VII. FINANCIAL PLAN

FHWA Funds

The Federal Highway Administration (FHWA) funds are appropriated by Congress. FHWA funding levels are identified in the six-year Transportation Act. Each year, a federal Appropriations Act, more accurately defines the amounts of funds that will be given to each state. There currently is no approved six-year Act. The latest Transportation Act, SAFETEA-LU expired on September 30, 2009. Funding for the 2010 federal fiscal year has been distributed in a piecemeal basis through extensions.

Obligation Limitation

In the Code of Federal Regulations (CFR), 23CFR450.216(m) states that financial constraint of the STIP must be demonstrated. On July 1, 2010, in lieu of a new Transportation Act, FHWA Notice N4510.728 was issued. This notice provided advance notification of Federal-aid highway funds to be apportioned on October 1, 2010 for the first quarter of the 2011 federal fiscal year, ending December 31, 2010. It is understood that the anticipated apportionment amounts are subject to change before issuing the certificate of apportionment on October 1, 2010.

The Notice identified for Hawaii approximately $43.8 million in funds for the first quarter of FFY 2011. It is assumed that the obligation **limitation** will be steady at about **92%**, therefore, Hawaii can expect to receive approximately $40.3 million in limitation over the first quarter of FFY 2011. Extending this figure through the four quarters of FFY 2011, it is reasonable to assume that Hawaii will receive approximately $161 million in limitation in FFY 2011.

On October 1, 2010, another FHWA Notice N4510.730 was released. This notice identified actual apportionments for the first quarter of FFY2011. Obligation Limitation for the first 64 days of FFY 2011 was also released. These numbers from N4510.730 were exactly in line with the anticipated apportionments released in Notice N4510.728.

A revenue growth rate of 1% was used to estimate obligation limitation for 2012 – 2014. This growth rate was based on the growth rate established by SAFETEA-LU apportionment data that was released in 2005.

Any future earmarks are assumed to carry their own limitation and not reduce the regular limitation identified in these calculations.

After applying these assumptions to the future years, the obligation limitations for the 2011-2014 federal fiscal years are as follows:

FFY 2011 - $161.0 million
FFY 2012 - $162.6 million
FFY 2013 - $164.2 million
FFY 2014 - $165.9 million

The two extra **illustrative** years (2015-2016) will not be endorsed by FHWA or FTA in any way. They are for **informational and planning purposes only**, to provide an idea of what the intermediate future has in store.

Note: Projects (project phases) seeking to advance from the illustrative years (2015-2016) to the approved years (2011-2014) of the STIP will need to proceed through a major amendment revision process. The Illustrative years are not considered part of the official STIP. Financial constraint in the STIP will be strictly maintained from fiscal years 2011-2014.

Funding Category Limits

Funds from one funding category may be transferred (with associated repercussions and limits) to another funding category if one category is "short". Therefore, the total amount of **Obligation Limitation** is more important as a financial limitation. However, although this provides more immediate flexibility, transferring funds from one category to another, temporarily precludes the ability to apply for certain discretionary funds.

The major categories of funds include:

Congestion Mitigation and Air Quality Improvement Program (CMAQ) – used to mitigate air quality issues. Since Hawaii has no air quality issues, these funds may be used more flexibly though these funds are still mostly programmed to address congestion.

High Priority and Discretionary – funds that are identified specifically for an individual project or effort. These funds cannot be used to fund things outside of the description.

Highway Bridge Program (BR) – funds that are used to maintain/replace bridges (structures of 20 feet or greater regardless of the functional classification of the road that it carries) that carry vehicular traffic throughout the state.

Highway Safety Improvement Program (HSIP) – funds used to specifically address safety issues on highways. Projects must be identified through the Highway Safety Improvement Program to be eligible for these funds.

Interstate Maintenance (IM) – funds to improve and maintain the Interstate System on Oahu.

National Highway System (NHS) – used for improving and maintaining roads designated on the National Highway System.

Surface Transportation Program (STP) Flexible – practically any highway project that is federal-aid eligible may use these funds.

Transportation Enhancement (TE) Program – these funds can be used to program activities or projects that add community or environmental value to any active or complete transportation project and are over and above what is required for normal environmental

mitigation for transportation improvements. Projects must be identified in the TE Program to be eligible for these funds.

