

9. CARRYOVER BALANCE POLICY

BACKGROUND

Over the last several years the Houston-Galveston region has experienced various issues that have hindered the on-time delivery of surface transportation projects selected with federal funding by the Transportation Policy Council. Federal transportation funds that are not obligated within established time limits are at risk of lapsing. Delays in implementation of transportation projects have resulted in a growing carryover balance of federal transportation funds that will be at risk of lapsing at some point in the 2025 federal fiscal year.

CURRENT SITUATION

After multiple discussions with stakeholders and conversations at the Transportation Advisory Committee and Transportation Policy Council, MPO staff have incorporated strategies into a draft policy that includes a target for reducing the carryover balances and lists a various policy elements and project selection strategies intended to reduce the carryover balances and manage future increases. The Draft Policy is attached for review.

In November 2023, Staff brought the draft Carryover Balance Policy to the TAC and the TPC. Discussions at the TPC led to the reshuffling of some of the strategies that were presented to the TPC. The final draft was approved for recommendation at the TAC meeting. Later in the month, Staff presented the draft policy to the Transportation Policy Council. During the TPC meeting concerns about references to the MPO Director. The TPC wanted to ensure that decisions on project programming remained with the Council. To address TPC comments the reference to the MPO Director was removed and replaced with staff.

During the December 2023 TAC meeting, staff received additional comments on the language of the draft policy. The highlighted in the draft policy available in Item 9-2 of the packet. Staff will brief the Council on the discussion at the TAC and present the final draft policy.

ACTION REQUESTED

Transportation Policy Council approval of the Carryover Balance Policy.

Policy for Utilization of Federal Fund Carryover Balances

Background

This policy outlines strategies to effectively manage and utilize carryover balances of federal funds allocated for surface transportation projects in the Houston-Galveston Metropolitan Planning Area (MPA). Federal transportation funds that are not obligated within established time limits are at risk of lapsing. Because projects must advance for obligation on established schedules, this policy is intended to work in conjunction with other MPO activities to assess project readiness and track and support the development of local sponsors' transportation projects.

Policy

The Transportation Policy Council establishes the following policies to manage and utilize carryover balances of funds allocated to the MPO for project selection and programming:

- The Transportation Policy Council seeks to ensure carryover balances for each federal funding source does not exceed 200 percent of the amounts annually apportioned to the MPO for programming.
- The MPO Staff shall identify, evaluate, and advance projects for TPC programming decisions that address the Carryover Balance Management Strategies listed below.
- The MPO Staff shall evaluate current and projected carryover balances, potential projects and their ability to address the implementation strategies, project eligibilities for funding sources, and project readiness to implement this policy.
- Additional strategies to achieve the policy outcome may be identified and proposed by the MPO Staff. These could include innovative finance approaches, funding swaps with other MPOs, or other viable strategies.
- Secondary goals of this policy include the following, and the MPO Staff is instructed to seek opportunities to accomplish these secondary goals of this policy:
 - Expedite project implementation;
 - Manage cost increases due to inflation;
 - Encourage participation in the Regional Strategic Transportation Fund (RSTF) to reduce local match requirements and leverage additional funding sources; and
 - Enhance the region's transportation infrastructure.
- All projects recommended for TPC funding or amendment as part of this policy must advance the goals and objectives of the Regional Transportation Plan and/or meet requirements of the Transportation Improvement Program Project Selection Process.
- The MPO Staff shall develop and implement a strategy for ensuring the carryover balance does not exceed 200 percent of other elements of this policy.

Project Selection Strategies to Manage Carryover Balances (“Carryover Balance Management Strategies”)

The following implementation strategies are presented without any priority order, and they are part of a slate of strategies that can be recommended to the TPC to address the carryover balances.

- **Cost Increases Due to Inflation:** Allocate a portion of the carryover balance to cover cost increases caused by inflation, ensuring projects stay on track and can be obligated on schedule. Only projects that can be obligated within two years may receive carryover balances to address inflation.
- **Projects Ready for Construction in 0-2 Years:** Identify projects that can be ready for construction within the next 0-2 years to accelerate their implementation and maximize the utilization of federal funds.
- **Replace Local Funds on Current Projects with Federal Funds and TDCs:** Enable the replacement of local funds on existing programmed projects for federal funds and Transportation Development Credits (TDCs) to reduce the carryover balance and contribute to the Regional Strategic Transportation Fund.
- **Transit and FTA Transfer Eligible Projects:** Allocate funds from the carryover balances to transit or other FTA transfer eligible projects that can be accelerated and/or obligated quickly by transferring funds to FTA programs to enhance mobility options within the region. Preference will be given to currently-programmed projects; new projects may be considered if they can be obligated within two years.
- **Conversion of Federally Eligible Activities to CMAQ/STBG Funding:** Identify local or State projects that can convert federally eligible activities to Congestion Mitigation and Air Quality (CMAQ) or Surface Transportation Block Grant (STBG) funding, leveraging the carryover balance for improved regional transportation initiatives.
- **Swap Local and Federal Funds for Projects Currently in Development:** Identify and allocate federal funds from the carryover balance to support locally-funded transportation infrastructure projects currently in development by local sponsors that align with regional transportation goals. In exchange for using federal funds, local agencies would contribute 80 percent of the project cost to the Regional Strategic Transportation Fund. (Other swap rates can be negotiated under exceptional circumstances.)

This policy seeks to optimize the utilization of the carryover balance of federal funds for surface transportation projects in the Houston-Galveston region. All funding recommendations to implement this policy are subject to review and approval from the Transportation Policy Council.