

The New
R E P U B L I C

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Why a Gas Tax Is About Deficit Reduction

Robert Puentes December 2, 2010 | 12:19 pm

One of the candidate recommendations from the National Commission on Fiscal Responsibility and Reform is to increase the federal tax on gasoline by 15 cents per gallon by 2015. The proceeds from that increase would be dedicated to the Transportation Trust Fund, which is the source of funding for the nation's highway and transit programs.

Why is the gas tax about deficit reduction if the funds don't flow back to the general fund from the U.S. Treasury?

Simply put, it's because the gas tax doesn't generate enough revenue to cover the costs of the federal transportation program. Part of the problem is that the tax has not been raised, even to keep pace with inflation, since 1993. And as Americans have been driving less and driving more fuel efficient cars, they are buying less gas, so the tax is generating less revenue overall. So on three separate occasions since September 2008 a total of \$34.5 billion in general funds have been used to backfill the transportation account to keep it from running a negative balance. And this does not even include the general fund money that regularly funds some transit and safety programs, nor the \$35.9 billion in general funds for highway and transit projects as part of the American Recovery and Reinvestment Act. (Click for a table showing recent general fund infusions into the Highway Trust Fund.)

Fortunately, the commission's report recognizes the significance of this problem. In addition to the 15 cent tax hike, they call for the transportation program to live within its means. So the spending would match, not exceed, the revenues coming in. But importantly, they also call for an overhaul of the program to focus more on high-return priority projects. That's something we've been after for quite some time.

Recent General Fund Infusions into the Highway Trust Fund

Date	Bill	Public Law	Transfer Amount (\$ billions)	Context
8/15/2008	H.R. 6532	110-318	8.02	To amend the Internal Revenue Code of 1986 to restore the Highway Trust Fund balance
8/7/2009	H.R. 3357	111 - 46	7.00	An act to restore sums to the Highway Trust Fund and for other purposes.
8/18/2010	H.R. 2847	111-147	19.50	Making appropriations for the Departments of Commerce and Justice, and Science, and Related Agencies for the fiscal year ending September 30, 2010, and for other purposes. (includes the Hiring Incentives to Restore Employment (HIRE) Act)
8/13/2009	H.R. 1	111 - 5	35.90	American Recovery and Reinvestment Act of 2009. <i>Note, these General Funds were not officially transferred from to the Highway Trust Fund but are listed here for illustrative purposes only.</i>

Note: in both FY 10 and FY 11, the federal transit administration will receive about \$2.4 billion in general fund revenue

FEDERAL TAX RATES ON MOTOR FUELS AND LUBRICATING OIL 1/

OCTOBER 2009

(CENTS PER GALLON)

TABLE FE-101A

EFFECTIVE DATE OF NEW TAX OR REVISION OF EXISTING TAX	GASOLINE (CENTS PER GALLON) 2/	GASOHOI (CENTS PER GALLON)	DIESEL FUEL (CENTS PER GALLON) 3/	SPECIAL FUEL (CENTS PER GALLON) 4/	LUBRICATING OIL (CENTS PER GALLON) 5/
June 21, 1932	1¢	(6/)	U	U	4¢
June 17, 1933	1.5¢	U	U	U	U
January 1, 1934	1¢	U	U	U	U
July 1, 1940	1.5¢	U	U	U	4.5¢
November 1, 1942	U	U	U	U	6¢
November 1, 1951	2¢	U	2¢	2¢	U
September 1, 1955	U	U	U	U	Cutting oil, 3¢; other, 6¢
July 1, 1956	3¢	U	3¢	3¢	U
October 1, 1959	4¢	U	4¢	4¢	U
January 1, 1966	U	U	U	U	6¢ 7/
November 10, 1978	4¢ 8/	U	4¢ 8/	4¢ 8/	6¢ 8/
January 1, 1979	4¢ 8/ 9/	(6/)	U	4¢ 8/ 9/	6¢ 8/ 9/
January 7, 1983	U	U	U	U	Repealed
April 1, 1983	9¢ 8/ 10/	4¢	9¢ 8/ 10/	4¢ 8/ 9/	U
August 1, 1984	U	U	15¢ 8/ 10/ 11/	U	U
January 1, 1985	U	3¢	U	U	U
January 1, 1987	9.1¢ 8/ 10/ 12/	3.1¢ 12/	15.1¢ 8/ 10/ 11/ 12/	U	U
December 1, 1990	14.1¢ 8/ 10/ 12/ 13/	8.7¢ & 8.1¢ 12/ 13/ 14/	20.1¢ 8/ 10/ 11/ 12/ 13/	14¢ 4/ 8/ 13/	U
January 1, 1993	U	8.7 & 8.1¢ 12/ 13/ 14/	U	U	U
October 1, 1993 16/	18.4¢ 8/ 10/ 12/ 15/	13¢ & 12.4¢ 12/ 14/ 15/	24.4¢ 8/ 10/ 11/ 12/ 15/	18.3¢ 4/ 8/ 15/	U
January 1, 1996	18.3¢ 8/ 10/ 15/	12.9¢ 14/ 15/	24.3¢ 8/ 10/ 15/	18.3¢ 4/ 8/ 15/	U
October 1, 1997	18.4¢ 12/ 17/	13.0¢ 12/ 13/ 18/	24.4¢ 12/	13.6¢ 4/ 21/	U
January 1, 2001	U	13.1¢ 12/ 13/ 19/	U	U	U
January 1, 2003	U	13.2¢ 12/ 13/ 20/	U	U	U
January 1, 2005	U	18.4¢	U	U	U
Termination	Sept. 30, 2011	January 1, 2005	Sept. 30, 2011	Sept. 30, 2011	U

