SUMMARIES OF ROAD FUND ADMINISTRATIONS IN JAPAN, NEW ZEALAND AND USA
(Prepared April 2004 with assistance from Setsuo Hirai, Peter Wright and Tom Sorel)

- Japan Road Improvement Special Account
- Transfund New Zealand
- United States Federal Highway Trust Fund

JAPAN: ROAD IMPROVEMENT SPECIAL ACCOUNT

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tr>
<td>- Oversight board with an independent chairman</td>
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<td>- Sound, if limited, legal base</td>
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<td>- Channels some funds to all roads</td>
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<td>- Regular auditing</td>
<td>- Better if Road Council had a separate sub-committee for the road fund</td>
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<td>- Road Council does not have an independent Secretariat</td>
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<td>- Mechanism for dividing funds too complicated and inflexible</td>
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<td>- Better if tax levels were regularly revised, instead of only every 5 years</td>
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<td>- Complex system for exempting non road users</td>
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Background

In 1954, to address the poor state of the road network, Japan introduced a series of 5-year road improvement programs, together with a special funding system for roads. Among other things, the 5-year rolling programs were designed to bring the Japanese road system into the 20th century and to cater for the rapid growth in motor vehicles. Since then, the 5-year road improvement programs have been renewed and implemented continuously to provide road users with better driving conditions and to provide people living in urban areas with better access to the countryside. As of end March 1999, Japan had about 1.146 million km of roads: 7,377 km consist of national expressways, 53,356 km are national highways, 123,500 km are prefectural (provincial) roads, and 948,600 km are municipal roads.

The new funding system for roads involved earmarking certain road-related taxes and depositing them into a special off-budget account, or road fund. The special funding system was introduced to meet the needs of the post-war road improvement program and was “based on the concept that road users who enjoy the benefits of improved roads should bear the burden for their improvement” (i.e., it was based on the user pay concept).
**Coverage**

The road improvement special account finances the maintenance, improvement and construction of national, prefectural (provincial) and local roads. It finances direct expenditures by national government on national roads, it transfers some revenues to local governments to finance their road programs on a cost-share basis, finances purchase of construction equipment, provides finance for toll roads (in the form of equity and subsidies for interest payments), and makes loans to local governments.

**Legislation**

The road improvement special account was set up under the existing budget law. The first law was passed in 1953 and was known as the Temporary Measure Law for the Budget for Road Improvement. In 1958 this was replaced by the Road Improvement Special Account Law which was more specific. It: (i) defined a national account; (ii) identified the sources of revenues and defined the qualifying expenditures; (iii) designated the Minister of Construction as the person responsible for managing the account; and (iv) specified that the draft annual budget would be submitted to the Cabinet for approval and subsequently endorsed by the Diet (Parliament).

**Source of Revenues**

The road fund employs an elaborate system of earmarked national and local taxes to mobilize revenues. It collects some revenues at the national level, pays them into the road improvement special account and then transfers designated revenues to local governments. At the local government level, the revenues transferred from the road improvement special account are then supplemented by other local taxes.

At the national level, the tax revenues earmarked for roads are handled as follows:

(i) All the revenue from the gasoline tax (about $0.41 per liter) is transferred to the road improvement special account. Up to a quarter of this can be donated to local governments for local road development.

(ii) Half the motor vehicle LPG tax ($0.14 per kg) is paid into the special account. The remainder is transferred to local government as motor vehicle LPG transfer tax.

(iii) Seventy-five percent of the motor vehicle tonnage tax ($51 per half ton per year) is paid into the special account. The remainder is transferred to local government as motor vehicle tonnage transfer tax.

At the local government level, additional revenues are collected from two further taxes:

(i) A diesel fuel tax which is collected at the local level only ($0.31 per liter); and

(ii) A motor vehicle purchase tax, also collected at the local level (5 percent of purchase price for private motor vehicles).
The tax levels are revised at the start of each 5 year road improvement program and remain constant throughout the 5 year period (i.e., they are only adjusted once every 5 years).

**Exemptions for Non Road Users**

This gasoline tax is collected from wholesalers and, since there are very few exempt users (mainly chemical manufacturers), it is relatively easy to exempt them.

