



## Highway and Public Transit Funding Issues

Federal highway and public transportation programs and activities are funded in surface transportation authorization acts. The most recent is the Fixing America's Surface Transportation (FAST) Act (P.L. 114-94). Signed on December 4, 2015, the act funds federal highway and public transportation programs through September 30, 2020.

The FAST Act provided a modest increase in annual spending on surface transportation from the previous level. It funded this, in part, by transferring \$70 billion from the Treasury general fund to supplement other revenues that are dedicated to the Highway Trust Fund (HTF), from which federal funds are distributed to state governments and public transportation operators. However, the FAST Act did not address the widening gap between the dedicated revenues flowing into the HTF and the costs of the highway and public transportation programs authorized by Congress. More money will be needed after FY2020 if Congress wishes to continue these programs at their current levels, adjusted for inflation. The 116<sup>th</sup> Congress is expected to address surface transportation reauthorization, including consideration of how to deal with the persistent gap between projected HTF revenues and program costs.

### The Federal-Aid Highway Program

The FAST Act provides an average of \$45 billion annually for highways. Of these funds, more than 90% are provided to the states via formula. The states have nearly complete control over the decisionmaking in regard to these funds, within the limits of federal planning, eligibility, and oversight rules. Money is not provided up front. A state is reimbursed after work is started, costs are incurred, and the state submits a voucher to the Federal Highway Administration. The highway programs are focused on highway planning and construction, and do not support operations or routine maintenance. The federal share of project costs is generally 80%, but 90% for Interstate System projects. In general, projects are limited to a designated system of roads that make up roughly 25% of all U.S. public roads.

### The Federal Public Transportation Program

The FAST Act authorized an annual average of \$12 billion for the federal public transportation program over the life of the bill. About 80% of this funding is distributed by formula to local transit agencies. Most of the remaining 20% goes to the discretionary Capital Investment Grants Program (New Starts), which supports construction of new local rail, bus rapid transit, and ferry systems, and the expansion of existing systems. Intercity rail programs are not part of the federal public transportation program and traditionally have not been authorized through surface transportation legislation. The FAST Act was the first surface transportation law to include significant intercity rail provisions, including authorization of Amtrak funding.

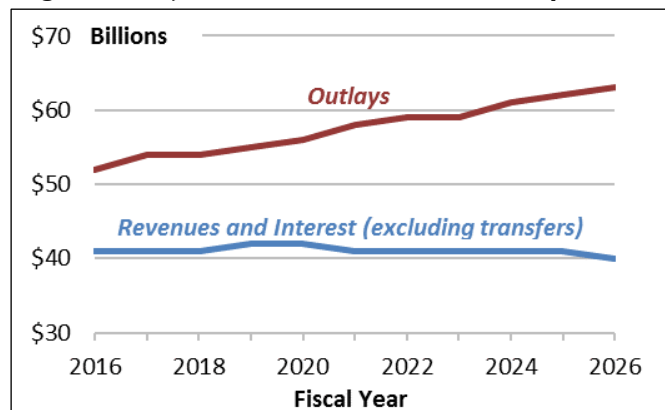
### Funding Issues

Historically, all of the federal highway program and 80% of the public transportation program have been funded with revenues from the HTF. These revenues are raised from a combination of fuel, truck, and tire taxes, with the fuel taxes providing 85% to 90% of the money in recent years.

The excise taxes on gasoline and diesel are fixed in terms of cents per gallon (18.3 cents for gasoline and 24.3 cents for diesel). They do not adjust for inflation or change with fuel prices. The rates were last raised in 1993. Increases in gasoline and diesel consumption generally kept revenue growing until the recession of 2007. Since that time, improving fuel efficiency and modest growth in vehicle mileage have slowed the increase in revenue from the taxes dedicated to the HTF. Spending from the HTF has consistently exceeded that tax revenue. Unable to agree on tax increases or program reductions, Congress in 2008 began transferring funds, totaling \$143 billion to date, from the Treasury general fund to the HTF to fund the authorized programs.

The transfer of funds in the FAST Act provided short-term stability for the HTF by filling the gap between revenues and outlays through the life of the bill. However, the underlying gap persists. It is projected to widen after the FAST Act expires in 2020, as the impact of vehicle fuel efficiency standards grows and electric vehicles come into wider use. The annual difference between revenues and outlays is expected to rise from \$17 billion in FY2021 to \$23 billion in FY2026 (see **Figure 1**).

