FY 2003 Federal Highway Funding Crisis
Why our Nation Should Not Reduce Critical Investment

Overview

The new federal fiscal year began October 1, 2002, with the level of federal-aid to the states for their highway and mass transit improvement programs undecided. This uncertainty has already caused some states to slow down project lettings, threatening jobs in the construction industry and throughout the economy.

When Congress returns in the new year to finish its FY 2003 appropriations work, the Americans for Transportation Mobility (ATM) coalition believes it should fund the highway program at $31.8 billion—the same level as FY 2002. Such an investment can be sustained through the $17 billion balance in the user-financed Highway Trust Fund (HTF).

This background paper outlines the significant positive impacts highway investment decisions have on the nation's economy, employment levels, homeland security, public health and quality of life. It also describes the forecasting misjudgments and recessionary impacts that have triggered a divisive debate over investment levels for a core responsibility of government.

Why Federal Highway Investment Must Be $31.8 Billion in Fiscal Year 2003

The argument that federal highway investment should be reduced in FY 2003 ignores the following important facts:

Economic Impact

Jobs. Each $1 billion of federal investment in highways supports an estimated 47,500 jobs throughout the U.S. economy, according to the latest research by the Federal Highway Administration. A $4.1 billion reduction in federal highway investment thus would jeopardize about 195,000 American jobs. Since most of the market impact of each year's federal highway funding obligations occurs in the following year, the peak job loss from such a reduction would occur in the presidential election year 2004. To date, over 25,000 transportation construction jobs alone have been lost due to uncertainty over federal funding.

These are good paying positions that support families across the nation. It is necessary to emphasize that these 195,000 jobs already exist today and will be lost if federal highway investment is reduced by $4.1 billion.

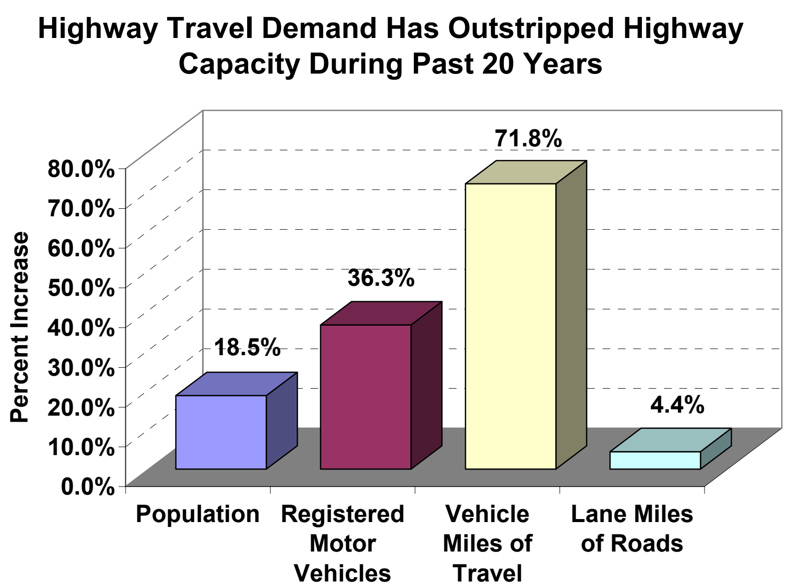
Economic stimulus. Highway investment has been shown to stimulate the economy more than any other fiscal policy. According to research by Standard and Poor's DRI, each dollar invested in highway construction (or defense procurement) generates $1.80 of Gross Domestic Product in the short term. This simulative effect on the economy is greater than cutting income or payroll taxes, or increasing unemployment benefits, according to Standard and Poor's research.

Business productivity. Research shows one-quarter of the post-World War II increase in American business productivity is the result of investment in highway construction and improvements. Over that period, the return on investments in highways has also exceeded that on private sector investments, such as manufacturing plants and equipment. Transportation investments also help reduce distribution costs, lower inventory costs and improve access to high-quality labor. These direct economic benefits, however, are threatened if the U.S. highway and bridge network is allowed to deteriorate. Today, with manufacturers and retailers depending on just-in-time delivery and using the Interstate Highway System as their "moving warehouse," an efficient highway system has become even more important to continued productivity gains and economic growth.

States. The appendix to this report shows the federal highway funds and jobs that are at risk in this debate at the state level. Exacerbating this situation is the fact that 36 states are currently facing deficits in their own budgets, and would be extremely hard hit by such a cutback in federal highway funding at this time. Several states have already announced they are postponing needed highway projects that would provide safety, air quality and traffic congestion improvements to benefit all Americans.

Quality of life

Congestion. While economic growth, population growth, and rising incomes are generating a growing demand on the nation's highways, highway capacity is not growing enough to accommodate the additional travel demand. As a result more and more of the nation's highways have become congested and a growing amount of travel is occurring under congested conditions.



Source: U.S. Bureau of the Census, Federal Highway Adminstration

The following chart illustrates the problem. During the past 20 years, travel on the nation's highways has grown almost 72 percent, while lane-miles of highways has risen only 4.4 percent, according to the latest data from the Federal Highway Administration.

