GAO

United States
General Accounting Office
Washington, D.C. 20548

160329

Resources, Community, and
Economic Development Division

B-279820

April 24, 1998

The Honorable Alfonse M. D'Amato
Chairman, Committee on Banking,
Housing, and Urban Affairs
United States Senate

Subject: Highway Trust Fund: Financial Condition as of September 30, 1997

Dear Mr. Chairman:

In 1991, the Intermodal Surface Transportation Efficiency Act (ISTEA) authorized approximately $155 billion for surface transportation programs through fiscal year 1997, and in December 1997 the Surface Transportation Extension Act provided for a short-term extension. The Congress is currently considering options to reauthorize these surface transportation programs through fiscal year 2003. The Highway Trust Fund--comprised of a highway account and a mass transit account--is the mechanism that provides most of the financing for these programs.[1] Revenues are generated by various highway user taxes, such as those on motor fuels (gasoline, gasohol, and diesel), tires, and trucks.

In response to your April 13, 1998, request, this report provides information on the highway account and mass transit account balances as of September 30, 1997, and compares these balances to commitments.[2] If commitments exceed

[1]Of the approximately $155 billion authorized for surface transportation in 1991, about $140 billion was authorized from the Highway Trust Fund and approximately $15 billion from the General Fund.

[2]There are two kinds of commitments: authorized amounts that have not been obligated and unpaid obligations. An obligation represents the federal share for a project at the time it is approved regardless of when the actual payments are made.



160329

the balance in an account, you asked that we provide an estimate of this difference compared to revenue projections for the following 2 fiscal years. In addition, this report provides information on a cash reserve for each of these accounts to guard against unforeseen disruptions to highway user tax income or inaccurate revenue projections.

Revenues in the Highway Trust Fund are used to reimburse states and mass transit authorities for expenditures[3] on approved federal-aid highway and mass transit projects. When revenues in the fund exceed the amount required for current expenditures, a positive balance exist, which is invested in public debt securities, and the interest earned is credited to the fund. This positive balance does not represent excess cash, however, because there are still outstanding commitments against the fund.

The way the trust fund functions becomes clearer when it is compared with an individual's charge account. For discussion purposes, assume that an individual has $1,000 in cash but also has outstanding charges of $1,500. In this case, the $1,000 in cash cannot be considered excess because it is needed to pay the charges. On the other hand, the individual does not have a deficit, since at the end of the month his or her paycheck will be available to help pay outstanding charges. The following discussion illustrates how this process applies to the highway account.

The balance in the highway account of the trust fund is needed to pay outstanding commitments. The Department of Transportation (DOT) estimates that the highway account had a balance of $12.6 billion at the end of fiscal year 1997 compared to unpaid commitments of $44.9 billion; thus, commitments exceeded the account balance by $32.3 billion.

This situation is permissible, however, because of the nature of the federal-aid highway program. Although the federal government makes commitments to reimburse a certain amount of funds, payment occurs only when actual bills are submitted for completed work. Thus, commitments can exceed the current balance in the account, but they should not exceed the anticipated amounts that could be paid from trust fund revenues at a future date.

The safety mechanism ensuring that sufficient funds exist in the highway account to liquidate commitments is the Byrd Amendment.[4] Under this

---

[3]An expenditure represents the disbursement of funds for obligations incurred.

[4]26 U.S.C. Sec. 9503(d).

statutory provision, outstanding commitments cannot exceed the balance in the highway account plus 2 years' revenues from future highway user taxes (past the current year) and interest. For example, the amount of unpaid commitments at the end of fiscal year 1997 could exceed the account balance for that year as long as projected revenues for fiscal years 1998 and 1999 and the account balance in fiscal year 1997 are sufficient to cover these commitments.

While unpaid commitments in the highway account at the end of fiscal year 1997 exceed the account balance, the balance plus 2 years' revenues will provide more than enough funds to liquidate these commitments. Specifically, the fiscal year 1997 highway account balance and the anticipated income for the next 2 years total $70.1 billion. This amount covers the $44.9 billion in outstanding commitments and leaves an uncommitted balance of approximately $25.2 billion. (Enc. I provides additional details comparing the highway account and mass transit account.)