The diesel tax is a local government tax and is collected at the prefectural level. Diesel is sold to end users through wholesalers, special assigned traders and retailers. Wholesalers are designated by the Ministry of Autonomy (local government), while special assigned traders are designated by the prefectures. Wholesalers and special assigned traders are responsible for paying taxes to the prefectures and also for collecting the diesel tax from retailers. A number of users are exempted from paying this tax, including: (i) boat users with diesel engines; (ii) the Maritime Safety Agency and the Self Defense Force (only for off road usage of diesel – power generation, operation of tanks, etc.); (iii) railway and tramway operators; (iv) farmers using diesel equipment; and (v) pottery manufacturers and wood processors who use diesel for drying and baking.

Exempt users apply for a certificate from the prefectural government. They are required to submit evidence showing which off-road machinery uses diesel fuel and how much they are likely to consume during the year for which exemption is sought. Based on this information, the prefecture issues a Certificate of tax Exempted Diesel Fuel User. To purchase fuel tax free, the user must then obtain a Tax Exemption card from the prefecture. The cards are issued to cover purchase of 18, 100, 1,000 or 10,000 liters of fuel and are valid for one year. Complementary cards for 1.5 and 10 liters are also issued. The user submits the card to the seller when purchasing diesel and the seller submits the card back to the prefectural office when accounting for the total taxes to be paid on their sales of diesel. As a check on this, end users of diesel are required to submit a monthly report to the prefectural office stating the amount of fuel purchased/used during the month and the name of the trader from whom the fuel was purchased.

The Ministry of Agriculture, Forestry and Fishery (MAFF), which is responsible for provision of agricultural and fishery roads, has successfully argued that the above exemption scheme does not fully compensate farmers and fishermen for the taxes paid on diesel fuel. As a result, the Ministry of Finance allocates some hundreds of millions of dollars a year from the general budget to support operation and maintenance of these roads. The roads financed under this program are called agricultural exemption and fishery exemption roads. Their status is usually indicated on a sign at the side of the road.
Oversight

The road improvement special account was originally supervised by an advisory board known as the Japan Road Council. The role and duties of the Council were laid down in article 77 of the Road Law which provides for a Road Council to be established by the Ministry of Construction at the request of the Minister. Among other things, the Council was asked to, "deliberate on management of the road fund and on toll road financing and advise the Minister on changes necessary to reorient road financing."

The Council was established in 1952 and consisted of a chairperson and twelve other members. The members were proposed by the Director General of Roads and are appointed by the Minister of Construction. The chairman was traditionally the President of Japan Road Association who was always a former under-secretary from the Ministry of Construction. However, this arrangement was changed a few years ago and the last two chairmen have been independent. The first of these was the former President and chairman of Nissan Corporation, while the current chairman is a leading economist from Tokyo University. Board members included representatives of the motor industry, business community, trades unions, academia and local government. Much of the substantive work of the Council was carried out by three sub-committees: one deals with road policy, one with toll roads, and the other with environmental issues. The Council had no permanent secretariat, but was serviced by staff from the Roads Bureau of MOC.

The Road Council has now been converted into a Roads Committee under a broader Infrastructure Council. The Committee works in much the same as before, although there is now greater emphasis on collaboration with NGOs and more dialogue with stakeholders interested in – and affected by -- the road improvement program.

In 1982, at the start of the Ninth Road Improvement Program, the Ministry of Finance made a concerted effort to abolish the road fund and replace it with allocations from the government’s consolidated budget. This event proved the value of the Road Council. Up to that time, the Council had played a relatively minor role in relation to the road fund. However, faced with this crisis, the MOC asked the Road Council to conduct an inquiry and make recommendations regarding how the overall road network should be developed as the country approached the 21st century. Their report, Proposal for Road Improvement Approaching the 21st Century, not only set the future direction of the road program, but also saved the road fund and established the credibility of the Road Council. Since then, the MOC has always asked the Road Council (now the Roads Committee) to submit its views on long-term strategy for road improvement as part of the preparations for the Five Year Road Improvement Program.

Day to Day Management

Day-to-day management of the road fund is carried out by the General Affairs Division of the Roads Bureau. They have about 12 staff who are responsible for forecasting revenues, liaising with Ministry of Finance and monitoring use of funds by the other divisions of the Roads Bureau and the prefectures. Each of these divisions (e.g., the Expressway Corporation, Highway Division, etc.) and the prefectures have two or
more accountants who monitor the expenditure programs and report back to the General Affairs Division. Expenditures on roads in cities, towns and villages are monitored by the prefectures who then report back to the General Affairs Division on programs supported by the road fund.

