U. S. DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ADMINISTRATION
BUREAU OF PUBLIC ROADS

THE HIGHWAY TRUST FUND

Remarks by Francis C. Turner, Director of Public Roads, Federal Highway Administration, U. S. Department of Transportation, prepared for delivery at the meeting of the AASHO Sub-Committee on Highway Finance in Minneapolis, Minnesota, on December 4, 1968.

The Highway Trust Fund was established by the Highway Revenue Act of 1956, and the revenues accruing thereto under the provisions of the Act were dedicated to the financing of Federal-aid highways.

At the same time, the Federal-Aid Highway Act of 1956 provided increased authorizations for the ABC program of primary, secondary and urban highways and also authorized funds for completion in 1972 of the 41,000-mile National System of Interstate and Defense Highways, commonly known as the Interstate System, based upon the then estimated costs of the System.

Each of these two Acts has been amended or supplemented several times since 1956. Additional revenues have been provided for the Trust Fund, annual authorizations have been increased for both the ABC and Interstate program, and the Interstate program has been extended to 1974.

Prior to 1956, revenues from all Federal excise taxes on motor fuels, motor vehicles, and associated products were placed in the General Fund of the United States Treasury. Also, prior to 1956, appropriations for Federal aid to the States for highway improvement were made from the Treasury General Fund. Thus before 1956 there was no linkage between highway-related Federal excise tax revenues and disbursements for Federal highway aid. The excise tax on motor fuel was considered no different from that on cigarettes; the appropriations for Federal highway aid no different from those for supporting the prices of agricultural products.

This long-continuing pattern was completely changed by the Federal-Aid Highway and Revenue Acts of 1956. To pay for the expanded Federal-Aid highway program, Congress increased some of the highway-related excise taxes and levied some new ones. It earmarked the revenues of some (but not all) of the highway-related excise taxes to go into the Highway Trust Fund which the 1956 legislation created. The Trust Fund was made the sole source of money for the ABC and Interstate programs. Thus the Federal-aid program was put on a wholly highway-user-supported, pay-as-you-build basis.

All appropriations for the Federal-aid program with which to reimburse the State Highway Departments are made from the Highway Trust Fund rather than the General Fund, and the program is therefore geared to the Highway Trust Fund income capability. There is a statutory provision that even though larger amounts are authorized to be apportioned than it is estimated the Highway Trust Fund can support from its designated receipts, then the Interstate apportionment amount, even though statutorily authorized must be correspondingly reduced and the deferred amount carried forward until the Highway Trust Fund income can support it. In practice this has really created no problem since the income and apportionment authorizations have been fully coordinated.

Sources of revenue accruing to the Highway Trust Fund are shown in Figure 1, as established by the 1956 legislation and under present law. Initial tax rates have been increased under legislation enacted in 1959, 1961 and 1965, as follows:

Item	Tax Increase
Motor fuel	from 3 cents to 4 cents per gallon
Tires	from 8 cents to 10 cents per pound
Tubes	from 9 cents to 10 cents per pound
Tread rubber	from 3 cents to 5 cents per pound
New trucks, buses and trailers	from 4 percent to 10 percent of manufacturer's sales price
Heavy vehicle use	from $1.50 to $3.00 per thousand pounds per year on vehicles weighing over 26,000 pounds gross weight loaded
Lubricating oil	from 0 cents to 6 cents per gallon
Truck and bus parts and accessories	from 0 percent to 8 percent of manufacturer's sales price

The principal highway-related excise tax not accruing to the Highway Trust Fund is the Federal excise tax on automobiles. No part of the present 7 percent tax on new automobiles accrues to the Highway Trust Fund. This tax currently yields about $1.5 billion annually to general funds of the Treasury.

Highway Trust Fund revenues totaled $4.428 billion during the fiscal year 1968. As shown in Figure 2, about 70 percent of Trust Fund revenues accrue from the 4 cents per gallon tax on motor fuel. About 29 percent of the revenues come from the various taxes on vehicle and automotive products. In fiscal 1968 about 1 percent of the revenue came from interest earnings and reimbursement from the general fund on account of expenditures for Pacific Northwest Disaster Relief.

