

GAO Highlights

Highlights of [GAO-21-88](#), a report to the Committee on Transportation and Infrastructure, House of Representatives

Why GAO Did This Study

The Federal Highway Administration (FHWA) provides funding to states to build and maintain the nation's roadways and bridges. States must follow applicable federal standards such as laws that require contractors to pay locally prevailing wages. States can make federal funding available to local agencies for projects, but the ability of local agencies to comply with federal requirements is a well-documented risk area. Some states have established "fund swapping" programs where local agencies swap proposed federal funding with the state in return for state dollars. FHWA does not directly oversee these programs, and no federal statutes or regulations authorize or prohibit fund swapping.

GAO was asked to review swapping of federal-aid highway funds and its impact. In this report, GAO describes: (1) the extent to which states and local agencies engage in fund swapping; (2) factors affecting whether state and local agencies engage in federal fund swapping; and (3) what is known about the impact fund swapping has on prevailing wages paid to workers and other federal requirements. GAO reviewed relevant regulations and reports; sent a questionnaire to officials in 50 states; and interviewed officials from 15 state DOTs that reported having swapped funds in the past 5 years and 3 local agencies selected for program size and other factors.

The U.S. Department of Transportation provided technical comments, which we incorporated as appropriate.

View [GAO-21-88](#). For more information, contact Elizabeth Repko at (202) 512-2384 or repkoe@gao.gov.

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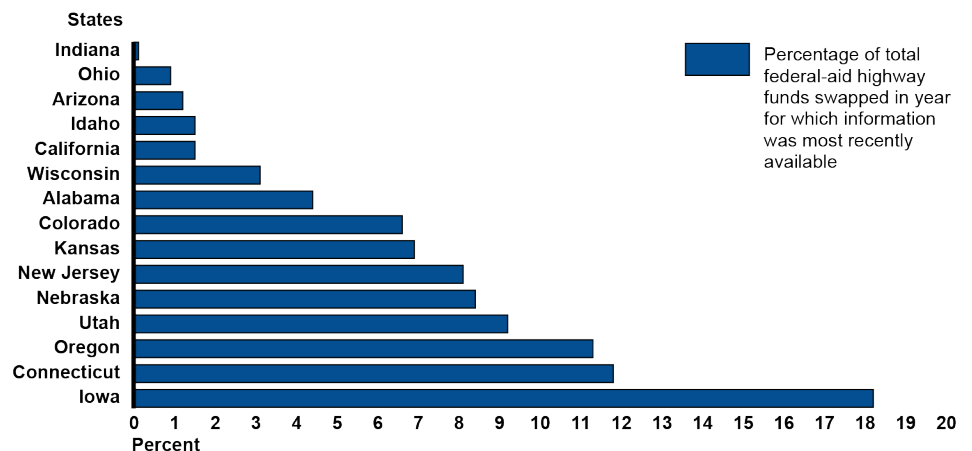
FEDERAL-AID HIGHWAYS

States and Local Governments Reported Benefits to Federal Highway Fund Swapping, but Impacts Cannot be Definitively Determined

What GAO Found

In the past 5 years, 15 states reported they had fund swapping programs, which allow local agencies, such as cities and towns, to swap their state's proposed suballocation of federal-aid highway funds for state transportation funds. This exchange allows local agencies to undertake local projects with state funds, rendering the projects subject to applicable state and local, rather than federal, requirements. For most states, the reported amount of federal funds swapped is a relatively small portion of the state's overall federal-aid apportionment, ranging from less than 1 percent to 12 percent. However, Iowa swapped about 18 percent (or about \$97 million) of its federal-aid funds in 2019. See figure.

Percentage of States' Federal-aid Funds Swapped for State Funds



Source: GAO analysis of information from state DOT officials and FHWA data. | GAO-21-88

Note: Data are for 2019, except for Alabama, Colorado, New Jersey, and Wisconsin where GAO presents the most recent data these state DOT officials had available.

Officials GAO interviewed from state departments of transportation (DOTs) and selected local agencies said that they participate in fund swapping because it increases project flexibility for local agencies and may result in time and cost savings. Obstacles officials cited included a lack of sufficient state funds to swap with local agencies and the absence of state law authorizing fund swapping.

The impact of fund swapping on wages and other federal requirements cannot be definitively determined because, among other reasons, state DOTs generally do not track data needed to measure these impacts. For example, state officials said that federal funds swapped by local agencies are combined with other federal funds, so they cannot identify which projects were funded with swapped federal dollars. State officials offered mixed views of the impact of swapping on workers' wages and other federal requirements. For example, officials in two states that told GAO their states do not have prevailing wage laws said wages paid were not impacted by the lack of federal prevailing wage requirements because of economic conditions in their states. Officials in two other states said that the lack of a state prevailing wage law potentially enabled contractors to pay their workers less than the federal prevailing wage on swapped projects.