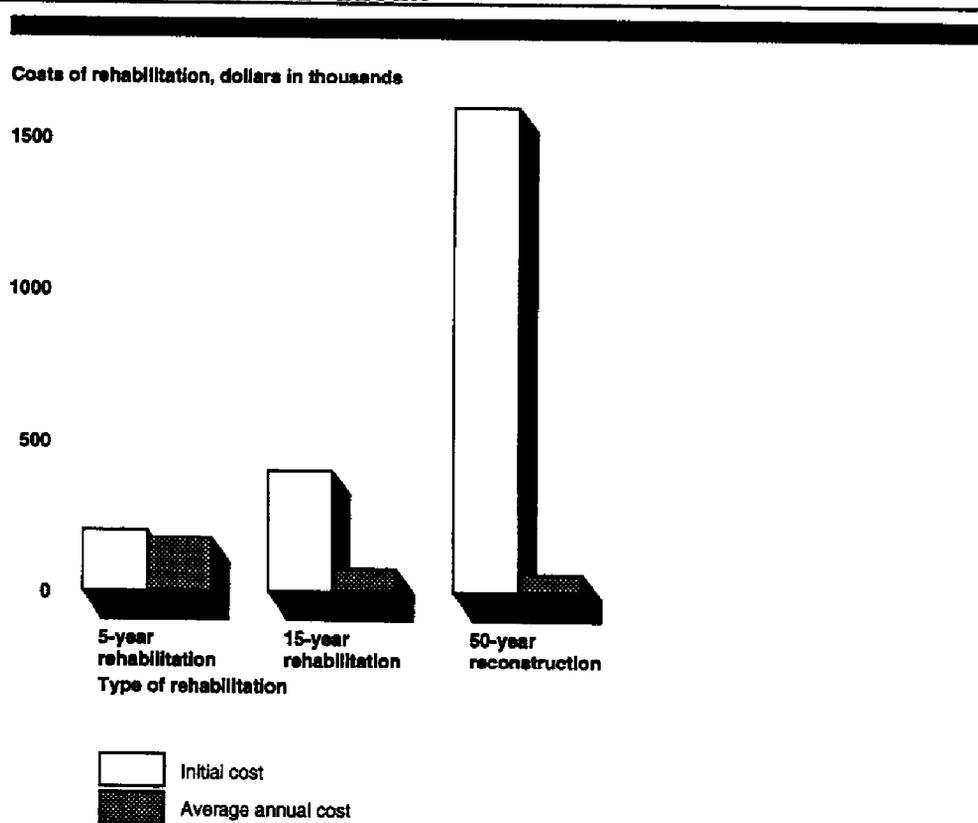
The AASHTO survey results bolster concerns raised by the Department of Transportation's Office of the Inspector General (OIG) in a series of audits on state procedures to select pavement type. For example, in September 1992, the OIG reported that the Florida Department of Transportation had not prepared life-cycle cost analysis on 12 of 13 federally assisted projects reviewed. Similarly, in April 1992, the OIG found that of seven pavements reviewed in South Carolina, none included life-cycle cost analysis to determine the most cost-effective design. For one of these projects, the OIG estimated that the project's \$5.8 million construction cost could have been reduced to about \$3.5 million--approximately \$2.2 million in savings--on the basis of life-cycle cost analysis that supported an asphalt rather than a concrete pavement alternative. For the other six projects, the OIG study found that the pavements were being underdesigned to last approximately 10 years at forecasted traffic, rather than the more common 20-year design life. The OIG estimated that the longer 20-year design life would yield savings of \$2.2 million.

AASHTO guidance suggests that states include both costs to the highway agency (e.g., initial construction and maintenance costs) and to the highway users (e.g., traffic delay costs associated with traffic congestion during rehabilitation) in their life-cycle cost analyses of pavement design alternatives. However, among states performing life-cycle cost analysis, many did not consider maintenance and user costs in their analyses. For example, the 1993 AASHTO survey found that only 16 of the 27 states that performed life-cycle cost analysis included any type of user costs. Furthermore, our analysis of 1984 Transportation Research Board survey data found that 22 of 45 states responding did not report including maintenance costs in their economic analysis.⁹

⁹Dale E. Peterson, Life-cycle Cost Analysis of Pavements, NCHRP, Synthesis of Highway Practice 122, Transportation Research Board (December 1985). Note: Some of the states responding to this question performed types of economic analysis other than life-cycle

Difficulties in estimating user costs relevant to a project is a primary reason this factor is often left out of life-cycle costing. Nevertheless, factoring in user costs associated with delays arising through construction zones or detours is an important determinant of the least expensive project, especially in an urban area, according to a senior FHWA policy official. This official illustrated the influence of user cost by comparing three pavement rehabilitation strategies. The results, as illustrated in the following figure, show that on the sole basis of initial cost, a 50-year reconstruction strategy looks seven times more expensive than the shorter 5-year rehabilitation strategy. But, when the analysis is viewed on a least annual cost basis, the 50-year pavement design becomes the optimal, cost-effective strategy, primarily because of user delay costs.

