

Economic Analysis

Highway Bill Reaches the End of the Road

Amanda Augustine

- **Congress passes \$305 billion five-year highway and mass transit bill**
- **Bill pulls additional financing from Federal Reserve and oil reserves**
- **Greater public and private investment is necessary to drive infrastructure reform**

After having approved a slew of stopgap solutions in recent years to prevent a funding lapse in the Highway Trust Fund, both sides of Congress have finally and overwhelmingly passed a long-term funding solution yesterday, narrowly beating the December 4 deadline. The last long-term, fully-funded highway and mass transit bill was enacted in 2005 and expired in 2009; 36 short-term funding extensions have been used since then to maintain the Highway Trust Fund. The \$305 billion Fixing America’s Surface Transportation Act, or FAST Act, authorizes funding for highway and mass transit projects through fiscal year 2020. This includes a 5% increase in federal highway funding at the state-level and an 8% increase at the local-level.

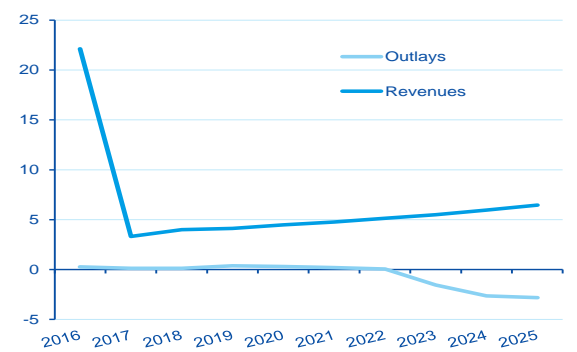
The Congressional Budget Office’s review of the FAST Act legislation found that it would decrease budget deficits by \$71 billion over the next decade. However, the bill seems to shy away from addressing a much larger funding issue—spending has consistently outpaced gas tax revenue, ultimately leading to an average funding shortfall of \$16 billion per year. Funding for the Highway Trust Fund has largely come from the gasoline tax, which has remained 18.4 cents/gallon since 1993. The possibility of raising the gas tax has been untouched and was not even brought to the floor during negotiations. As a result, the FAST Act also relies on short-term provisions, such as the sale of oil from the Strategic Petroleum Reserve and money raised from the hiring of debt collectors to recoup unpaid taxes. In addition, the Highway Trust Fund is financed in part by liquidating the Fed’s surplus account and also by reducing dividends for banks with more than \$10 billion in assets. The dividend would be tied to 10-year Treasury yields, which are currently 2.2%, but could not exceed 6%.

Chart 1
Key Federal Action on Highway Trust Fund 2015



Source: BBVA Research

Chart 2
FAST Act Changes in Federal Spending and Revenue (billions \$)



Source: Congressional Budget Office

Lawmakers attempted to attach several measures unrelated to transportation to the highway bill. In particular, Democrats pushed for the reauthorization of the Export Import Bank, which has been unable to approve new financial assistance for U.S. exporters since June 30. While the Bank ultimately received bipartisan support and was included in the FAST Act legislation, a few lawmakers argued that it provides too much assistance to large companies that don't need it, such as its biggest beneficiaries: Boeing, GE and Caterpillar. However, supporters suggest that small businesses are the ones that bore the burden of the EXIM Bank's shutdown, as nearly 90% of EXIM Bank's transactions directly supported small businesses last year.

The landmark legislation that now heads to Obama's desk is a rare achievement for Congress and a long-awaited boon for the nation's highways and transit systems. After six years without a long-term infrastructure funding mechanism, the passage of the FAST Act significantly reduces policy uncertainty and should boost jobs and contribute to economic growth; however, it is a drop in the bucket in addressing the nation's larger infrastructure problem. The American Society of Civil Engineers estimates that the U.S. needs investment of \$3.6 trillion by 2020 in order to just bring infrastructure up to par; thus, the FAST Act is one step forward but certainly not the last.¹ Raising the gas tax is an alternative, but other methods such as public-private partnerships might be more viable and easier to achieve, while benefitting all stakeholders. Infrastructure projects could be attractive to private investors craving stable returns during periods of slow economic growth, and this investment could lead to decreased pressure on the budget deficit for the government and reliable and efficient infrastructure for the public. Greater investment in quality infrastructure projects could be a strong driver for stronger growth and job creation, boosting output without an increase in the debt-to-GDP ratio.

Bottom Line

With passage of the FAST Act, states and local authorities will finally be able to implement long-term infrastructure projects. The previous series of stopgap funding bills increased policy uncertainty and did nothing to fix the nation's rundown infrastructure or to promote growth and jobs. This long-term, fully funded highway bill represents a massive achievement for Congress, but should have been passed after the expiration of the last long-term bill in 2009, when the economy was in shambles. In addition, funding is still far below what is necessary to simply maintain and modernize existing infrastructure. Along with higher public investment, the establishment of more public-private partnerships is a viable solution that satisfies all stakeholders involved. However, further substantial infrastructure reform will not happen anytime soon given Congress's full agenda in the upcoming weeks. After checking off highway reform from its list, Congress must address budget appropriations before the December 11 deadline as well as calls to lift the oil export ban and repeal the Affordable Care Act.

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.

¹ 2013. American Society of Civil Engineers. Report Card for America's Infrastructure. <http://goo.gl/XV2ar6>