

P2-7/3 12-2

Office Memorandum • UNITED STATES GOVERNMENT

TO : The Director

DATE: December 1, 1958

FROM: Commerce and Finance Division (P. L. Sitton)
Center for Transportation

SUBJECT: Cabinet discussion of Federal-aid highway program

Noted
msd

It is our understanding that the status of the Highway Trust Fund will be discussed at Cabinet meeting on December 12, and Commerce will present a proposal to continue the Interstate Highway program on schedule and provide temporary revenue increases in 1960 and 1961 for the Trust Fund. The Commerce proposal is not in accord with the action taken by your Board of Review.

Recommendation - The Division reaffirms its recommendation, which was accepted by the Review Board, of a $1\frac{1}{2}$ ¢/gallon fuel tax increase to extend through 1972. (OK)

Background - The 1956 Highway Act authorized \$24.8 billion in contract authority through fiscal year 1969 for the Federal share (90%) of completing the 40,000-mile Interstate System. The 1956 Highway Revenue Act simultaneously established a highway trust fund into which was placed certain existing and increased highway user taxes to finance expenditures for the Federal-aid highway programs, including the Interstate System. The revenues and expenditures were estimated to be approximately equal over the time for completing the Interstate System (1972). In order to ensure the self-sustaining features of the Fund a "linkage provision", Sec. 209(g) of the Revenue Act, provides in effect that expenditures shall be kept in step with revenues by postponing, if necessary, the availability of contract authorizations.

Recent studies by Commerce indicate that the estimate for completing the 40,000-mile Interstate System has risen from \$25 billion to \$36 billion. Latest Treasury estimates of revenues have been reduced downward by \$156 million for 1959 and 1960. The 1958 Highway Act provided increased authorizations, 1959-61, for the Interstate program (\$800 million), increased authorizations for the regular Federal-aid programs, and waived the linkage amendment (with administration approval) as it applied to the 1959 and 1960 authorizations. As a result of these factors, the Trust Fund will show a deficit for the first time in 1960 and total revenues through 1972 will be inadequate to support the Federal-aid highway program by approximately \$13,436 million.

Public Roads in its budget presentation indicated that a deficit of \$128 million is anticipated in 1960. Our latest estimates indicate that this deficit will be \$357 million (see attachment #2). This deficit in 1960 must be made up by an increase in revenues or borrowing from the general fund. The deficit will continue to increase in future years, which presents the administration with a long-range problem of restoring the balance between revenues and expenditures. In addition, a decision must be made as part of the 1960 legislative program on the necessity for waiver of the linkage

amendment with respect to the 1961 authorizations which would normally be apportioned July 1, 1959. Under present revenue assumptions, if the linkage amendment is not waived, the 1961 authorizations of \$2.5 billion for the Interstate program cannot be apportioned during fiscal year 1960 and only \$600 million of the \$2.2 billion available for 1962 can be apportioned during fiscal year 1961.

The Division has explored the various alternatives available to the administration. These include a stretch out of the Interstate program within available revenues, borrowing from the general fund as needed to complete the System with subsequent repayment in later years, diversion of automobile excise taxes going to the general fund, an increase in present highway revenue taxes, or a combination of these alternatives.

In making recommendations for your consideration, we have worked under three basic assumptions. They are that the administration does not wish to stretch out the Interstate System and continues to adhere to the position that the Interstate System should be completed on schedule (i. e., 1972), that the Federal-aid highway program shall continue on a pay-as-you-build basis, and that the Bureau oppose utilization of general fund appropriation to support the program. Based upon these assumptions, the Division supports the following course of action.

Division proposal - The Division has recommended to your Review Board that a 1 $\frac{1}{2}$ ¢/gallon increase in fuel taxes, effective July 1, 1959, be proposed to the Congress at the beginning of the next session. This proposal, if accepted, would (a) eliminate a deficit in the Highway Trust Fund and remove the need for general fund financing, (b) make unnecessary further waiver of the linkage amendment as it applies to the 1961 and 1962 authorizations, (c) provide revenues that would approximately meet the expenditure needs of the Federal-aid highway program through 1972, and (d) permit the completion of the Interstate System on schedule.

Commerce proposal - We understand that Commerce will propose the following course of action:

1. Request Congress to suspend the linkage amendment for 1961 and 1962 in order that the authorizations for those years may be apportioned on schedule.
2. Propose legislation to be submitted in January 1959 to increase automotive fuel taxes by 1¢/gallon, effective July 1, 1959, for 1960 and 1961.
3. Delay further action on increasing Interstate authorizations and extension of increased revenue taxes beyond 1961 until the conclusions of the Sec. 210(d) cost allocation study and the AASHO road test are made available to Congress in January 1961. At that time a report on costs to complete the Interstate System will also be presented to the Congress with the latest estimates of expenditure needs.

