Backgrounder

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Restoring Regional Equity to the Federal Highway Trust Fund

Ronald D. Utt, Ph.D.

Among the many flaws in the federal highway and transit program are the pervasive regional inequities in the way that federal highway spending is distributed among the 50 states, the District of Columbia, and five territories.[1] Under current law, motorists and truck owners pay a federal fuel tax—18.3 cents per gallon on gasoline and 21 cents per gallon on diesel fuel—into the highway trust fund, which returns these fuel tax revenues to the states for their highway and transit projects.

In fiscal year (FY) 2005, $32.9 billion in user fees and taxes was collected for the highway component of the trust fund, and a total of $37.6 billion was returned to the states and territories according to a statutory formula that determines how much each state receives.[2] However, as annual U.S. Department of Transportation (USDOT) data reveal, many states were shortchanged, while others—notably Alaska and the District of Columbia—received far more in return than they put into the trust fund.

As Congress and the President begin to develop legislative proposals to reauthorize the federal highway program, which will expire in 2009, ending these regional inequities should be a high priority.

More Losers Than Winners

While trust fund revenues reflect actual tax payments made by motorists in each state, spending allocations to the states from the trust fund are determined by a mathematical formula that attempts to measure "need" based on several quantitative measures (e.g., miles of road and number of licensed

Talking Points

- Flaws in the highway program's allocation formula shortchange states in the South and Great Lakes regions. For several donor states, these misallocations cost them more than $100 million annually.
- The chief beneficiaries of this windfall are slow-growing, high-income states.
- In the years since the interstate highway system was completed in the early 1980s, the federal highway program has become a vast spoils system, of which Alaska's Bridges to Nowhere are only one of more than 7,000 earmarks in SAFETEA-LU.
- Half-hearted efforts to correct the problem have yielded little or no benefit to losers.
- The most effective way to resolve these flaws would be to turn the highway program and the right to collect and keep the federal fuel tax revenues back to the states.

This paper, in its entirety, can be found at:
www.heritage.org/Research/SmartGrowth/bg2074.cfm

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Table 1 B 2074

Federal Highway Program by State

State	FY 2005 Payment	FY 2005 Return	FY 2005 Ratio	FY 1956–FY 2005 Payment	FY 1956–FY 2005 Return	FY 1956–FY 2005 Ratio
Alabama	1.859	1.944	1.046	1.978	1.977	0.999
Alaska	0.201	1.299	6.446	0.205	1.233	6.011
Arizona	2.058	1.713	0.832	1.640	1.566	0.955
Arkansas	1.276	1.259	0.987	1.323	1.239	0.936
California	9.538	9.523	0.998	10.188	8.948	0.878
Colorado	1.468	1.271	0.866	1.319	1.394	1.057
Connecticut	0.945	1.371	1.451	1.105	1.679	1.520
Delaware	0.261	0.442	1.691	0.283	0.409	1.442
District of Columbia	0.090	0.391	4.328	0.146	0.542	3.710
Florida	5.504	6.995	1.271	4.809	4.088	0.850
Georgia	3.786	3.351	0.885	3.512	2.952	0.840
Hawaii	0.247	0.456	1.848	0.253	0.723	2.857
Idaho	0.529	0.725	1.372	0.516	0.765	1.481
Illinois	3.703	2.987	0.807	3.855	3.706	0.961
Indiana	2.747	2.232	0.812	2.673	2.157	0.807
Iowa	1.233	1.077	0.873	1.269	1.279	1.008
Kansas	1.031	1.059	1.027	1.181	1.176	0.996
Kentucky	1.895	1.660	0.876	1.789	1.670	0.934
Louisiana	1.691	1.547	0.915	1.781	1.814	1.019
Maine	0.510	0.495	0.970	0.536	0.536	1.001
Maryland	1.790	1.565	0.875	1.756	2.028	1.155
Massachusetts	1.763	1.690	0.959	1.929	2.539	1.316
Michigan	3.209	2.834	0.883	3.561	2.959	0.831
Minnesota	1.801	1.370	0.761	1.636	1.750	1.070
Mississippi	1.363	1.218	0.893	1.305	1.184	0.907
Missouri	2.489	2.266	0.910	2.559	2.230	0.871
Montana	0.449	0.953	2.123	0.470	1.003	2.136
Nebraska	0.780	0.734	0.941	0.794	0.792	0.997
Nevada	0.825	0.674	0.818	0.607	0.711	1.171
New Hampshire	0.444	0.459	1.033	0.417	0.487	1.168
New Jersey	2.940	2.457	0.836	2.905	2.592	0.892
New Mexico	0.916	0.932	1.018	0.832	0.960	1.153
New York	3.959	4.611	1.165	4.576	5.188	1.134
North Carolina	3.092	2.777	0.898	2.976	2.429	0.816
North Dakota	0.312	0.706	2.264	0.347	0.658	1.897
Ohio	3.970	3.650	0.919	4.165	3.509	0.842
Oklahoma	1.372	1.540	1.122	1.683	1.385	0.823
Oregon	1.216	1.165	0.958	1.276	1.336	1.047
Pennsylvania	3.910	4.551	1.164	4.306	4.641	1.078
Rhode Island	0.233	0.544	2.338	0.294	0.608	2.066
South Carolina	1.836	1.535	0.836	1.669	1.378	0.826
South Dakota	0.357	0.689	1.930	0.367	0.699	1.905
Tennessee	2.443	2.127	0.871	2.385	2.097	0.879
Texas	9.025	7.537	0.835	8.121	6.468	0.797
Utah	0.855	0.751	0.877	0.766	0.937	1.225
Vermont	0.225	0.452	2.003	0.247	0.465	1.881
Virginia	2.936	2.507	0.854	2.679	2.625	0.980
Washington	1.871	1.713	0.916	1.848	2.246	1.216
West Virginia	0.688	1.192	1.734	0.767	1.344	1.752
Wisconsin	1.871	1.858	0.993	1.947	1.744	0.896
Wyoming	0.489	0.681	1.391	0.449	0.706	1.573
Total	**100.000**	**99.533**		**100.000**	**99.546**	

