Updated August 11, 2015

Surface Transportation Funding and Infrastructure Challenges

Surface transportation reauthorization acts fund federal highway and public transportation programs. The Moving Ahead for Progress in the 21st Century Act (MAP-21; P.L. 112-141), which originally expired September 31, 2014, has been extended through October 29, 2015, by the Surface Transportation and Veterans Health Care Choice Improvement Act (P.L. 114-41). The most salient issue remains funding and the solvency of the Highway Trust Fund (HTF). The extension bill transferred $8.07 billion into the HTF to prevent a funding shortfall. More money will be needed if Congress wishes to continue the highway and public transportation programs at their current levels.

The Federal-Aid Highway Program

MAP-21 and two subsequent extensions provided $41 billion annually for highways. Of these funds, 92.5% 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 construction and planning, and do not support operations or routine maintenance. 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

MAP-21and the extension bills authorized $10.6 billion for the federal public transportation program in FY2013, $10.7 billion in FY2014, and $10.7 billion in FY2015. Most of this funding is distributed by formula to local transit agencies. The largest discretionary program is the New Starts Program, 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 historically have not been authorized through surface transportation legislation. However, a surface transportation bill passed by the Senate in July 2015, H.R. 22, includes many intercity rail provisions.

Funding Issues

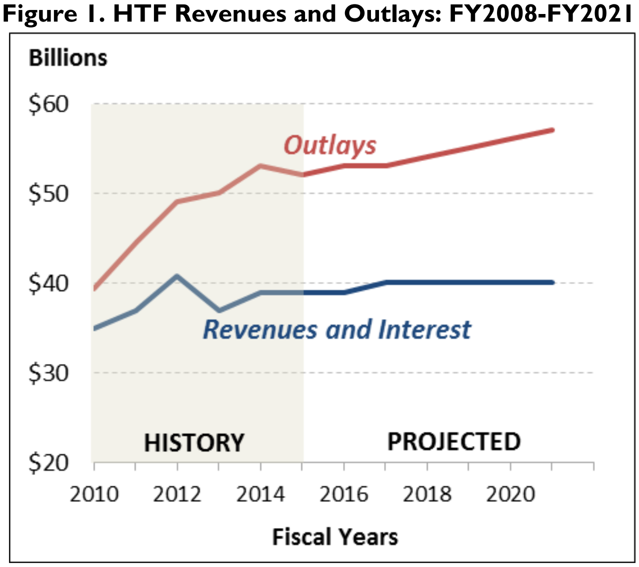
Highway Trust Fund. Historically, all of the federal highway program and 80% of the public transportation program have been funded with revenues from the HTF. Revenues supporting the HTF come from a combination of fuel, truck, and tire taxes, but the fuel taxes provide about 90% of the money.

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), and do not adjust for inflation or change with fuel prices. The rates were last raised in 1993. Increases in gasoline and diesel consumption kept revenues growing until the recession of 2007. Since that time, improving fuel efficiency and slow growth in vehicle mileage have led to a leveling of revenue growth. Spending from the HTF consistently outruns highway user revenues. Unable to agree on revenue increases or program reductions, Congress began providing a series of transfers to the HTF to prevent its insolvency. Since September 2008, Congress has provided over $73 billion to the HTF, mainly from the Treasury general fund.

Short-term issues. Unless Congress authorizes additional funds before then, the balance in the HTF is expected to fall so low by late 2015 that the Department of Transportation may have to delay reimbursement to states and transit agencies for completed projects.

Long-term issues. The Congressional Budget Office projects an annual gap of almost $15 billion between the anticipated flow of revenue into the HTF and the cost of maintaining current highway and public transportation programs (see **Figure 1**).

Figure 1. HTF Revenues and Outlays: FY2008-FY2021



Source: Congressional Budget Office.

What Are the Options?

Continue transferring general funds. Congress could choose to appropriate sufficient general fund transfers annually to the HTF to address the shortfall. In recent years Congress has required offsets so the transfers do 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. Cuts could be accompanied by requiring states and municipalities to pay a greater share of the cost of highway and public transportation programs. Another option would be to devolve responsibility for highways to the states, leaving only a small federal program to build and maintain roads on federal land.

Separate public transportation from the HTF. Under this scenario, federal support for public transportation would be provided from the general fund as Congress sees fit. If the HTF were to be dedicated solely to highway spending at the current level, adjusted only for inflation, annual receipts are projected to remain $4 billion to $5 billion less than annual expenditures.

Revenue Options

A wide variety of revenue sources have been suggested to help address the HTF shortfall. Among the most commonly suggested are the following:

Increase the fuels tax. The motor fuels tax could be raised enough to make up for its loss of purchasing power and then be adjusted annually for inflation and fuel efficiency. Based upon the current level of consumption, an increase of approximately 10 cents to 15 cents per gallon of gasoline would be required to fully fund highway and public transportation programs at their current levels.

Impose a national motor fuel sales tax. A percentage tax on the retail price of motor fuels could be imposed that would rise with the price. Since gas prices can also fall, this might not be a reliable source of growing revenue.

Impose a vehicle miles traveled (VMT) charge. Charging vehicle owners for each mile of travel 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.

Dedicate tax reform revenues to the HTF. Various tax reform proposals would lead to short-term increases in federal revenue, which could be dedicated to transportation. Many of these proposals would generate increased revenues only for a limited period, leaving the long-term imbalance between HTF revenue and outlays unresolved.

Tax oil at the refinery level. This tax would be a tax on petroleum and petroleum products based on a percentage of the value of a barrel of oil. One attraction of this tax is that it would have to be collected at a limited number of locations, making it relatively easy to administer. But if all crude were taxed, oil used for nontransportation purposes, such as home heating or manufacturing, would be taxed to support highways and public transportation.

Tolling. Tolls could be used to pay for highway projects, 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.

Private investment. Public-private partnerships and privatization of existing government-owned roads and bridges may reduce federal costs in some cases. However, relatively few transportation projects are suitable for large-scale private investment, and investors are increasingly insisting that the public sector retain the risk that traffic volumes will be below expectations.

Issues in Reauthorization

The federal-state relationship is central to the federal highway program and underlies most reauthorization issues. Recent reauthorizations have increased the states' discretion in the use of federal highway funds. However, greater state discretion may conflict with other congressional priorities such as improving the condition of highway bridges; there are approximately 61,000 structurally deficient bridges, but it is up to the states to determine how much of their federal highway funds will be spent on bridges and how much on roads. Other issues include federal rules and regulations on environmental protection and performance management.

The distribution of available highway funds among states has historically been one of the most difficult issues for Congress to resolve. States have been concerned about the amount of funding they receive relative both to other states and to the contribution their drivers make to the HTF.

In 2012, Congress created a national freight planning program, and funding of a national freight program will likely be considered in reauthorization. Potential sticking points may be the use of highway tax funds for rail or marine projects and the distribution of such targeted funds among the states.

Bus systems in smaller cities and rural areas have complained that provisions in MAP-21 have made it harder for them to purchase buses. Funding for bus-related investment needs may become an issue in reauthorization.

On July 30, 2015, the Senate passed a six-year reauthorization bill. The bill, called the Developing a Reliable and Innovative Vision for the Economy Act (DRIVE Act; H.R. 22), would provide $274 billion for Federal-Aid highways from the HTF and $75 billion for public transportation from both the HTF and the Treasury general fund. This would be average annual spending of $45.7 billion for highways and $12.5 billion for public transportation.

More Information

CRS Report R43420, *Surface Transportation Program Reauthorization Issues for Congress*, and CRS Report R42877, *Funding and Financing Highways and Public Transportation*.

Robert S. Kirk, Specialist in Transportation Policy
William J. Mallett, Specialist in Transportation Policy

IF10025

Disclaimer