Figure 1: Initial and Average Annual Costs for Alternate Approaches to Highway Repair



Source: FHWA data.

cost analysis.

In addition, looking at just the two rehabilitation strategies, the above figure shows that the 5-year strategy looks cheaper than the 15-year strategy when just initial costs are considered. Just the reverse is true, however, when average annual costs are evaluated. Thus, a state that selects a project based on the lowest initial cost may save money in the short term, but this decision could end up costing more over the life of the project.

When states use life-cycle costing, its use is frequently limited to new construction and reconstruction rather than also encompassing rehabilitation strategies. As previously mentioned, AASHTO's 1993 survey showed that 27 of 38 state respondents used life-cycle cost analysis for highway investment decisions. Most of these states--25 of 27 states--used the technique in analyzing new and reconstructed pavement types.¹⁰ However, the technique was used less frequently when examining rehabilitation strategies, as only 16 states used life-cycle costing to evaluate rehabilitation designs.

NATIONAL HIGHWAY SYSTEM EXPECTATIONS AND LINKAGES CAN BE CLARIFIED

In December 1993 the Department of Transportation transmitted to the Congress a proposed NHS composed of 159,000 miles. The proposed NHS is expected to handle 40 percent of all vehicle miles traveled, accommodate 70 percent of the nation's commercial truck traffic, and comprise the nation's most important roads. The NHS is also to establish linkages to all modes of transportation, including ports, airports, rail terminals, and public transportation facilities, and important travel destinations.

The Department, working cooperatively with state and local officials as well as the private sector, has identified the most important roads in the nation that should form the basis of the NHS. Nevertheless, outstanding NHS issues remain to be addressed, including: (1) the expectations for the NHS and (2) NHS linkages to other modes of transportation.

NHS Expectations and Methods of Assessment Need to Be Established

A host of goals are associated with the NHS, but the goals may not be achieved unless system performance expectations related to the goals are established. FHWA has articulated many goals for the NHS, including economic development, enhanced mobility, reduced congestion, improved air quality, and the promotion of travel and tourism. However, these goals may not be attained unless

¹⁰ Reconstruction involves removing and replacing the road, rather than extending the life of an existing road through rehabilitation techniques, such as resurfacing.

preserving and maintaining the system is recognized as the foundation for the NHS. Furthermore, FHWA has not coupled the diverse goals for the system with system performance expectations and ways to measure how the system is performing to meet those expectations.

As part of the Highway Performance Monitoring System, FHWA uses data from the states that classify pavement into broad categories--poor, mediocre, fair, and good--on the basis of the roughness of the ride and surface defects. While the data have limitations on an individual state basis, FHWA uses them as an indicator of overall system performance, and the agency is in the process of making system improvements. The data show pavement condition improved throughout the 1980s and continues to do so into the 1990s. More specifically, in 1991 (the most recent year for which data are available) the indicator shows that the percentage of principal highways classified in good condition ranges from a high of 61 percent for rural Interstate highways to 46 percent for principal nonInterstate highways in urban areas. Consequently, the balance of the nation's major highways are at most in fair condition, which according to FHWA represents noticeably inferior pavements compared with new ones, and pavements that may be barely tolerable for high-speed traffic.

FHWA has not identified NHS performance measures; rather its efforts have essentially been focused on considering the use of existing data collection tools that could provide some indicators of the system's performance. In fact, FHWA is proposing that upon designation of the NHS, consultation would continue with interested groups to develop or refine existing policies and goals related to the performance, operation, and maintenance of the NHS routes. We agree that such refinements can and should continue after NHS designation. However, without basic expectations being set, such as those related to pavement condition and bridge deficiencies, no basis for assessing system accomplishments will exist.

Potential performance measures that could be used to track the performance of the system include ratings of the pavement condition, the number of bridge deficiencies, the number of fatalities, the extent of congestion, and the percentage of lane miles devoted to high-occupancy vehicles. For example, a performance expectation could be established that at least 75 percent of the Interstate highways be considered in good condition and at least 65 percent of other NHS highways be rated in good condition. Such expectations could be refined to reflect differences between states and/or urban and rural distinctions.