Source: Heritage Foundation calculations and U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics 2005*, Table FE-221, at *www.fhwa.dot.gov/policy/ohim/hs05/pdf/fe221.pdf* (September 19, 2007).

drivers). In fact, the system embodies a number of inexplicable inequities that transfer billions of dollars from states in the South and the Midwest to the Northeast, the Mountain West, and Alaska.

Table 1 presents USDOT data on the extent to which each of the 50 states and the District of Columbia has gained or lost from the federal program by comparing their share of the tax revenues paid into the trust fund to the share they receive of trust fund spending.[3] The first three columns provide equity information for FY 2005, the most recent year available, while the second set of three columns provides equity information for all program spending since the program's inception in 1956.

Specifically, the first column in each set is the share of the tax revenues that the motorists in each state paid into the trust fund in 2005, while the second column is the share each state received in trust fund spending that year. Column three provides a ratio of the two (return divided by payments). Any state scoring less than 1.0 is a loser (paying in more than it gets back), while any state scoring over 1.0 is a "winner" because motorists in other states are subsidizing its road building.

Table 2 B 2074

Biggest Losers in Federal Highway Program, 1956–2005

State	Return Ratio
Texas	0.797
Oklahoma	0.823
South Carolina	0.826
Michigan	0.831
Georgia	0.840
Ohio	0.842
Florida	0.850

Source: U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics 2005*, at *www.fhwa.dot.gov/policy/ohim/hs05/index.htm* (September 19, 2007).

Table 3 B 2074

Biggest Winners in Federal Highway Program, 1956–2005

State	Return Ratio
Alaska	6.011
District of Columbia	3.710
Hawaii	2.857
Montana	2.136
Rhode Island	2.066
South Dakota	1.905
North Dakota	1.897

Source: U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics 2005*, at *www.fhwa.dot.gov/policy/ohim/hs05/index.htm* (September 19, 2007).

For example, South Carolina was one of the biggest losers in 2005 because its motorists provided the trust fund with 1.836 percent of its revenues while receiving only 1.535 percent of spending in return. In effect, South Carolina received only an 83.6 percent payback on its investment share. South Carolina is also one of the biggest losers over the 50-year history of the program. Only Texas and Oklahoma have done worse since the program's inception.