1/ The focus of this table is on the Federal taxes on motor fuels used on highways. The detail provided for other uses is incomplete. Most of the revenue raised by the taxes described is dedicated to the Federal Highway Trust Fund for the financing of highway and transit programs.

2/ Includes the product commonly or commercially known or sold as gasoline and suitable for use as a motor fuel with an octane level of at least 75. The gasoline tax applies to all fuel volume imported or produced. Gasoline used by State and local governments and nonprofit educational institutions is not taxed or tax is refunded if paid.

3/ Until April 1, 1983, the tax applies to all diesel fuel used in a highway vehicle registered for highway use. Diesel fuel used for farming is not taxed, or if the tax has been paid, it is fully refundable. Diesel fuel used by State and local governments and nonprofit educational institutions is not taxed or tax is refunded if paid.

4/ Special fuels include liquefied petroleum gases (propane, butane), benzol, benzene, and naphtha and other liquid (except gasoline, gasohol, and diesel fuel otherwise taxable, kerosene, gas oil or fuel oil) when used in a taxable way. The rates shown are for propane, the most commonly used special fuel. Through March 31, 1983, the tax applies to all special fuels used in a highway vehicle registered for highway use. Effective April 1, 1983, the tax applies to special fuel used in a motor vehicle or motorboat. Special fuels used for farming is not taxed, or if the tax has been paid, it is fully refundable. Special fuel used by State and local governments and nonprofit educational institutions is not taxed or tax is refunded if paid.

5/ The tax originally applied to all lubricating oil regardless of use

6/ Gasohol was not defined in Federal tax law until January 1, 1979. The products later defined as gasohol were taxable, to the extent they existed, under the provisions of the gasoline tax. Effective January 1, 1979, gasohol was defined to be a blend of gasoline and at least 10 percent (by volume) alcohol, excluding alcohol made from petroleum, natural gas or coal. As so defined, gasohol is exempt from taxation from January 1, 1979 through March 31, 1983.

7/ Cutting oil is exempt from stated taxes. The entire tax on other lubricating oil became refundable for nonhighway use.

8/ Effective December 1, 1978, school buses along with intercity and local buses used to transport the general public for compensation on scheduled routes (or 20 or more passenger buses on nonscheduled routes) are exempt from the stated taxes for motor fuel and lubricating oil. Effective August 1, 1984, the exemption for diesel and special fuel used by these buses is 3 cents per gallon less than the prevailing rate unless used by qualified local buses which are fully exempt.

9/ Effective January 1, 1979 through March 31, 1983, the 2-cent refund or credit for nonhighway gasoline use is permitted only for off-highway business use; special fuel is taxed at the full rate except tax is 2 cents for off-highway business use, and the tax on lubricating oil is refundable only for off-highway use. Effective January 1, 1979 through December 31, 1982 the tax paid on motor fuel used in certain taxicabs is fully refundable.

