



March 27, 2015

To: Federal Co-Chair
ARC Executive Director
ARC General Counsel
ARC Research Director

From: Hubert Sparks, Inspector General

Subject: Memorandum Report 15-14 - Appalachian Development Highway System (ADHS),
Unobligated Balances and Unpaid Obligations

Available information identifies \$1.76 billion in unobligated balances as of 11/13/14 pertaining to funds approved during the period 1998 to 2012. This includes available funds for eleven Appalachian States ranging from \$14 to \$423 million dollars. An additional \$508 million was reported as unpaid obligations.

A September 30, 2014 ADHS Status Report notes 2,762.9 miles or 89.4 percent of the 3,090 miles authorized for the ADHS were either complete, open to traffic or under construction.

Funds were approved under several pieces of legislation between 1965 and 2012 and are intended and restricted for use in connection with the ADHS or Local Access Roads. From FY 1965 through FY 1998, federal funding for the ADHS was appropriated by Congress through the Appalachian Regional Development Act. From FY 1999 through FY 2012, ADHS funding was provided from the Federal Highway Trust Fund through the Transportation Equity Act for the 21st Century and the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A legacy for users (SAFETEA-LU).

In July 2012, Congress changed the way the ADHS is funded. The transportation law Moving Ahead for Progress in the 21st century (MAP-21) includes ADHS funding as part of the larger Surface Transportation Program (STP). Under MAP-21, STP funds are apportioned to the Appalachian states, with each state using the funding at its own direction. The law also increased the federal share of funding for ADHS corridors and access roads from 80 percent to 100 percent. The 100 percent federal share applies to funds apportioned to the ADHS in prior years and new funds apportioned to the states and used for ADHS construction. The authority for 100 percent federal funding extends from FY 2012 through FY 2021.

A recent study contracted by ARC noted completion of the ADHS as important to economic development in the Appalachian Region.

As noted above the STP provides states incentive to complete the ADHS by eliminating state matches for use of STP funds on the ADHS and access roads and applies the 100 percent funding to funds apportioned to ADHS in prior years. Available funds from the High Performance Program (HPP) can also be utilized with 100 percent Federal cost sharing.

Table A identifies average expenditures for FYs 2012-2014 and unobligated balances.

Eleven of the twelve States not yet completing ADHS mileage require substantially larger funds than available under ADHS. A 2012 study estimated that \$11.3 billion was required as of 9/30/11 to complete the ADHS and \$2.3 billion of funding had been previously apportioned to the Appalachian states as available to the ADHS. As of 11/13/14 \$2.28 billion in unobligated and unpaid obligations remained available.

The FY 2016 ARC budget summary notes the available ADHS funds as \$2.3 billion and estimates expenditures of \$470 million annually during FYs 2013-2017. If these estimates are accurate the balance of ADHS funds would be utilized. However, reported expenditures during FY 2012, 2013 and 2014 approximated \$66, \$311 and \$149 million (Table A). Based on \$460 million in obligations in FYs 2013 and 2014 the average yearly spending needed in FYs 2015 through 2017 to meet the ARC estimate would be about \$615 million annually. Also, in the 2013 Completion Plan Report several States noted a lack of current plans to complete segments of the ADHS and several estimated completion over twenty years in the future.

Conversely, one State with the largest unobligated balance noted in the Report that it did not intend to complete a corridor that would have utilized about one third of its available funds but recently indicated a change of position. Thus, we recognize it is difficult to accurately estimate the extent to which ADHS unobligated funds will be utilized in the near future.

Primary reasons cited for large unobligated balances include State priorities directed at other needed highway related actions and reluctance to move forward without assurance that ADHS or other dedicated funds will be available to complete eligible miles that are mostly in rugged terrain areas.

We recognize the constraints with respect to completion of the ADHS. However, based on available funds and recent disbursements we recommend ARC review and revise projected time frames with respect to expenditures of ARC funds. Also, coordination with the Federal Highway Administration (FHWA) that is now responsible for ADHS corridor approvals and management to obtain updated information, particularly for states with large ADHS balances, with respect to which ADHS segments are currently intended for completion, estimated time frames for completing and updated cost to complete information is recommended.

ARC highlighted the obstacles noted in this report with respect to project delays including insufficient dedicated funding and difficult terrain of much of the remaining mileage. ARC agreed to review estimates of ADHS expenditures between 2013 and 2017 and revise as necessary and consider requesting updated information from FHWA with respect to State construction intentions, including estimated ADHS expenditures for the period 2015-2019.

Table A

ADHS State Obligations FYs 2013-2014
Millions

State	<u>FY 2013</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>Average Per year</u>	9/30/14 Unobligated <u>balance</u>
AL	3.4	45.6	80.0	43.0	60.4
GA	1.1	2.1	.8	1.3	223.7
KY	8.9	100.4	20.9	43.4	14.2
MD	-.3	.7	1.2	.5	99.8
MS	12.1	-----	4.9	5.7	----
NY	4.1	19.2	-.1	7.7	22.2 2/
NC	1.8	5.4	6.6	4.6	272.4
OH	.5	.8	11.9	4.4	117.4
PA	6.9	114.6	25.5	49.0	422.6
SC	.03	----	-2.4	.7	28.7 1/
TN	-5.4	8.5	4.3	6.1	261.2
VA	.1	14.9	.5	5.2	157.3
WV	<u>35.6</u>	<u>-1.6</u>	<u>-4.5</u>	<u>9.8</u>	<u>86.2</u>
	<u>\$66.3</u>	<u>\$310.5</u>	<u>\$149.4</u>	<u>\$175.3</u>	<u>\$1,766.50</u>

1/ ADHS completed

2/ Minor work needed