In some cases, the use of existing data sources to support NHS performance measures would need to be modified to more precisely capture NHS data. For instance, tools like the Highway Performance Monitoring System, used to assess pavement condition, are not now aligned with the proposed 159,000-mile NHS network; data are now

collected on a larger network of 207,000 miles. To collect data for the NHS, tools would have to be modified to capture pavement condition and form a benchmark for evaluating subsequent performance. In a March 1994 testimony, we recommended that FHWA establish performance expectations and measures in conjunction with the major goals of the NHS to guide progress assessments and subsequent investment decisions.

NHS Linkages to Other Modes Need to Be Finalized

One of the major purposes of the NHS--establishing connections with other transportation modes, such as major ports, airports, and public transit--may not be completed until 1997. The Department is proposing that the Congress approve the NHS with the understanding that the connections would be made after such approval. In the interim, the NHS map indicates, for illustrative purposes, possible connections that may be made.

The Department has stated that the illustrative connections on the map are not intended to imply that the NHS connects with every facility identified, or that such connections will necessarily be made in the future. Instead, the Department is proposing that within 2 years of NHS approval, the states, in cooperation with the metropolitan planning organizations and other officials, identify major intermodal facilities and appropriate access on the basis of criteria to be established by the Department within the next several months.

FHWA's initial intention to work with the states to establish the NHS' connection with other transportation modes as part of the NHS designation process proved unsuccessful. One of the reasons was that FHWA's NHS instructions to the states on the NHS designation process in June 1992 did not define what a major intermodal facility was. As a result, FHWA believed it needed to rethink the state effort. FHWA subsequently worked with the Department modal administrators and the private sector to identify the connections with other modes illustrated on the map. The list of connections include 104 ports, 143 airports, 321 Amtrak stations, 191 rail/truck facilities, and 319 public transit systems.

It is clear that facilities such as major airports generally have access provided by an Interstate highway, thus such facilities would be connected to the proposed NHS. Nevertheless, the Department acknowledges that several mistakes were made in developing the illustrative list of connections to the NHS. For instance, neither FHWA nor the Federal Railroad Administration could identify the NHS road access provided to the 321 Amtrak stations on the map. In addition, the Department has not defined what it means by appropriate NHS access to a modal facility, such as a facility that is within one mile of an NHS route. Similarly, neither FHWA nor the Federal Transit Administration could provide

us with any details on what type of NHS connections had been established with the 319 public transit systems. Also, intercity bus terminals were inadvertently omitted from the illustrative listing of NHS connections. Last, FHWA did base selection of the illustrative facilities on criteria. However, the agency is reassessing it as part of their ongoing efforts to develop criteria over the next few months to guide selection of intermodal facilities. This reassessment may result in additions or deletions of illustrative facilities in various categories.

In the near term, the proposed NHS represents a highway system of important roads, but the connections shown on the map remain illustrative ones. Since the establishment of consistent, broader NHS linkages to other transportation modes may be postponed possibly until 2 years after NHS enactment, we suggested in March 1, 1994, testimony before the Subcommittee on Surface Transportation, House Committee on Public Works and Transportation, that the NHS could be approved conditionally based on subsequent congressional approval of the connections established to other modes of transportation and major travel destinations.