Reasons for Division recommendations - We believe a $1\frac{1}{2}\phi$ fuel tax increase to be necessary for the following reasons:

1. Division's proposal accords with past statements of the administration supporting the continuation of a self-financing highway program. The President stated in the signing message approving the 1958 Highway Act that:

"It will be necessary for the Congress in its next session to return to the subject of highway legislation in order to provide funds for the enlarged Federal assistance under this Act. Its action at that time should accord with the sound principles that established the Trust Fund as a means for keeping federal-aid highways on a self-sustaining basis."

Commerce's proposal is a temporary stop-gap measure and does not meet the requirements for a long-range self-financing highway program.

2. The Division's proposal would eliminate the necessity for further waiver of the linkage amendment which would preserve the pay-as-you-go principle of the Federal-aid highway program. Commerce's proposal would still require waiver of the linkage amendment for 1961 and 1962 authorizations since projected revenues in future years would not equal expenditures.

3. A fuel tax increase of $1\frac{1}{2}\phi$ /gallon would provide \$584 million in additional revenues above the Commerce proposal of 1ϕ /gallon for 1960 and 1961 and would assure \$13,231 million in additional revenues over the life of the program. However, the Commerce proposal would leave more room for a State gas tax increase to meet State requirements for expanding highway programs. We understand that certain States are exploring the possibility of an increase in State fuel tax.

4. The Division's proposal would assure sufficient funds during 1960 and 1961 to finance the legislative proposals on forest and public lands highways and retention of the aviation gas tax in the general fund. The Commerce proposal would not bring in enough revenues to prevent a deficit in 1961 and would therefore tend to undermine these legislative proposals.

5. The Commerce proposal which places a lighter burden on the general public would be subject to slightly less opposition; however, opposition will exist against any proposal for a fuel tax increase.

6. There is strong pressure to continue the Interstate program on schedule, which will require additional authorization, without increasing those taxes that support the program. We believe that accepting the temporary expedient proposed by Commerce would establish a precedent for delaying the restoration of the program to a self-financing basis and ultimately result in diversion of general fund revenues.

7. The Commerce proposal to delay consideration of permanent revenue increases until information from the Sec. 210(d) study and the AASHO road test is available is not pertinent to the question of increased revenues.

At such time as the above studies are available, amending legislation can be proposed to provide for any equitable redistribution of highway taxes among the classes of highway users.

Attachments - There are attached with this memorandum tables which will provide background information for your discussion:

Attachment #1 - Summary status of Federal-aid highway program through 1972.

Attachment #2 - 1960 and 1961 estimates and 1960 budget proposals.

Attachment #3 - Factors affecting future requirements on Highway Trust Fund not considered in current estimates.

Summary - Status of Expenditures
for Federal-Aid Highway Program through 1972

(Millions of dollars)

1. Estimated expenditures from Highway Trust Fund:	
(a) Interstate authorizations under existing legislation ...	\$25,940
(b) Additional authorizations required to complete 40,000-mile system based on latest cost study	<u>10,060</u>
Interstate expenditures	36,000
(c) Regular Federalaid authorizations (primary, secondary, and urban) and flood relief based on increase to annual level of \$1,010 through 1972.....	15,467
(d) Proposed legislation to finance forest and public lands highways from Trust Fund	<u>472</u>
Total expenditures	51,939
2. Highway Trust receipts from current revenues	38,503 ^{1/}
3. Deficit under current revenues and 1960 proposed legislation	-13,436
4. Revenues from 1 ¹ / ₂ ¢/gallon increase in fuel tax through 1972	13,231
5. Revenues from 1¢/gallon increase in fuel tax, 1960-1961	1,170

^{1/} Estimate excludes \$266 for aviation fuel tax which would be retained in general fund.

Eno

Center for
TransportationHIGHWAY TRUST FUND

Relation of revenues and expenditures
based upon latest revenue estimates and
proposals to be included in 1960 budget

(Millions of dollars)

<u>Revenues</u>		<u>Expenditures</u>	<u>Balance</u>	
			<u>Annual</u>	<u>Cumulative</u>
1957	1,482	966	516	516
1958	2,044	1,511	533	1,049
1959	2,030	2,451	-421	628
1960	2,057	3,042	-985	-357
1961	2,175	3,046	-871	-1,228

Increased revenues from $1\frac{1}{2}\phi$ gallon fuel tax
would provide following amounts:

1960	861
1961	893
Total	<u>1,754</u>

Increased revenues from 1ϕ gallon fuel tax
would provide following amounts:

1960	574
1961	596
Total	<u>1,170</u>

Basic assumptions:

1. Revenue estimates for 1959 and 1960 are latest unofficial figures.
2. Revenues assume retaining aviation fuel tax in general fund (1960 - \$33; 1961 - \$29).
3. Expenditures assume financing of forest and public lands highways from Highway Trust Fund (1960 - \$40; 1961 - \$36).