Cost Sharing Arrangements

Funds from the Road Improvement Special Account are provided to road authorities on a cost-share basis. Central government finances 50-55 percent of the costs of maintaining directly managed national highways. The remaining costs are financed by prefectoral governments and designated large cities. Central government also finances two-thirds of the costs of improving directly managed national highways, 70 percent of the national expressway network, and half the costs of subsidized national highways, main local (prefectural) roads and main local (municipal) roads.

Dividing Funds Between Road Agencies

Funds are divided between the various road authorities according to a series of factors laid down in the tax laws as follows:

(i) The 50 percent of the LPG tax transferred to local government is spent on roads in the Tokyo Metropolitan Area, Hokkaido, prefectures, and designated cities;
(ii) The 25 percent of the motor vehicle tonnage tax transferred to local government is spent on roads in cities, towns, and villages;
(iii) The 25 percent of the national gasoline tax transferred to local government (about $0.10 per liter) is divided up as follows: 43 percent is spent on roads in the Tokyo Metropolitan Area, Hokkaido, prefectures, and designated cities, while the other 57 percent is spent on roads in cities, towns, and villages;
(iv) Locally collected diesel fuel tax ($0.31 per liter) is spent on roads in the Tokyo Metropolitan Area, Hokkaido, prefectures, and designated cities; and
(iv) Thirty percent of the locally collected motor vehicle purchase tax (5 percent of purchase price for private motor vehicles) is spent on roads in the Tokyo Metropolitan Area, Hokkaido, and prefectures, while the other 70 percent spent on roads in cities, towns, and villages.

Road Improvement Special Account revenues in 1999 amounted to about $35.4 billion. Earmarked revenues at the provincial level amounted to about $23.5 billion and these were supplemented by a further $49.3 billion allocated from the general budget.

Disbursing Funds

The road fund acts like a line of credit. Once the overall spending limits have been approved by parliament, MOC can draw down the funds, regardless of the actual revenue in the road fund account at the Central Bank (i.e., the government provides working capital). Contractors are paid directly after work has been inspected by an experienced MOC engineer who has not been involved in planning or implementation of
the work. Work carried out by prefectures and designated cities is also inspected by MOC engineers.

Auditing Arrangements

All work financed from the road fund is subjected to an audit by the Japanese Institute of Audits which is independent from the government and influential amongst the public. The audit is done on a sample basis and they target several specific works per office. The audit team visits the work office, examines control procedures and financial records, and dispatch civil engineers to inspect the selected work sites. Problems and queries are resolved with MOC and the audit report is then submitted to the Parliament.

**TRANSFUND NEW ZEALAND**

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<td>Strong oversight board</td>
<td>Still relies on earmarked revenues</td>
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<td>Dedicated fund under control of board</td>
<td>Oversight board is too small to capture all interested/concerned parties</td>
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<td>Consistent way of dividing funds between road agencies</td>
<td>Mechanism for dividing funds may be too complicated for small road agencies</td>
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<td>Cost-share formula based on affordability</td>
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<td>Sound legislation</td>
<td>Sound audit function</td>
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<td>Strong audit function</td>
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Background

The original road fund in New Zealand was established in 1953. In 1989 the road fund was re-named the Land Transport Fund and the management of the portion of the fund dedicated to roading (the National Roads Account) was transferred to Transit New Zealand (TNZ) which had been set up in 1989. However, since the road fund was used to finance TNZ's road program, as well as those of the Regional Councils (for urban passenger transport) and District and City Councils, there was thought to be a conflict of interest. So, on 1 July 1996, the Transit New Zealand Amendment Act came into effect and created a separate road fund administration called Transfund New Zealand (Transfund). Management of the road fund was therefore separated from TNZ and placed under the jurisdiction of a separate road fund administration.

Coverage

The first charge on the road fund is for road safety. In 1997, about 15 percent of overall revenues was transferred to the Land Transport Safety Authority (LTSA) to pay for the costs of police road safety enforcement and the costs of operating the LTSA (mainly educational and publicity programs). The balance was transferred to Transfund. A small amount is channeled by Transfund to support passenger transport (about 4
percent of revenues in 1997) and the remainder is used to support roads. It finances the entire costs of the national road network (State highways) managed by Transit New Zealand and part of the costs of local authority roads which are supported on a cost-share basis. The road fund therefore helps to finance ALL public roads.

**Legislation**

The road fund was initially established under the 1953 National Roads Act. The source of revenues were amended in 1979 and the Transit New Zealand Act in 1989 created the Land Transport Fund and assigned management of the fund to Transit New Zealand. Finally, in July 1995, the Transit New Zealand Amendment Act was passed which provided for the establishment of an independent Road Fund Administration (Transfund) to manage the road fund. A copy of this legislation is included in Annex 12.

**Source of Revenues**

The revenue for the road fund comes from: (i) a fuel excise added to the price of gasoline; (ii) weight-distance charges paid by diesel vehicles; (iii) motor vehicle registration fees; (iv) interest earned on the road fund account; (v) revenues earned from sale of surplus State highway property; and (vi) refund of GST (the NZ equivalent of VAT). It is deposited into the Treasury’s bank account, but the government pays interest on the balance to recognize that it is a separate account and not part of the government’s general tax revenues.

* The gasoline excise in 2000 was set at about $0.055 per liter (the total excise tax on gasoline was $0.14 per liter) and is expected to generate about $165 million in 2000/01. The funds are collected by the NZ Customs who are paid about $300,000 to cover their costs (i.e., about 0.2 per cent of revenue). Evasion is negligible.

* Weight-distance charges are expected to generate about $224 million in 2000/01. The collection is managed by a unit within the Land Transport Safety Authority at a cost of about $6-8 million (about a third of this is spent on enforcement). A number of agencies sell the weight-distance certificates, including the NZ Post (approximately 50 per cent), BP petrol stations, Vehicle Testing NZ, Vehicle Inspection NZ, NZ Automobile Ass., and AMI Insurance. There is also an arrangement whereby operators can buy licenses from their own offices by way of a remote terminal. The overall costs are about $0.50 to $1.50 per transaction. Evasion accounts for about 12 percent of revenues (9.4 percent heavy vehicles and 2.8 percent light vehicles respectively) and legal avoidance for about 7 percent of net revenues.

* Motor Vehicle Registration Fees are expected to generate about $72 in 2000/01. The collection is managed by the Land Transport Safety Authority at a cost of about $14-16 million (i.e. over 20 percent). Similar agencies sell the registration certificates, namely: NZ Post, Vehicle Testing NZ, Vehicle Inspection NZ, the Automobile Ass. and AMI Insurance. The extent of evasion is unknown.
♦ Interest and sale of surplus property are minor items.
♦ Reimbursement of GST is at a rate of 1/9 of the expenditures made out of the Land Transport Fund to compensate for payment of GST on all revenues received by the road fund.

Oversight

The operations of Transfund are overseen by a management board which consists of five members: (i) two represent TNZ (either employees or members of the TNZ Authority); (ii) one represents local government; (iii) one represents road users; and (iv) one represents other aspects of the public interest. Members are appointed by the governor-general on the recommendation of the Minister, following consultations with people from the land transport industry and elsewhere. The Chairman is appointed by the governor-general from among the existing members of the board.

The main role of the board is to “allocate resources to achieve a safe and efficient roading system”. In this connection, its key functions are to:

(i) approve and purchase a national roading program from the various road agencies, including capital projects;
(ii) approve the competitive pricing procedures applicable to the roading program;
(iii) audit the performance of TNZ and Local Authorities against their respective roading programs;
(iv) provide advice and assistance to Local Authorities in relation to the new Transfund Act.

Day to Day Management

Transfund has about 52 staff, including a Chief Executive who is appointed by the board. The Chief Executive appoints all staff. They include programming and contracts staff, audit and policy staff and other staff in three regional offices.

Transfund manages the National Roads Account. Government still sets the charges which determine the inflow of funds to the road fund, but it no longer determines the outflow. Once the costs of Police and the Land Transport Safety Authority have been met, the balance of the revenues are available for use by Transfund without any further controls over the projects it approves. In other words, the charges are still being collected “as if” they were taxes, but Transfund is now wholly responsible for what happens to the resulting revenues.

The specific responsibilities of Transfund are to:

(i) prepare the Annual National Roading Programme;
(ii) recommend to Government income and expenditure levels needed to support the Programme;
(iii) advise in general on the suitability of the Land Transport system;
(iv) fund the approved projects within the Programme;
(v) make payments to road agencies to finance the approved projects.

