



# A Smart Way to Finance High-Speed Rail: Restructuring the Highway Trust Fund into a results-driven transportation fund

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Since announcing an \$8 billion “down payment” for high-speed rail development, the Obama administration has been silent about how to pay for a program as ambitious as the Interstate Highway System.

The interstates cost more than \$250 billion in current dollars to build. A fast train network, based on systems being developed worldwide, most noticeably in China, could be equally expensive.

So far, Congress has come up with \$2.5 billion in general fund appropriations for high-speed rail (HSR) in 2010, and the administration has asked for \$1 billion a year for the 2011-14 budgets. Such allocations are hardly enough to begin detailed engineering for California’s HSR proposal between Los Angeles and San Francisco, let alone the nine other intercity corridors that the White House has envisioned.<sup>1</sup>

On Labor Day, President Obama proposed a \$50 billion transportation infrastructure program that would include 4,000 miles of rehabbed and new railway track. The proposal calls for integrating HSR projects into the next surface transportation bill, a promising step that would ensure some level of federal commitment to the program over the five- or six-year life of the bill. But again, the president did not specify how he would finance HSR or the larger infrastructure program other than to say that his administration “is committed to working with Congress to fully pay for the plan.”<sup>2</sup>

The president’s reticence raises a legitimate question: Can the nation afford HSR in a time of looming federal deficits?

The answer is yes – financing HSR is entirely feasible, but will only happen if the administration

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## About the author

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and its congressional allies take bold steps to rebalance our transportation priorities. Fortunately, there is both a funding source and a road map for moving from today's scattershot federal transportation spending to a results-driven enterprise.

The funding source is the Highway Trust Fund, with approximate funds of \$52 billion a year.<sup>3</sup> Allocating a portion of highway funds for rail

construction is an equitable way to wean drivers away from auto travel by providing them with a faster, safer, and more environmentally sound alternative.

Congress could easily allot \$5 billion a year for HSR construction – without an increase in the gas tax – by cutting out earmarks and formula-based grants that now soak up billions of dollars, according to the General Accountability Office

## TWO WAYS TO REDUCE HIGH-SPEED RAIL COSTS



### 1 Turn Interstate corridors into 21st-century transportation-and-energy corridors.

- Identify public lands along Interstate highways, such as median strips, for potential high-speed train rights of way.
- Piggyback the much-talked-about “smart grid” for distributing electricity from new energy sources (wind, solar, nuclear, etc.) on these corridors. In addition to transporting energy, the electricity grid would supply power to the trains.
- Use the expertise and institutional knowledge of state highway departments to develop these intermodal corridors. Highway planners would morph into transportation and energy planners.

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### Establish an updated version of land grants to incentivize private parties to build or operate new train lines.

- Capture the value added by HSR corridors at terminal and station points by using government powers to assemble land that would be distributed to private parties involved in HSR construction. Such land-grant districts could be divided into private and publicly owned parcels to ward off speculation and hoarding.
- This idea is a modification of the land-grant system that greatly stimulated private railroad building in the unsettled West between 1850 and 1870. The federal government gave railroads empty public land, typically 10 miles on either side of the tracks, mixed with land retained by the government.
- Across the U.S., especially in or near cities, large parcels of underutilized or abandoned industrial land could be tapped as potential HSR stops. In the West, large tracts of federal land exist between major urban hubs.

(GAO).<sup>4</sup> Such fund reallocations could not only jumpstart HSR projects but serve as seed money for public-private partnerships to get the work done.

Already, international rail operators have expressed interest in competing for high-speed train contracts in the U.S. But these groups are waiting for the Obama administration to lay out a comprehensive financing plan before structuring bids. The use of a well-established and reliable source of transportation financing could make these deals happen.

### Lessons from the Past

The Highway Trust Fund was established in 1956 with a powerful mission – to bankroll the Interstate Highway System, the largest public works program ever undertaken by a nation.

The fund amounted to an elegant solution to the problem of how to raise enormous sums of money without increasing the national debt. “It took two years, several government studies and both sessions of the 84th Congress to figure out how to fund the program,” according to one historian.<sup>5</sup> The Eisenhower administration, Senate Republicans, and congressional Democrats all worked together.

The federal tax on gasoline was increased in two steps from two to four cents a gallon. In order to ease opposition to the gas tax hike, all proceeds were funneled into new highway construction, rather than spread among general expenditures.

Perhaps the most significant innovation was implementing a “pay as you go” system. In effect, the Trust Fund is the *opposite* of deficit spending – it expends money only after it has been collected in gas-tax revenues. As a result, the Interstate network was built without construction bonds of earlier state toll highways. This alone saved American taxpayers tens of billions of dollars in interest payments.

