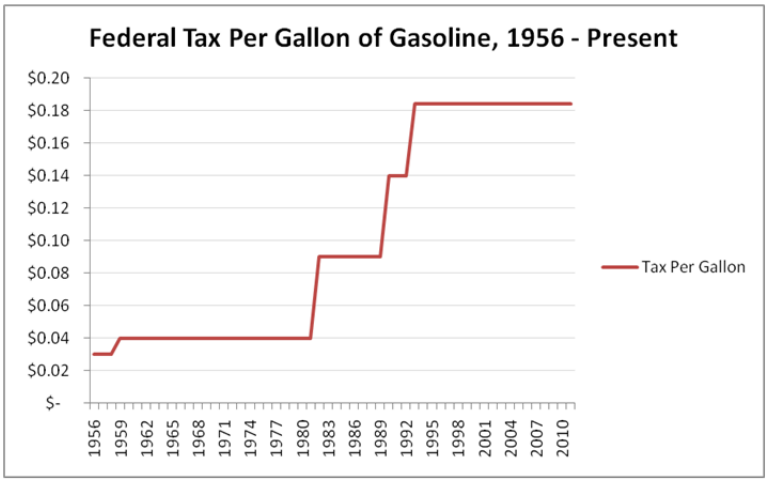
The Highway Trust Fund

Every driver that purchases fuel pays an excise tax of 18.3 cents per gallon of gasoline or 24.3 cents per gallon of diesel. Proceeds from these taxes go into the federal Highway Trust Fund (HTF) — the primary financing mechanism for the nation's surface transportation system. This fund provides support for a variety of highway and transit programs, including formula-based state grants and specific projects and programs as directed by Congress. The HTF faces a myriad of problems including insufficient revenues relative to spending, lack of spending prioritization, and looming insolvency.

Background and Current Policies

Before the 1950's, allocations from the nation's general revenues paid for federal highway investments and other transportation programs. To address the nation's growing highway needs and support development of the interstate highway system, President Eisenhower signed the Federal Aid Highway Act in 1956 which established the HTF — a user-based finance mechanism based primarily on a $0.03 tax on gasoline with a variety of other excise fees.[1]



The HTF's tax rates and structure remained virtually unchanged until President Reagan signed the Surface Transportation Assistance Act of 1982, which raised the gasoline tax to $0.09 per gallon and created two separate accounts within the HTF: a highway account that received $0.08 and a new Mass Transit Account that received $0.01 per gallon of the gas tax. Since that time, Congress has increased fuel taxes twice more, in 1990 and 1993, when it was raised to its current 18.4 cents per gallon. Initially, 4.3 cents of the 18.4 cents per gallon was dedicated to deficit reduction but redirected to the highway trust fund in the Taxpayer Relief Act of 1997. Since then, the HTF's account structure and tax rates are largely unchanged.[2]

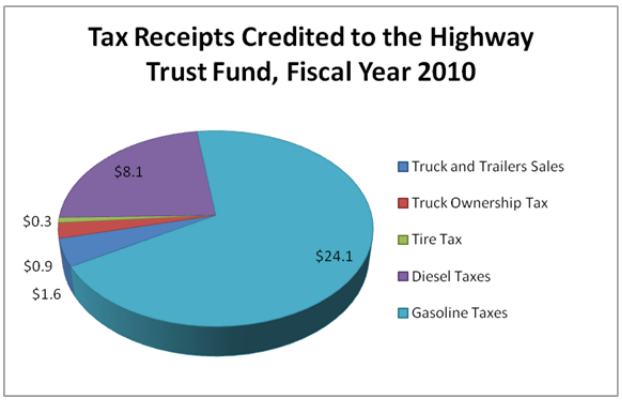
Federal Highway-User Tax Rates - Current in Cents		Distribution of Taxes to the HTF		Non-HTF
Fuel	Tax Rate (per gallon)	Highway Account	Mass Transit Account	Leaking Underground Storage Tank Trust Fund
Gasoline	18.4	15.44	2.86	0.1
Gasohol	18.4	15.44	2.86	0.1
Diesel Fuel	24.4	21.44	2.86	0.1
Liquefied Petroleum Gas	18.3	16.17	2.13	0
Liquefied Natural Gas	24.3	22.44	1.86	0
M85 (85 percent methanol)	9.25	7.72	1.43	0.1
*Compressed Natural Gas (**cents per thousand cubic feet**)*	48.54	38.83	9.71	0

