



Understanding the Highway Trust Fund and the Perils of Inaction

By Kevin DeGood February 20, 2014

Each year, the federal government spends approximately \$50 billion on surface transportation programs that support highways, public transportation, and intercity passenger rail. Of this total, \$46 billion comes from the Highway Trust Fund, or HTF,¹ which is capitalized by a federal tax of 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel.²

Dramatic improvements in vehicle fuel efficiency and reduced driving have substantially decreased the amount of gas tax revenue deposited in the HTF each year. In fact, gas tax revenues have fallen so dramatically that since fiscal year 2008, Congress has transferred \$54 billion in general fund revenues into the HTF to prevent insolvency. The most recent transfers, authorized as part of the surface transportation bill, Moving Ahead for Progress in the 21st Century, were intended to keep the trust fund healthy through the end of this fiscal year. Unfortunately, current projections show that the highway account will run out of money as early as this August.³ But the story does not end there.

Under federal law, the HTF cannot run a negative balance. In order to guard against this, the U.S. Department of Transportation, or USDOT, will begin taking special administrative actions this summer during the heart of construction season. Specifically, when the highway account dips below \$4 billion, USDOT will either substantially delay payments to states or pay a reduced share—65 cents on the dollar, for example—and special measures will take effect when the mass transit account dips below \$1 billion.

The Simpson-Bowles deficit commission called for increasing the gas tax by 15 cents to stabilize the HTF and allow for programmatic growth.⁴ Congress must take action soon to avoid bankrupting the fund and hurting our economy.

Inflation and efficiency

Congress last increased the gas tax in 1993, raising it from 14.1 cents to 18.4 cents per gallon; it gave an equivalent raise to diesel.⁵ Significant improvements in vehicle efficiency and inflation have combined to lower gas tax revenues and reduce the purchasing power of the remaining dollars:

- In inflation-adjusted terms, the gas tax is worth only 11.5 cents today.⁶
- In 1993, the gas tax represented 18 percent of the cost of an average gallon of gasoline. Today, it represents only 5 percent.⁷
- If gas and diesel taxes had been indexed to keep pace with inflation, today they would be 29 cents and 38 cents per gallon, respectively.⁸
- The corporate average fuel-economy standards will rise to 54.5 miles per gallon for cars and light-duty trucks by model year 2025.⁹ This will approximately double the efficiency of vehicles compared to current levels and dramatically reduce the amount of tax revenue flowing to the HTF, crippling federal surface transportation programs.

Twenty years is a long time to wait

Almost everything about our world has changed over the past 20 years—except the federal gas tax. In 1993:

- The average cost of a gallon of gasoline was approximately \$1.05.¹⁰
- Only 23 percent of U.S. households had a computer, and the Census Bureau did not begin asking questions about Internet use for another four years.¹¹
- *Jurassic Park* was the number one movie.¹²
- The European Union was created with the adoption of the Maastricht Treaty.¹³
- The United States had 257 million people¹⁴ and a gross domestic product of 9.5 trillion¹⁵ (compared to 317 million¹⁶ and 15.7 trillion today¹⁷).
- The North American Free Trade Agreement was signed into law.¹⁸
- Czechoslovakia became the Czech Republic and Slovakia.¹⁹

Consequences of inaction

The Congressional Budget Office estimates that the Highway Trust Fund will require \$15 billion²⁰ in additional revenue in FY 2015 to remain solvent and a total of \$172 billion over the next 10 years.²¹ Research shows that infrastructure investments create strong middle-class jobs, while funding cuts increase unemployment in the construction sector:

- For every \$1 billion invested in infrastructure, we create between 10,000 and 15,000 jobs.²²
- Even with the sustained economic recovery, total employment in heavy-construction industries is down by more than 125,000 jobs, or 13 percent from its pre-recession peak.²³
- Funding cuts would only make this worse by hitting states during the heart of construction season, causing significant delays, canceled projects, and as many as 185,000 layoffs.

The table below shows the funding cut and potential job loss that each state will face next year if the shortfall is not resolved.

