The Highway Trust Fund Explained

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The Highway Trust Fund (HTF) was established in 1956 to provide a more dependable source of funding from the federal government for the construction of the interstate highway system. The HTF is comprised of two sub-funds:

- The Highway Account, which is largely devoted to construction and maintenance of highways and bridges; and
- The Mass Transit Account, which is used to make capital expenditures on buses, rail, subways, ferries, and other modes of public mass transit.

While the majority of spending on surface transportation in the U.S. is provided by state and local governments, funding from the HTF plays an important role in facilitating many projects. Federal assistance comes most often in the form of grants and other direct contributions, or in less direct forms like credit assistance to states to finance projects on more favorable terms.

Where does the Highway Trust Fund get its funding?

The Highway Trust Fund receives roughly 85 to 90 percent of its revenue from excise taxes on motor fuel, commonly known as the “gas tax.” Since 1993, fuel tax rates have been fixed at 18.4 cents per gallon for gasoline, and 24.4 cents per gallon for diesel. Taxes on tires and heavy vehicles (trucks) make up the rest of the fund’s income. Because the federal gas tax is not pegged to inflation and has not been raised since 1993, the purchasing power of the revenue has eroded over time — over 40 percent less today than in 1993. What’s more, rising construction costs and the growing needs of an aging highway system have placed a greater strain on the fund, resulting in recurring funding shortfalls in recent years.
Those funding shortfalls have generally been filled by transfers from the Treasury’s general fund; those transfers have shifted a total of $143.6 billion to the HTF since 2008, including $70 billion authorized in the Fixing America’s Surface Transportation Act in 2015. Such transfers do not bring in any new federal revenues, but they allow spending from the fund to continue.

What is the outlook for the Highway Trust Fund?

The HTF faces recurring funding shortfalls due to an imbalance between revenues and spending, and the lack of agreement on a structural fix creates periodic funding crises that put the infrastructure system at risk. Since 2008, the trust fund has spent $103 billion more than it has collected; spending in 2018 alone is expected to exceed revenues by $9 billion. The Congressional Budget Office (CBO) estimates that the Mass Transit Account will be exhausted in 2021, while the Highway Account will be exhausted in 2022. Additionally, CBO projects that the funding gap between dedicated surface transportation revenues and spending will grow rapidly over the next 10 years, from $13 billion in 2019 to $25 billion in 2028.
Why is the Highway Trust Fund important for American competitiveness?

The Highway Trust Fund provides a steady source of funding for investment in and maintenance of essential infrastructure. Likewise, safe and efficient infrastructure is a significant contributor to economic growth and productivity. Yet, by many measures, the current system is not meeting America’s 21st century needs.

According to the World Economic Forum, the U.S. ranks 10th in road quality, and 9th in overall infrastructure quality.
Considering the importance to the economy of infrastructure in transporting goods and people, this puts the U.S. at an economic disadvantage. According to a 2017 report published by INRIX, a leading transportation analytics firm, indirect costs such as sitting in traffic and searching for parking cost the average U.S. driver $3,037 in 2017; 5 out of INRIX’s top 10 cities with the worst traffic were in the United States.
What are some challenges in addressing funding for the Highway Trust Fund?

Although the need for serious, long-term changes to the funding structure of the Highway Trust Fund is clear, there is disagreement over the approach to do so. Some of those disagreements focus on general questions like the responsibility of the federal government over transportation funding, or the proper distribution of expenditures on highways versus mass transit; other disagreements center on specific policy proposals.

In general, the federal government directly funds a relatively small share of total expenditures on highways for capital projects, maintenance, administration, and research. For example, the federal government contributed $47.4 billion of the $221.3 billion total highway expenditures in 2012; states contributed $105.8 billion and local governments contributed $68.1 billion. However, only $3.2 billion was designated for capital outlays, maintenance, administration, and research, while the remaining $44.2 billion went to state and local governments in the form of transfers. So, as the HTF’s funding shortfalls continue to worsen in the next few years, the federal government’s ability to aid state and local governments will be increasingly restricted.
Another key challenge to the Highway Trust Fund is its funding source. The majority of the fund’s revenue comes from a fuel tax of 18.4 cents per gallon for gasoline, and 24.4 cents per gallon for diesel, neither of which has been raised since 1993. While that alone has led to funding shortfalls, ever-decreasing fuel consumption as a result of both improved fuel efficiency from gasoline-powered vehicles as well as from the growth in hybrid and electric cars on the road will ensure that the shortfalls persist if left unaddressed.

What are some options to address the future of the Highway Trust Fund?

In order to create long-term stability for the Highway Trust Fund, lawmakers must increase revenue dedicated to the fund, reduce spending, or some combination of the two. Options include:

- **Raise the gas tax:** Lawmakers could increase the fuel tax for example, to the inflation-adjusted amounts of 32 cents per gallon of gasoline and 43 cents per gallon of diesel fuel, and then peg it for future inflation. The Congressional Research Service notes that adding just a penny to federal fuel taxes would provide the trust fund between $1.5 billion and $1.7 billion per year. However, maintaining the gas tax as the major source of revenue for the fund may not be a long-term solution. First, cars are becoming more fuel-efficient, with standard models projected to reach 50 miles to the gallon by 2025, reducing the number of gallons of fuel consumed. What’s more, Americans are beginning to drive slightly less; annual vehicle miles traveled (VMT) is expected to drop from the 2% annual growth experienced from the 1960s until 2008 to roughly 1% over the next 20 years. Last, as the number of hybrid and electric cars on the road...
road increases, any tax increase in fuel consumption could place a greater strain on owners of gasoline-powered cars, particularly in rural areas where the number of miles driven is often greater and electric cars are less common. In an effort to make a tax increase more appealing, lawmakers have suggested offering a tax rebate to drivers to alleviate some of the added pressures of a new tax hike, but many rebuke that proposal as just another general fund transfer.

- **Raise revenue some other way:** Lawmakers could instead supplement or replace the gas tax with another revenue source. One proposed alternative is a sales tax system in which the fuel tax would be levied as a percentage of the retail price of fuel and not as a fixed amount per gallon. That way, fuel tax revenues could rise with fuel price increases independent of any fuel consumption increase. However, the inverse is true, and any sharp decreases or price shocks could lead to substantial revenue shortfalls. Another alternative to the fuel tax is a mileage-based road user charge, which many see as a viable and eco-friendly option that would be levied indiscriminately of a car’s fuel efficiency. Under this system, drivers would pay fees based on distance driven, regardless of their vehicle’s fuel efficiency. Some downsides to this strategy include concerns of personal privacy relating to the suggested use of GPS to track vehicle movements, costs to establish and enforce the charge, and the administrative challenge of actually billing individual drivers given the enormity of the country’s vehicle fleet.

- **Reduce spending:** Lawmakers could simply reduce spending so that it remains in line with the Fund’s inflows of revenues. However, such an approach would substantially restrict the number of projects the federal government would be able to support, thereby placing an even greater strain on state and local governments to fund key infrastructure projects.

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