The trust fund's mass transit account operates much the same way as the highway account.[5] Although the transit account can also look to future revenue, this was not necessary at the close of fiscal year 1997. At that time, the transit account had a balance of about $9.9 billion and outstanding commitments of $5 billion, thus leaving an uncommitted balance of approximately $4.9 billion. Furthermore, if for purposes of comparison 2 years' expected future revenue are considered, then the adjusted uncommitted balance for the transit account would increase to approximately $15 billion.

DOT officials suggest that both the highway account and the mass transit account, maintain a minimum balance to guard against unforeseen disruptions to highway user tax income or inaccurate revenue projections. During the ISTEA reauthorization period, DOT officials recommended that the highway account maintain a balance of up to $3 billion and the transit account, $0.5 billion. Since the current program reflects a higher authorization level, DOT officials now recommend that the minimum balance reserve be increased to $6 billion for the highway account and $1 billion for the transit account.

---

[5]The safety mechanism for this account is the Rostenkowski Amendment (26 U.S.C. Sec. 9503(e)(4), which limits the reliance on projected revenues to those collected 1 year beyond the current year. However, the Congress is currently considering extending this time period to 2 years–the same as for the highway account.

## AGENCY COMMENTS

We provided a draft of this report to the Department of Transportation for review and comment. DOT officials, including the Deputy Assistant Secretary for the Office of the Assistant Secretary for Budget and Programs/Chief Financial Officer, suggested that because of the current increase in the authorization level for surface transportation programs, there should be an increase in the minimum balance maintained for the highway account and the mass transit account. We have incorporated in the report DOT's current recommended minimum balance for both accounts. In addition, we received technical comments and clarifications and incorporated them where appropriate.

## SCOPE AND METHODOLOGY

Our analysis is based on financial data obtained from the Federal Highway Administration's Office of Policy Development, the Federal Transit Administration's Office of Budget and Policy, and the Office of Budget and Program Performance in the Office of the Secretary of Transportation. We did not verify DOT's financial data systems. We performed our work in accordance with generally accepted government auditing standards in April 1998.

- - - - -

We are sending copies of this report to the appropriate congressional committees; the Secretary of Transportation; the Administrator, Federal Highway Administration; the Administrator, Federal Transit Administration; and other interested parties. We will also make copies available to others on request.

Please call me at (202) 512-3650 if you have any questions. Major contributors to this report were Yvonne Pufahl and Ron Stouffer.

Sincerely yours,

Phyllis F. Scheinberg

Phyllis F. Scheinberg
Associate Director,
Transportation Issues

Enclosure

STATUS OF THE HIGHWAY AND MASS TRANSIT ACCOUNTS AS OF SEPTEMBER 30, 1997

Dollars in millions

| | Highway account | Mass transit account |
|---|---|---|
| Balance, start of the fiscal year | $12,118 | $9,525 |
| Tax revenue during the year | 20,509 | 3,358 |
| Interest on investments | 805 | 638 |
| **Subtotal--resources** | 33,432 | 13,521 |
| Less outlays during the fiscal year | (20,857) | (3,663) |
| Account balance, end of the fiscal year | 12,575 | 9,857 |
| Less commitments | (44,900) | (5,001) |
| **Difference between commitments and account balance** | **(32,325)** | **4,856** |
| Revenue expected in FY 1998 | 23,342 | 4,136 |
| Revenue expected in FY 1999 | 34,174 | 6,025[a] |
| **Subtotal--2 years' expected revenue** | **57,516** | **10,161** |
| **Balance and future revenue in excess of commitments** | **$25,191** | **$15,017** |

Note: Numbers sometimes do not sum to totals because of rounding.

[a]The safety mechanism for this account is the Rostenkowski Amendment (26 U.S.C. Sec. 9503(e)(4), which limits the reliance on projected revenues to those collected 1 year beyond the current year. However, the Congress is currently considering extending this time period to 2 years--the same as for the highway account.

Sources: The Office of the Secretary of Transportation, the Federal Highway Administration's and the Federal Transit Administration's data.

(348096)

## Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov