Insight

Fixing the Highway Trust Fund: A Menu

DOUGLAS HOLTZ-EAKIN | JANUARY 7, 2015

Congress will soon have to address the financing of highways, roads, and other transportation projects. Federal surface-transportation funding takes place via the Highway Trust Fund (HTF), which receives a dedicated inflow of gasoline and diesel taxes and other revenues. This year, as in past years, the dedicated revenues in the HTF are insufficient to cover anticipated spending; Congress must act by the end of May to ensure adequate funding for fiscal year 2015.

Here are Congress's options.

1. Raise dedicated revenues.

In particular, one could raise the federal gasoline tax. There are three options for a gasoline-tax increase:

(a) Raise the tax rate. The current tax rate is 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel. Congress could directly raise the rates.

(b) Index the rates for inflation. In effect, Congress could legislate the *real* federal gasoline excise tax. As inflation raised the general price level, the tax would automatically adjust upwards.

(c) Index (inversely) the gas tax to oil prices. This option seeks to offset higher global oil prices with lower taxes and vice versa, while collecting more revenue on average than is collected now.

These options all suffer from the stark reality that the gas tax was last raised in 1993, at which point it hadn't been raised since the early 1980s. That is, raising the gas tax is politically difficult. One reason is that a gas-tax increase is a *tax* increase. This raises another possibility:

(d) Raise the gas tax, but offset the hike with decreases in other taxes. In effect, this switches the mix of federal revenues away from general revenue and toward dedicated taxes, but leaves the level of overall taxation unaltered.

2. Transfer funds into the HTF.

A second group of options involves augmenting the dedicated revenues with resources from elsewhere:

(a) Transfer general revenues into the HTF. This option has been the recent tradition of Congress “solving” HTF shortfalls.

(b) Conduct asset sales and transfer the proceeds to the HTF. One-time asset sales have a long tradition as short-term fixes to federal revenue problems. In this instance, one might envision selling transportation-related federal assets and depositing the proceeds in the HTF. A particularly attractive candidate is the direct loans made under the Transportation Infrastructure Finance and Innovation Act (TIFIA). Moving the loans from the public sector to the private sector could be regularized. Doing so would generate access to private-sector capital to finance transportation projects and create an implicit public-private partnership for transportation finance.

3. Get serious about reform.

The most ambitious option would fundamentally restructure the HTF on the revenue side, the spending side, or both:

(a) Replace the gas tax with an alternative dedicated revenue source. Advocates of the gasoline tax point out that it is a (rough) user fee — those who use the roads, pay for the roads. From this perspective, desirable reforms are those that retain the user-fee structure but raise additional revenues. The most promising of these alternatives at present is the "vehicle miles tax," which would tax users of highways based on the type of vehicle (particularly its weight and number of axles) and how many miles it traveled.

(b) Eliminate the HTF and fund surface transportation entirely from general revenue. In part, this is already occurring, given our history of financing highway spending in excess of gas-tax receipts with general-fund transfers.

(c) Repeal Davis-Bacon and lower the cost of surface-transportation projects. Davis-Bacon essentially requires all transportation projects that use any federal dollars to pay union-scale wages. The result is that projects are as much as 9.9 percent more costly than they would be if they paid competitive wages. Repealing Davis-Bacon would allow the existing HTF to pay for more projects than is currently feasible.

(d) Incentivize broad use of public-private partnerships. PPPs, such as toll roads and tolled dedicated lanes on highways, permit the capture of cash-flow returns to infrastructure investments. In these circumstances, the access to dedicated cash flows permits private capital sources to capture a return in infrastructure investment and draws in private capital as a source of transportation finance. To the extent that PPPs are used more broadly, this may displace demands for HTF funds and permit the existing HTF to survive.

The new Congress will have five months to address funding surface transportation and settle the future of the Highway Trust Fund, at least for the near-term. It is important work; fortunately, there is a relatively robust set of choices on the policy menu.

Douglas Holtz-Eakin is president of the American Action Forum.