Highway Trust Fund revenues, expenditures and balances are shown in Figure 3 for each of the fiscal years 1957 through 1968. Revenues totaled $37.213 billion during this period, and expenditures totaled $36.231 billion. The Trust Fund balance was $982 million on June 30, 1968. This total was reduced to $756 million by October 31, 1968, reflecting the excess of expenditures over revenues during the construction season. Trust fund balances at the end of each month and year are carried forward and remain available for expenditure as needed at a later date.

Section 209(e)(2) of the Highway Revenue Act of 1956 provides that the Secretary of the Treasury shall invest any Trust Fund balances not required to meet current expenditures. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. Interest is paid on such investments at the average current rate for Government obligations.

Interest earnings have totaled $147 million through the fiscal year 1968, and these earnings have accrued to the credit of the Trust Fund. The current interest rate on Highway Trust Funds invested in U. S. Treasury Certificates of Indebtedness is 4-3/4 percent.

Highway Trust Fund financing to date and a projection of the program through the fiscal year 1975 are shown in Figure 4.

Funds have been apportioned and made available to the States for the fiscal years through 1970, as shown by the stairstep line. The projection of authorizations through the fiscal year 1975 covers the Interstate program as authorized by the Federal-Aid Highway Act of 1968, totaling $50.6 billion in Federal funds, plus continuation of the ABC, TOPICS, Rural Primary and Secondary, Advance R/W Acquisition and Emergency Relief programs as authorized by the 1968 Act.

Progress of the program through October 31, 1968, is reflected by the shaded area to the left in Figure 4. Projections of obligations, revenues and disbursements through the fiscal year 1975 are based on estimates of Trust Fund revenues.

Highway Trust Fund revenues accrue through September 30, 1972, under present legislation, and are estimated to total about $57.9 billion by that date. Expenditures through the fiscal year 1975 are estimated to total about $73.4 billion, to liquidate apportionments for 1975 and prior fiscal years. Additional revenues totaling about $15.5 billion, as shown by the shaded area at the right in Figure 4, will be required for completion of the Interstate system and other programs as projected. The additional revenues could be provided by extension of the Trust Fund, by additional tax levies, or by combination of these alternatives, as may be determined by the Congress.

The Federal-aid program operates within the limits of revenues available in the Trust Fund, with borrowings from General Funds of the Treasury, if any, required to be repaid by the close of the fiscal year during which the borrowings occur. Accordingly, it was necessary in 1959 to establish a reimbursable obligation schedule, variously referred to as "reimbursement planning" or "contract controls", to insure that obligations did not exceed the amounts that could be liquidated from Trust Fund revenues when the work was done and vouchers submitted by the States claiming reimbursement for the Federal share.

As shown in Figure 5, the reimbursement planning controls permitted all but $1.0 billion of the funds apportioned for fiscal 1967 and prior years to be released for obligation on a reimbursable basis by July 1, 1966.

On November 23, 1966, in recognition of the need for curbing inflationary pressures, an initial limitation of $3.3 billion was established on program obligations during the fiscal year 1967. The $3.3 billion limitation for fiscal 1967 reflected a program reduction of $700 million or 17.5 percent from the previously expected level of $4.0 billion.

However, inflationary pressures eased somewhat during the fiscal year, permitting the release of $1.040 billion in addition to amounts made available under the initial limitation. Thus a total of $4.340 billion was made available for obligation during fiscal 1967.

Effective January 23, 1968, as a continuing step in controlling inflationary pressures, a limitation of $4.115 billion was established for obligations that could be incurred during the calendar year 1968. Not to exceed 45 percent of the calendar year limitation could be incurred through June 30, 1968. The new limitation, shown by the heavy dashed line in Figure 5, represented a reduction of $600 million from the projected level of Federal-aid highway obligations then expected to be incurred during the calendar year 1968.

On September 6, 1968, steps were taken to reduce Federal-aid highway spending by $200 million during the fiscal year 1969. The reduction was one of the measures taken in response to the Revenue and Expenditure Control Act of 1968, which directed that Government expenditures be reduced by a total of $6 billion during the fiscal year 1969.

The reduction in Federal-aid highway expenditures during the fiscal year 1969 has been accomplished through the temporary deferral of new project approvals for a period of about 3 months.

