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Reauthorizing Highway and Transit Funding Programs

Surface transportation reauthorization acts fund federal highway and public transportation programs, along with transportation research, intercity passenger rail, and other programs. The Fixing America's Surface Transportation Act (FAST Act; P.L. 114-94), authorized federal spending on highways and public transportation for FY2016-FY2020. The funding expires on September 30, 2020.

The Federal-Aid Highway Program

The FAST Act provides on average $45 billion annually for the 1,027,849-mile system of Federal-Aid highways. Of these funds, 92.5% are distributed to the states via formula. The states have nearly complete control over the use of 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 (FHWA). The highway program focuses on highway construction and planning, and does 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 that includes roughly 25% of all U.S. public road mileage.

The Federal Public Transportation Program

The FAST Act authorized an average of $12.2 billion annually for the federal public transportation program. 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.

Funding Issues

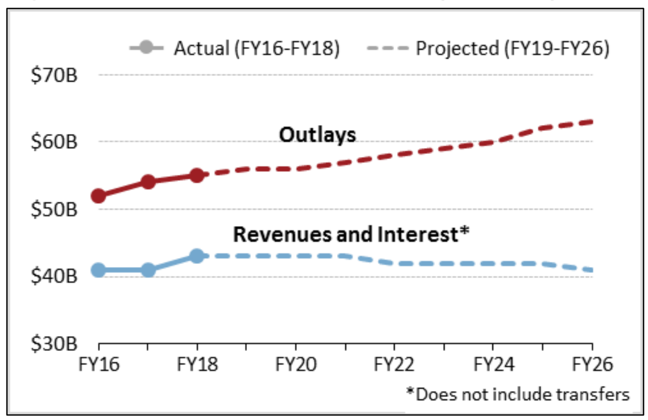
Highway Trust Fund. Historically, all of the federal highway program and 80% of the public transportation program have been funded with revenues from the Highway Trust Fund (HTF). Revenues supporting the HTF come from a combination of fuel, truck, and tire taxes, but the fuel taxes provide about 85%-90% 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 fuel consumption kept revenues growing until the recession that began in 2007. Since that time, improving fuel efficiency and slower growth in vehicle mileage have led revenue to level off, and spending from the HTF has consistently outrun highway user revenues. Unable to agree on revenue increases or program reductions, Congress began providing transfers to the HTF to prevent its insolvency. Since September 2008, Congress has provided $144 billion to the HTF, mainly from the Treasury general fund. This includes $70 billion of transfers authorized in the FAST Act.

Short-term issues. The Congressional Budget Office (CBO) estimates that the HTF has sufficient balances to cover expected outlays through September 2021. However, unless Congress authorizes additional funds by then, the balance in the HTF could fall so low that the Department of Transportation may have to delay reimbursement to states and transit agencies for completed projects.

Long-term issues. More money will likely be needed if Congress wishes to continue the highway and public transportation programs at or above their current levels, adjusted for inflation, in a future multiyear reauthorization. CBO projects the annual difference between revenues and outlays to rise from $16 billion in FY2021 to $22 billion in FY2026 (see **Figure 1**).

Figure 1. HTF Revenue and Outlays ($ Billions)



Source: CBO, Highway Trust Fund Accounts—January 2019 Baseline.

Based on current law, a future five-year reauthorization bill would need to cover a projected $68 billion shortfall, and a six-year bill would need to cover $89 billion.

What Are Some Options?

Continue reliance on general funds. Congress could choose to transfer money from the general fund to the HTF to accommodate as large a surface transportation program as desired. When the FAST Act expires at the end of FY2020, general fund transfers will have occurred for 12 years. Alternatively, Congress could eliminate the HTF altogether and pay for highways and transit through annual appropriations from the general fund.

Cut spending. Congress could reduce federal highway and public transportation spending to match the currently projected revenues. This would require spending cuts of roughly 25%.

Devolve highway programs. Congress could give responsibility for highways to the states and reduce federal motor fuel and truck taxes accordingly. States could raise their own highway revenues or reduce spending as they see fit. The challenge of making these adjustments would vary greatly from state to state. Devolution would have significant federal front-end costs, as the federal government would remain obligated to reimburse the states for highway projects committed to in previous years.

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 $9 billion less than annual expenditures under a possible six-year reauthorization bill.

Revenue Options

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

Increase the fuel tax. The motor fuel 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 fuel consumption, an increase of fuel taxes in the range of 13 cents to 15 cents per gallon would be required to fund highway and public transportation programs at their current levels.

Tax electric vehicles (EVs). Charging EV drivers for road use could provide some revenue. Vehicles that do not consume motor fuel do not contribute to the HTF. Finding an equitable and efficient way to charge EVs is a challenge.

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 fuel tax. Congress could set the per-mile rate and raise it as necessary. However, this revenue source has privacy, implementation, and collection cost issues.

Tolling. Tolls could be used to pay for highway projects, reducing demands on the HTF. Toll systems can be expensive to administer and enforce, and are subject to evasion. Many roads may not have enough traffic to make tolling worthwhile.

Private investment. Increased use of public-private partnerships and privatization of 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 sometimes unwilling to accept the risk that traffic volumes will be below expectations.

Issues in Reauthorization

The distribution of highway funding among states has historically been a difficult issue for Congress to resolve. States have been concerned about the funding they receive relative both to other states and to the contribution their drivers make to the HTF. The formula used to distribute most highway funds is based on FY2015 apportionments, and does not directly consider factors such as states' rates of population and highway travel growth, which might be relevant in assessing the need for new highway capacity.

Recent reauthorizations have increased the states' discretion in the use of federal highway funds. State discretion may conflict with the desire of Congress to set priorities. For example, despite much progress, there were still about 55,000 structurally deficient bridges nationwide at the start of 2018. It would be difficult for Congress to make bridge repair a priority without reducing states' discretion.

Most federal surface transportation funding is distributed by formula. This can make it difficult for Congress and the states to fund large projects of regional impact. Discretionary funding intended to fill this gap is comparatively small. For example, while the FAST Act created a freight-focused discretionary program, the program does not have the resources to fund extensive widening or bridge construction on highways anticipated to have high growth in truck traffic. Historically, discretionary funding has often been broken into many relatively small grants. This was especially true prior to a 2010 ban on earmarks, when virtually all discretionary program funding was distributed by earmarking: the average earmark in the last earmarked authorization bill was less than $4 million.

A new Interstate Highway construction or reconstruction program might not fit the traditional formula funding mechanism. A FAST Act-required study recommended that Congress create an Interstate Highway System Renewal and Modernization Program, but distribute the federal aid for each state's segments based on the estimated cost of rebuilding and expanding the Interstate system in the state rather than by formula.

Given both falling public transportation ridership and substantial preservation needs, Congress might consider both the size and direction of the federal public transportation program. One question is whether discretionary funding for major capital projects, provided through the Capital Investment Grant Program, is being spent effectively to build rail and bus rapid transit in relatively low-density urban areas.

Disaster response and the resiliency of highway and public transportation infrastructure are likely to be important issues in reauthorization. Concerns that climate change and more frequent natural disasters are damaging roads and transit lines could lead to consideration of requirements that states and transit agencies devote more attention to resilience in infrastructure design. Highway safety may also receive major attention in the reauthorization debate, given that highway fatalities and the highway fatality rate, which had fallen for many years, have been rising again recently.

More Information

CRS Report R45350, *Funding and Financing Highways and Public Transportation*.

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

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