

CALIFORNIA SENATE OFFICE OF RESEARCH

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FEDERAL UPDATE

FEDERAL HIGHWAY TRUST FUND SOLVENCY PRESERVED (TEMPORARILY)

President Obama Signs Bill Authorizing Federal Transportation Spending/Funding Through May 2015

On August 8 2014, President Obama signed HR 5021, the Highway and Transportation Funding Act of 2014, which extends the federal Surface Transportation Act, known as *Moving Ahead for Progress in the 21st Century* (MAP-21) through May, 2015. MAP-21 had been set to expire as of September 30, 2014. Additionally, the bill provides \$10.8 Billion in General Fund (GF) revenue, to keep the Highway Trust Fund (HTF) solvent through May 2015 as well. Earlier this year, the U.S. Department of Transportation had warned that, without additional revenue, the Highway Trust Fund (HTF) was at risk of insolvency, the result of a declining cash balance. In July, USDOT Secretary Anthony Foxx had notified state Departments of Transportation that, absent congressional action, as of August 1, the department would be forced to implement “cash management procedures” which would have involved delays and reductions in federal reimbursement to states for surface transportation obligations. This could have caused serious disruptions to ongoing transportation projects throughout the country, as states would have been unable to collect revenues in a timely manner to pay contractors.

With enactment of HR 5021, California and other states will continue to receive federal transportation funding at federal fiscal year (FFY) 14 levels through May 2015. However, because the bill covers only 8 months, states’ authority to obligate FFY 15 funds will be pro-rated accordingly. (The FFY runs from Oct 1 – Sep 30). Congress will need to act again to authorize federal transportation funding for the balance of the FFY and beyond.

HIGHWAY TRUST FUND

Since 1956, the principal source of federal surface transportation funding has been the HTF. Created as a user-supported account, the HTF is funded primarily through excise taxes collected on the sale of motor fuel. While the tax structure has evolved over the years, the basic principle that the development, maintenance, and rehabilitation of the nation's transportation system should be user-funded, has generally been maintained.

Throughout the history of the HTF, Congress has periodically acted to increase the excise tax through which it is funded. For example, when the HTF was first created in 1956, the excise tax on gasoline was 3 cents/gallon. However, three years later Congress increased the tax to 4 cents/gallon, and subsequently, Congress has made numerous adjustments both to the size of the tax and to its use. For example, in 1982, the excise tax was increased to 9-cents/gallon and 1-cent/gallon was applied to transit. In 1987, a 0.1 cent/gallon surcharge was added to replace leaking underground storage tanks and in 1990, a 2.5 cent/gallon increase was imposed which "temporarily" went to deficit reduction. The current level of 18.4 cents/gallon was reached in 1993. It should be noted that in addition to conventional gasoline, other motor fuels such as diesel, ethanol blends, and "special" fuels such as liquefied natural gas (LNG) and compressed natural gas (CNG) are also taxed, and some of these revenues also flow to the HTF. However these fuels are generally taxed at lower per gallon rates than is conventional gasoline. .

CURRENT FUNDING

Since the federal excise tax was last increased in 1993, average fuel economy U.S. light duty vehicles has increased from 20.6 mpg to 23.3mpg. Over the same period, growth in per-capita vehicle miles traveled (VMT) has slowed and, in 2007 the trend turned negative. The combination of these two trends has reduced fuel consumption and, by extension, has exerted significant downward pressure on fuel tax revenue. At the same time, the need for infrastructure funding has increased substantially as the nation's highway infrastructure, much of which was constructed over the past fifty years, is increasingly in need of repair and rehabilitation.

As a result of increasing demands outstripping available revenue, recent years, tax revenue flowing to the HTF has been insufficient to support the level of expenditures authorized by Congress. Prior to its most recent action, since 2008, Congress had previously authorized a total of \$54 billion, mostly in GF transfers, to keep the HTF

solvent. HR 5021 represents another such transfer although, unlike with most of the prior transfers, Congress did identify spending “offsets,” including \$6 billion to be generated through an accounting maneuver known as “pension smoothing” and \$3.5 billion through an extension of customs user fees. Nevertheless, because the bill does not fundamentally alter the trends that have led to the current HTF shortfall, it is projected that without additional congressional action the fund will again face insolvency at some point in 2015.

- **Legislative History of HR 5021:** <https://beta.congress.gov/bill/113th-congress/house-bill/5021?q=%7B%22search%22%3A%5B%22highway+trust+fund%22%5D%7D>

- *The Federal Excise Tax on Gasoline and the Highway Trust Fund: A Short History – Congressional Research Service, September 7, 2012:* <http://fas.org/sgp/crs/misc/RL30304.pdf>

- *History of Changes to the Federal Excise tax on Motor Fuel (1956 – Present) – Federal Highway Administration:* <http://www.fhwa.dot.gov/policy/olsp/financingfederalaid/appl.cfm>

- *Graph: Highway Trust Fund Revenues and Expenditures ((\$54 Billion in GF Transfers since 2008) – Committee for a Responsible Federal Budget (Source: Congressional Budget Office):* <http://crfb.org/blogs/senate-finance-committee-hearing-transportation-funding>

- **Why the Highway Trust Fund is Running out of Money, in 5 graphs. – Washington Post, July 7, 2014:** <http://www.washingtonpost.com/blogs/the-fix/wp/2014/07/07/why-the-highway-trust-fund-is-running-out-of-money-in-5-graphs/>

- **(USDOT Secretary Anthony) Foxx Letter Says States Avoid HTF Reimbursement Delays – AASHTO Journal:** <http://www.aashtojournal.org/Pages/080814letter.aspx>

Written by Ted Link-Oberstar. The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. It was established by the Senate Rules Committee in 1969. For more information, please visit www.sen.ca.gov/sor or call (916) 651-1500.

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