10/ The diesel fuel tax is imposed on any liquid suitable for use as a fuel in a diesel-powered vehicle or train. Off-highway business use is exempt from stated taxes. Effective January 1, 1983 through September 30, 1988, a 4-cent refund can be claimed for certain taxicab use.

11/ After January 1, 1985 and before August 21, 1996, a one-time diesel differential payment is made to the original purchaser of a diesel automobile of \$102, and of a diesel truck or van, 10,000 pounds gross weight or less, \$198. The payment decreases by one-sixth for each prior model year vehicle and is not made for 1978 or earlier model year vehicles.

12/ Includes 0.1 cent per gallon tax for the Leaking Underground Storage Tank Trust Fund effective January 1, 1987. Collection of the tax was suspended for the period September 1 through December 1, 1990, and expired January 1, 1996. The fund is reinstated on October 1, 1997, and will expire on March 31, 2005.

13/ Includes 2.5 cents per gallon tax for deficit reduction.

14/ Where two rates are shown, the first is for ethanol blends and second is for methanol blends. Effective January 1, 1993, the definition of gasohol is expanded. The original definition is retained and called 10 percent gasohol and continues to be taxed at the rates shown. Blends with at least 7.7 percent alcohol but less than 10 percent are taxed at 9.942 cents and 9.48 cents. Blends with at least 5.7 percent alcohol but less than 7.7 percent are taxed at 11.022 cents and 10.68 cents. Effective October 1, 1993, the rates for 7.7 percent gasohol are 14.242 cents and 13.78 cents respectively for ethanol blends and methanol blends; the rates for 5.7 percent gasohol are 15.322 cents and 14.98 cents. Effective January 1, 1996, the rates for 7.7 percent gasohol are 14.142 and 13.68 cents respectively for ethanol and methanol blends; the rates for 5.7 percent gasohol are 15.222 and 14.88 cents.

15/ Includes 6.8 cents per gallon for deficit reduction. Effective October 1, 1995, 2.5 cents of the 6.8 cents is dedicated to the Federal Highway Trust Fund.

16/ Until October 1, 1993, compressed natural gas was not taxed. Thereafter it is taxed at 48.54 cents per thousand cubic feet for deficit reduction.

17/ Proceeds of the 4.3 cents-per-gallon tax on highway motor fuel formerly deposited in the General Fund for deficit reduction are now deposited in the Highway Trust fund effective October 1, 1997.

18/ Effective October 1, 1997, the rates for 7.7 percent gasohol are 14.242 cents and 13.78 cents respectively for ethanol blends and methanol blends; the rates for 5.7 percent gasohol are 15.322 cents and 14.98 cents.

19/ Effective October 1, 2001, the rates for 7.7 percent gasohol are 14.319 cents and 13.78 cents respectively for ethanol blends and methanol blends; the rates for 5.7 percent gasohol are 15.379 cents and 14.98 cents.

20/ Effective October 1, 2003, the rates for 7.7 percent gasohol are 14.396 cents and 13.78 cents respectively for ethanol blends and methanol blends; the rates for 5.7 percent gasohol are 15.436 cents and 14.98 cents.

21/ Several alternative fuels are taxed at reduced rates effective October 1, 1997. Liquefied petroleum gases are taxed at 13.6 cents-per-gallon, liquefied natural gas is taxed at 11.9 cents-per-gallon, and M85 (85 percent methanol and 15 percent gasoline) is taxed at 9.25 cents-per-gallon.



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News

FHWA 62-10
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 Wednesday, November 3, 2010
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DOT Releases New Freight Transportation Data

U.S. Department of Transportation's Federal Highway Administration (FHWA) today released its new version of *Freight Analysis Framework*, the most comprehensive publicly available data set of freight movement.

"A transportation network that meets the needs of consumers and businesses is the foundation of economic recovery, which underscores the need for infrastructure investment," U.S. Transportation Secretary Ray LaHood said. "We are working to make sure our transportation system is up to meeting this growing demand."

Estimates show that in 2007, nearly 18.6 billion tons of goods worth about \$16.5 trillion were moved on the transportation network, which equates to 51 million tons of goods valued at more than \$45 billion a day moved throughout the country on all transportation modes.

