

Testimony of Section 2 C.F.R. Watcher
Before the Joint Interim Committee on Transportation Funding
Oregon State Legislature
Hearing on LC 2
August 25, 2025 — Hearing Room F, Oregon State Capitol

Submitted by:
Section 2 C.F.R. Watcher
Public Commenter

(Attachment includes full testimony with Appendices A and B — Media Narratives vs CFR Requirements, and Federal Program Objectives)

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Federal Purpose of Transportation Dollars

Transportation funds are not interchangeable revenue. Federal assistance is conditioned on compliance with **2 C.F.R. Part 200**, which requires:

- **Performance accountability** (§ 200.301)
- **Effective internal controls** (§ 200.303)
- **Allowable, allocable, and reasonable costs** (§§ 200.403–405)

For Oregon, the objectives are clear:

- The **Federal Highway Administration (FHWA)** provides about **\$700 million annually**, restricted to capital construction, preservation, and planning — not payroll or debt ([ODOT Transportation Funding Overview](#)).
- The **Federal Transit Administration (FTA)** provides about **\$150 million annually**, limited to buses, transit infrastructure, and equitable access — not daily operations ([ODOT Transportation Funding Overview](#)).

- Federal program guidance emphasizes outcomes: “assist states in construction, preservation, and improvement of highways and bridges” ([FHWA Core Programs Guidance](#)).
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The Compliance Fault Line: Mixing State and Federal Dollars

Public narratives often blur the line between “state revenue” and “federal grants.” But the Uniform Guidance is clear:

- **State dollars used as match must remain separately tracked** (§ 200.302).
- **Mixing or commingling without clear allocability** is prohibited (§ 200.405).
- **Debt service or payroll patched with blended accounts** risks charging unallowable costs to federal programs (§ 200.449).

This mixing problem is not theoretical — it is exactly what creates audit findings and clawbacks.

Where Current Proposals Collide with Compliance

- **Governor’s Proposal (Gas & DMV fee hikes)**
Raising new state revenue to backfill payroll and debt — then blending it with federal accounts — risks **commingling** (§ 200.405) and demonstrates failed controls (§ 200.303).
 - **Legislative Mega-Bill (HB 2025)**
Fee hikes imposed on Oregonians while relying on indefinite federal subsidy ignores **consistency** (§ 200.403(c)), **reasonableness** (§ 200.404), and **time limits** (§ 200.309). When state and federal funds are interchanged, transparency is lost.
 - **Republican Austerity Approach**
Pulling back state support while leaning on federal awards risks **supplanting** (§ 200.306(b)). Federal funds may supplement, not replace, state responsibility.
 - **ODOT Management (Debt & Layoffs)**
Blended accounts used for debt violate § 200.449 (unallowable costs). Weak tracking of federal vs. state outlays breaches § 200.302.
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Oversight Consequences

Federal funds are not meant to be politically fungible. When state and federal dollars are mixed without strict controls, the result is not just legislative controversy — it is **noncompliance**. The consequences are audit findings, corrective actions, and ultimately **federal clawbacks**.

Before enacting new fees or service cuts, this Committee must order a compliance review under:

- **2 C.F.R. Part 200 (Uniform Guidance)**
- **Title 23 CFR (Highways)**
- **Title 49 CFR (Transit)**

Without such review, Oregon risks raising new revenue into a system that cannot legally spend it as intended.

Respectfully submitted,
Section 2 C.F.R. Watcher

Appendix A — Media Narratives vs. CFR Requirements

Media Narrative / Political Spin	What Federal Rules Actually Require	Compliance Risk (Mixing State + Federal)
<i>“ODOT is broke — new gas tax and DMV fees will stabilize the budget.”</i>	2 C.F.R. § 200.405: Costs must be allocable to a federal program objective. § 200.303: Effective internal controls required.	Raising new state revenue to backfill payroll or debt, then blending it with federal accounts, risks commingling and unallowable costs.
<i>“HB 2025 is comprehensive reform — higher fees + federal leverage will fix the system.”</i>	2 C.F.R. § 200.403(c): Costs must be applied consistently across federal/non-federal activities. § 200.404: Costs must be reasonable. § 200.309: Federal awards have defined performance periods.	Imposing extreme DMV hikes while still relying on indefinite federal funds is inconsistent and unreasonable , and mixing timelines blurs state vs. federal obligations.
<i>“Cutting spending shows fiscal discipline — no new taxes needed.”</i>	2 C.F.R. § 200.306(b): Federal funds must supplement, not supplant, state funding.	Pulling back state revenue while depending on federal programs creates supplanting violations , especially if blended accounts hide the shortfall.
<i>“ODOT’s debt service leaves no choice — layoffs and reduced service are inevitable.”</i>	2 C.F.R. § 200.449: Debt principal is unallowable. § 200.302: States must track federal vs. non-federal expenditures separately.	Using blended funds for debt service violates federal rules outright; lack of separation risks audit findings and clawbacks .

Appendix B — Federal Program Objectives

Federal Highway Administration (FHWA) – Title 23 U.S.C.

Purpose:

“To assist the States in providing for the construction, preservation, and improvement of highways and bridges on eligible Federal-aid highway routes, and for other special purpose programs.”
([FHWA Core Programs Guidance](#))

Objectives:

- Construct and preserve safe, reliable highways and bridges.
 - Support long-range planning and engineering.
 - Improve mobility, safety, and freight efficiency.
 - Ensure equitable access to transportation systems, including rural areas.
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Federal Transit Administration (FTA) – Title 49 U.S.C.

Purpose:

“To support capital investment in bus and transit systems, improve public transportation safety, and ensure mobility for all Americans, including seniors and individuals with disabilities.”
([FTA Formula Programs Overview](#))

Objectives:

- Acquire buses, vans, and transit equipment.
 - Develop and preserve transit infrastructure (stations, facilities, maintenance).
 - Improve safety and reliability of public transportation.
 - Expand access for disadvantaged and rural communities.
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Uniform Guidance (2 C.F.R. Part 200) – Cross-Program

Purpose:

“To ensure Federal awards are used for their intended programmatic purposes, managed with accountability, and protected from waste, fraud, and abuse.”
([2 C.F.R. § 200.301](#))

Key Requirements:

- **Performance accountability (§ 200.301):** measurable outcomes tied to program goals.
- **Internal controls (§ 200.303):** safeguard funds against misuse.
- **Allowable, allocable, reasonable costs (§§ 200.403–405).**
- **No unallowable costs (§ 200.449):** e.g., debt principal cannot be charged to federal programs.

