HIGHWAY AND MASS TRANSIT AUTHORIZATIONS FROM THE HIGHWAY TRUST FUND

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This staff memorandum analyzes the consequences for highway and mass transit authorizations of the Congressional Budget Office's (CBO) latest projection of Highway Trust Fund revenues. It examines two topics:

- The implications of CBO's baseline revenue projections for the highway and mass transit programs, and
- The possible effect of revenue changes as a result of reduced oil prices.

In summary, trust fund revenues could support annual highway authorizations (and obligations) of $14.1 billion over the 1987-1991 period, but with a drop in the cash balance in the fund. Alternatively, $13.2 billion a year could be spent and still maintain roughly the level of cash in the Highway Account. If oil prices were to settle at $15 per barrel for the next five years, new authorizations of more than $15.5 billion could be supported. There are major risks, however, in setting spending at such a level since the trust fund would be in an unstable financial condition if oil prices were to rebound to above $20 per barrel. Over the next five years, the Mass Transit Account could support authorizations of $1.9 billion.

CURRENT BASELINE FORECAST

Table 1 shows the highway account under CBO's baseline projections. These projections assume that the existing highway excise taxes are extended beyond their current expiration date (September 30, 1988) at current rates and that obligations are adjusted for inflation starting with the 1986 level, after the 4.3 percent reduction called for under the Balanced Budget and Emergency Deficit Control Act of 1985. While the cash balance remains just above the $2 billion to $3 billion needed for normal operation of the fund, this level of spending could not be supported beyond 1991 without an increase in revenues. 1/

1. For 1987, the Balanced Budget Act implies an additional 8.4 percent cut in spending below the 1986 levels. This reduction would result in obligations that were $1.1 billion below the $13.4 billion for 1986 and $1.5 billion less than the CBO baseline shown in Table 1.

TABLE 1. FINANCIAL PROJECTIONS FOR THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND UNDER CBO BASELINE ASSUMPTIONS (In billions of dollars)

Fiscal Year	Authorizations	Total Obligations	Outlays	Income a/	Start of Year Cash Balance	Change	End of Year Cash Balance	Unfunded Authorizations
1986	14.90	13.40	13.90	12.90	10.35	(1.00)	9.35	20.85
1987	15.50	13.75	13.55	12.85	9.35	(0.70)	8.65	23.50
1988	16.00	14.15	13.60	12.85	8.65	(0.75)	7.90	26.65 b/
1989	16.50	14.75	14.15	12.90	7.90	(1.25)	6.65	30.25
1990	17.15	15.35	14.60	13.00	6.65	(1.55)	5.10	34.35
1991	17.85	15.90	15.15	13.25	5.10	(1.90)	3.20	38.95

SOURCE: Congressional Budget Office. Obligations, outlays, and income are from CBO's baseline forecast, which adjusts 1986 levels for inflation.

NOTE: Details may not add to totals because of rounding. Parentheses denote a negative cash flow.

a. Includes baseline tax revenues plus interest earned on the cash balance. Assumes that current highway excise taxes are extended beyond their expiration date at the end of fiscal year 1988.

b. Byrd Amendment criterion would be triggered. If authorizations were reduced to equal obligations, the Byrd criterion would be met two years later, in 1990.

The Byrd Amendment, which limits unfunded authorizations to two years worth of expected revenues, would be triggered as early as 1988. This occurs because while recent Congressional efforts to reduce the federal deficit have limited obligations, authorizations have not been reduced proportionately. Under CBO's baseline, new authorizations are projected to exceed obligations by almost $2 billion a year, hence raising unfunded authorizations toward the Byrd Amendment cutoff point. If authorizations were set equal to total obligations (including programs not under the obligation ceiling), a Byrd Amendment problem could be avoided until 1990. Alternatively, new authorizations could be held below obligations until the current "backlog" of unobligated funds is reduced or authorizations from previous years could be rescinded.

The level of spending that the trust fund can accommodate depends, in turn, on the desired level of cash in the fund. The cash balance could be maintained at only slightly less than $9 billion with annual authorizations and obligations of about $13.2 billion through 1991. This approximates a nominal freeze in spending at the 1986 level. The Administration has proposed obligations and authorizations of about $12.95 billion for the next four years, but assumes elimination of the existing 6 cents per gallon tax exemption for gasohol as well as the exemptions received by private and public bus operators and exemptions for ethanol and methanol fuel. Under this plan, the cash balance in the trust fund would increase by $5 billion to more than $14 billion at the end of 1991. If the exemptions were not eliminated, the cash balance would show a small increase from current levels to about $10.1 billion in 1991.

