

**Analysis of S.1072, as modified and agreed to by the Senate
as an Engrossed Amendment to H.R.3550 on 5/19/04
(RTA-000-0699A)**

The following is a six-year apportionment analysis developed by the FHWA's Office of Legislation and Strategic Planning based on the Senate-passed version of H.R. 3550, which was nearly identical to S.1072 as passed by the Senate on 2/12/04. (The minor differences between the Senate's Engrossed Amendment to H.R.3550, and S.1072 did not affect the State-by-State apportionments. To avoid confusion with the House version, this bill will be referenced as S.1072 for the remainder of this analysis.) The analysis is comparable to RTA-000-0530A, FHWA's previous baseline analysis of S.1072 as passed by the Senate on 2/12, except that the factors used for computing the apportionments have been updated, and some technical refinements have been made in the application of the factors.

This new set of certified factors represent the latest available data as of May 2004, and would be used by the FHWA for computing the FY 2004 apportionments upon passage of a six-year reauthorization bill.

Equity Bonus Provisions

S. 1072 includes a new "Equity Bonus" program, authorized as "such sums as are necessary". This Equity Bonus would replace the current law Minimum Guarantee approach (\$1,000,000 minimum; keep States as close as possible to an initial set of shares while raising States to a specified percentage of their share of contributions to the Highway Account of the Highway Trust Fund (HTF)) with a modified approach that would only provide funding to States as necessary to bring them up to a specified percentage of their share of HTF contributions, subject to certain floors and ceilings. The Equity Bonus program would be calculated iteratively, to ensure that all basic criteria are met even after funding for some States has been adjusted.

S.1072 specifies the following thirteen programs would be included in the Equity Bonus computation (Interstate Maintenance, National Highway System, Bridge Program, Surface Transportation Program, Congestion Mitigation and Air Quality, Highway Safety Improvement Program, Appalachian Development Highway System, Infrastructure Performance and Maintenance, Recreational Trails, Safe Routes to School, Rail-Highway Crossings, Metropolitan Planning, and the Equity Bonus itself).

Based on S.1072, a 95% Equity Bonus was applied for all years. However, a special provision provides that certain States would receive the greater of 95% of their share of HTF contributions, or their share of total apportionments over the 6-year period of TEA-21. This would include States with a population density of less than 20 persons per square mile, a total population of less than 1 million, or a median household income of less than \$35,000, based on the decennial census. Eighteen States would qualify for this provision. (AL-Alabama, AK-Alaska, AR-Arkansas, DE-Delaware, DC-District of Columbia, ID-Idaho, KY-Kentucky, LA-Louisiana, MS-Mississippi, MT-Montana, NV-Nevada, NM-New Mexico, ND-North Dakota, OK-Oklahoma, SD-South Dakota, VT-Vermont, WV-West Virginia, and WY-Wyoming).

Another special provision requires that in any fiscal year 2004 to 2009, no State may receive less than 110% of its average annual TEA-21 apportionments. In addition, a percentage ceiling relative to average annual TEA-21 apportionments was also to be applied at a set level for each individual year. (These were to be set at the following levels, FY 2004-120%, FY 2005-130%, FY 2006-134%, FY 2007-137%, FY-2008-145%, FY-2009-250%). The annual growth ceilings were to override all other

provisions, except that no State may receive a negative equity bonus, and no State may receive less than 90.5 percent of its relative share of HTF contributions.

Technical Notes:

This analysis was based primarily on apportionment factors representing the latest available data as of May 2004, except that the Highway Trust Fund contributions have been modified in the latter years to reflect the crediting to the Highway Account of two additional increments of revenues from gasohol taxes (2.5 and 5.2 cents), as described below. The analysis assumed the 1% Metro Planning takedown would apply only to those programs that it applies to under current law, and did not extend the takedown to the five new formula programs. A 2% administrative takedown was applied to the Safe Roads to Schools program, but no administrative takedown was applied to any other program. Additional takedowns set as specific dollar figures were applied, based on bill language.

H.R.3550 includes provisions that would change the amount of revenue deposited into the Highway Account of the Highway Trust Fund per gallon of gasohol. The first increment of 2.5 cents per gallon would be credited to the Highway Account retroactively, beginning 10/1/03, while the second increment of 5.2 cents per gallon would be imposed and credited to the Highway Account beginning 10/1/04. Since Highway Account contributions are calculated based on revenue and gallonage data from prior years, there would normally be a lag between the timing of these tax changes and when they would begin to be reflected in the apportionment factors. This analysis has been refined to reflect this data lag, so that the 2.5 cent increment would begin to affect the apportionments starting in FY 2006, while the 5.2 cent increment would begin to affect the apportionments starting in FY 2007.