After declines in 2008 and 2009, preliminary estimates indicate a return to growth in 2010. *Freight Analysis Framework* projections show tonnage will continue increasing 1.6 percent per year, reaching 27.1 billion tons by 2040, which is a 61 percent increase in tons between 2010 and 2040.

Trucks are still the single most-used mode to move freight, especially for distances less than 500 miles - they moved 69 percent of the weight and 65 percent of the value in 2007. Intermodal goods movement accounted for 18 percent of the value of freight transportation in 2007 and is forecast to grow to nearly 27 percent by 2040.

"The data confirms how critical our highways are to moving freight and to our nation's economy," Federal Highway Administrator Victor Mendez said. "Overall increasing and improved intermodal freight movement will lead to less energy consumption and more environmentally sustainable options."


The *Freight Analysis Framework* includes data on the amount and types of goods that move by land, sea and air between large metropolitan areas, states and regions. It is designed to provide information on national level freight flows across the nation's transportation network. This information helps the public and private sectors at all levels better understand freight movement, and transportation planners use it to better target scarce resources to improve operations or increase capacity.

More detail on the *Freight Analysis Framework* is available at: http://ops.fhwa.dot.gov/freight/freight_analysis/faf/index.htm

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Outlook for Highway Reauthorization Unclear after Election

By Oliver B. Patton, Washington Editor

The landslide Republican victory will change the transportation players on the House side, but there is no clear signal that even with this new leadership Congress has the political will to solve the key problem of funding the federal highway program.

Almost half of the Democrats on the House Transportation and Infrastructure Committee - 18 out of 45 - lost their elections, including Chairman Jim Oberstar, D-Minn. Oberstar, a 36-year veteran legislator with an encyclopedic knowledge of transportation issues who will leave a lasting imprint on national policy, was defeated by Republican Chip Cravaack.

Even had he won, however, he would have lost the chairmanship. That job probably will go to Rep. John Mica, R-Fla., the current ranking Republican on the committee. Rep. Nick Rahall, D-W.Va., has said he wants to be the ranking Democrat on the committee.

Leadership of the key Subcommittee on Highways and Transit probably will go to Rep. John Duncan, R-Tenn., who would replace Rep. Peter DeFazio, D-Ore.

The Republican caucus is scheduled to select committee leaders this week.

Mica Says Highway Program a Priority

In a statement after the election, Mica said one of his top priorities is to pass long-term reauthorization of the federal highway program, a bill that is now more than a year overdue. The current extension of the program expires Dec. 31.

Given the lack of agreement on the funding issue, and looming questions about other unresolved matters such as extension of the Bush era tax cuts, Congress is not likely to take on reauthorization during the lame-duck session.

At a minimum, though, legislators will have to extend the current authorization before it expires, said Norma Krayem, a senior policy advisor at the Washington, D.C., legal services firm, Patton Boggs. Krayem talked through this and other transportation issues at a recent webinar sponsored by the National Industrial Transportation League.

She underscored the challenge that has held up reauthorization for the past year: The fuel tax, which has not gone up since 1993, does not produce enough revenue to fund ongoing highway needs, and will generate declining amounts of revenue going forward as cars and trucks get more efficient. Since 2008, Congress has had to take \$34.5 billion from general revenues in order to keep the Highway Trust Fund solvent, she said.

Oberstar tried over the past year and more to convince his colleagues to find funding for the \$450 billion, six-year reauthorization proposal that he drafted last year, but the necessary tax increase was opposed by many in Congress as well as by the Obama administration.

Funding Ideas

One idea Mica is considering to get around the issue of raising the fuel tax is to abolish that levy and replace it with a percentage sales tax.

The initial rate on this tax would be set so that it is the same as the fuel tax, but then it would rise as fuel prices rise. If fuel prices go up as expected, the new levy would yield \$43 billion over six years, Krayem said.

The other indexing idea on the table, suggested by DeFazio, is to link the fuel tax to the cost of highway construction inflation.

Mica said earlier this year that he thinks there is a chance to get a reauthorization bill passed in the first half of 2011, as long as it is funded by something other than a fuel tax increase.

The sales tax alternative would be a way to stabilize the revenue coming in, while Congress looks at ways to limit outlays by focusing highway spending on projects of federal interest. Part of his strategy may be to tailor a House bill to the revenue that is available, Krayem said.