The Highway Trust Fund has proven to be an extremely efficient way to raise money for long-term infrastructure improvements. Money is

collected directly from oil companies with virtually no administrative overhead. By pooling money in a national fund, well-engineered and standardized roads could be built across the country, even in sparsely populated states, such as South Dakota, whose local travel would not by itself justify top-quality roads.

### Mission Creep

As the Interstate system neared completion, the Trust Fund began to lose its focus. Originally, the plan was that the highway system would be completed by 1972 and the Trust Fund would be terminated. Instead, Congress extended the program and continued to raise the federal gas tax to pay for more and more programs (the last increase was in 1993, to 18.4 cents per gallon).

Under a \$286-billion authorization bill known as SAFETEA-LU, passed in 2005 and extended through the end of this year, the Trust Fund allocates money far and wide. The Safe Routes to School Program, for example, provided \$183 million last year for sidewalk improvements to encourage children to walk and bicycle to school. More than \$1.6 billion was spent on maintaining roads in national parks, bicycle safety, preservation of historic covered bridges and funding metropolitan planning organizations.<sup>6</sup>

The administration needs to seize the initiative and make the case for HSR funding during the fall election cycle and in the next transportation reauthorization bill.

The bewildering array of programs includes many formula-based allocations that distribute federal money to states regardless of whether the state really needs the money or whether the program serves any national or strategic purpose. The GAO estimates that states have used roughly 60 percent





of the increases in Trust Fund grants since 1992 to substitute for state and local highway funding.<sup>7</sup> As federal spending from the Trust Fund metastasized, politics became a major arbiter of transportation spending. The most recent act included \$24 billion in congressional earmarks that directed funds to be spent on specific projects without any outside review. The Transportation Research Board found that earmarking had increased from 11 projects in the 1982 reauthorization act to more than 5,000 projects in SAFETEA-LU.<sup>8</sup>

Two years ago, the Trust Fund ran out of money and required an infusion of \$8 billion in general funds. This embarrassing glitch was not the result of the fund “going bankrupt,” as some charged. Rather, the rate of expenditures by Congress had overshot gas-tax revenues depressed by Americans driving less due to the recession.<sup>9</sup>

A commission set up by Congress to evaluate federal spending issued a blistering appraisal of investment decisions made through earmarks and formula-based grants. The National Surface Transportation Policy and Revenue Study Commission summed up the lack of goals and performance standards this way:

The nation’s surface transportation program has reached a crossroads. Will it continue

to function as it has since the completion of the Interstate system, pursuing no discernible national interests other than the political imperatives of donor state rights and congressional earmarking? Or will it advance concerted actions to confront the transportation challenges facing the nation that have reached crisis proportions?<sup>10</sup>

### Policy Recommendations

Federal funds need to be focused where they can produce the greatest benefits. High-speed rail should become a top priority of the surface transportation bill that replaces SAFETEA-LU, due to expire on December 31, 2010.<sup>11</sup> We recommend the following reforms:

- Change the name of the Highway Trust Fund to the Surface Transportation Trust Fund to better reflect its new mission for the 21st century.
- Allocate at least \$5 billion in Trust Fund money in 2011 to HSR construction, with special emphasis on getting a demonstration high-speed line between Tampa and Orlando completed by 2015. (The Florida line received \$1.25 billion in federal stimulus grants, but is still short of its \$2.6 billion budget.)
- Increase HSR expenditures in years 2012-15 (if a five-year spending bill is enacted) to reflect the increased demand for grants as more states develop passenger rail plans.
- End the bureaucratic separation of highway and rail programs by establishing a team of planners to develop a HSR network in coordination with future highway building and restoration.
- Direct the U.S. Department of Transportation and state authorities to examine routes where HSR could use Interstate and other publicly owned highway corridors for rights of way. This approach, already being used in the Tampa-Orlando corridor, would greatly lower land acquisition costs for new rail lines.



- Base federal transportation decisions on clear analytic measures of performance rather than earmarks – and competition between states instead of preset formulas – to produce the greatest return on taxpayer dollars.
- Congress should ensure that HSR, which uses about 20 percent less energy per passenger mile than automobiles, gets its fair share of any future revenues generated by carbon pricing.

Financing HSR is entirely feasible, but will only happen if the administration and its Congressional allies take bold steps to rebalance our transportation priorities.

### Leveraging Private Capital

Private enterprise should play an important place in the development and financing of the nation's HSR network. Already some of the world's smartest investors are investing in freight railroads, betting on their inherent efficiency in an energy-scarce future.