As a result, during the past 20 years, congestion has worsened and the cost of congestion has skyrocketed. In large urban areas, the number of hours spent each year in congested conditions has more than tripled since 1982, from 25 hours per year to 85 hours per year according to the Texas Transportation Institute's annual study of congestion in America. Across the country, the average increase in delay per traveler was 46 hours. During peak travel times today, almost 60 percent of urban roads are congested, compared to only 34 percent in 1982, while the annual cost of congestion has soared to almost $68 billion from $15 billion in 1982 (in constant dollars).

Reducing this congestion by improved highway and transit efficiency can have dramatic environmental benefits. As automobile speeds go down, emissions of carbon monoxide and volatile organic compounds (two of the three primary mobile source pollutants) increase. Consequently, highway congestion that reduces vehicular speed unnecessarily increases auto emissions.

National Security. A robust surface transportation network is a direct complement to ongoing efforts to bolster the nation's security at home and abroad. The ability to transport people and materials is a critical component of national security. Unnecessary budget cuts that jeopardize the ability of the nation's surface transportation network to perform its vital functions on a daily basis could also be an impediment with this system is called upon in times of national emergencies. Our nation's Interstate Highway System was created by former President Dwight Eisenhower for mobility of the nation's military. Over 75 percent of respondents to a recent public opinion survey agreed that investment in highways, bridges and mass transit should be considered an important element in homeland security and national defense.

Safety. According to the U.S. DOT, almost 42,000 people are killed each year on the nation's highways. One person in the U.S. dies from a traffic crash every 13 minutes and there is one crash–related injury every 10 seconds. Traffic crashes are the leading cause of death in the U.S. for people ages 6 to 33, and their economic cost is estimated to be $230.6 billion each year in added medical, insurance, and other expenses. That's about 2.3 percent of the U.S. gross domestic product. To put this figure in perspective, the total annual public and private health care expenditures caused by tobacco use have been estimated at $93 billion annually.

Roadway safety is a huge public health crisis! The sad part is that, according to U.S. DOT, approximately 15,000 of these deaths annually – are in crashes in which substandard roadway conditions, obsolete designs or roadside hazards are a factor. These are accidents that we can prevent through improved transportation infrastructure. According to FHWA, for every $100 million we spend on highway safety improvements, we can save over 145 lives over a 10-year period.

How Did We Get from Record Highway Investment to a Potential Cut?

The negative FY 2003 Revenue Aligned Budget Authority (RABA) adjustment is not the result of a reduction in gas tax revenues into the Highway Trust Fund. It is easy to misunderstand what happened, and the assertion that the proposed reduction in highway funding was due to declining gas tax revenues has appeared in a number of newspaper articles. But it is not an accurate statement.

According to data provided by the U.S. Department of the Treasury, motor fuel excise taxes collected by the Treasury during FY 2001—the "look-back" year for the FY 2003 RABA computation—were roughly even with FY 2000 collections. There was a small decline in total revenues, but virtually all of it was due to a reduction in excise taxes paid by heavy trucks.

The overriding reason for negative RABA is that Treasury made a forecasting error in computing the FY 2001 RABA adjustment and another forecasting error in crediting revenues to the Highway Account in FY 2000. Treasury corrected both of those errors when computing the FY 2003 RABA adjustment. These were technical corrections to past forecasting errors, caused to some extent by the recession, but they account for almost $3 billion of the negative RABA adjustment that concerns us today.

In addition, it appears Treasury has underestimated incoming Highway Account revenues for FY 2003. This underestimate, we believe, added another $900 million to the negative RABA. The FY 2003 revenue projection does not appear consistent with the administration's overall economic assumptions and does not appear to take into account historical data showing that highway travel and truck excise tax receipts recover sharply after a recession ends.

Current Legislative Status

Upon release of this potentially devastating funding scenario, the bipartisan leadership of the House Transportation and Infrastructure Committee and Senate Environment and Public Works Committee introduced identical measures that would restore at least $4.4 billion of this potential reduction. These measures quickly gained the support of a majority of their respective chambers and cemented that highway investment in FY 2003 would be at least $27.7 billion. The committees are continuing to work to restore as much of the potential reduction as possible.

For example, in July 2002, the Senate Appropriations Committee has unanimously approved bipartisan legislation to fully fund the federal highway program at **$31.8 billion** in FY 2003—the same level as FY 2002. The Senate highway-funding proposal would prevent disruption of state highway programs and the resulting job loss.

The House Appropriations Committee, in a party line vote, has produced legislation that would provide $27.7 billion for highway investment in FY 2003. The recognition of the need to address this issue is a greatly appreciated first step, but allowing a reduction in highway investment of $4.1 billion would still cost 195,000 workers their jobs. Office of Management and Budget (OMB) Director Mitch Daniels has publicly stated that he believes $27.7 billion is the "proper" highway investment level for FY 2003. The Continuing Resolution that continues funding government programs until January 11, 2003 funds the highway program at the $31.8 billion level.

