PART 1: HTF REVENUES, SPENDING, AND SHORTFALL

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This is part 1 of the full report. To read or download the full report online, go to https://enotrans.org/the-last-exit.

Part 1: HTF Revenues, Spending, and Shortfall

I. The Past

In 1951, Congress declared it to be the policy of the federal government that federal services provided to any particular person or group should be paid for, to the extent possible, by fees or charges.[1] This principle, which is still on the books today, found an early expression in the Highway Revenue Act of 1956.[2] This law increased taxes on highway users (mostly motor fuels excise taxes) to pay for construction of the new Interstate Highway System and other federal-aid road programs and created a new Highway Trust Fund (HTF) in which to hold the tax receipts until they could be spent.

This construct worked well for its first 50 years, but since 2007, the system has become systemically insolvent, forcing Congress to provide $272 billion in bailout transfers from general revenues, the last of which is expected to run dry in 2028.

How did we get here, and how do we get out?

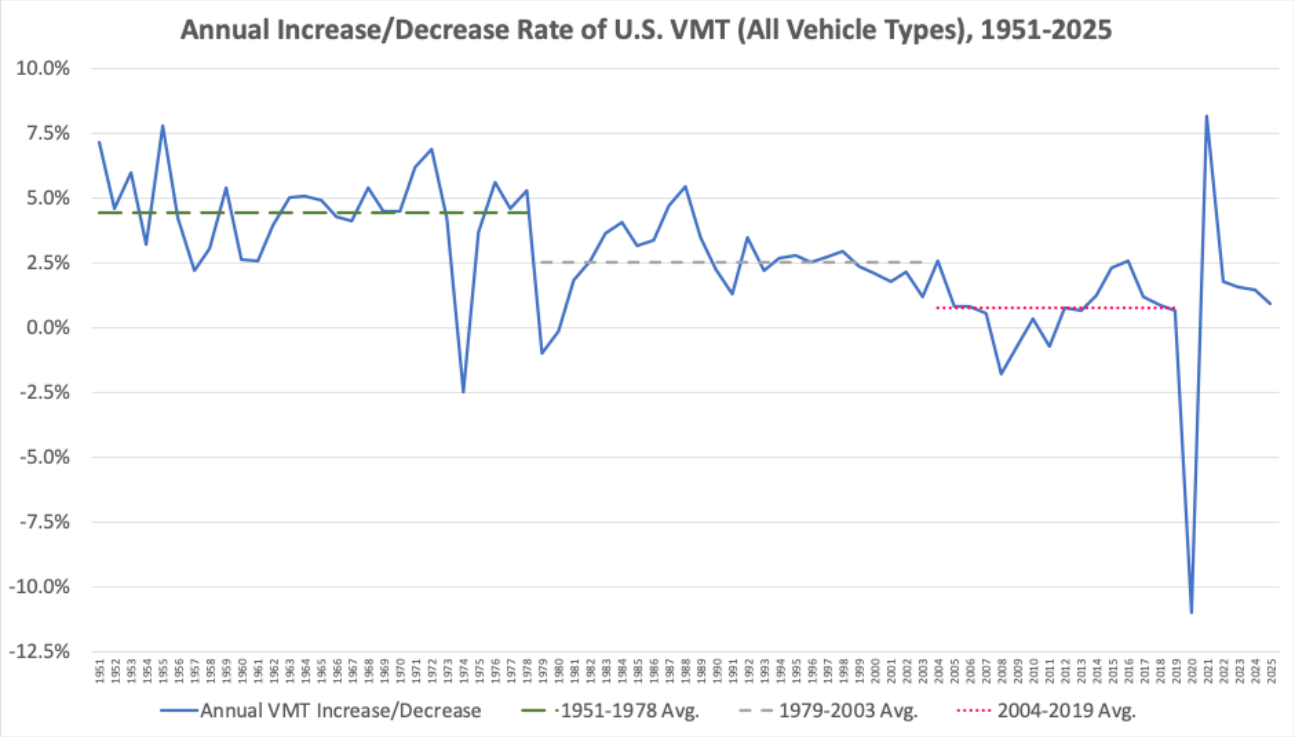
To begin with, we must recognize that the federal government has never been interested in how much motor fuel is owned by individuals or companies. Taxing motor fuel has always been a proxy for taxing the act of driving a motor vehicle on public roads, because it is far easier to tax a thing (especially when, as here, it is taxed at the point it leaves its place of manufacture) than it is to tax an activity taking place somewhere out in the world.