Mica also supports leveraging federal spending through public-private partnerships, and has spoken in favor of creating an infrastructure bank along the lines of the \$50 billion bank proposed by the Obama administration, but with a much bigger investment. "We need a \$250 billion infrastructure bank," he said earlier this year.

Many of these ideas are included to some extent in the blueprint reauthorization bill drafted under Oberstar's leadership last year. One difference that may emerge from a Republican bill in the House is less emphasis on livability and sustainability, which the Obama administration has been pushing. But a Mica bill likely will include the freight mobility policies that are in the Oberstar draft, Krayem said.

Other Proposals

Meanwhile, there are calls elsewhere for addressing the funding issue by simply raising the fuel tax.

Business interests such as American Trucking Associations and the U.S. Chamber of Commerce have supported such a move, provided the money is dedicated to highway needs.

And there are a few legislators who have broken from the anti-tax herd.

Rep. Laura Richardson, D-Calif., introduced a bill that would create a Goods Movement Trust Fund funded in part by a 12-cent hike in the diesel tax paid by trucks. Rep. Earl Blumenauer, D-Ore., has proposed repealing the 12 percent excise tax on new truck and trailer sales, and replacing it with a 7.3-cent increase in the diesel fuel tax, in order to promote the sales of new trucks.

On the Senate side, Tom Carper, D-Del., and George Voinovich, R-Ohio, have proposed raising the fuel tax by 25 cents a gallon over the next three years. They would dedicate 15 cents of that to the Highway Trust Fund, which would raise \$117 billion over five years, and the rest, amounting to \$83 billion, would go to deficit reduction.

Also in the mix is a proposal by the co-chairmen of President Obama's National Commission on Fiscal Responsibility and Reform to gradually raise the fuel tax by 15 cents a gallon, starting in 2013, and dedicate that money to the Highway Trust Fund.

This proposal is one of a number of highly controversial ideas floated by co-chairs Erskine Bowles, chief of staff to President Clinton, and former Wyoming Senator Alan Simpson, a Republican. They offered the ideas as talking points for a comprehensive national debate on spending, revenues and tax reform. The 18-member bipartisan Commission is scheduled to vote on these ideas and post its recommendations by Dec. 1.

The Obama administration is expected to release its own detailed reauthorization proposal with its 2012 budget, Krayem said. A couple of policy stances are clear already, though: the administration is adamantly against raising the fuel tax and supports livability initiatives. Also, Transportation Secretary Ray LaHood has said that he likes many of the features in Oberstar's reauthorization blueprint, referencing that bill's focus on restructuring DOT's organization and speeding up the process of planning and implementing infrastructure projects.

In the Senate

The committee leadership in the Senate does not change. Sen. Barbara Boxer, D-Calif., remains chairman of the Environment and Public Works Committee, and Sen. James Inhofe, R-Okla., is the ranking member. Sen. Jay Rockefeller, D-W.Va., continues to chair the Commerce, Science and Transportation Committee, with Sen. Kay Bailey Hutchison of Texas as the ranking Republican. And Sen. Frank Lautenberg, D-N.J., chairs the Surface Transportation Subcommittee, with Sen. John Thune, R-S.D., as the ranking member.

The ultimate question of funding will be handled by the Senate Finance Committee, chaired by Sen. Max Baucus, D-Mont. It is expected that Sen. Orrin Hatch, R-Utah, will be the ranking member.

These Senate committees have been working on their versions of a reauthorization bill, but nothing more than concept papers have emerged from that process yet.

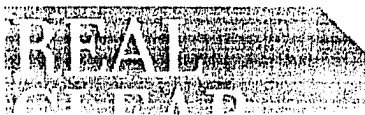
Getting to agreement over funding will continue to be exceptionally difficult, but Krayem pointed out that there is significant pressure to enact a bill.

There is a window for action before the 2012 presidential election, and everyone in Congress - new members and veterans - is under considerable pressure to get something done.

"The voters spoke out of anger, frustration and a feeling of helplessness," Krayem said. This puts pressure on Republicans to prove that they can be the party that brings prosperity back to America, and infrastructure is one way to do that, she said.

"Both parties need to come together to focus on the core job creation and economic development benefits of the reauthorization bill."

This story updated 1:45 p.m. EST 11/15/2010 to clarify Rep. Mica's position.