Table 2 ranks the seven biggest all-time losers in the federal highway program. With the exception of Oklahoma, the poor performance of loser states continued into 2005. (See Table 1.) For every loser providing a subsidy to other states, there are almost as many winners receiving these subsidies.

Table 3 lists the top seven winners in the federal highway trust fund misallocations. Over the past 50

1. American Samoa, Guam, the Northern Marianas, Puerto Rico, and the Virgin Islands.
2. Although the highway program attempts to match spending with anticipated revenues, the 2005 $4.7 billion gap between trust fund revenues and spending was a consequence of revenues falling short of earlier projections and higher spending plans. The 2005 reauthorization of the highway program deliberately set spending levels higher than expected revenues with the expectation of drawing down the balances in the trust fund. Some projections suggest that the trust fund will be depleted by FY 2008. These revenue and spending data exclude transactions with the mass transit account within the highway trust fund and some other excise taxes.
3. Data from U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics 2005*, Table FE-221, at *www.fhwa.dot.gov/policy/ohim/hs05/pdf/fe221.pdf* (September 19, 2007).

years, the motorists in Alaska have received six times as much from the federal highway trust fund as they have paid into it. Table 1 also shows that these highway trust fund misallocations are exceptionally regressive. For example, the less wealthy Southern states are subsidizing the much more prosperous Northern states. Emblematic of this peculiar federal policy is the fact that motorists in Mississippi (0.893 trust fund return ratio), the poorest state in the union, are subsidizing motorists in Connecticut (1.451 return ratio), the richest state.

In dollars and cents, the inequity can be quite costly to the states on the losing end of the flawed allocation system. Table 4 offers a few examples drawn from the 30 donor states in 2005 to illustrate how much less these states received in federal highway spending because of the flaws in the federal highway allocation formula. The return share deficiency is the difference between the payment percentage and the return percentage in Table 1.

Against these examples of losers—except for Minnesota, all of them have been losers since the program's inception in 1956—are 21 winners in 2005. Table 5 provides examples of several states that received the extra money in 2005 because of the inequities in the system.

Not surprisingly, given all of the publicity about the infamous "Bridges to Nowhere," Alaska is in a class by itself in terms of receiving excess benefits from the highway trust fund. In FY 2005, its motorists paid only $66.3 million in fuel taxes into the trust fund but received a staggering $490.4 million in trust fund spending, thereby earning the distinction of achieving the most egregious inequity in the system.

Table 4 B 2074

Selected Donor State Losses, FY 2005

State	Return Share Deficiency (percentage points)	FY 2005 Loss
Texas	-1.488	-$559,205,000
South Carolina	-0.301	-$112,743,000
Minnesota	-0.430	-$161,598,000
Georgia	-0.435	-$163,480,000
Indiana	-0.515	-$193,342,000

Source: Heritage Foundation calculations and U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics 2005*, Table FE-221, at *www.fhwa.dot.gov/policy/ohim/hs05/pdf/fe221.pdf* (September 19, 2007).

Table 5 B 2074

Selected Donee State Gains, FY 2005

State	Return Share Excess (percentage points)	Gain
Alaska	1.098	$412,639,000
Connecticut	0.426	$160,095,000
New York	0.652	$245,028,000
Pennsylvania	0.641	$240,894,000
Hawaii	0.209	$78,544,000
West Virginia	0.504	$189,408,000

Source: Heritage Foundation calculations and U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics 2005*, Table FE-221, at *www.fhwa.dot.gov/policy/ohim/hs05/pdf/fe221.pdf* (September 19, 2007).

One other troubling observation from Table 4 and Table 5 is that the current system effectively transferred $559 million from motorists in Texas (median income of $41,645 in 2004) to motorists in Connecticut (median income of $56,617) and Alaska (median income $52,141).

Another perverse consequence of the donor–donee misallocation is that most states on the losing end are experiencing above-average population growth rates and thus have a greater need to build new roads because of the increasing numbers of motorists. By contrast, winner states are generally experiencing below-average population growth and thus need fewer new roads.

- Between 2000 and 2006, the U.S. population grew 6.3 percent, while among donor states, Texas's population increased by 12.9 percent, South Carolina experienced a 7.7 percent increase, and Georgia's population increased by 14.4 percent.
- Among the winning donee states, Connecticut's population increased by just 2.9 percent between 2000 and 2006, New York experienced a 2.1 percent increase, Pennsylvania's population increased by 1.3 percent, and West Virginia's population increased by only 0.5 percent.

