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The Federal Highway Trust Fund Is Going Broke. Here's Why That Could Be a Good Thing.

Elizabeth Nolan Brown | July 14, 2014

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This week President Obama is putting the hard sell on raising highway and transit aid, as the federal Highway Trust Fund (HTF) warns that it's bound by early August to run out of sufficient money to meet state obligations. The White House says Obama will discuss the matter Tuesday in Virginia, where he's expected to propose a "pro-growth business tax reform" solution. In Delaware on Thursday, he'll announce an initiative to increase private-sector investment in transportation.



About 27 percent of highway and transit spending currently comes from the federal government, via the HTF, while states kicking in about 38 percent and 35 percent coming from municipalities. The HTF isn't set to "run dry" in August, as many are reporting, but it did tell states to expect an average 28 percent reduction in aid at that point unless Congress acts. The fund faces a \$15 billion gap between projected spending and the money it will collect in 2015.

House and Senate committees began addressing ways to shore up HTF funding last week, both in the short-term and the long-term. The existing two-year funding measure expires at this end of this September. Legislators are now looking at bills that would provide about \$11 billion to the HTF through May 2015 and address long-term funding separately in the future.

State governors still say Congress isn't acting fast enough, and it's hindering their ability to plan and build major highway and bridge projects. [From Reuters:](#)

Republicans and Democrats who gathered in Nashville during the weekend for a National Governors Association (NGA) meeting said that at minimum Congress should approve a short-term fix before the federal highway account becomes insolvent by the end of August. Yet they want a longer solution to remove uncertainty that could stop or delay projects worth an estimated \$3.6 trillion to fix crumbling roads and bridges.

The inability of Congress to agree increases pressure on states to find alternative

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financing for their share, governors said. It affects the work needed to create jobs and boost the economy while repairing outdated infrastructure to avoid disasters such as the 2007 Minneapolis bridge collapse that killed 13 people and injured 145.



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According to the American Society of Civil Engineers, the U.S. needs \$3.6 trillion by 2020 to maintain highways, bridges, and other infrastructure. One way to raise some funds would be to raise fuel taxes, relied on heavily by states and the federal government to fund infrastructure projects—and untouched by Congress since 1993.

Yet there's nothing stopping states from taking this matter into their own hands. Since 2013, seven states have raised fuel levies, reports Reuters, while Wisconsin Gov. Scott Walker is considering substituting sales tax and Indiana Gov. Mike Pence is pushing public-private partnerships. Other governors at the NGA conference also said they were looking at alternative funding solutions.

When left a little more to their own devices, it seems states get innovative. They develop localized solutions. They experiment.

Vice President Joe Biden was wistful when he told governors that, "you're the ones leading in your states without much help from the United States Congress. You've got to lead us out of this mess we're in." He saw this as an unfortunate byproduct of Congressional gridlock. But it may just be exactly what we need.

"The federal and state governments are having difficulty maintaining transportation investments in large part because they rely heavily on the gas tax, a declining revenue source, to pay for road and transit infrastructure," Pew Research Center notes. "This revenue has fallen substantially in real terms across all levels of government over the past decade as a result of changing driving habits and increased fuel efficiency."

Clearly the fuel-tax system of infrastructure funding can't sustain itself and will only get less sensible with time. But fuel tax revenue decline doesn't tell the whole story of the HTF's funding gap. From Cato's Chris Edwards:

In recent years, gas tax revenues have flat-lined. But the source of the HTF gap was highway and transit spending getting ahead of revenues, and then staying at elevated levels.

The chart (below) shows real federal highway and transit spending since 1970. Real highway spending (red line) has almost doubled over the last two decades, from \$29.1 billion in 1994 to \$56.2 billion in 2014. Real transit spending (green line) has also risen since the mid-1990s.