**Exempting Non Road Users**

Non road users are exempted from paying the gasoline levy and weight-distance charges through an ex post reimbursement system (i.e., the user first pays the road user charge first and then claims it back later). The scheme is administered under contract by the LTSA who, in turn, use New Zealand Post Ltd. as their agents. Applications for refunds have to be accompanied by invoices covering the purchases on which refunds are being claimed and random audits are undertaken by the LTSA’s Audit Unit to discourage fraud. The system is manageable in New Zealand, because only a small amount of road fund revenues are attributable to off road usage. Refunds only amount to about 3 percent of total road fund revenues.

**Cost Share Arrangements**

The road fund finances 100 percent of the costs incurred by Transit for State highways, but on average only finances 50 percent of the costs incurred by local authorities for local roads. The actual proportion financed depends on: (i) the size of the local authority road program; and (ii) the financial resources available to it (i.e., the affordability of the program, based on the size of the authority’s local tax base).

The formula used to calculate maintenance allocations specifies the financial assistance rate as: 

$$ k_1 + k_2 \log \left( \frac{P}{LV} \right) $$

where $P$ is the current year’s allocation for maintenance (thousands of dollars), $LV$ is the three-year average net equalized land value (the local property tax base in millions of dollars), and $k_1$ and $k_2$ are constants computed to ensure that the average national proportion comes out to 50 percent. Transfund effectively draws a graph of the percentage financed by the road fund ($y$) versus the program size divided by the tax base ($x$). The graph rises upwards from the left (richest authority) to the poorest on the right. The minimum allocation for the richest authority has traditionally been set at 43 percent. The slope of the line is then changed until the average cost share is 50 percent. If the calculation in any one year results in a proportion that differs by more than 2 percent from the previous year’s, the proportion is adjusted by half the difference to be within 2 percent of the indicator. If the calculation results in a difference of less than 2 percent, no change is made unless the trend continues for two consecutive years. The actual proportions in 1996–97 varied from 43 percent to 75 percent (an exceptional 83 percent was paid to an offshore island).

Funds for road improvement (investment) are provided on the same cost-share basis as for maintenance, plus 5 percent. So the authority which receives 43 percent for maintenance, receives (43 + 5) percent for investment

**Dividing Funds Between Road Agencies**

The National Roading Program is the basic building block for Transfund's short and long-term activities. It is built up from bids submitted by TNZ and the Local Authorities. The bids are subject to checks on the reasonableness and appropriateness of
supporting B/C calculations, before projects are ranked in order of priority. Maintenance is accorded highest priority, with other projects ranked in order until all available funds are utilized (the current cut-off B/C ratio is 3 in 1999/00).

Maintenance requirements are based on a combination of professional judgment and the outcome of a Road Assessment Maintenance Management System (RAMM). RAMM is a computerized pavement management system that includes road inventory (road condition) and treatment selection for determining work programs based on engineering and economic criteria. Transfund requires all road agencies wishing to receive funds from the road fund to base their estimated funding requirements on RAMM. Road authority requests are vetted on an ongoing basis by Transfund staff and the Review and Audit Division carries out audits every three years to ensure that minimum maintenance standards and service levels are being maintained by each road authority.

To further refine the method of allocating maintenance funds, a project has recently been launched to determine the best way of estimating optimal maintenance funding levels for the different road authorities.

**Disbursing Funds**

Transfund channels funds to Transit New Zealand on a back-to-back basis. TNZ carries out the work, pays for it and then applies for reimbursement. Reimbursement is automatic and is supported by regular *ex post* audits. Local authorities, on the other hand, are reimbursed on the basis of monthly claims for work invoiced. This reflects the fact that local authorities have less working capital. This work is also subject to regular audits and, if a local authority does not comply with the procedures laid down by Transfund, it has to repay the funding received.

**Auditing**

The Review and Audit Division carries out systematic reviews and appraisals of activities wholly or partly funded from the road fund. It reports through the CEO to the board and, in exceptional circumstances, may report directly to the chairman. One of the conditions for providing funds to the road authorities, is that they provide all the information and cooperation necessary to enable the division to review and audit the correct application of these funds. The aim of the audits is to ensure that the funds have been used in an efficient and effective manner. The division monitors outputs in relation to stated performance measures and tests compliance with agreed plans. The latter include TNZ's Statement of Intent, the Land Transport Programs prepared by the Local Authorities and the policies and decisions of Transfund.