Unfortunately, basing federal road (and, later, mass transit) spending on the taxation of a proxy for driving has been subject to three long-term problems.

Problem #1: The amount of driving doesn't grow like it used to. In the "good old days" of the 1950s and 1960s, the amount of driving on U.S. roads, measured in vehicle miles traveled (VMT), increased at an average of 4.5 percent per year, a rate higher than inflation for much of that period. After the Organization of Petroleum Exporting Countries (OPEC) oil boycott and the Iranian revolution, the average rate of increase declined to an average 2.5 percent per year from 1979 to 2002. Then, between 2003 and 2004, the price of gasoline made a permanent quantum jump from an average of about $1.20 per gallon over the 1991 to 2002 period to an average of $2.75 per gallon over the 2003 to 2014 period.

During the same period, widespread adoption of GPS-based navigation software in vehicles, especially in smartphones, made it easier for people to drive more precisely and efficiently between the same origin and destination points.[3] Since then, VMT has only grown at an average of 0.8 percent per year, significantly below inflation.

Figure 1. Annual Increase/Decrease Rate of U.S. VMT



Eno Center for Transportation table. Data source: FHWA Highway Statistics Table VM-203

The growth in VMT, and resulting growth in fuel consumption, meant that revenues to the HTF grew steadily, largely without lawmakers having to increase tax rates to account for inflation. The fuel tax rate was set at three cents per gallon in 1956; Congress increased that rate at several points such that it is now nominally six times higher than it was in 1956, but over the same 70 years inflation has increased by a factor of 12.

Taxing motor fuel is a proxy for taxing the act of driving a motor vehicle on public roads, but it has long-term problems.

Obviously, there was a significant disruption due to VMT during the COVID-19 pandemic. However, post-COVID, the trend has returned to its immediate pre-COVID level, with estimated 2025 VMT only 0.9 percent above the 2024 level. Current projections by the Federal Highway Administration foresee average VMT growth over the next 30 years to be around 0.6 percent per year.[4] This is significantly below the Federal Reserve's target inflation rate.

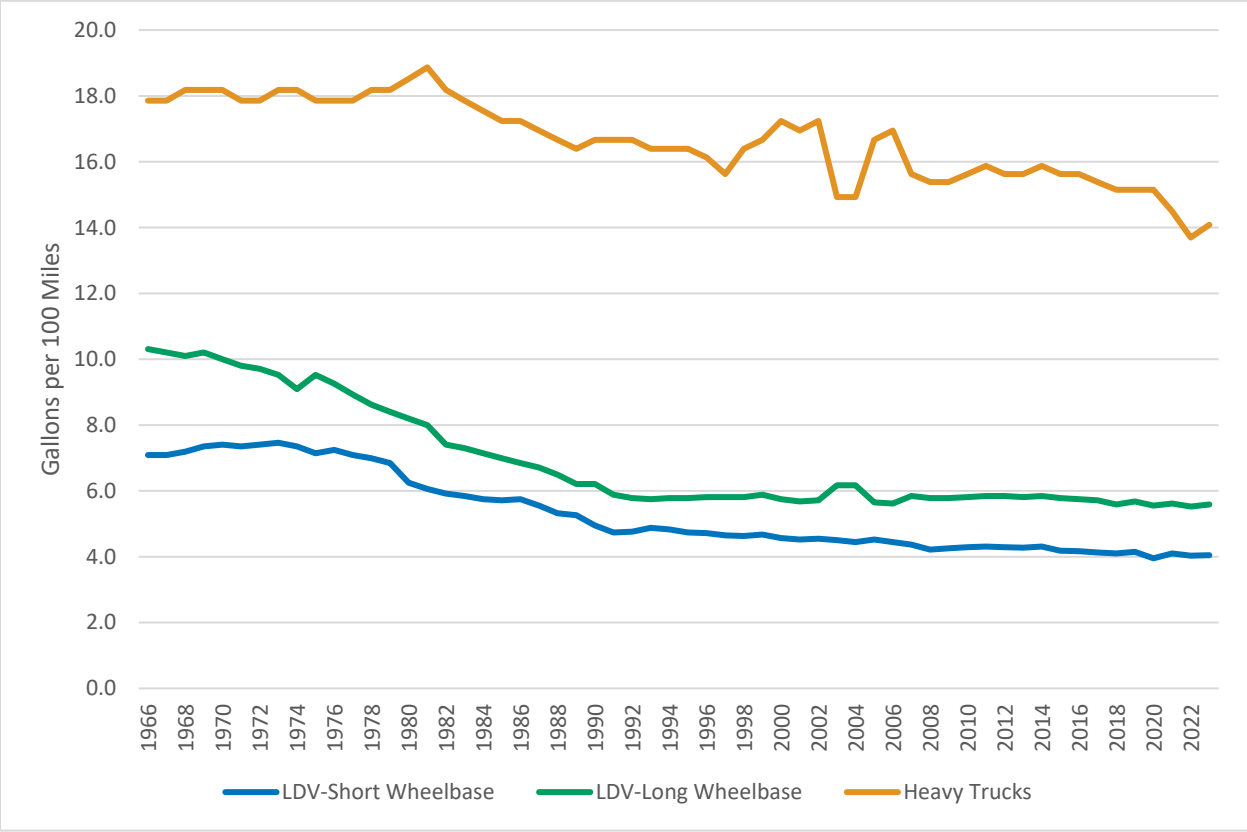
Problem #2: Motor fuel taxes are a worsening proxy for the amount of driving. In the mid-1960s, the average passenger car burned seven gallons of fuel to