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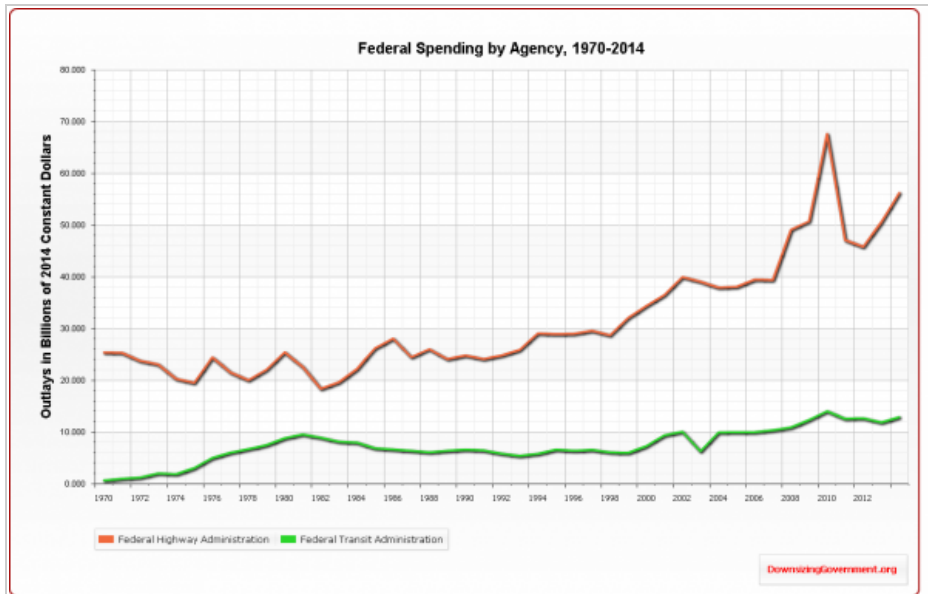


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In [May testimony](#) before the Senate Finance Committee, [Cato at Liberty / DownsizingGovernment.org/charts](#) Edwards suggested that one way to close the large funding gap between what the HTF currently has and what it needs "would be to reduce spending and downsize the federal role in transportation. That approach would encourage state governments to pursue their own innovative solutions for highways and transit, such as new types of user charges, public-private partnerships, and privatization."

"Privatization" of infrastructure sounds to most people like a spooky libertarian pipe dream, but Edwards points out that privately-funded infrastructure is already common. "Private infrastructure spending—on factories, freight rail, cell towers, pipelines, refineries, and other items—is four times larger than federal, state, and local government infrastructure spending combined," he said.

Transportation [policy analyst Emily Goff agrees](#) that "our Washington-centric approach isn't solving our traffic and mobility issues." This is largely because when the federal government acts as a middleman, project priorities get skewed, she says.

When car and truck drivers pay the 18.4 cents per gallon federal gas tax (24.4 cents per gallon for diesel) at the pump, they expect better roads and less traffic congestion in return. Instead, Washington diverts more than 25% of that money to subways, streetcars, buses, bicycle and nature paths, and landscaping, at the expense of road and bridge projects.

A federal gas tax hike presumably would continue this unfair trend.

The beneficiaries of these local activities take from, but do not contribute to, the Highway Trust Fund. Better for New York and New Jersey to fund their subways, Oregon its bike paths and Maryland its trails.

And though much is made of the horrid [state of our "crumbling infrastructure,"](#) we've actually been making a lot of progress on that front, says *The Washington Post's* Robert Samuelson.

Take bridges as an example. The record looks grim. In 2012, about 67,000 bridges were rated "structurally deficient."

But the record needs context. With 607,000 U.S. bridges, those 67,000 represent 11 percent of the total—a share that's down from about 25 percent in 1990.

Samuelson also notes that "structurally deficient" doesn't necessarily mean unsafe. According to the Congressional Research Service, it may simply mean that weight restrictions need to be posted or some smaller repairs made.

Elizabeth Nolan Brown is a staff editor at Reason.com.

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