Nonfuel Taxes (All proceeds to Highway Account)	
Tires	Maximum rated load capacity over 3,500 pounds - 9.45 cents per each 10 pounds in excess of 3,500.
Truck and Trailer Sales	12 percent of retailer's sales price for tractors and trucks over 33,000 pounds gross vehicle weight (GVW) and trailers over 26,000 GVW.
Heavy Vehicle Use	Annual Tax: Trucks 55,000-75,000 pounds GVW, $100 pus $22 for each 1,000 pounds (or fraction thereof) in excess of 55,000 pounds. Trucks over 75,000 pounds GVW, $550

Currently, excise taxes on fuels generate 89% of the HTF's revenues and are spent largely on the federal aid highway program.[3] Spending from the HTF is distributed by Congress through six-year authorization acts. Under the most current authorizing legislation – the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), passed in 2005 – about 80 percent of HTF revenue is provided to state governments though formula-based allocations for

maintaining and constructing roads and enhancing safety.[4] The other 20 percent is provided to specific federal transportation programs or projects as identified by Congress or the secretary of transportation.[5]

A portion of these Congressionally-directed funds have been used to earmark funds for specific projects within lawmaker's congressional districts or home states. The 2005 reauthorization included more than 6,000 earmarks at a cost of more than $24 billion in HTF revenues.[6] In 2011, responding to public criticism and growing federal deficits, Congress placed a moratorium on earmarks through at least 2012.



In fiscal year 2011, HTF revenues and interest totaled about $37 billion.[7]

Trust Fund Problems

In recent years, HTF balances have grown increasingly unstable due to declining revenues. This decline can be attributed to reduced growth in vehicle miles travelled as a result of a slower economy and higher gas prices, the increasing fuel economy of the nation's transportation fleet, and the erosion of the relative value of revenues collected from tax that hasn't been increased in almost 20 years. Although HTF revenues are estimated to continue growing —from $36.9 billion in 2011 to $40.9 billion by 2021[9] — current spending levels will draw the fund's balance down to zero by late FY2012 or early in FY2013. The HTF has been teetering on the edge of insolvency since 2008. Since that time, Congress has made three transfers totaling $34.5 billion from the nation's general revenues to keep the HTF in the black.[10]

The Path Toward Insolvency[8]

- September 2008: $8.02 billion general fund transfer to the HTF.
- August 2009: $7 billion general fund transfer to the HTF.
- September 30, 2009: SAFETEA-LU expired. First in a series of extensions enacted.
- March 2010: $19.5 billion general fund transfer to the HTF
- Fiscal Year 2012 or 2013: HTF balance will reach zero.

In an attempt to prevent additional general fund transfers, House Republicans voted in early 2011 to remove financial provisions that ensured transportation funding from the HTF at the levels set forth in transportation authorization bills.[11] These funding levels are based on the authorization bills' estimates of future trust fund revenues, but circumstances have, in the past, resulted in lower revenues than expected. Decoupling the yearly spending levels from the six-year authorization levels allows spending levels to be set based on more accurate revenue forecasts.

Fixing the Highway Trust Fund – Options for the future…

Between now and 2021, if current spending levels are maintained, the HTF balance will be seriously in arrears – to the tune of approximately $127 billion. By law the HTF can't carry a negative balance, so spending needs to be cut or new revenues generated or both. Members of Congress, transportation advocates, and industry stakeholders have outlined a variety of solutions for the problems with the HTF.

Match existing revenues to outlays: This is ultimately what all of these options seek to achieve. Most do it by increasing revenue to the HTF, but cutting spending to bring it in line with current expected revenue is also an option. House Transportation and Infrastructure Committee Chair John Mica (R-FL) has proposed a six-year bill that would spend $230 billion in funding, which is approximately equal to what federal fuel tax revenues are expected to be over that time period. This would require an almost 30 percent cut in highway and transit programs compared to funding in the last long-term transportation bill.

Existing Federal-aid highway and transit programs dependent on HTF revenues[12]:		
Federal-Aid Highway Programs Major Formula Programs • National Highway System (NHS) Program • Interstate Maintenance (IM) Program • Bridge Program • Surface Transportation Program (STP) • Congestion Mitigation and Air Quality Improvement (CMAQ) Program • Highway Safety Improvement Program Targeted Infrastructure Programs • Federal Lands Highways • Other Geographic Locations (including the Appalachian Development Highway System Program, the Delta Region Transportation Development Program, and others) • Specific Purposes and Needs (including the Projects of National and Regional Significance program) Special Programs • Special Highway Assistance Programs • Other Programs (including innovative financing, multimodal coordination, studies, research and pilot programs)	**Federal-Aid Transit Programs** Urban and Rural Area Programs • Urbanized Area Formula Program • Non-Urbanized Area Formula Program Capital Programs • Bus and Bus Facilities Grants • Fixed Guideway Modernization (also known as Rail Modernization or "Rail Mod") • New Starts Special Programs • Formula Program for Elderly Persons and Persons with Disabilities • New Freedom Program • Alternative Transportation on Federal Lands • Job Access and Reverse Commute Program (JARC) • Clean Fuels Formula Program	**Shared Programs** Programs that Allow Flexing of Highway Funds into Transit Programs • National Highway System (NHS) Program • Interstate Maintenance (IM) Program • Bridge Program • Surface Transportation Program (STP)* • Congestion Mitigation and Air Quality Improvement (CMAQ) Program* Support Programs • Planning • Research and Technical Assistance • Training