The division visits the regional offices of TNZ and the Local Authorities at appropriate intervals and reviews their internal systems (including accounting and related systems) to confirm that they are being operated correctly and in conformity with the various Acts and policies of Transfund. The division carries out its role under the standards for internal auditing laid down by the NZ Institute of Internal Auditors.
Technical and economic audits are made on a regular planned basis about every five years, while procedural audits are made every three years. The purpose of the procedural audits is to assess the accuracy of the financial assistance claims made by the road authorities and the extent to which the road authorities are complying with Transfund's policies with regard to the custody, recording and utilization of road fund resources.

**UNITED STATES: FEDERAL HIGHWAY TRUST FUND**

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<td>• Sound way of dividing funds between states</td>
<td>• Limited legislative base</td>
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<tr>
<td>• Strong leverage over state road agencies which improves performance</td>
<td>• Lack of independent oversight</td>
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<td>• Strong auditing practices</td>
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**Background**

The United States established a Federal Highway Trust Fund in 1956 to finance selected federal road programs. At the state level, all but six states also dedicate state-level user fee revenues to special highway, or transportation accounts. The federal funding system involved earmarking certain road-related taxes and depositing them into a special account. The special account was initially introduced to finance construction of the interstate highway network and was based on the user-pay concept. The concept involves two elements: first, the user pays, and second, the government credits the user fees directly to a special account to avoid confusing them with other government revenues. The user-pay concept is now well established in the United States.

**Coverage**

The federal Trust Fund finances the federal-aid highway program, administered by the Federal Highway Administration (FHWA), and supports most other federal-aid highway projects. Later amendments extended the funding to other transport programs as follows.

- The Highway Safety Act of 1966 made funds available for state and community road safety programs.
- In 1982, the scope was widened to permit the financing of mass transit projects administered by the Federal Transit Administration.
- In 1991 the Intermodal Surface Transportation Efficiency Act (ISTEA) confirmed the new role of the Highway Trust Fund as an "Intermodal Fund" by extending support to high speed rail lines and bike trails.

Revenues from the highway portion of the Trust Fund are used to reimburse states for expenditures on approved projects. These include heavy maintenance
(reconstruction, rehabilitation and resurfacing), road improvement, new construction, road safety programs, studies, and other highway related expenditures. The Trust Fund does not currently finance regular maintenance.

Legislation

The federal Highway Trust Fund was created by the Highway Revenue Act of 1956. The Act provided that revenues from certain highway user taxes would be credited to a Highway Trust Fund to finance the highway program enacted in the Federal-Aid Highway Act of 1956. In the original Highway Revenue Act, the financing mechanism was set to expire at the end of Fiscal year 1972. Since then, legislation has periodically extended the imposition of the taxes and their transfer to the Highway Trust Fund. The last Transportation Efficiency Act, which re-authorized the Trust Fund, extended the imposition of the user taxes through September 2005.

The Trust Fund exists only as an accounting mechanism. The taxes earmarked for the Trust Fund are deposited into the general fund of the US Treasury and a paper transfer of these taxes is made to the Trust Fund twice per month as liabilities are incurred. Earmarked tax revenues in excess of those required to meet current expenditures are invested in public debt and interest earned is credited to the Trust Fund.

Source of Revenues

The user fees are identified as separate revenue streams and include: (i) motor fuel taxes on gasoline, diesel, and gasohol; (ii) a graduated tax on tires weighing 40 lbs. or more; (iii) a retail tax on selected new trucks and trailers; (iv) a heavy-vehicle use tax on all trucks with a gross vehicle weight (GVW) over 55,000 lbs; and (v) interest on the Trust Fund balance. Tax rates are adjusted as part of the regular budgetary process. In 1997, the tax rates were: gasoline = 18.4 cents/gallon; diesel = 24.4 cents/gallon; with different rates for other fuels which are not widely used on the highway. Some 0.1 cents/gallon of this tax was dedicated to the Leaking Underground Storage Tank Trust Fund and the remainder went to the Highway Trust Fund. Of the taxes dedicated to the Highway Trust Fund, 2.86 cents/gallon is earmarked for the Mass Transit Account. Other taxes dedicated to the Highway Trust Fund include: tires = sliding incremental scale which varies from 15 cents/lb to 50 cents/lb over 90 lb; a 12 percent tax on the retail price of trucks over 33,000 lb GVW and trailers over 26,000 lb GVW; $100 plus $22 for each 1,000 lb over 55,000 lb GVW up to a flat fee of $550 for trucks over 75,000 lb GVW; and interest on the balance of the Highway Trust Fund which is currently 6 5/8 percent p.a.. In 1997 the revenues from the above tax rates for highway purposes were $18.5 billion (mainly from gasoline – less than 30 percent comes from diesel), $299.7 million from tires, $1,674.3 million from truck sales, and $761.8 million from GVW tax. After credits and refunds, and some minor transfers for non-highway uses, the net revenue for 1997 was $21.2 billion. An additional $3.8 billion (net) was paid into the Mass Transit Account.
Oversight