travel 100 miles. Today, that amount is down to around four gallons per 100 miles.[i] That 40 percent increase in fuel efficiency means that the tax is 40 percent less accurate as a proxy for the amount of driving taking place. The range of fuel economy has also grown wider as some consumers opt for larger or older vehicles, and others drive more efficient or non-gasoline fueled vehicles, which has further undermined the ability for gas taxes to serve as a user fee.

The rate at which this trend accelerates in the future is dependent on consumer demand for hybrids and electric vehicles, together with government policy to encourage purchase of such vehicles or to regulate fuel economy. But it is difficult to imagine that motor fuel consumption will ever become as accurate a proxy for the amount of driving as it once was.

Figure 2. Gallons of Motor Fuel Consumed per 100 Miles-Traveled

(Light Duty Vehicles and Heavy Trucks, 1966-2023)



Eno Center for Transportation table. Data source: FHWA Highway Statistics Tables VM-1 and MF-27

[i] When comparing revenues raised based on a fixed per-gallon tax rate, it is helpful to invert the familiar miles-per-gallon ratio and look at gallons consumed per mile driven.

Problem #3: Congress and the President have been unable to constrain spending to the level of tax receipts or to increase user tax rates. Starting with the TEA-21 reauthorization bill, Congress began providing new spending authority that increasingly exceeded actual HTF financial resources.

Table 1: Relation of New HTF Contract Authority to HTF Receipts and Interest, by Reauthorization Act

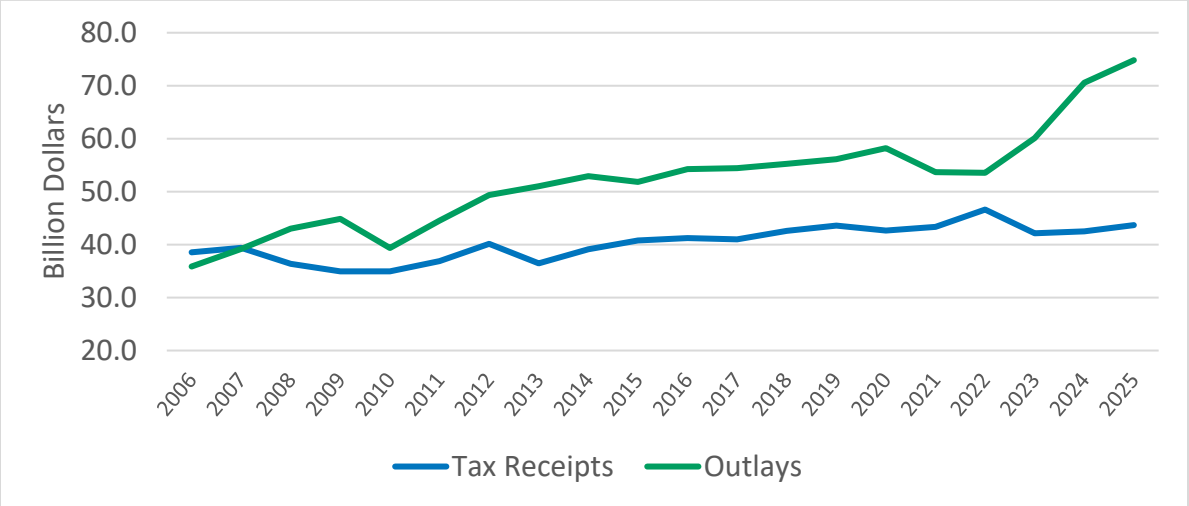
(Billion Dollars)