Fuel taxes and general fund transfers: Although fuel tax increases could support the trust fund in the short run, this mechanism is likely to dry up over the long term as vehicles continue to become more fuel efficient[13], high gas prices continue to depress growth in vehicle miles travelled, and fuels are increasingly diversified. Furthermore, the use of general revenues adds to the nation's trillion dollar deficits, provides no incentive for the efficient use of the system, and reduces funding for other federal programs.[14]

Fund projects for which benefits exceed costs: The Congressional Budget Office (CBO) finds that highway formulas (which are used to distribute approximately 80% of transportation funds) are designed to spread the money out across the nation, and don't always finance the most economically advantageous projects. The federal government could improve funding provisions by financing high-return projects while using better analysis of their cost and benefits. Ranking and funding projects so that only those with the largest share of benefits are implemented may yield greater program efficiency at lower cost. Under improved project selection — not simply doling out money to states through formulas — pet projects, such as Alaska's infamous "Bridge to Nowhere," with very high costs and questionable benefit could be scrapped in favor of higher priority projects.

Increased tolling: According to the Federal Highway Administration, existing U.S. toll facilities generated $6.5 billion in annual revenues in 2005 (the latest for which figures are available) —one-fifth of what the Federal Highway Trust Fund collects in a year — though only three percent of U.S. roadways are currently tolled.[15] Allowing for increased tolling could generate additional revenues to design, build, maintain, and operate portions of the nation's road system. Interest is growing at both the federal and state level to open highway facilities, especially interstates, to tolling. State governments are currently forbidden by federal law from tolling existing interstate highways; only new facilities or lanes added to existing interstates may be tolled.

Congestion fees: Congestion fees introduce supply and demand concepts to the nation's highways and promote the efficient use of existing infrastructure. During periods of high demand, such as morning or evening peak travel periods, lane space is allocated to those willing to pay a charge. It is also possible to vary the charges on a given facility based on demand, to keep traffic moving at a minimum speed. Drivers unwilling to pay a fee will alter their travel time, therefore reducing congestion, or travel in congested conditions on alternate routes. Across the nation, congestion fees have been implemented through express lanes and high-occupancy toll (HOT) lanes. These fees may reduce congestion, increase

vehicle throughput, and raise much-needed additional revenue. According to a CBO analysis, widespread use of congestion pricing would reduce the amount of spending needed by nearly one third.[16]

VMT charges: According to the CBO, a nationally implemented program using mileage-based fees to tax drivers could possibly produce revenues that cover the federal contribution to building and maintaining highways and lessen or eliminate federal fuel taxes. Mileage fees could vary by location, vehicle type, or time of day and more closely match the social costs — such as driving during peak periods — imposed by drivers. Several states have initiated VMT pilot programs.

Increasing private sector investment: Private sector financing of public infrastructure can reallocate some risk of building infrastructure and leverage funding that may not otherwise be available for transportation system build-out and maintenance. Extensive public-private partnerships between states and private investors are commonly used to build tolled highway facilities across the United States. U.S. DOT's TIFIA program supports this concept by providing low-interest loans and loan guarantees to private borrowers for self-supporting infrastructure projects.

National Infrastructure Bank: Several recent proposals call for the establishment of a National Infrastructure Bank to leverage private sector financing. As envisioned, an NIB would review proposed projects, make investment decisions based on the quality of the proposals it receives, and create a portfolio of investments to pay for a variety of the most worthy projects. Local, state, and federal governments, private sector sponsors, or partnerships between these would apply for funding, and proposals would undergo cost/benefit analysis and have to meet performance criteria, which could include congestion relief, multimodalism, safety, environmental benefit, capacity expansion, alternative energy, or system maintenance and upkeep. An NIB would likely allow for leveraging of HTF funds to attract private financing, but wouldn't do anything to solve the fundamental problems of the HTF itself.