Estimated funding cut by state for FY 2015

State	Highway cut	Transit cut	Total cut	Jobs lost
Alabama	\$239,336,348	\$17,168,896	\$256,505,245	3,206
Alaska	\$158,177,933	\$14,573,812	\$172,751,744	2,159
Arizona	\$230,811,393	\$33,366,317	\$264,177,709	3,302
Arkansas	\$163,328,914	\$9,813,120	\$173,142,033	2,164
California	\$1,157,831,972	\$398,271,439	\$1,556,103,410	19,451
Colorado	\$168,688,385	\$34,009,482	\$202,697,868	2,534
Connecticut	\$158,444,301	\$46,084,493	\$204,528,794	2,557
Delaware	\$53,363,158	\$6,526,443	\$59,889,601	749
District of Columbia	\$50,334,875	\$70,858,593	\$121,193,468	1,515
Florida	\$597,697,470	\$110,808,960	\$708,506,430	8,856
Georgia	\$407,326,017	\$57,838,444	\$465,164,461	5,815
Hawaii	\$53,355,405	\$14,049,690	\$67,405,095	843
Idaho	\$90,229,084	\$7,661,528	\$97,890,612	1,224
Illinois	\$448,505,461	\$169,100,719	\$617,606,179	7,720
Indiana	\$300,588,573	\$30,115,191	\$330,703,763	4,134
Iowa	\$151,796,312	\$12,284,762	\$164,081,074	2,051
Kansas	\$119,212,491	\$10,662,862	\$129,875,354	1,623
Kentucky	\$209,603,046	\$16,757,300	\$226,360,346	2,830

State	Highway cut	Transit cut	Total cut	Jobs lost
Louisiana	\$221,408,876	\$19,092,590	\$240,501,466	3,006
Maine	\$58,232,379	\$8,719,281	\$66,951,660	837
Maryland	\$189,043,785	\$64,723,209	\$253,766,994	3,172
Massachusetts	\$191,592,987	\$113,523,209	\$305,116,196	3,814
Michigan	\$332,141,383	\$42,990,079	\$375,131,462	4,689
Minnesota	\$205,706,942	\$31,933,719	\$237,640,661	2,971
Mississippi	\$152,572,342	\$9,054,828	\$161,627,170	2,020
Missouri	\$298,644,394	\$30,889,082	\$329,533,476	4,119
Montana	\$129,432,864	\$6,518,220	\$135,951,084	1,699
Nebraska	\$91,181,987	\$7,727,777	\$98,909,764	1,236
Nevada	\$114,549,774	\$16,509,483	\$131,059,257	1,638
New Hampshire	\$52,121,780	\$4,612,875	\$56,734,654	709
New Jersey	\$314,973,475	\$175,947,123	\$490,920,598	6,137
New Mexico	\$115,846,655	\$12,693,192	\$128,539,847	1,607
New York	\$529,515,339	\$464,737,216	\$994,252,555	12,428
North Carolina	\$328,401,494	\$36,180,650	\$364,582,144	4,557
North Dakota	\$78,319,044	\$4,460,214	\$82,779,258	1,035
Ohio	\$422,850,855	\$55,542,889	\$478,393,744	5,980
Oklahoma	\$200,070,749	\$14,774,312	\$214,845,061	2,686
Oregon	\$157,677,437	\$30,861,666	\$188,539,104	2,357
Pennsylvania	\$517,591,423	\$124,422,061	\$642,013,483	8,025
Rhode Island	\$68,990,927	\$8,493,443	\$77,484,370	969
South Carolina	\$198,054,703	\$15,005,137	\$213,059,841	2,663
South Dakota	\$88,964,038	\$4,970,830	\$93,934,867	1,174
Tennessee	\$266,576,021	\$26,767,679	\$293,343,699	3,667
Texas	\$995,513,064	\$130,569,897	\$1,126,082,960	14,076
Utah	\$101,633,722	\$21,325,555	\$122,959,277	1,537
Vermont	\$64,024,467	\$2,730,020	\$66,754,487	834
Virginia	\$321,019,898	\$48,085,221	\$369,105,119	4,614
Washington	\$213,855,783	\$73,379,763	\$287,235,546	3,590
West Virginia	\$137,862,230	\$8,178,965	\$146,041,195	1,826
Wisconsin	\$237,363,258	\$25,595,702	\$262,958,960	3,287
Wyoming	\$80,816,411	\$3,506,650	\$84,323,061	1,054
	\$12,235,181,622	\$2,704,474,586	\$14,939,656,209*	186,746

* The state-by-state estimates do not sum to \$15 billion, as they do not include the projected cut to transit funding for Puerto Rico and the other U.S. territories.

Source: Results based on author's calculations assuming a \$15 billion cut to formula programs distributed proportionally to all states using Federal Highway Administration and Federal Transit Administration data, available at <http://www.fhwa.dot.gov/legregs/directives/notices/n4510770.cfm> and http://www.fta.dot.gov/documents/FTA_Apportionments_for_Formula_and_Discretionary_Programs_by_State_FY_1998-2013.xls.