A higher level of highway spending could be supported if the cash balance were drawn down. Table 2 summarizes the highway account with a $14.1 billion a year program. Under this scenario, the Byrd Amendment would not be triggered until after 1990, but the cash balance would be reduced by about $5 billion over the next five years. As a result, such a program would increase the overall federal budget deficit.

Under CBO's baseline assumptions, the Mass Transit Account shows a sizable increase in the cash balance from the $3 billion at the end of 1986 to more than $5.6 billion at the end of 1991. Under CBO's baseline forecast of highway tax revenues, the mass transit account could support authorizations of about $1.9 billion a year over the next five years, substantially more than the current level of $1.1 billion and more than the $1.2 billion a year in new tax revenues that is paid into the account. This difference occurs because transit funds spend very slowly so that interest earned on the cash balance becomes a significant source of income for the account (see Table 3). The new level of spending would still not violate the Rostenkowski Amendment,

TABLE 2. OUTLOOK FOR THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND WITH SPENDING AT $14.1 BILLION THROUGH 1991 (In billions of dollars)

Fiscal Year	Authorizations	Federal-Aid Obligation Ceiling	Total Obligations	Outlays	Income[a]	Start-of-Year Cash Balance	Change	End-of-Year Cash Balance	Unfunded Authorizations
1986	14.90	12.20	13.40	13.90	12.90	10.35	(1.00)	9.35	20.85
1987	14.10	13.05	14.10	13.55	12.85	9.35	(0.70)	8.65	22.10
1988	14.10	13.15	14.10	13.70	12.85	8.65	(0.85)	7.80	23.35
1989	14.10	13.15	14.10	13.95	12.90	7.80	(1.05)	6.75	24.55
1990	14.10	13.15	14.10	14.00	13.05	6.75	(0.95)	5.80	25.60
1991	14.10	13.15	14.10	14.05	13.35	5.80	(0.70)	5.15	26.30

SOURCE: Congressional Budget Office.

NOTE: Details may not add to totals because of rounding. Parentheses denote a negative cash flow.

a. Includes baseline tax revenues plus interest earned on the cash balance. Assumes that current highway excise taxes are extended beyond their expiration date at the end of fiscal year 1988.

TABLE 3. OUTLOOK FOR THE MASS TRANSIT ACCOUNT OF THE HIGHWAY TRUST FUND WITH ANNUAL SPENDING AT $1.9 BILLION: FISCAL YEARS 1986-1991 (In billions of dollars)

Fiscal Year	Authorizations	Obligations	Outlays	Income a/	Start-of-Year Cash Balance	Change	End-of-Year Cash Balance	Unfunded Authorizations b/
1986	1.05	1.05	0.80	1.50	2.35	0.70	3.00	(0.40)
1987	1.90	1.90	1.05	1.55	3.00	0.50	3.50	0.00
1988	1.90	1.90	1.30	1.55	3.50	0.25	3.75	0.30
1989	1.90	1.90	1.55	1.60	3.75	0.50	3.80	0.65
1990	1.90	1.90	1.80	1.55	3.80	(0.20)	3.55	1.00
1991	1.90	1.90	1.90	1.55	3.55	(0.35)	3.20	1.35

SOURCE: Congressional Budget Office.

NOTE: Details may not add to totals because of rounding.

a. Includes baseline tax revenues plus interest earned on the cash balance. Assumes that current highway excise taxes are extended beyond their expiration date at the end of fiscal year 1988.

b. A negative number, in parentheses, indicates a surplus.

which limits unfunded authorizations to one year's worth of revenues. The effect on the deficit of higher spending from the trust fund depends on whether or not the authorizations add to existing levels or represent a transfer from the transit program now financed by general revenues.

POSSIBLE EFFECT OF LOWER OIL PRICES

Over the past few months, the spot market price of oil has dropped considerably, from about $30 a barrel last November to less than $15 a barrel in the futures market today. CBO's baseline projections of trust fund revenues assumes that prices facing all refiners would average about $23 per barrel in 1987. If the average cost to refiners stays below this level, however, revenues from the tax on motor fuels--and other highway excise taxes--would be higher than those projected in the baseline. Motor fuel use, and thus trust fund revenues, could be affected in four different ways.