MARKETS

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October 26, 2010

A Good Grade On a Possible Gasoline Tax

By [Josh Barro](#)

The *Wall Street Journal* [reports](#) about a possible compromise tax proposal being pushed by the American Association of State Highway and Transportation Officials: Democrats might agree to an extension of all the Bush tax cuts if Republicans agree to convert the gasoline tax from a specific excise of 18.4 cents per gallon to an "ad valorem" tax set as a percentage of the price of gas. Gas taxes wouldn't be any higher today but they would rise over time with gas prices; Congress would use the added revenues to fund an expanded highway bill.

On its face, this sounds like the classic Washington compromise: Democrats will agree to cut taxes if Republicans agree to increase spending. But the idea deserves consideration. As I have written before, Congress should be extending all the Bush tax cuts for a limited period, so that we can complete the coming fiscal adjustment all at once, when the economy is stronger, and avoid raising taxes while the economy is fragile. Meanwhile, a change to ad valorem gas taxation would allow for stealth gasoline tax increases in years to come - which is a good thing.

Really, this change shouldn't be thought of as a tax increase - instead, think of it as canceling the annual gas tax cut. The federal gasoline tax hasn't been raised since 1993, when it was set at 18.4 cents per gallon. That means it has fallen by a third in real terms over that period - if the tax had kept pace with CPI, it would sit at 27.8 cents per gallon today. While many states have raised gas and other vehicle taxes since 1993, they have generally been reluctant to keep pace with inflation.

As a result, gas and motor vehicle tax receipts have lagged the economy. From 1994 to 2008, nominal GDP grew 103 percent, from \$7.1 trillion to \$14.4 trillion. But total motor fuel and vehicle taxes collected by federal, state and local governments grew only by 70 percent.

This is not necessarily a problem - as the economy grows, it undergoes structural changes that cause certain sectors to grow or shrink as a share of the economy. If we are spending less of GDP to build and maintain road infrastructure, then it's fine that vehicle tax receipts are shrinking as a share of the economy.

But that's not happening. In fact, spending on road construction and maintenance grew almost exactly in line with the economy from 1994 to 2008 - a 102 percent increase. Federal, state and local governments grew road spending faster than road revenues by borrowing more and by diverting general tax revenues to spend on roads. As in other areas of government, "starving the beast" has failed to reduce expenditure on road infrastructure.

This is a bad trend. The beneficiaries of investments in road infrastructure are easily identifiable and should be directly taxed to pay for roads. Motor vehicle taxes that are set at the proper level are good for the economy; setting the gas tax and other related taxes too low encourages people consume more highway than is economically efficient and to live farther away from their workplace than is ideal.

And when gas and license taxes aren't high enough to pay for all the government's road construction and maintenance projects, governments have to divert general tax revenues to pay for roads. They have been doing so, to the tune of \$61 billion per year in 2008, more than three times as much as was diverted in 1994. While too-low gas taxes lead to the wrong kind of consumption, higher sales and income taxes simply reduce consumption overall and shrink the economy.

Critics of higher gas taxes will note that some gas tax revenue is diverted to non-highway purposes. That's true, but the amount was only \$24 billion in 2008, less than half the amount of general revenue diverted to highways. \$15 billion of the gas tax diversion was to mass transit, whose use produces positive externalities for drivers by reducing traffic. And that \$24 billion only approximately offsets the value of a major tax preference for drivers: the fact that in almost all states, gasoline sales are not subject to general sales tax. Overall, drivers are net recipients of a significant and growing government subsidy, which a change to the gas tax could help offset.

Changing to an ad valorem gasoline tax is not a perfect reform. The gasoline tax should be set so that revenues keep pace with the cost of highway construction and maintenance. The price of gasoline might rise more slowly or more quickly than that pace; it would be better to index the tax to CPI or a more specific measure of road costs. However, changing to ad valorem (which effectively indexes the gas tax to gas prices) is preferable to not indexing at all.

In addition to reforming the federal gas tax, Congress could take several steps to improve our system of road financing. One step would be to let states toll interstate highways if they spend money to improve them. Tolls provide useful incentives to road consumers and are the most effective tool to fight traffic congestion. As with any good, mispriced roads become misallocated; traffic jams result because the per-gallon tax on gasoline is not a high enough price for the most demanded roads at the most demanded hours.