Funds have now been released for obligation on a month-by-month basis, beginning with a reduced program of about $100 million in December and continuing with a $600 million program for each month January through June, 1969. The total of over $4.7 billion available for obligation during the fiscal year 1969 is about the same as had been projected before the holdback was announced.

The ceilings on Federal-aid highway funds available for obligation during a fiscal or calendar year, including the special limitations prescribed for the fiscal year 1967, the calendar year 1968, and the fiscal year 1969, do not affect the fiscal year apportionments authorized by the Federal-aid highway legislation nor the availability of revenues in the Highway Trust Fund. The funds apportioned to the States but not obligated during a year are carried forward and remain available for obligation in later years. Revenues accruing to the Highway Trust Fund and not required for current expenditures are invested by the Treasury Department in public debt securities, and remain available to the credit of the Trust Fund for making payments to the States at a later date. As mentioned previously, the interest earned on such investments is credited to the Trust Fund.

In summary, there are many advantages to a Trust Fund operation, and there are some obvious concerns.

On the plus side, programs may be authorized for a period of years in the future, as in the case of the Interstate program, with assurance that revenues will be available to liquidate the obligations incurred. With contract authority such as we have for the highway program, it is possible to incur obligations in advance of revenue collections needed to liquidate the obligations, and we continually operate with unliquidated obligations totaling about $6 billion, with assurance that funds will be available in the Highway Trust Fund to reimburse the States when the work is done.

On the other hand, it is necessary that the program be carefully controlled to assure that obligations do not exceed amounts that can be liquidated from the Trust Fund on a year by year basis. And it must be recognized that the program is still subject to such controls as may be necessary by reason of inflationary pressures, expenditure reductions, appropriation limitations and other factors, notwithstanding the availability of revenues in the Trust Fund.

In some quarters there is serious intention to raid the Highway Trust Fund for the benefit of other modes of transportation, on the theory that it should be converted into a Transportation Trust Fund and its proceeds made available to city mayors and officials for mass transit purposes. This is advanced as being necessary in order to give voice to local desires about how the transportation problem shall be resolved in each local community. Supposedly, this would permit a city governing board to decide to use their highway funds either for street improvements or for a subway. This is generally accompanied by the claim that a subway will not disrupt the community with dislocations of people or businesses, and that it will automatically take all of the traffic load off the city streets. Such statements are close to misrepresentations, even if based on nothing more than misunderstanding of what rail mass transit can do in solving the traffic load question over the entire metropolitan area.

The claim is bandied about that one track of rail mass transit can--note the word can--carry as much as 20 lanes of freeway. Those making this statement fail to advise that one lane of freeway can do the same and more. They also fail to state that you cannot build a practical one-track mass transit rail line; it takes at least two, along with a whole lot of stations, and other special operating equipment. Also, that at no point in the world has the theoretical capacity which they claim for rails been actually reached; about the highest capacity on record being in the order of 25,000 to 30,000 persons actually carried and this is a rate reached over only a short period of time--5 to 10 minutes, rather than a full hour--and over a very short section of trackage. Whereas, a bus line operating now through the New York area is actually carrying about this same number over very long distances, throughout the whole hour, in the same lane with a large number of automobiles; and the lane is available and does carry throughout the day more cars and trucks and persons than does the rail line anywhere. So the proposal for diversion of the Highway Trust Fund to "transportation" purposes, meaning rail in most cases, would not materially benefit the overall transportation process, but would in so doing rob the Highway Trust Fund of monies badly needed for more beneficial types of improvements.

Aside from the lesser benefits of such a diversion, it is in my opinion just plain immoral, because the Highway Trust Fund was set up, as the word implies, to provide funds in trust for a stated and agreed-upon purpose. I do not believe in breaking faith with the American people who through their elected representatives in the Congress pledged that taxes levied in a certain way would be used only in the manner agreed upon. If funding is to be given to these other transportation purposes, then, they should go to the Congress and the people and make the needed agreement, just as did the highway people.

There are likewise proposals regularly made to divert some of the proceeds of the Fund to a variety of other purposes, some not even related to highways or transportation. There is strong feeling in some government quarters against any earmarking of tax revenues, because it prevents "fluidity" of management of income; in other words, diversion to another purpose chosen by the fiscal managers.

We cannot operate a program of this magnitude, with its long planning and lead times, with its numerous commitments which must be built up over a long time in advance of actual construction without the certainty of the Trust Fund and the contractural authority provision of the highway program legislation. We must be alert to prevent actions to do away with these vital features.

