
Testimony on the Status of the Highway Trust Fund and Options for Financing Highway Spending.

Testimony by Joseph Kile, Assistant Director for Microeconomic Studies, before the Committee on Finance, United State Senate

In 2013, governments at various levels spent $156 billion to build, operate, and maintain highways, and they spent $60 billion on mass transit systems. For both types of infrastructure, most of that spending was by state and local governments; about one-quarter of that total came from the federal government, mostly through the Highway Trust Fund. For several decades, the trust fund's balances were stable or growing, but more recently, annual spending for highways and transit has exceeded the amounts credited to the trust fund from taxes collected on gasoline, diesel fuel, and other transportation-related products and activities. Since 2008, in fact, lawmakers have transferred $54 billion from the U.S. Treasury's general fund to the Highway Trust Fund so that the trust fund's obligations could be met in a timely manner.

Moreover, with its current revenue sources, the Highway Trust Fund cannot support spending at the current rate. The Congressional Budget Office (CBO) estimates that, at the end of fiscal year 2014, the balance in the trust fund's highway account will fall to about $2 billion and the balance in its transit account will be only $1 billion. Spending for highways and transit will be $45 billion and $8 billion, respectively. By comparison, revenues collected for those purposes are projected to be $33 billion and $5 billion, respectively. The Department of Transportation (DOT) has indicated that it will probably need to delay payments to states at some point during the summer of 2014 in order to keep the fund's balance above zero, as required by law. Then, if nothing changes, the trust fund's balance will be insufficient to meet all of its obligations in fiscal year 2015, and it will incur steadily accumulating shortfalls in subsequent years. If lawmakers do not take action, all of the receipts credited to the fund in 2015 would be needed to meet obligations made before that year; none would be available to cover any new commitments that would be made in 2015.

Several options (or combinations of those options) could be pursued to address projected shortfalls in the Highway Trust Fund:

- *Spending on highways and transit could be reduced*. If lawmakers chose to address the projected shortfalls solely by cutting spending, no new obligations from the fund's highway account or its transit account could be made in fiscal year 2015; that would also be the case for the transit account in fiscal year 2016. Over the 2015–2024 period, the highway account would see a decrease of more than 30 percent in the authority to obligate funds, and the transit account's authority would decrease by about 65 percent, compared with CBO's baseline projections.
- *Revenues credited to the trust fund could be increased*—for example, by raising existing taxes on motor fuels or other transportation-related products and activities or by imposing new taxes on highway users, such as vehicle-miles traveled (VMT) taxes. The staff of the Joint Committee on Taxation (JCT) estimates that a one-cent increase in taxes on motor fuels—primarily gasoline and diesel fuel—would raise about $1.5 billion each year for the trust fund. If lawmakers chose to meet

obligations projected for the trust fund solely by raising revenues, they would need to increase motor fuel taxes by an amount between 10 cents and 15 cents per gallon, starting in fiscal year 2015.
- *The trust fund could continue to receive supplements from the Treasury's general fund*. Lawmakers could maintain funding for surface transportation programs at the average amounts provided in recent years, but to do so they would need to transfer $18 billion in 2015 and between $13 billion and $18 billion every year thereafter through 2024. Spending resulting from such general fund transfers could be paid for by reducing other spending or by increasing broad-based taxes, or such transfers could add to deficits and thus increase federal borrowing.

The projected shortfalls in the Highway Trust Fund have generated interest in greater use of borrowing by state and local governments to finance highway projects. In particular, state and local governments (and some private entities) can use tax-preferred bonds that convey subsidies from the federal government in the form of tax exemptions, credits, or payments in lieu of credits to finance road construction. Similarly, some of those governments make use of direct loans from the federal government to finance projects.

Federal policies that encourage partnerships between the private sector and a state or local government may facilitate the provision of additional transportation infrastructure, but a review of those projects offers little evidence that public-private partnerships provide additional resources for roads except in cases in which states or localities have chosen to restrict spending through self-imposed legal constraints or budgetary limits.

Only a small number of highway projects in the United States have involved public-private partnerships with private financing. Some that have been financed through tolls have failed financially because the private-sector partners initially overestimated their revenues and as a result have been unable to fully repay their projects' debts. Perhaps as a response, projects that are still under construction rely less on tolls as a revenue source; more commonly, private partners are compensated from a state's general funds, thus limiting the private risk of not being repaid and leaving the risk of lower-than-expected revenues to the public partner.

Regardless of its source, however, borrowing is only a mechanism for making future tax revenues or user fee revenues available to pay for projects sooner; it is not a new source of revenues. Borrowing can augment the funds available for highway projects, but revenues that are committed for repaying borrowed funds will be unavailable to pay for new transportation projects or other government spending in the future.

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May 6, 2014

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