Congress should also repeal an archaic ban on food and gas service areas on federally funded highways; the reason you only see such service plazas in the northeast is that they are prohibited on interstate highways built since the 1958. Pennsylvania generates \$60 million per year from fuel sales alone on its Turnpike, but most other states cannot access this revenue source. Unfortunately, the truck stop lobby has stymied efforts to repeal the ban.

And finally, Congress should repeal the Davis-Bacon act, which artificially inflates the cost of federally financed road construction.

But even before doing any of this, either indexing the gasoline tax to inflation or converting it to an ad valorem tax would be a good first step to making our system of road financing more rational. And if such a move can be the bargaining chip that gets Democrats to agree to extend the full Bush tax cuts for several years, so much the better.

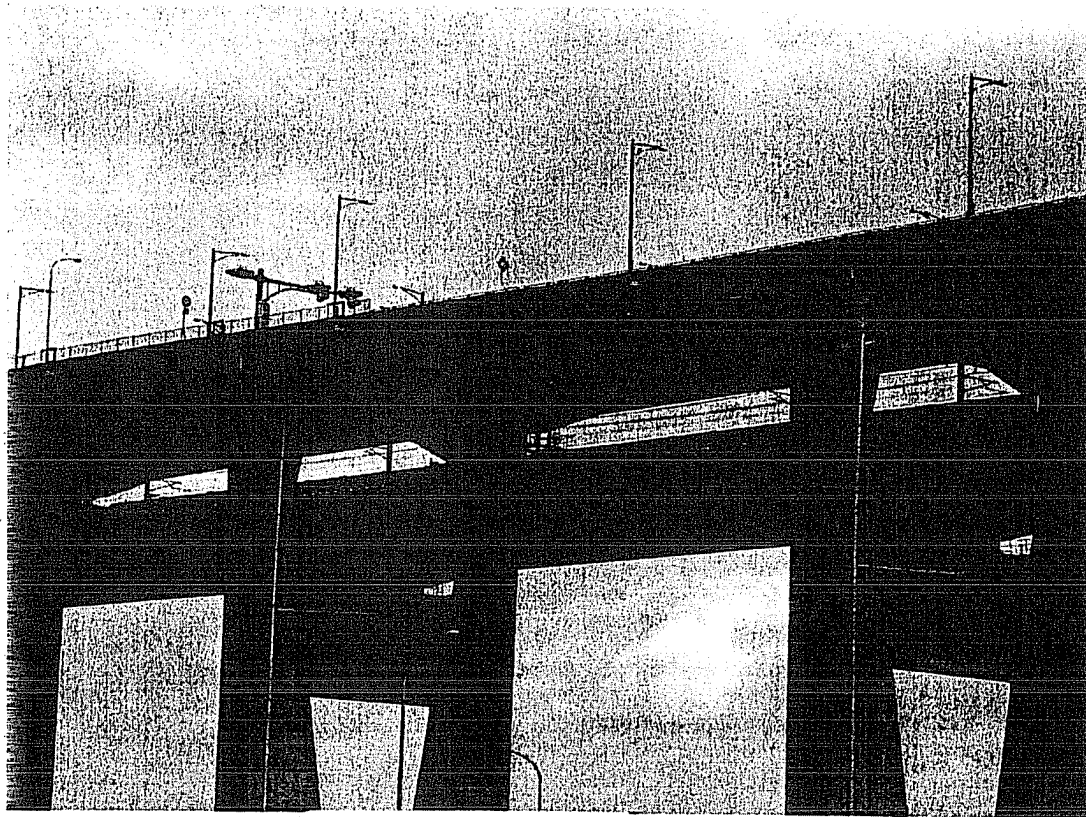
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Transportation User Fee Model Obsolete, But No Solution on the Horizon

Yonah Freemark

August 8th, 2010 | 32 Comments



» **Even as GAO reveals that nearly all states received more federal allocations than they contributed to the Highway Trust Fund, Congressional inaction continues. Supposed alternatives, like L.A.'s 30/10 plan, don't address core issues.**

Here's how the Highway Trust Fund was supposed to work, back when it was created in 1956 to fund the Interstate Highway System: Congress would redistribute annual revenue from a series of fuel taxes on a proportional basis to states to cover the majority of construction costs of freeways from Maine to Montana. Over the past five decades, that system has worked well enough both to construct the United States' massive roads system but also to keep it in relatively adequate condition — all by relying only on fees covered by direct users of the system. The understanding, theoretically shared by both drivers and politicians, was that the road system “paid for itself.”