In closing, I would like to make brief reference to the progress that has been made in completion of the Interstate system. My remarks thus far have been concerned with Trust Fund financing, but we should not overlook the overall objectives of the program, which are to complete the improvement of the Interstate system and to continue the program for improvement of the Federal-aid primary and secondary systems in both rural and urban areas.

The progress of the Interstate system improvement as of September 30, 1968, is shown in Figure 6. In rounded totals, nearly 65 percent of the system has been improved and opened to traffic. Another 15 percent is under construction. Location has been approved for an additional 19 percent. Public hearings have been held and location approval is pending on an additional one percent plus. Location has not yet been determined for only about one-half of one percent.

The particular situation that I would like to point out with respect to the urban-rural breakdown is that urban sections of the system are fully as advanced as the rural sections.

We hear a great deal about location problems for the Interstate system in various cities. Yet locations have been approved for 98 percent of the urban Interstate system mileage. Public hearings have been held and location approval is pending on another one percent of the system. The location problems about which we hear so much are confined to only one percent of the urban Interstate mileage.

From the standpoint of both financing and Interstate system progress--urban and rural--I conclude that an enviable record is being established.

Figure 1

Federal Excise Taxes Accruing to the Highway Trust Fund

Tax Source	Rate Basis	Tax rate: 1956 Legislation	Tax rate: Present law
Motor fuel	cents per gallon	3¢	4¢
Rubber:			
Tires	cents per pound	8¢	10¢
Tubes	cents per pound	9¢	10¢
Retread	cents per pound	3¢	5¢
New trucks, buses, and trailers	percent of mfgr's. sales price	5%	10%
Annual heavy vehicle use tax	per 1,000 pounds per year	$1.50	$3.00
Lubricating oil	cents per gallon	0¢	6¢
Truck and bus parts and accessories	percent of mfgr's. sales price	0%	8%

Figure 2

HIGHWAY TRUST FUND RECEIPTS
Fiscal Year 1968

(Millions of Dollars)

Item	Tax Rate	Fiscal Year 1968 Amount	Fiscal Year 1968 Percent
MOTOR FUEL:			
Gasoline	4 cents per gallon	$2,888	65.22
Diesel	- do -	208	4.70
Subtotal		$3,096	69.92
VEHICLE AND AUTOMOTIVE PRODUCTS:			
Trucks, buses and trailers	10 percent of manufacturers price	510	11.52
Tires	10 cents per pound for highway tires and 5 cents per pound for other tires	468	10.57
Innertubes	10 cents per pound	19	0.43
Tread rubber	5 cents per pound	25	0.56
Heavy vehicle use	$3.00 per 1,000 pounds on vehicles of over 26,000 pounds gross weight	98	2.21
Parts and accessories, trucks and buses	8 percent of manufacturer's wholesale price	81	1.83
Lubricating oils	6 cents per gallon	82	1.85
Subtotal		$1,283	28.97
INTEREST		$ 34	0.77
REIMBURSEMENT (Pacific Northwest Disaster Relief)		15	0.34
TOTAL		$4,428	100.00

Figure 3

HIGHWAY TRUST FUND REVENUES
EXPENDITURES AND BALANCES

July 1, 1956 through June 30, 1968
(Millions of dollars)

Fiscal Year	Revenues	Expenditures	Balance at close of fiscal year
1957	$ 1,482	$ 966	$ 516
1958	2,044	1,511	1,049
1959	2,087	2,613	523
1960	2,536	2,940	119
1961	2,799	2,619	299
1962	2,956	2,784	471
1963	3,293	3,017	747
1964	3,539	3,645	641
1965	3,670	4,026	285
1966	3,924	3,965	244
1967	4,455	3,974	725
1968	4,428	4,171	982
TOTAL	$37,213	$36,231	$ 982