Conclusion

For years, Congress has patched HTF revenue shortfalls with general fund transfers instead of finding a sustainable, long-term funding source to support federal transportation programs for decades to come. The amount of budgetary offsets needed to allow more transfers to make up for falling gas tax revenues will be simply too large moving forward. This fall, Congress has the opportunity to solve the growing funding crisis when it reauthorizes surface transportation programs. Failing to find long-term funding will jeopardize the federal government's ability to set national transportation policy and serve as a meaningful partner to states and metropolitan regions. Addressing this politically difficult issue will place federal programs on sound fiscal footing and provide them with the resources they need to invest in America's future.

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Endnotes

- 1 The Highway Trust Fund supports only highway and public transportation programs. Passenger rail funding comes from annual appropriations. The HTF contains two accounts: highway and mass transit. The exact rate of cash depletion and the projected date of insolvency are slightly different for each. Formula program totals based on author's calculation from USDOT apportionment tables for highway and transit programs, available at <http://www.fhwa.dot.gov/legisregs/directives/notices/n4510770.cfm> and http://www.fta.dot.gov/documents/FTA_Apportionments_for_Formula_and_Discretionary_Programs_by_State_FY_1998-2013.xls.
- 2 Federal Highway Administration, *Financing Federal-Aid Highways* (U.S. Department of Transportation, 2011), available at <http://www.fhwa.dot.gov/reports/fihaiwy/ffahappm.htm>; The federal government first levied a tax on gasoline during the Hoover administration as part of the Revenue Act of 1932 intended to raise additional general revenues to balance national accounts during the Great Depression. The tax was raised to 2 cents in 1951 to help pay for the Korean War. The Highway Trust Fund was created in 1956 with all gas taxes credited to the fund. Federal Highway Administration, "When did the federal government begin collecting the gas tax," available at <http://www.fhwa.dot.gov/infrastructure/gastax.cfm> (last accessed February 2014).
- 3 U.S. Department of Transportation, "Highway Trust Fund Ticker," available at <http://www.dot.gov/highway-trust-fund-ticker> (last accessed February 2014).
- 4 Tax Policy Center, "The Bowles-Simpson 'Chairmen's Mark' Deficit Reduction Plan," available at http://www.taxpolicycenter.org/taxtopics/Bowles_Simpson_Brief.cfm (last accessed February 2014).
- 5 Federal Highway Administration, *Financing Federal-Aid Highways*.
- 6 Government Accountability Office, "Highway Trust Fund: Pilot Program Could Help Determine the Viability of Mileage Fees for Certain Vehicles" (2012), p. 6, figure 1.
- 7 Results based on author's calculation from U.S. Energy Information Administration data. Energy Information Administration, *Weekly Retail Gasoline and Diesel Prices* (U.S. Department of Energy, 2014), available at http://www.eia.gov/dnav/pet/xls/PET_PRI_GND_DCUS_NUS_W.xls.
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- 12 Box Office Mojo, "1993 Domestic Grosses," available at <http://boxofficemojo.com/yearly/chart/?yr=1993&> (last accessed February 2014).
- 13 Infoplease, "News and Events of 1993," available at <http://www.infoplease.com/year/1993.html> (last accessed February 2014).
- 14 Edwin Byerly and Kevin Deardorff, "National and State Population Estimates: 1990 to 1994" (Washington: Bureau of the Census, 1995), available at <http://www.census.gov/prod/1/pop/p25-1127.pdf>.
- 15 Bureau of Economic Analysis, *Current-Dollar and 'Real' Gross Domestic Product* (U.S. Department of Commerce, 2014), available at <http://www.google.com/url?sa=t&rcct=j&q=&esrc=s&source=web&cd=2&cad=rja&ved=OCDAQFJAB&url=http%3A%2F%2Fwww.bea.gov%2Fnational%2Fxls%2Fgdplev.xls&ei=EaHzUthPBmWgYAGDzYHQBQ&usq=AFQjCNGSoCrHz7tNXL3MjIMRBI4mvV7Q&sig2=oTheaVF39tNIS1Qhig-pu&bvm=bv.60799247,d.aWc>.
- 16 Bureau of the Census, "U.S. and World Population Clock," available at <http://www.census.gov/popclock/> (last accessed February 2014).
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- 19 Stephen Engelberg, "Czechoslovakia Breaks in Two, To Wide Regret," *The New York Times*, January 1, 1993, available at <http://www.nytimes.com/1993/01/01/world/czechoslovakia-breaks-in-two-to-wide-regret.html>.
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- 21 Congressional Budget Office, "Projections of Highway Trust Fund Accounts Under CBO's February 2014 Baseline," available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/43884-2014-02-Highway_Trust_Fund.pdf (last accessed February 2014).
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