Budgetary Impact

Currently, the cash balance in the Highway Account of the Highway Trust Fund is about $16.1 billion, according to the U.S. Department of the Treasury. Funding for FY 2003 could be maintained at the previous year's $31.8 billion level by utilizing this balance. Some argue that the balance has already been committed to cover outstanding obligations. But projected revenues into the Highway Account during the next two years are more than sufficient to cover all existing or potential obligations, as is required by the Byrd rule. With $16 billion sitting idle in the Highway Account, Congress could easily sustain a $31.8 billion federal highway program in FY 2003.

It is important to recognize that maintaining a $31.8 billion federal highway program would have a small impact on federal outlays, and thus the federal deficit, in FY 2003. Highway program funds spend out over a period of seven to nine years. According to OMB and the Congressional Budget Office, only 27 percent of the outlays occur during the funding year. The $4.1 billion of obligation authority needed to maintain federal highway investment at $31.8 billion in FY 2003 will thus generate only $1.1 billion of additional outlays this year. The net cost, after computing lost revenues from the taxes paid by workers who would lose their jobs, is only half that.

Today's Highway Investment Decisions Effect the Future

System Investment Requirements. The American Association of State Highway & Transportation Officials (AASHTO) "Bottom Line" report uses Year 2000 data provided by the state transportation departments and the U.S. Department of Transportation's HERS model to project highway and mass transit capital investment needs over the period 2000 to 2019. The report states that an annual capital investment of $92.0 billion in 2000 dollars will be required during the next 20 years by all levels of government to maintain current conditions and performance on the nation's highways and $125.6 billion will be needed annually to make all of the economically beneficial improvements identified by the model.

The AASHTO report does not assign a federal share to these needs estimates, nor does it factor in future price inflation. If one assumes the federal share of total highway capital investment, FY 2004-09, will continue to be about 47 percent—the average share over the past 20 years—and that annual inflation will be 2.4 percent—the estimate used in the President's FY 2003 budget—the "Bottom Line" report suggests:

- The federal share of the investment needed "just to maintain" Year 2000 highway safety, structural and traffic congestion conditions would be $47.7 billion in FY 2004, rising to $53.6 billion in FY 2009.
- The federal share of the investment needed to make all economically justifiable improvements to the highway system would be $65.1 billion in Year 2004, rising to $73.2 billion in Year 2009.

The U.S. Department of Transportation is expected to soon release the biennial surface transportation conditions, performance and investment requirement report it is mandated to submit to Congress. The most recent report, issued in 2000 and utilizing 1997 data, suggested a minimum $50 billion per year federal investment requirement, when adjusted for inflation and historic traffic use. Annual inflation alone would be expected to drive that reported annual investment need beyond $60 billion by FY 2009.

The American Public Transportation Association (APTA) has stated that a $14 billion per year annual federal investment is necessary to meet minimum national transit needs.

Highway Trust Fund Revenue Forecasts. Current forecasts by the U.S. Department of the Treasury and the Congressional Budget Office indicate that Highway Trust Fund Highway Account revenues will see little growth between now and the end of the decade. According to these sources, not until FY 2007 would highway funding return to the $31.8 billion FY 2002 level. This further demonstrates that a reduction in highway investment in FY 2003 would not be easily reversed in the future.

Ethanol Will Continue to Erode Transportation Revenues. According to the U.S. General Accounting Office (GAO), the federal tax treatment of ethanol fuels has cost the Highway Trust Fund over $6 billion in foregone revenues since enactment of TEA-21 in 1998. These revenue losses are due to ethanol fuel use contributing less to maintain the nation's highways and bridges that do users of regular gasoline. The GAO also estimates that these foregone revenues will increase to over $2 billion per year by 2012. The projected further dilution of Highway Trust Fund revenues by ethanol fuels demonstrates the "double hit" that a cut in FY 2003 highway investment would impose on the nation's highway and bridge network.

TEA-21 Reauthorization Baseline Impact. Maintaining highway investment at the FY 2002 level will also have long-term ramifications. The funding level approved for FY 2003 will serve as a starting point for the next surface transportation bill, which must be reauthorized next year. If any reduction were to be enacted, the "baseline" for the next reauthorization measure would be artificially deflated.

This means enacting a cut in highway investment this year will continue to be felt every year during the next highway bill. Specifically, a $4.1 billion reduction in FY 2003 would translate into a $25 billion hole over the life of the next surface transportation reauthorization measure. As such, the progress made under TEA-21 would be jeopardized.

Conclusion

All of these factors can only add up to one conclusion, now is not the time to reduce federal highway investment. It makes no political nor economic sense to impose a $4.1 billion reduction in federal highway investment when the U.S. Department of Treasury reports $16 billion in highway user fee revenue paid by the nation's motorists and truckers is sitting unused in the Highway Trust Fund Highway Account! Releasing these user fees to maintain federal highway investment would prevent unnecessary job loss, disruption of state highway programs and delay of needed safety and traffic congestion improvements.

The over 350 members of the Americans for Transportation Mobility coalition urges the Administration and Congress to enact a FY 2003 highway investment level that maintains strong investment, and to support the **$31.8 billion** level approved by the bipartisan Senate Appropriations Committee. This level of investment is critical to the stability of the transportation construction industry, maintaining our nation's global competitiveness, and quality of life.