Figure 4

FEDERAL-AID HIGHWAY PROGRAM
FISCAL YEAR 1957 THRU 1975

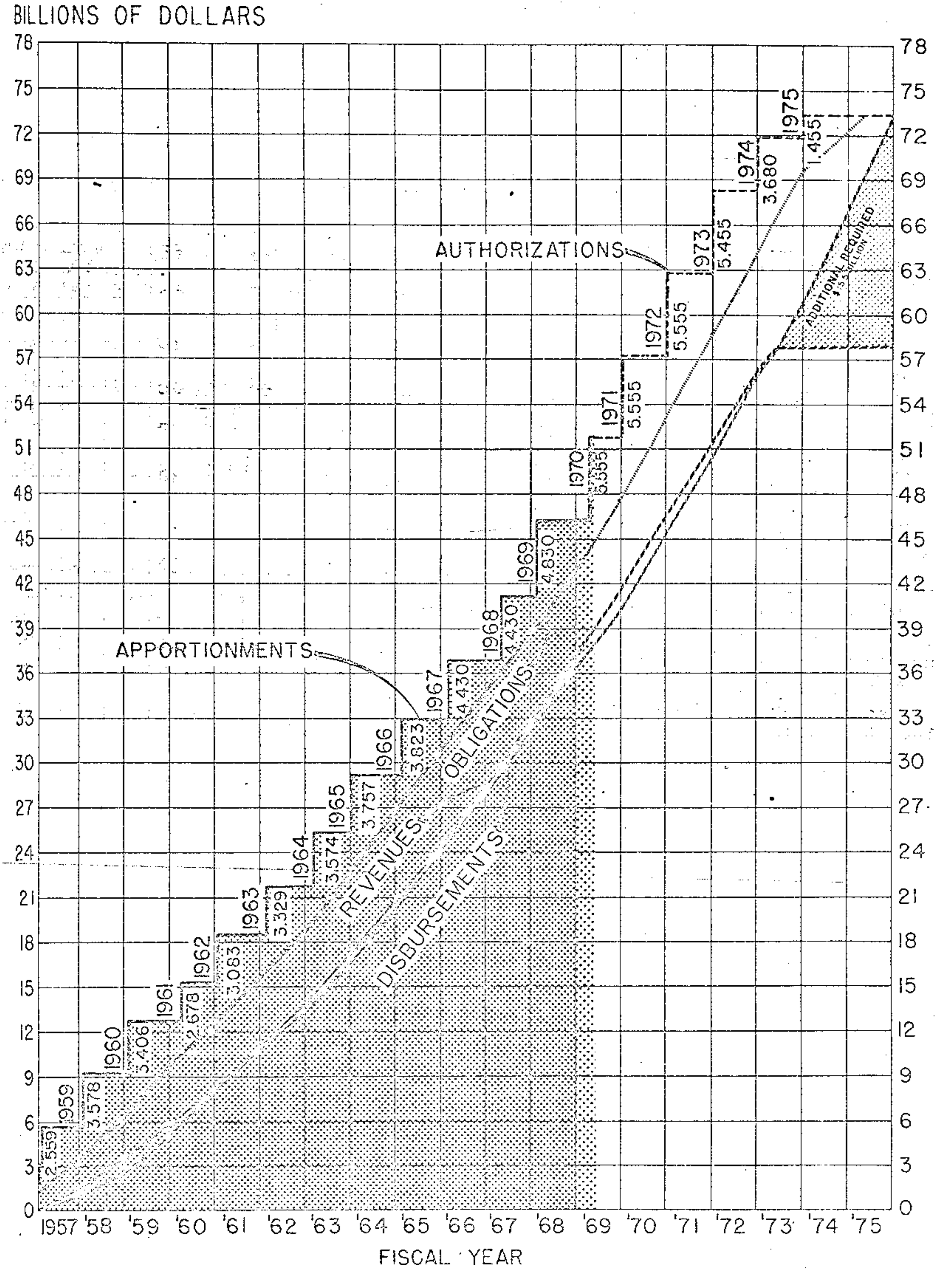

Figure 5

FEDERAL-AID HIGHWAY PROGRAM FINANCING

FISCAL YEARS 1966, 1967, 1968 AND 1969

AS OF OCTOBER 31, 1968

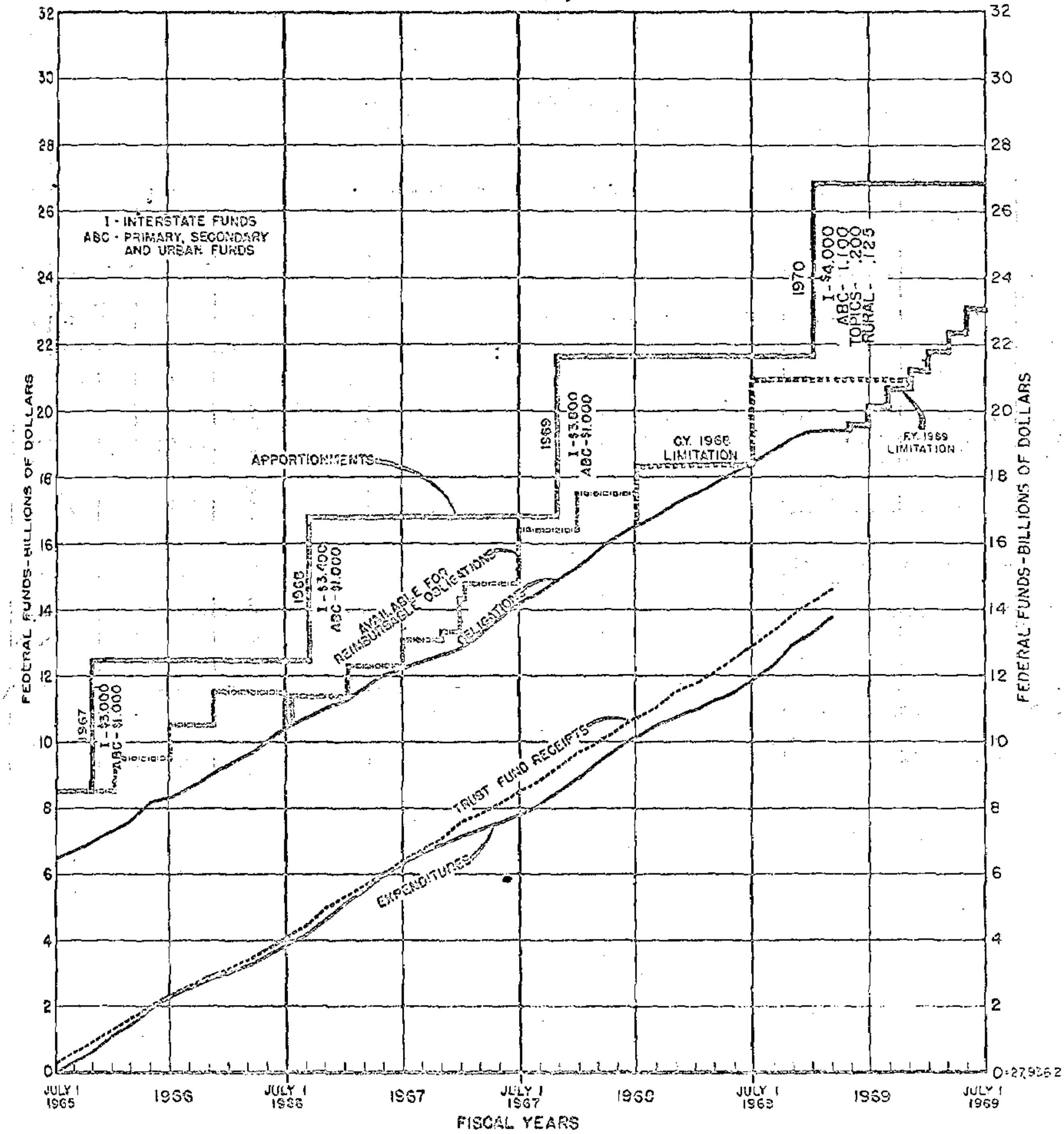

Figure 6

Progress of Interstate System Improvement

As of September 30, 1968

Status	Urban		Rural		Total	
	Miles	Percent	Miles	Percent	Miles	Percent
Improved and open to traffic1/	4,741	69	21,768	64	26,509	64.6
Under construction	825	12	5,218	15	6,043	14.7
Location approved - construction not started	1,160	17	6,502	19	7,662	18.8
Public hearing held - approval pending	78	1	482	1.5	560	1.4
Location not approved	81	1	118	0.5	199	0.5
Unassigned2/	-	-	-	-	27	-
Total	6,885	100	34,088	100	41,000	100

1/ Includes tollroads.

2/ Mileage not assigned to any specific route.