T2 Explainer: Is the Highway Trust Fund Going Broke?

The Transportation Transformation Group is an unprecedented alliance of state government, finance, academic and private industry leaders who aspire to transform American transportation policy into a goal-based arrangement that maximizes flexibility to enhance the roles of the state and local public sectors and their private partners to solve the growing problems of congestion and mobility.

T2 publishes explainers to help policy makers and the public understand concepts essential to transportation transformation.

The Highway Trust Fund can no longer support a national transportation system. Needs are outpacing the incoming revenue.

In fiscal year 2010, a current services federal surface transportation program would cost almost $42 billion. The Highway Trust Fund, absent replenishment from general revenues, will only be able support a program of about $32 billion. The imbalance, compounded over the past several years, has placed the Highway Trust Fund in a deficit that will deepen unless radical changes are made to either the level of spending or revenue.

Our nation's Interstate Highway System, at nearly 50,000 miles, is the largest highway system in the world and the largest public works investment in history. Along with its connections to railways, ports and transit systems, the Interstate Highway System is responsible for significantly expanding America's ability to conduct commerce and improving the quality of life in the United States.

Population growth, increased income and economic activity have contributed to increased demand for transportation that has outpaced the capacity of the surface transportation system for the past several decades. From 1980 to 2006, the total number of miles traveled by automobiles increased 97 percent and the miles traveled by trucks 106 percent. Over the same period, the total number of highway lane miles grew 4.4 percent—meaning that twice the traffic was traveling on essentially the same road capacity. The Interstate System that helped facilitate economic growth in the United States is not keeping pace with American economic growth and the resulting clogged and deteriorated roads now erode our economic opportunities.

Reducing the program level by one-quarter, as would be needed to match expenditures to revenue, would have a devastating impact on the effort to improve the transportation system to support a growing economy.

Interstate Highways were typically built with mostly federal funding, but they are owned, built, and operated by states or toll authorities. Just over half of the construction and maintenance costs are funded through user fees, primarily gasoline and diesel taxes collected by the federal, state and local governments and tolls collected on toll roads and bridges. General fund revenue, bond issues, property and other taxes fund the rest of the costs. Over 90 percent of federal funding is from motor vehicle and fuel taxes, as is over two-thirds of the state contribution.

Revenues for the federal Highway Trust Fund (HTF), the vehicle for federal surface transportation funding, for 2008 fell by about $3 billion compared with 2007. The revenue decline is due in part to the fixed nature of the gas tax at 18.4 cents per gallon, of which 15.44 cents is paid into the HTF. Increased vehicle fuel efficiency tends to reduce revenues, as do higher gas prices, which reduce miles driven and accelerate the switch to more fuel-efficient cars. Current trends would forecast a continuing revenue decline.

At the same time, spending authorized by Congress substantially increased federal highway and transit spending, causing the HTF cash balances to decline sharply. The HTF overall cash balance (including highways and transit) would have dipped close to zero by late 2008 or early 2009 without the $8 billion emergency infusion from general revenues and the Highway Account balance. Even with the emergency general revenue infusion, the Highway Account cash balance will be below $2 billion by the end of 2009.

The current trends in federal transit expenditures and receipts mirror those on the highway program. The Mass Transit Account balance will likely fall to just $2 billion by the end of 2010. The current-law federal transit program funding cannot be maintained beyond 2010.

As Congress begins the process of renewing surface transportation policy, the choices are fundamental. In addition to setting goals and reforming programs, the Congress can either severely reduce highway funding to match declining revenues on a system whose capacity has remained stagnant while demand has doubled -- with resulting catastrophic impacts on America's capacity for commerce -- or reform programs to make them more efficient and provide revenue sources necessary to help America's economy and economic efficiency grow.

The Transportation Transformation Group supports a transportation system that enhances quality of life and maintains global competitiveness by reducing congestion and increasing mobility. We support the transition from the fuel tax-based funding system that is no longer able to support these goals to a fee-based system, such as vehicle miles traveled pricing.

Next week: What should be done to finance transportation?

T2 is happy to exchange ideas about this or any other matter related to the next surface transportation bill. Contact Billy Moore at (202) 288-0892 to set up a discussion. You can also get additional information at our website www.trans2group.com