Last/Peak Year of	New HTF Contract Authority	New HTF Tax Receipts & Interest	New CA As Percent of New Receipts & Interest
ISTEA (FY 1997)	$24.5	$25.3	97%
TEA-21 (FY 2002)	$41.2	$32.6	126%
SAFETEA-LU (FY 2009)	$52.2	$35.0	149%
MAP-21 (FY 2014)	$50.8	$39.1	130%
FAST (FY 2020)	$58.7	$42.7	137%
IIJA (FY 2026)	$80.0	$47.2	169%

Eno Center for Transportation table

Because these programs spend slowly, it took time for outlays—cash paid to reimburse non-federal partners for completed work—to catch up, but the cash-flow trend lines eventually followed suit.

Figure 3. Highway Trust Fund Net Tax Receipts and Outlays



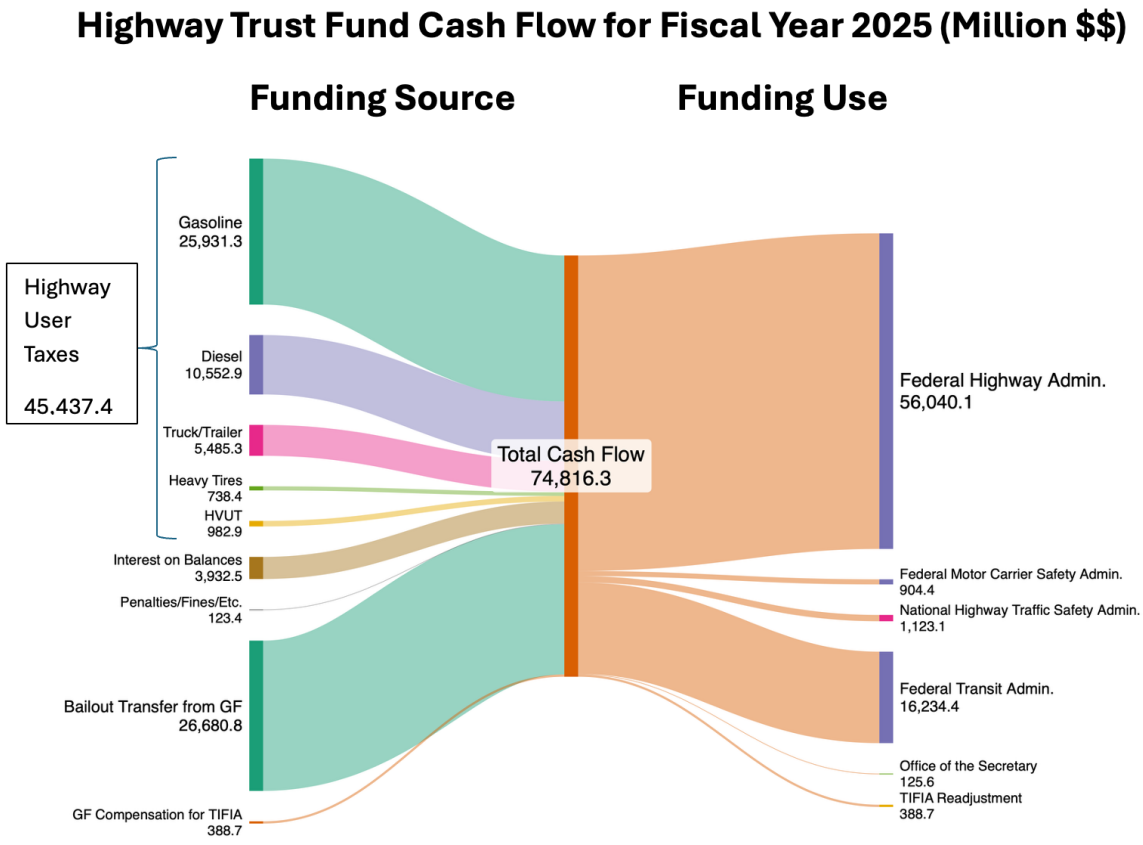
Eno Center for Transportation table. Data source: FHWA Highway Statistics Table FE-210

II. The Present

At present, the Highway Trust Fund is supported by five user taxes, the rates for which have not been increased since 1993 or earlier.