**Figure 1. Projected HTF Revenues and Outlays**

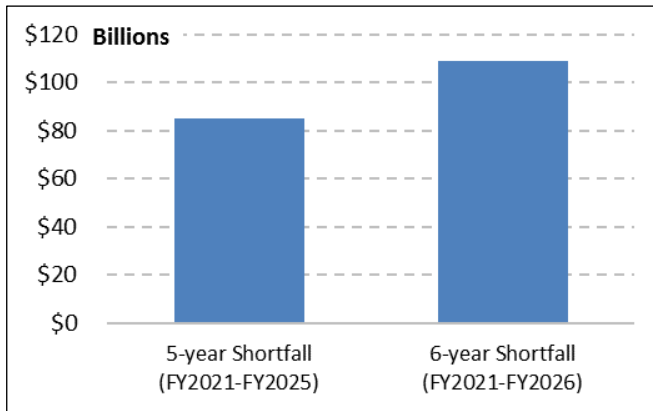


Source: Congressional Budget Office.

Trust fund shortfalls will likely become a problem in FY2021, once the transfer balances authorized in 2015 are spent down. The HTF has two accounts, the highway account and the mass transit account. Both accounts are expected to be close to zero at some point in FY2021 unless Congress provides additional funding. Low account

balances would probably require the Department of Transportation to slow reimbursements to states and transit agencies, as the law specifies that the accounts cannot incur negative balances. Based on current law, a future five-year reauthorization bill would need to cover an \$85 billion shortfall, and a six-year bill would need to cover \$109 billion (see **Figure 2**).

**Figure 2. Projected Highway Trust Fund Shortfall**



Source: Congressional Budget Office.

### What Are the Options?

**Continue Transferring General Funds.** By FY2020, the last year of the FAST Act, federal highway programs will have been funded for 12 years under a de facto policy of providing a Treasury general fund share. Congress could make this permanent. However, in recent years Congress has required offsets to assure that the transferred spending will not increase the budget deficit, meaning that spending on other programs must be reduced or tax receipts increased in amounts equal to the amounts of the transfers.

**Cut Spending.** Congress could reduce federal highway and public transportation spending to match the currently projected revenues. This would require spending cuts approaching 30%. Cuts could be made across the board or by eliminating programs. They could be accompanied by requirements that states and municipalities pay a greater share of the cost of highway and public transportation programs. Congress could replace some grant funds with increased lending through mechanisms like the Transportation Infrastructure Finance and Innovation Act (TIFIA) program; under law, \$1 made available to TIFIA can generate approximately \$14 of lending for transportation projects.

**Separate Public Transportation from the HTF.** Under this scenario, federal support for public transportation would be provided from the general fund. However, if all HTF tax revenue were dedicated solely to maintaining the current level of highway spending, a gap between annual receipts and outlays would remain. The annual gap would be \$7 billion in FY2021, rising to \$12 billion in FY2026.

**Increase Tax Revenue.** A 1-cent-per-gallon increase in federal motor fuel taxes would raise roughly \$1.5-\$1.7 billion a year for the HTF. Based on current fuel use, an increase of 10 to 15 cents per gallon would be required to fully fund highway and public transit programs at their

current levels. Even if Congress were to approve such a change, likely improvements in vehicle fuel efficiency and more use of hybrid and electric vehicles threaten the long-term viability of fuel taxes as the main source of surface transportation funds. Indexing fuel taxes to inflation and fuel efficiency could extend the viability of the fuel taxes. Or Congress could impose other taxes and dedicate the revenue to the HTF.

**Tolling.** Tolls could be used to pay for highway projects, perhaps reducing the demands on the HTF. However, toll systems can be expensive to administer and enforce, and often can be evaded by motorists. Many roads may not have enough traffic to make tolling worthwhile. Tolling is unlikely to expand on a scale that would allow for major reductions in federal grant spending in the near term.

**Impose a Vehicle Miles Traveled (VMT) Charge.** Also called a mileage-based road user charge, a fee on each mile traveled has been discussed for many years as an alternative to the motor fuels tax. However, this revenue source has privacy, implementation, and collection cost issues, and Congress would still need to set the per-mile rate and raise it as necessary.

**Electric Vehicles.** Since electric vehicles do not burn taxed motor fuels, their wider use could further weaken the HTF. Congress could consider imposing fees on electric vehicles so that owners pay into the HTF in amounts similar to owners of gasoline and diesel vehicles. Several states have imposed such fees.

**Substitute Private Investment.** Public-private partnerships (P3s) to build new roads and bridges and long-term leasing of existing government-owned facilities may reduce federal costs in some cases. However, relatively few transportation projects are suitable for large-scale private investment, and investors often insist that the public sector retain the risk that traffic volumes will be below expectations.

### Infrastructure Legislation

Congress is expected to consider an increase in surface transportation spending as part of a broader infrastructure package. This money could be distributed to state and local governments by the formulas established in the FAST Act, or could be allocated in a different way. One challenge will be for Congress to ensure that states and localities do not substitute any additional federal funds for their own spending, as this could adversely affect the total amount of highway and public transportation spending.

### More Information

CRS Report R45350, *Funding and Financing Highways and Public Transportation*, by Robert S. Kirk and William J. Mallett.

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