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Five ways to fix the Highway Trust Fund



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Lawmakers are scrambling to find ways to plug a \$20 billion hole in the Highway Trust Fund before a projected bankruptcy this fall.

The trust fund's coffers have traditionally been filled by revenue that is collected from the 18.4 cents-per-gallon federal gas tax.

But with expenses outpacing receipts by about \$20 billion in recent years as cars become more fuel-efficient and people drive less, the Congressional Budget Office (CBO) predicts the fund will run dry well before the Sept. 30 deadline for reauthorizing the gas tax. The fund could go bankrupt as early as August.

The CBO says lawmakers will have to find an extra \$100 billion to cover federal highway costs over the next six years in addition to the approximately \$34 billion per year that is brought in by the gas tax.

A number of options have been floated to fill the gap. Here are five possibilities.

Increase the gas tax

The easiest way to close the transportation funding gap would be to simply increase the gas tax, which hasn't been hiked since 1983.

But politically, this isn't easy at all.

Major lobbying groups like the U.S. Chamber of Commerce and American Trucking Association back raising the tax, and House Democrats have introduced a bill to gradually increase it to 33 cents-per-gallon.

Republicans are dead set against raising the gas tax, however, and it appears it has little chance of passage in an election year.

Index the gas tax to inflation

When the gas tax was hiked in 1993, it wasn't linked to inflation despite calls from transportation groups. Those groups say that's the major problem with the fund today.

If it had been indexed to inflation, the current tax would be 30 cents-per-gallon this year, enough to plug almost all of the shortfall in road and transit funding.

Advocates say that would save lawmakers the heartburn of having to debate the increase every time there is a shortage.

Yet indexing the tax to inflation now wouldn't provide immediate help, and could also be portrayed as a tax hike.

Tax drivers by the mile

Even the most ardent supporters of a gas tax acknowledge that better fuel efficiency argues for a change in the funding mechanism.

A new regulation requires that auto companies have their vehicle fleets get an average of 54.5 miles-per-gallon by 2025.

Some have suggested switching to a system where drivers are taxed based on how far they drive, known as Vehicles Miles Travels (VMT).

The distance-based system has been controversial, however, because early proposals called for recording drivers' mileage using transponders that would be placed in their vehicles. The idea of having their mileage tracked drew criticism from libertarian and privacy groups.

Tax wholesale oil transactions

Sen. Barbara Boxer (D-Calif.) has called for changing the source of the gas tax.

By placing a tax on wholesale oil transactions instead of taxing drivers at the pump, Boxer argues more money could be taken in. Virginia, for example, switched recently to wholesale oil taxes to plug their own transportation funding shortfalls.

But this proposal doesn't seem to have a ton of support in Congress beyond Boxer.

Boxer said during a recent congressional hearing that she "may be the only one who likes that idea" of switching to a wholesale gas tax.

Transfer money from other areas of the federal budget

This might be the most likely scenario.

In 2012, lawmakers raided other parts of the government to make up for a funding gap.

Lawmakers in both parties framed the 2012 transfer as a last-ditch effort to pass a short-term bridge to a more permanent solution. But now the idea is being raised again.

President Obama and House Ways and Means Committee Chairman Rep. Dave Camp (R-Mich.) have suggested using money from corporate tax reform to pay for a new transportation bill.

Obama's proposal called for using \$150 billion from tax reform to help pay for a four-year, \$302 billion transportation bill, while Camp suggested using \$125 billion.

Transportation advocates said it was "encouraging" that both political parties were talking about the same potential funding source.

Still, a one-time cash infusion would represent a band-aid of a solution.

TAGS: Gas Tax, Sen. Barbara Boxer, Highway Trust Fund

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