Warren Buffett last year purchased the Burlington Northern Santa Fe Railway for \$34 billion in the biggest transaction of his storied career. "It's an all-in wager on the economic future of the United States," Buffett said.<sup>12</sup> Bill Gates owns roughly 35 million shares in Canadian National Railway, another freight carrier.<sup>13</sup>

With the Trust Fund providing a reliable stream of upfront capital, private companies could undertake the risk of building and operating HSR lines under long-term leases. Already, rail operators in France, Japan, and China have expressed interest in competing for high-speed train contracts.<sup>14</sup>

Earlier this month, California Governor Arnold Schwarzenegger took the first step in this direction. With his own state budget deep in the red, he has been seeking capital from Asia to get California's proposed high-speed railroad up and running.

On a trade mission, he won promises from both Japan and China to loan California funds for the \$40 billion railroad.<sup>15</sup> That's the kind of thinking that built the first transcontinental railroad to California, defying skeptics who said the project was impossibly expensive. Land grants to private investors and cash incentives for track construction did the trick. Today, the line's owner, the Union Pacific, is the largest railroad in North America.



U.S. DOT reports that public-private partnerships, used on a limited basis in highway projects, can save up to 40 percent of the cost of construction and significantly limit the potential for cost overruns. Such partnerships can additionally cut “many years off project delivery” through faster phasing and equipment purchases.<sup>16</sup>

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### The Challenge to Policymakers

There are many possibilities for achieving a state-of-the-art rail system through the creative use of the Trust Fund mechanism. Perhaps the chief

barrier is a lack of political will, especially in the face of well-organized lobbying by interests that have grown fat on federal road spending. The type of thinking that continues to rest on old assumptions about highways and trains, which assigns a pile of cash to one and bare-bones appropriations to the other, has hobbled Amtrak, the nation’s slow-moving passenger rail carrier, for decades.

The same mindset can put a brake on the spread of high-speed rail despite growing evidence, most recently demonstrated by the Deepwater Horizon oil spill, of our dangerous overdependence on cars and gasoline.

The Obama administration has repeatedly talked about its commitment to “green” technology and how fast trains could provide job growth and business opportunities to regions hard-hit by the loss of manufacturing. The administration needs to seize the initiative and make the case for HSR funding during the fall election cycle and in the next transportation reauthorization bill.



*China has completed 4,000 miles of high-speed rail lines and plans on spending 2 trillion yuan (\$297 billion) to double its system by 2014. (Photo by Remko Tanis)*

1. <http://www.progressivefix.com/high-speed-rail-may-stall-without-more-push-from-the-white-house>.
2. See White House announcement at <http://www.whitehouse.gov/the-press-office/2010/09/06/president-obama-announce-plan-renew-and-expand-america-s-roads-railways->.
3. The Trust Fund currently allots about \$42 billion a year to state and local governments for projects grouped under the title of federal-aid highways. An additional \$10 billion goes to mass transit projects (subways, buses and commuter rail) that reduce congestion on highways. The federal government pays 80-90 percent of the cost of Interstate highway construction and rebuilding.
4. Government Accountability Office, *Surface Transportation: Restructured Federal Approach Needed for More Focused, Performance-Based, and Sustainable Programs*, GAO-08-400 (Washington, D.C., March 2008).
5. Gary T. Schwartz, "Urban Freeways and the Interstate System," *Southern California Law Review*, Vol. 49 (March 1976), p. 428.
6. U.S. DOT, "SAFETEA-LU Fact Sheets on Highway Provisions" at <https://www.fhwa.dot.gov/safetealu/factsheets.htm>.
7. GAO, *Surface Transportation*, p. 35.
8. Transportation Research Board, *The Fuel Tax and Alternatives for Transportation Funding* (Washington, D.C., 2006).
9. <http://www.speaker.gov/legislation?id=0251>.
10. National Surface Transportation Policy and Revenue Study Commission, *Transportation for Tomorrow*, Vol. 1 (Washington, D.C., January 2008), p. 3.
11. Because of Congressional inaction on this enormous piece of legislation, SAFETEA is likely to be extended into 2011.
12. <http://www.msnbc.msn.com/id/33599744/>.
13. <http://www.gurufocus.com/news.php?id=50556>.
14. For example, SNCF, operator of France's famous TGV network, has expressed interest in "working with the U.S. federal and state governments, and other interested and qualified stakeholders, to make the vision for high-speed rail in America a reality" in a four-volume proposal submitted to U.S. DOT.
15. <http://www.progressivefix.com/schwarzenegger-takes-the-asian-express>
16. U.S. DOT, *Report to Congress on Public-Private Partnerships* (December 2004), p. 2.

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## About the Progressive Policy Institute



The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century. Through policy analysis and dialogue, PPI challenges the status quo and advocates for radical policy solutions.

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