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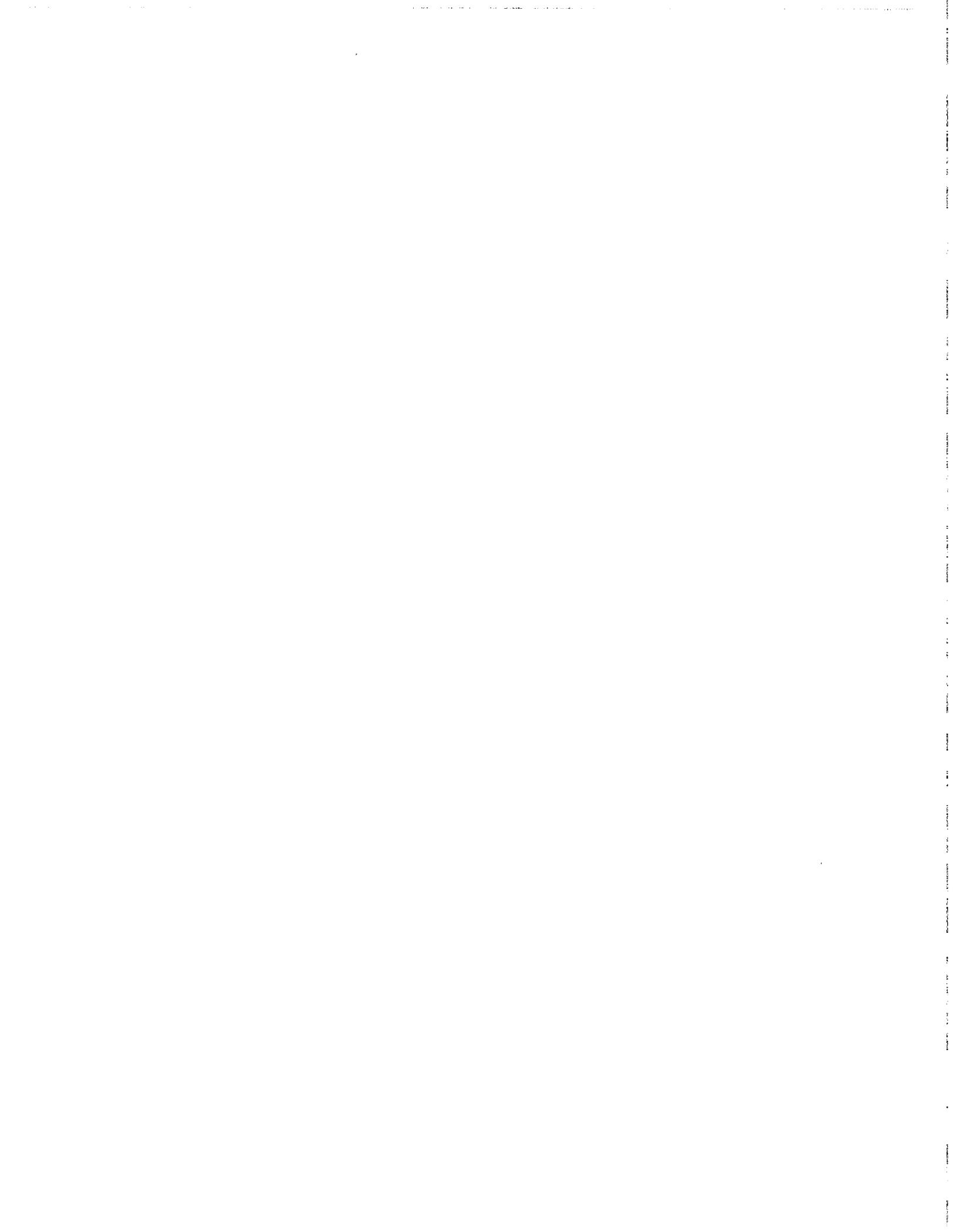
In summary, Mr. Chairman, it appears that full funding of the core highway programs will not be possible in the fiscal year 1995 budget without rescinding demonstration projects or reducing the funds available to highway programs, other transportation programs, other federal programs, or a combination thereof. The fiscal year 1995 predicament presents this Subcommittee with a series of difficult choices, and it appears that there are no win/win options; some program or programs will be reduced.

Part of the information base on which to make such difficult and important decisions--the status of highway demonstration projects--does not currently exist. However, FHWA is developing a system to track the status of individual highway demonstration projects. We have been working with FHWA as it develops this system and FHWA has agreed to incorporate several enhancements we suggested. These enhancements include requiring status information on projects and ensuring that project status is updated at least once each year.

Tough budgetary choices at the state level on individual highway projects affect greatly how we are investing our federal highway dollars. Many states are not using life-cycle cost analysis as the basis for decisions concerning highway projects. Rather, they are at times choosing projects with the lowest initial cost. While this saves money now, it may be short sighted. If one analyzed project costs and benefits over the life of the project, substantial savings could be realized.

Establishing performance expectations for the various goals of the NHS will help to set priorities for the system and guide investment choices when it comes to deciding between maintenance and preservation on the one hand and expanding capacity on the other. Expectations will provide some meaning to pavement condition data--are the roads in satisfactory condition or not? Furthermore, the connections with other modes and the mileage associated with them is not now known. Therefore, we have suggested in earlier testimony that the Congress consider approving the NHS conditionally with final approval subject to later review of the connections established to other modes and travel destinations.

Mr. Chairman, this concludes my testimony. We would be pleased to respond to any questions that you or any other member of the Subcommittee may have.



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