Major changes to the HTF are needed

The looming bankruptcy of the HTF undercuts a vital taxpayer asset — the nation's transportation system. To support a 21st century transportation system, as well as mitigate growing congestion and bring more accountability to taxpayers, reforms to the HTF must be included in the upcoming surface transportation reauthorization bill.

We continue to support a robust discussion that considers a wide variety of options, but a number of important criteria should dictate how the nation's transportation system is funded:

- **Program should be completely self-financing.** Whether Congress opts to rely on the current gasoline tax or switches to an alternative funding source or a hybrid of both, spending from the HTF should match the incoming revenues. No future transfers from general tax revenues.

- **User pays/user benefits principle should be preserved.** A primary advantage of the current funding system is that a driver who uses the roads more (usually, save for owners of highly efficient vehicles) pays more in gasoline tax. Though the link between use and payment could be strengthened (for example: a tax directly on miles driven, with higher charges for driving when roads are more congested), the user pays principle is essential and should be preserved under any future funding schemes.

- **Eliminate waste, prioritize spending.** Congress should include provisions in the next transportation reauthorization that seek to eliminate wasteful spending on lower-priority or unnecessary projects and develop incentives to ensure that every dollar spent goes to projects that will have the greatest local, state, and national benefit. Congress should also incentivize the maintenance of existing infrastructure and penalize states that do not keep their roads and bridges at a minimum level of good repair. Federal oversight of large projects could

also be improved, with penalties and incentives for contractors depending on whether projects go over or under budget.

- **Allow and encourage revenues from additional sources.** Under existing federal policy, states are not permitted to toll existing highway miles, though many of our nation's interstates have reached their 50-year life expectancy and need to be completely rebuilt from the dirt up. Tolling existing lanes could provide a huge transportation funding boost, especially if the tolls collected are required to be spent on transportation projects and not diverted to a states' general fund. In addition, states should be encouraged to utilize public-private partnerships where applicable; a prudent increase in funding for the TIFIA program, which helps leverage private dollars for transportation projects, should be implemented; and opportunities for creative financing should be expanded.

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For more information, visit www.taxpayer.net or contact Erich Zimmermann, erich@taxpayer.net

[1] "When did the Federal Government begin collecting the gas tax?" United States Department of Transportation Federal Highway Administration. April 2011. http://www.fhwa.dot.gov/infrastructure/gastax.cfm
[2] "The Highway Trust Fund." United States Department of Transportation Federal Highway Administration. April 2011. http://www.fhwa.dot.gov/reports/financingfederalaid/fund.htm
[3] *Ibid.*
[4] *Ibid.*
[5] *Ibid.*
[6] "Pork Over Transportation Priorities." Taxpayers for Common Sense. August 9, 2007. http://taxpayer.net/search_by_tag.php?action=view&proj_id=2788&tag=transportation&type=Project
[7] Joseph Kile. "The Highway Trust Fund and Paying for Highways." Congressional Budget Office. May 2011. http://www.cbo.gov/ftpdocs/121xx/doc12173/05-17-HighwayFunding.pdf
[8] Jack Basso. "The Federal Financing Life Cycle." AASHTO. March 2011. http://www.transportation.org/sites/aashto/docs/Basso-2011-03-09.pdf
[9] See note 7.
[10] See note 7.
[11] "Rules of the House of Representatives of the One Hundred Twelfth Congress." U.S. House. January 2011. http://rules.house.gov/Media/file/PDF_112_1/112th-Rules_xml.pdf
[12] "A 50-State Review of State Legislatures and Departments of Transportation." The National Conference of State Legislatures and the AASHTO Center for Excellence in Project Finance. May 2011 http://www.infrastructureusa.org/wp-content/uploads/2011/06/50_state_review_state_legislatures_departments_transportation.pdf
[13] Recently adopted Corporate Average Fuel Economy (CAFE) regulations require U.S. vehicle fleets to obtain an average fuel economy of 34.1 mpg by 2016 and 54.5 mpg by 2025. Increasing automobile fuel efficiency will further erode fuel tax revenues into the FHTF.
[14] "Spending and Funding for Highways." Congressional Budget Office. January, 2011. http://www.cbo.gov/doc.cfm?index=12043&zzz=41512
[15] "Economic recovery bringing renewed congestion growth." Texas Transportation Institute Texas A&M University System. January 20 2011. http://tamunews.tamu.edu/2011/01/20/economic-recovery-bringing-renewed-congestion-growth/
"Current Toll Road Activity in the U.S.A Survey and Analysis" United States Department of Transportation Federal Highway Administration. August 2006. http://www.fhwa.dot.gov/ipd/pdfs/toll_survey_0906.pdf
[16] See note 7.

All graphics generated from data provided by the following sources:
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