S.1072 adds a new Highway Safety Improvement program, to be distributed among the States using the same formula as used for STP. Two of the takedowns applied to this program, for the Safe Routes to Schools program and the Protective Devices at Rail-Highway Crossings program, are also apportioned to States using this same STP formula. The bill also adds a new discretionary program for Infrastructure Performance and Maintenance (IPAM). Since no distribution formula was provided for IPAM, these amounts do not factor into the State-by-State apportionments shown and could not be used in the computation of the Equity Bonus.

S.1072 adds a Border Planning, Operations, Technology, and Capacity Program, to be apportioned based on average annual weight of all cargo entering the border State by commercial vehicle across the international border with Canada or Mexico, the average trade value of all cargo imported into the border State and all cargo exported from the border State by commercial vehicle across the international border with Canada or Mexico, the number of commercial vehicles annually entering the border State across the international border with Canada or Mexico, and the number of passenger vehicles annually entering the border State across the international border with Canada or Mexico. This program is not included within the Equity Bonus computation.

Guide to Tables

The attached Excel file contains 11 tables. (The following list is based on the names on the tabs in the Excel spreadsheet, rather than the titles on the printed output.)

The “Return Summary” page compares 6-year funding for each State under this scenario with that under TEA-21. This table also includes each State’s relative rate of return on their contributions to the Highway Trust fund. (This later computation is used in the rate of return floors and target level, used in the Equity Bonus computation).

The “Aggregate” page contains the 6-year total apportionments by program and State. This is followed by the “Average” page, which shows average annual values, and the “2004”, “2005”, 2006”, “2007”, “2008” and “2009” pages, which show the same information for individual years.

The “Share Comp” page shows each State’s percentage of the total apportionments for each individual year under TEA-21, and under S.1072.

The “Annual Comp” page shows each State’s total apportionments by year, and compares them with their average annual apportionment under TEA-21. (This latter computation is used in the percentage floors and ceilings set relative to TEA-21 in the Equity Bonus computation).

Findings

Based on the latest available data as of May 2004, and the assumptions listed above, the required six-year cost of the Equity Bonus would be \$37.9 billion.

While the target for the relative rate of return on HTF contributions is 95%, the annual percentage ceilings relative to TEA-21 prevent some States from reaching that level in FY 2004 through FY 2008, and some States’ relative rates of return on HTF contributions remain at the minimum level allowed of 90.5%. In FY 2009, the percentage ceiling relative to TEA-21 is set high enough so that all States can receive a 95% relative rate of return on HTF contributions.

Equity Bonus Summary						
	Assumed in Analysis				Calculated in Analysis	
	Floor Relative to TEA-21 Average	Equity Bonus	Lowest Rate of Return	Target Rate of Return	Equity Bonus	Lowest Rate of Return
2004	110%	120%	90.5%	95.0%	\$ 6.4 bil.	90.5%
2005	110%	130%	90.5%	95.0%	\$ 4.5 bil.	90.5%
2006	110%	134%	90.5%	95.0%	\$ 4.4 bil.	90.5%
2007	110%	137%	90.5%	95.0%	\$ 5.0 bil.	90.5%
2008	110%	145%	90.5%	95.0%	\$ 5.3 bil.	90.5%
2009	110%	250%	90.5%	95.0%	\$12.3 bil.	95.0%
Total					\$37.9 bil.	

The eighteen States (identified above) that are eligible for the greater of a 95% relative rate of return on their HTF contributions or their share of total apportionments under TEA-21 can also be affected by the annual percentage ceilings relative to TEA-21. However, in this analysis, this did not occur; all 18 States grew by at least the national average percentage of 38.29% relative to TEA-21 (based only on those programs included in the Equity Bonus computation).

Adding the estimated cost of the Equity Bonus to the authorized program levels directly identified in S.1072 brings the total amount to be apportioned to States to \$232.7 billion.

RATE OF RETURN AND 6 YEAR FUNDING COMPARED TO TEA-21 FY 2004-2009 APPORTIONMENTS FOR RTA-000-0699A