There is no independent oversight board. Oversight is provided by two committees of Congress: one in the House of Representatives and the other in the Senate. Their main role is to handle the authorizing legislation which regularly continues the Federal-Aid Highway Program. Implementation of the program is then delegated to the Secretary for Transportation.

Day to Day Management

When the Highway Trust Fund was first set up, states had to apply to be eligible for funding. The key features which determined eligibility related to having sound planning capacity, having suitable control procedures and undertaking independent external audits. Nowadays, these are all established procedures and the federal oversight role focuses more on having a series of penalties which are designed to encourage responsible state level programs (the penalties involve withholding, transferring, or freezing fund allocations, or freezing project approvals). Such penalties cover failure to maintain Federal-Aided highways, enforce vehicle weight limitations, enforce vehicle size and weight laws, enforce seat belt wearing, etc.

Day to day management of the Highway Trust Fund is intimately linked to the entire Federal-Aided highway program. It involves working with the states when preparing the program, disbursing funds to finance implementation of the program, followed by subsequent auditing of completed works. About 3,000 staff manage the federal-aid highway program. They are stationed in Washington and in each of the states.

Exemptions for Non Road Users

Some vehicles, like school buses and state, local government and non-profit vehicles are exempted from paying Federal Highway motor fuel taxes. In addition, fuels used in off-highway uses are exempt from these taxes (e.g., agriculture and industry). Off-highway uses are dealt with by coloring un-taxed diesel and testing non-exempt diesel vehicles to ensure they are using regular (taxed) fuel.

Cost Share Arrangements

Allocations from the federal Trust Fund do not cover all costs, except in exceptional circumstances. They generally cover a fixed 80 percent of costs, except for interstate construction and maintenance, where they cover 90 percent of costs.

Dividing Funds Between Road Agencies

The federal-aid highway program is a reimbursable program. The states are allocated a line of credit against which they can draw to meet obligations. Funds are allocated on the basis of formulas which, though not perfect, are difficult to change. The US Government Accounting Office recently criticized the formulas, but concluded that
“Because the selection of a highway apportionment formula is a judgment for the Congress, GAO is making no specific recommendations.” In other words, the allocation formulas are (at least in the US) highly political. The formulas are relatively simple and generally use variables like population, road mileage, and traffic density. For example, interstate maintenance funds are allocated according to the following formula:

\[
\text{(interstate lane miles/total interstate miles)} \times 0.33 + \text{(vehicle miles on interstate roads/total interstate vehicle miles)} \times 0.33 + \text{(annual contributions to the Highway Trust Fund attributable to commercial vehicles)} \times 0.33
\]

This means that the average allocation per state is about 2 percent of total maintenance allocations, subject to each state receiving a minimum allocation of 0.5 percent. The formulas for the National Highway System includes lane miles on principal arterial routes, vehicle miles, amount of diesel used on highways and state population.

**Disbursing Funds**

Payment for work financed through the Highway Trust Fund is made in the following way:

(i) Work is done by a contractor.
(ii) Contractor is paid by the state.
(iii) Vouchers for reimbursement (usually covering several project withdrawals) are sent to FHWA for review and approval.
(iv) Claims are certified by FHWA (this is a formality and certification is normally automatic, although it does provide an opportunity to audit works before payment is made).
(v) Certified schedules are submitted to Treasury.
(vi) Federal share is transferred to state bank account by electronic funds transfer.

**Auditing**

Each state participating in the scheme is required by law to have an annual audit carried out. The audits are normally carried out by outside auditors and cover financial matters and compliance and internal control procedures (i.e., it is more extensive that a purely financial audit, in that it also covers control procedures, etc.). Staff from FHWA also check these procedures on an ad hoc basis. There is no formal technical audit. Staff from FHWA used to carry out field inspections but this has ceased due to staff shortages. However, occasional field inspections are still carried out. FHWA itself is also subjected to an annual audit to ensure it follows laid down procedures and can account for funds spent.