- An 18.3 cent per gallon tax on highway use of gasoline and gasohol.[ii]
- A 24.3 cent per gallon tax on highway use of diesel and special fuels.
- A 12 percent sales tax on new tractors and trucks over 33,000 pounds gross vehicle weight (GVW) and on new trailers over 26,000 pounds GVW.
- A weight-based tax on tires with a load capacity over 3,500 pounds.
- An annual "sticker tax" on the use of heavy trucks over 55,000 pounds GVW, ranging from $100 to $550 per year.

Figure 4. Highway Trust Fund Cash Flow – FY 2025



Source: March 2026 Treasury Bulletin, Table TF-66

[ii] An additional 0.1 cent per gallon of gasoline and diesel taxes does not go to the Highway Trust Fund, instead being deposited in the Leaking Underground Storage Tank Trust Fund at the EPA to help clean up abandoned service stations.

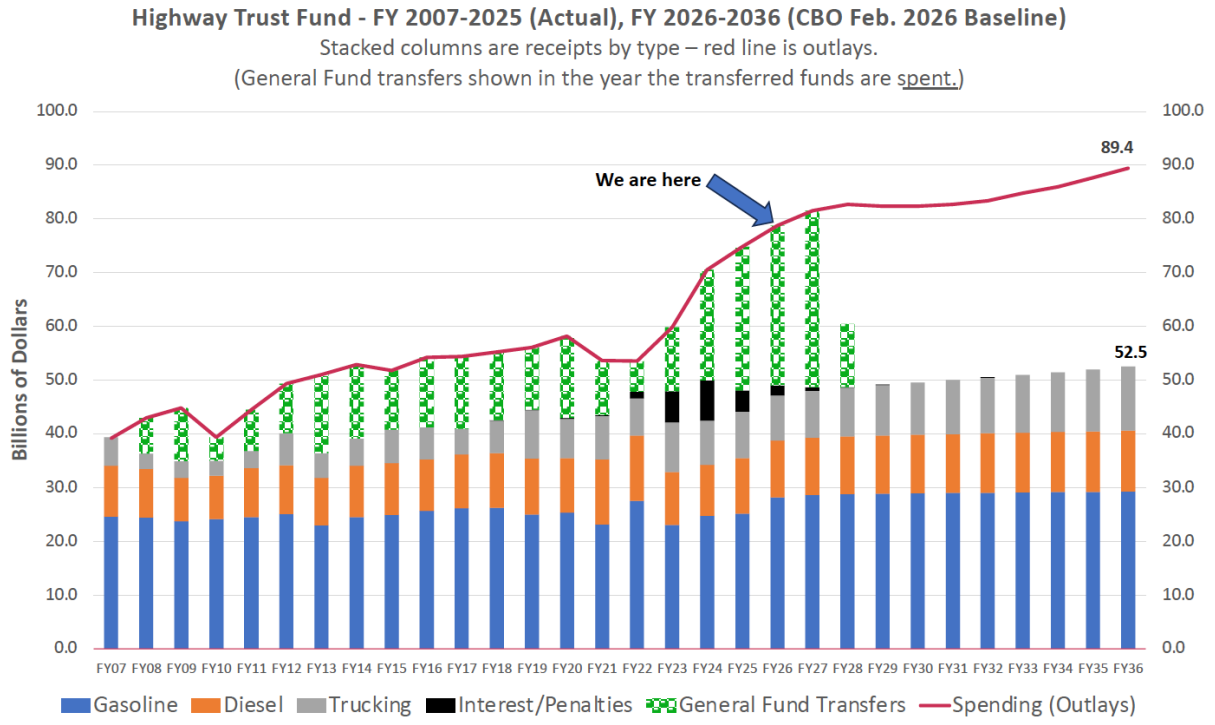
Figure 4 shows the relationship between actual tax receipts for these five user taxes with the rest of HTF cash flow in fiscal year 2025. The Trust Fund ended fiscal 2025 with $74.3 billion in positive balances remaining from the $118 billion bailout transfer provided by the Infrastructure Investment and Jobs Act (IIJA) in 2021.