Over the last few decades, however, that relationship has become increasingly tenuous. In 1983, the Mass Transit Account was created to fund public transportation with one out of every nine collected cents from drivers going to support rail and bus projects. In 1993, a

4.3¢ increase to the tax was allocated towards deficit reduction rather than transportation (though the money was eventually directed back towards roads in 1997). In the past two years, though, the user fee system has met its most challenging situation yet: Because of a refusal of the Congress to approve tax increases, a decrease in overall vehicle miles traveled, and an increase in the fuel efficiency of vehicles, the Highway Trust Fund is now paying out more than it collects for the first time — to virtually every state, according to the Government Accountability Office.

For proponents of the idea that federal transportation spending should be self-supporting, these facts come as a serious blow. They put in question both assumptions about the manner in which transport is funded in the United States *and* the long-term viability of that funding.

The biggest obstacle faced by the American transportation system is simply that we have run out of money to pay for it. The Congress has made little effort to advance any reauthorization of highway and transit allocations because of an unwillingness throughout the process to identify any tax increases that would be politically acceptable enough to pay for the system. The general fund has become the *de facto* financing source (leading to the aforementioned situation in which states contribute less in fuel taxes than they receive), but support for its continued use, despite its merits, remains unclear, leaving the whole transportation program in the lurch.

This situation has been exacerbated by the Obama Administration's steadfast failure to support any tax increases during the recession: Transportation Secretary Ray LaHood declared late last month that not only is no fuel increase in the cards, but also neither is a vehicle miles traveled fee, the only realistic alternative. Mr. LaHood argued that tolls could fill the gap — but there are structural impediments blocking that idea; more significantly, the federal government has no direct control over road tolls, so any increase in funds would go to state governments, not the national government.

Though states have the potential to be strong supporters of public transportation, they currently have shown little interest in doing so, even in the most progressive states. Apart from municipal and metropolitan governments, the overwhelming contributor to the financing of transit capital projects has been Washington.

Recently, two new alternatives have been promoted. Ken Orski, an Associate Administrator of the Urban Mass Transportation Administration (now FTA) in the 1970s, commented last week in his *Innovation Briefs* that Los Angeles' 30/10 transit plan was one significant option, since it promoted “fiscal independence” by allowing the federal government to “facilitate” but not be responsible for the financing of transit in ten years through low-interest loans that would eventually be paid back through thirty years of tax revenues. This argument has been repeated by several other sources.

This discussion, however, is disingenuous, since it does not reflect the fact that each of the public transportation projects being proposed for Los Angeles, from the Westside Subway extension to the Crenshaw Line, will require a financial commitment from

Washington through the New Starts grant program. In other words, the federal government must still find the money to pay for these projects through direct funding — through 30/10, Los Angeles is just trying to speed the process up. This could potentially make the situation worse for the already cash-strapped U.S. Department of Transportation, since it would only increase the immediate demand for more national transportation funds!

Meanwhile, Orski points to the proposal of the libertarian Reason Foundation to simply direct all transportation funds raised through the fuel tax — including those currently used for transit projects — towards a “results-oriented” “Interstate 2.0” highway program. This proposal is a reflection of Reason’s sense that Americans “have lost trust in the Trust Fund,” a sense that only conservatives seem to share, based on the understanding that it is unreasonable to use driver user fees to pay for bike, pedestrian, and public transportation projects.

This is a dangerously anti-multimodal point of view that fails to reflect the fact that there are significant benefits to the nation as a whole to invest both in highway and transit projects, no matter the source of revenue used to pay for them. Moreover, it does not consider a political reality that lobbies for the roads and public transportation are mutually dependent; there must continue to be a role for both in any future federal transportation financial structure.

I do not have a miracle solution to these problems other than to suggest once again that if the government wants to support a well-maintained national infrastructure, there is no choice but to increase taxes to do so — most of the “alternatives” are either just as reliant on federal investment as is the current system or represent an overall reduction in spending, the exact opposite of what is necessary. While it may be politically inconvenient to force through a tax increase, whether that means on fuel or income taxes, the United States has no real choice but to do so if it continues to desire a functioning transportation network.