- In Alaska—the biggest winner of all—the population increased by 7.0 percent—just slightly higher than the national rate—but its extremely small population (670,053 in 2006) meant that its FY 2005 windfall of $412 million helped to accommodate the road needs of just 43,121 new Alaskans.
- In contrast, the 2.6 million new Texans had to make due with a $559 million deficiency in their share of the highway trust fund.

The Dos and Don'ts of Fixing These Inequities

As the last three columns of Table 1 illustrate, the state-by-state inequities have been a long-standing problem.

A Pattern of Failure. Periodically, the donor states have attempted to organize in an effort to correct the problem. Perhaps the most notable effort was in 1996–1998, when Congress developed and ultimately enacted the 1998 highway reauthorization bill, known as the Transportation Equity Act for the 21st Century (TEA-21).[4]

In advance of the 1998 reauthorization, more than 20 states—many in the South and West—organized themselves into a coalition called STEP 21 and lobbied for a fairer system. In response, Congress made what can best be described as "important cosmetic changes" in the bill. As the FY 2005 data in Tables 1, 2, and 4 reveal, these changes largely failed to impose any semblance of equity. Most donor states remained donors and to much the same degree.

In the years preceding enactment of the 2005 reauthorization bill—the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU)—a similar though less well-organized coalition was formed, but it accomplished little, and the final bill did not reduce the inequities among the states.

Efforts to work within the system by modifying the existing program have accomplished little despite well-organized campaigns to change the law. In large part this is due to resistance from Members of Congress representing "winner" states, which are predictably reluctant to surrender their advantage. To date, these states have been quite successful in maintaining the status quo and their benefits from it.

Turnback. As an alternative to the failed work-within-the-system approach, some Members have proposed ending the federal highway program and "turning back" to the states the responsibility and right to collect the 18.3 cents per gallon federal fuel tax.

The interstate highway system was completed in the early 1980s, fulfilling the original goals of the highway program. Since then, the program has become a vast spoils system, of which Alaska's Bridges to Nowhere are only one of more than 7,000 earmarks enacted in 2005. Indeed, as a result of the poorly conceived 2005 reauthorization, only about 60 percent of the federal fuel taxes paid by hapless motorists will go to roads.[5]

Legislation to turn back the federal highway program to the states was first introduced by Senator Connie Mack (R–FL) and Representative John Kasich (R–OH) in 1996 during the congressional debate leading up to TEA-21.[6] In the years since then, several other members of the House and Senate have introduced variations of this bill. Yet none of them went very far because the short-changed states' congressional delegations and state government officials have been reluctant to push the legislation.

Opting Out. Given that Congress might be reluctant to abandon a federal program that provides so many earmarking opportunities, an alternative might be to keep the program in its current form but allow individual states to opt out of it and re-

4. Public Law 105–178.
5. For information on the extent to which federal fuel tax funds are diverted to other purposes, see Wendell Cox, Alan Pisarski, and Ronald D. Utt, *21st Century Highways: Innovative Solutions to America's Transportation Needs* (Washington, D.C.: The Heritage Foundation, 2005), p. 170.
6. Transportation Empowerment Act, H.R. 3840 and S. 1971, 104th Cong., 2nd Sess.

place the federal fuel tax with their own levies. In return, opt-out states would agree to meet certain performance standards, including maintaining and enhancing segments of interstate highway in their states. Beyond that, opt-out states would be free to pursue transportation objectives in the best interest of their citizens, while states that chose to stay in the program would continue to benefit from the guidance of the USDOT and Congress.[7]

Conclusion

Although SAFETEA-LU does not expire until September 2009, interested trade associations and lobbyists representing tax-using enterprises and institutions are pushing Members of Congress to adopt new schemes to raise taxes and tolls on motorists to fund their privileged and influential constituencies. In these circumstances, there is an opportunity for some Members of Congress to step forward on behalf of beleaguered tax-paying motorists and introduce legislation that will redirect the motorists' taxes to projects that enhance mobility and promote economic prosperity.

—Ronald D. Utt, Ph.D., is Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

7. Cox, Pisarski, and Utt, *21st Century Highways*, pp. 163–182.