# T2 Explainer: What is the Highway Trust Fund and How Is It Funded?

*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 (HTF) was established in 1956 to provide a reliable source of funding for the construction and maintenance of the interstate highway system. The HTF is divided into highway and transit program accounts. It is funded primarily by an 18.4 cent per gallon tax on gasoline and a 24.4 cent per gallon tax on diesel fuel. The motor fuels tax rates have been increased four times, in 1959, 1982, 1990 and 1993.

Since 2007, motor fuels tax revenue flowing into the HTF has not met expectations, in part due to increased vehicle fuel efficiency and reduced miles traveled. Because of the fixed nature of the cents-per-gallon motor fuels taxes, the only way the taxes can generate more revenue for the HTF is if motor fuel consumption rises. Gasoline and diesel sales for use by highway vehicles peaked in 2007, although it appears gasoline use may have risen in 2013.

Because of declining revenues and increased construction costs, federal highway and transit programs cost about $15 billion more per year than the HTF is taking in. Over five occasions since 2008, Congress has transferred a total of $65 billion in general fund resources into the HTF to make up the difference. When Congress next considers the surface transportation program in 2015, it will need to choose between identifying additional resources for the program, reducing transportation spending by about 30 percent, expanding financing alternatives or some mix of these options.

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 all contributed to demand for transportation that has grown faster than 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 increased by 106 percent. Over the same period, the total number of highway lane miles grew by only 4.4 percent. Even after the number of vehicle miles travelled leveled off over the past several years, traffic has doubled while road capacity has stayed essentially the same since 1980. The Interstate System that once helped facilitate economic growth in the United States is not keeping pace with American economic needs; the resulting clogged and deteriorated roads now erode our economic prospects.

Reducing transportation spending by one-quarter, as would be needed to match expenditures to HTF 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. About 82 percent of federal revenue is from motor vehicle and fuel taxes, as is two-thirds of the state contribution.

As Congress begins the process of renewing surface transportation policy, the choices are fundamental. The legislation should:

- foster a return to a sustainable user-pays model of transportation funding by
  - prioritizing funding reforms that would restore the concept of transportation users paying a proportional share of costs for the facilities they use, and
  - expanding the financing tools necessary to move the system toward solvency;

- create a sufficient number of operational pilot projects – not studies – of how a new funding model would operate, such that the results can inform a future Congress on how to implement funding reform; and

- strengthen and make more flexible the innovative financing tools used by states for public-private surface transportation partnerships (TIFIA, Private Activity Bonds and tolling).

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](http://www.trans2group.com)*