III. The Future

The two official budget forecasting bodies (the White House's Office of Management and Budget (OMB) and the Congressional Budget Office (CBO)) project future HTF spending and revenues based on a wide variety of factors and assumptions, including the VMT and fuel economy trends listed above.

The law requires that the OMB and CBO's "baseline" projections for future spending assume the most recently enacted fiscal year's funding level from Congress, extrapolated into future years with annual inflation increases. For 99 percent of HTF spending, these are assumed to be the "obligation limitation" levels contained in the annual appropriations acts. The forecasters then model spending cash flow from these amounts based on historical patterns. For taxes, OMB and CBO are required to assume current law tax rates will be extended indefinitely and use economic and demographic modeling to project tax receipts. Figure 5 shows HTF cash flow since 2007, through the present, and into the future through the year 2036 via the latest CBO baseline projections.

Figure 5. HTF Actual and Projected Receipts by Type



Source: Eno Center for Transportation

More specifically, Table 2 below shows the latest estimated amounts needed to avert Trust Fund insolvency in the short term. Assuming spending levels and tax receipts are consistent with the baseline, the Mass Transit Account will need almost $3 billion to complete a one-year extension of the IIJA. A two-year extension would see the Highway Account go insolvent as well, with a total of $22 billion in either outlay reductions or additional deposits needed to keep both accounts solvent through September 2028.[iii]

A five-year reauthorization is the minimum length sought by state transportation departments, who need to know approximate levels of future federal funding support in order to plan project development. This would require $126 billion in additional deposits in order to maintain current spending levels (plus inflation) including cash cushion. For a six-year bill, which was the standard length of the 1991 and 1998 reauthorization laws, that total rises to $159 billion in additional deposits.

Table 2: Highway Trust Fund Projected Year-End Balances

(Billions of dollars)

	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Highway Account	36.4	14.5	-8.8	-31.9	-54.6	-77.2	-100.3
Mass Transit Account	8.2	-2.7	-13.5	-23.7	-33.7	-43.8	-53.7
Unified HTF Total	**44.6**	**11.8**	**-22.3**	**-55.5**	**-88.4**	**-121.1**	**-154.0**

Source: CBO February 2026 Baseline Projections.

As Congressional negotiators consider the next reauthorization of the surface transportation programs, the source of funding for those programs and the solvency of the Highway Trust Fund are central issues to be resolved. This paper explores the solution set for those questions. Put bluntly, the options are simple—Congress can choose to close the revenue gap:

- On the outgo side by shrinking the Trust Fund spending levels,
- On the income side by increasing dedicated Trust Fund revenues,
- Through some mix of (a) and (b); or
- They can continue to allow the Trust Fund shortfall to grow through the transfer of additional General Fund revenues.

In addition to the question on revenues, Congress will also need to decide whether to continue the elevated levels of spending provided in IIJA through Division J, and if so, whether to include those programs in the HTF. That issue is explored in Part 2.

[iii] In addition to the amount needed to get to an end-of-FY zero balance, a "cash cushion" of extra money is needed to ensure that program agencies don't run out of cash on a day-to-day basis while waiting for twice-monthly tax deposits. Congress has been assuming a $4 billion cushion for the Highway Account and a $1 billion cushion for the Mass Transit Account as the appropriate levels.

supplemental annual or advance appropriations). Alternatively, there are options for reasonable new fees on roadway users that would not only restore funding but also would help to address the underpricing of roadways and transportation.

Any decision will require political courage, but deferring this decision to a future generation will make it all the more difficult to address when the bill finally comes due.

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[1] U.S. Government Publishing Office. (1951). *Public Law statutes at large: Vol. 65, p. 268–290*. https://www.govinfo.gov/content/pkg/STATUTE-65/pdf/STATUTE-65-Pg268.pdf

[2] U.S. Code. (n.d.). *31 U.S.C. § 9701—Fees and charges for government services and things of value*. https://www.law.cornell.edu/uscode/text/31/9701

[3] U.S. Department of Energy. (n.d.). *Annual vehicle miles traveled in the United States*. Alternative Fuels Data Center. https://afdc.energy.gov/data/10315

[4] Federal Highway Administration. (2025, September). *FHWA forecasts of vehicle miles traveled (VMT)*. U.S. Department of Transportation. https://www.fhwa.dot.gov/policyinformation/tables/vmt/vmt_forecast_sum.cfm