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Ballard Spahr: Congress Passes Highway Funding Bill; Includes Pension Funding Relief.

Last week, Congress gave final approval to a $10.8 billion bill that will keep federal highway funds flowing to states through the busy summer construction season. While this short-term "patch" offers some relief, it is now the responsibility of the new Congress that will be sworn in next year to fashion legislation that can offer a long-term solution to pay for mass transit systems and repairs to bridges and highways across the country.

The vote came after weeks of debate regarding appropriate funding mechanisms for the struggling Highway Trust Fund (Fund), and hours before the government was set to begin cutting payments to state construction projects. The Fund was created as a user-supported fund. Simply, the revenues of the Fund were intended to finance infrastructure projects, with the taxes dedicated to the Fund paid by the users of the infrastructure. The Fund pays for highway and mass transit projects across the country, but it is now nearly exhausted because gasoline taxes—which finance the Fund—have not been able to keep up with spending. President Obama has indicated he will sign the bill into law.

A number of factors have contributed to the Fund's struggles, and for years lawmakers have sparred over how to deal with the annual funding shortfalls. The federal gasoline tax of 18.4 cents a gallon has remained unchanged since 1993, and has not been able to keep pace with the rising costs of construction and rehabilitation of transportation projects. Adjusted for inflation, the tax should now be approximately 29 cents a gallon. Further, with crumbling highways and bridges and greater demand for transportation infrastructure, the needs have grown, but the dramatic advances in fuel efficiency have substantially eroded the amount of gasoline tax funds coming in. The value will erode much further as new fuel efficiency standards take effect over the next decade.

The measure passed by Congress transfers $10.8 billion into the Fund and reauthorizes it through May 2015. More than half of the cost is offset by changes to the pension funding rules for private sector pension plans, which would allow companies to assume higher interest rates in measuring pension liabilities. Higher rates will reduce pension liabilities, which, in turn, will reduce the tax-deductible minimum required contributions that companies must make to fund their pension plans. Reducing the tax-deductible contributions that are expected to be made to pension plans over the next few years will bring new tax revenue to the federal government. Of course, this short-term pension funding relief comes at the possible expense of the long-term financial stability of employer-sponsored defined benefit pension plans.

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