Financial Analysis

The financially constrained 2011-2014 (+2) STIP programs the following amounts of federal funds:

FFY 2011 – $162.5 million
FFY 2012 – $163.3 million
FFY 2013 – $165.2 million
FFY 2014 – $165.9 million

The submitted FHWA STIP for fiscal years 2011-2014 (+2) surpasses the obligation limitation limits by:

FFY 2011 – $1.5 million
FFY 2012 – $700,000
FFY 2013 – $1 million
FFY 2014 – $0

Total shortfall - $3.2 million

To account for this financial shortfall in FFYs 2011-2014, there are FHWA funds available **outside** of the regular obligation limitation. They carry their own limitation. The funds are identified as Equity Bonus Exempt and Equity Bonus Special Limitation funds. These funds are flexible. As of September 30, 2010, the Federal Management Information System (FMIS) report that identifies federal aid funding levels identified a total of ~ $10.8 million exempt and special limitation funds that **already exist** in the HDOT federal-aid accounts.

The future of the Federal Highway Trust Fund is still uncertain. Future legislation for new methods of tax collection such as Vehicle Miles Traveled (VMT) could help to shore up the Fund. Until that time, recognizing that the financial assumptions used in this plan have the potential to be different than actual funding levels, HDOT is prepared to revise the STIP accordingly through its STIP revision process. Cooperating agencies and the public have already been notified of the possible reductions of future funds through our various coordination and public meetings.

FTA Funds

FTA funds are also determined in the transportation act. The majority of FTA funds identified in the STIP are program related, though some funds are identified for specific projects in anticipation of future grant approvals.

The OahuMPO TIP Report provides a discussion on the funding levels for FTA funds for Oahu. See Section 7.1.2 FTA Program in the 11-14 TIP report (p. 16).

http://www.oahumpo.org/tip_docs/TIP11-14/FFYs11-14_TIP.pdf

FTA funds for the Counties of Hawaii, Maui and Kauai are from **FTA Section 5311** non-urbanized area formula program funds, **FTA Section 5309** funds. These funds mainly operate and maintain the rural transit (bus systems on Hawaii, Maui and Kauai and ferry systems in Maui County) systems on the neighbor islands.

Other FTA funds programmed in the STIP include FTA Section 5310, FTA Section 5316 (JARC) and FTA Section 5317 (New Freedom) funds.

FTA Section 5310 funds provide transportation assistance to meet the special needs of the elderly and disabled where mass transit is unavailable.

FTA Section 5316 (non-urban JARC) formula grant program aims to improve access to transportation services to employment and employment related activities for welfare recipients and eligible low-income individuals and to transport residents of urbanized and non-urban areas to suburban employment opportunities.

FTA Section 5317 (non-urban New Freedom) formula program funds are available for capitol and operating expenses that support new public transportation services beyond those required by ADA and new public transportation alternatives beyond those required by ADA designed to assist individuals with disabilities with accessing transportation services.

The FTA numbers reflected in the neighbor island programs are based on the latest information of FTA funding levels for FFYs 2010 and information from FTA's website.

http://www.fta.dot.gov/index_4696.html#Transit_Funding_Information

Using an assumed modest revenue growth rate, these funding levels were then projected to the FFY 2011-2014 (+2) STIP. Historically the change in funding from year to year has averaged 5-6% annually. However, due to fluctuations between program funding and based on the current state of the economy, a conservative assumption of 3% has been utilized across all Federal Transit Administration programs. **The FTA program will be revised as necessary as more accurate numbers are clarified.**

These funds get distributed through a grant application process.

Local Funds

All projects included in the STIP have a committed local match or expectations thereof at the time of obligation. Local funds are required to match all federal funds. Local funds usually consist of state, county and private funds.

State

The State imposes taxes, fees and charges relating to the operation and use of motor vehicles on the public highways of the State. These funds are deposited into the State Highway Fund, established under Section 248-8, Hawaii Revised Statutes (HRS). Moneys deposited in the State Highway Fund are used for land acquisition, planning, design, construction, repair and maintenance of the State Highway System.

The current taxes, fees and charges deposited to the State Highway Fund consist of:

1. Highway Fuel Taxes
2. Vehicle Registration and Licensing Fees
3. Vehicle Weight Tax
4. Motor Vehicle Rental and Tour Vehicle Surcharge Taxes

Other miscellaneous sources of revenues include interest earnings on moneys previously credited to the State Highways Fund, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees and other miscellaneous revenues.

Every other fiscal year, HDOT prepares for Governor's approval on operating and capital improvements program for the next two fiscal years, describing HDOT's program that period. After Governor's review and approval, it is submitted to the Legislature as a part of the Administration's biennium budget. The Legislature reviews the biennium budget in detail and authorizes all or a portion of the biennium budget and the individual capital improvements projects.

Authorization of the operating and capital improvements budget by the Legislature as part of the biennium budget includes the appropriation of moneys from designated sources. These appropriations authorize the funding for the local match for the state federal-aid projects in the STIP.

Subsequently, in the first year of a biennium budget, the HDOT may revise the second year of that biennium budget for presentation to the Governor for approval and to the Legislature for supplemental authorization.

Annual State Funding Levels

Annual state funding levels of the programs that are commonly used to match federal funds are approximately as follows:

Capitol Improvement Projects - $45 million
Special Maintenance Projects - $53 million
Operation and Maintenance - $12 million

Total annual state resources ~ $110 million

State jurisdiction projects statewide encompass approximately 70% of the projects programmed in the STIP. On average, that's approximately $120 million in regular federal aid that require a state match. Assuming the majority of these projects are 80/20 match, the state would need $30 million. Based on the above averages, the state can afford the required match and be able to adjust to significant levels of cash flow that may be required to go forward with multiple advance construction obligations each year.

The state is exploring the implementation of its own VMT tax to replace the traditional fuel tax by the gallon to ensure that existing funding levels can be maintained. Also, the State is exploring raising existing fuel and other vehicle taxes (via the Highway Modernization Plan) to help further supplement state funding levels, not only to ensure the state match of federal funds, but to significantly expand its existing highway program to help catch up on the growing list of highway needs.

County

Each county programs funds from existing revenue sources for county projects. The counties exercise independent authority under the Hawaii State Constitution to assess, levy and collect real property taxes. The counties also receive its share of the gas tax. The percentage and distributions differ slightly in each county. The Hawaii Revised Statutes authorizes the counties to fix the fees and charges for all public services not otherwise provided for by the State and to issue general obligation bonds to finance its public improvement projects. County funds are appropriated through each county's council.

Private Funding

The need to find alternative and innovative funding sources has lead to the development of developer impact fees to mitigate traffic caused by developments and discussions on other public-private partnerships such as toll roads. Sometimes instead of public money, this private funding is used to provide the match or soft match to federal funds.

Annual Financial Plans for Major Projects

Title 23 United States Code Section 106 requires recipients of Federal financial assistance for projects to develop an annual Financial Plan for those projects that fall into either of the following two tiers:

- Projects with an estimated total project cost of $500 million or more (Major Projects – 23 USC 106(h)); or
- Projects with an estimated total project cost between $100 million and $500 million (Major Projects Other – 23 USC 106(i)).

At the FHWA Hawaii Division Administrator's discretion, projects within the State of Hawaii that fall in the range of $90-$100 million may also be required to prepare a Financial Plan.

Projects meeting these thresholds shall have Financial Plans and Annual Updates prepared by the Project Owner. The Project Owner can determine the effective date of the Annual Update submission. It could be on the anniversary of the initial financial plan or coincide with the State's fiscal year.

The FHWA Hawaii Division may provide assistance in developing Financial Plans and obtaining a Financial Plan template for Major Projects. For more information about Major Project requirements and Major Project financial plans, see the following FHWA websites:

- http://www.fhwa.dot.gov/programadmin/mega/; and
- http://www.fhwa.dot.gov/programadmin/mega/fplans.cfm.

Advance Construction

Some projects in the STIP are currently programmed using this innovative financing technique. Advance construction is a technique that allows a project to be initiated using non-federal funds while preserving eligibility for future federal funds. An advantage of advance construction authorization instead of deferring to a later year is that the project cost is locked and will remain largely unaffected by inflation forces.

Advance construction authorization means that FHWA has determined that the project technically qualifies for federal aid, but no federal funds or not enough federal funds are available to fully fund the project in the year that it's ready. In the 2011-2014 STIP, only State jurisdiction projects are programmed with advance construction.

Programming advance construction also provides some flexibility in financial constraint of the STIP. A project programmed for advance construction can also be fully funded if extra obligation limitation suddenly becomes available.

After an advance construction project is authorized, the non-federal aid funds are reimbursed in the appropriate future federal fiscal year. The key is that there should be enough local funding to cover any invoices and **cash flow requirements** before full federal funding is available in the future year. **Timing of the project obligation** is critical to the exact financial requirements of a project using advance construction to proceed. The less time between advance construction authorization and when the advance construction reimbursement is available, the less local money that will be needed up front.

To help alleviate the strain on local money sources, the majority of larger ($10 million +) projects that are programmed with advance construction are planned for **partial advance construction**. This means that instead of only local funds used up front, a partial federal portion is authorized to assist with the required cash flow for the project. Then a partial advance construction reimbursement is authorized in the future year.