First, in the short term, people will drive their existing vehicles somewhat more: planning more vacation trips by automobile, for example. Motor fuel use is not particularly sensitive to small shifts in price: a 10 percent change in the pump price of fuel is likely to result in only a 1 percent to 1.5 percent increase in driving. Nevertheless, if oil prices were to remain at $15 per barrel for the next year, federal highway excise tax revenues could increase by about $400 million annually. 2/

Second, the longer the drop in oil prices persists, the greater the impact on fuel use is likely to be as consumers and businesses become less concerned with fuel economy in their purchases of new vehicles and in their use of alternative modes of transport. Thus, the average fuel economy of the new cars demanded by consumers would be lower, although still well above that of most older vehicles. Thus, if oil prices were to remain at $15 a barrel through 1991, trust fund revenues could increase by as much as $1 billion a year by that time, including the short-term effect mentioned above.

Third, lower oil prices might also make gasohol production uneconomical. Because gasohol producers are exempt from six cents of the nine cent-per-gallon federal tax on gasoline, they receive a federal subsidy of 60 cents

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2. This amount represents the expected change in revenues to the Highway Trust Fund. The direct effect on total federal revenues would be less.

per gallon of ethanol (gasohol contains 10 percent ethanol and 90 percent gasoline). Even with this support, and similar exemptions from many state gas taxes, gasohol may not be a competitive substitute for gasoline if the gas price drops sufficiently. The gasohol subsidy now reduces trust fund receipts by about $500 million a year, so that as gasoline replaces gasohol, the eventual effect on the trust fund could be significant.

Finally, lower oil prices would have an effect on the level of real Gross National Product (GNP), and thus highway use by autos and trucks. As a rule of thumb, each percent increase in GNP results in one percent more highway use. The magnitude of any macroeconomic shift is speculative, but the possibility of higher GNP levels means that our estimate of the effect of lower oil prices on fuel use could be conservative.

An important caveat to this analysis derives from the fact that long-term projections of oil prices are highly speculative at best. The major impact on trust fund revenues--and thus on the level of highway spending that can be supported--comes about only if the current drop in oil prices persists for several years. Oil prices have historically fluctuated greatly, making projections even riskier than for other economic sectors. The example presented here has been based on the assumption that oil prices settle at about $15 a barrel for the next five years. It is certainly possible, however, that oil prices could rebound above $20 per barrel within a year or so. If prices returned to the CBO baseline in 1988, the resulting short-term effect on highway tax revenues, while noticable, would support only a $0.1 billion or $0.2 billion per year increase in authorizations over four years.

It should be noted that changes in oil prices have a much broader impact on the federal budget than through the Highway Trust Fund alone. Other federal taxes, for example, are affected directly by the price of oil: revenues from the windfall profits tax would be reduced if prices remained low, as would receipts from the sale of offshore oil drilling rights. On the other hand, to the extent that greater economic growth is stimulated, overall federal tax revenues would increase. CBO has not attempted to estimate precisely the magnitude of these complex and partially offsetting effects. (We are preparing a response to Congresswoman Martin on this issue.)

As discussed above, if oil prices remained at $15 per barrel for several years, highway tax revenues would increase by about $400 million above the CBO baseline forecast for 1987. The increase could reach $1 billion in 1991 even without considering the possible effect on gasohol use and on economic growth. As a result, the highway account could support a four-year bill with

authorizations and obligations of $15.5 billion a year (see Table 4). Even with the increased tax revenues, such a level of spending would reduce the cash balance to $4.7 billion in 1991. Further, this level of spending could not be sustained indefinitely. Either additional tax increases or spending reductions would be required in 1991. If the production of gasohol became unprofitable, the switch to fully taxable gasoline would increase revenues by an additional $500 million in 1991. This increase could be enough either to support spending in excess of $16 billion a year or to provide a cushion against a return to higher prices.

Increased excise tax revenues from these low oil prices would also increase the resources available to the mass transit account. The maximum level that could be supported through 1991 without violating the Rostenkowski Amendment would increase to about $2.0 billion a year.

TABLE 4. OUTLOOK FOR THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND WITH OIL PRICES OF $15 PER BARREL THROUGH 1991 (In billions of dollars)

Fiscal Year	Authorizations	Federal-Aid Obligation Ceiling	Total Obligations	Outlays	Income a/	Start-of-Year Cash Balance	Change	End-of-Year Cash Balance	Unfunded Authorizations
1986	14.90	12.20	13.40	13.90	13.15	10.35	(0.75)	9.60	20.60
1987	15.50	14.45	15.50	13.80	13.45	9.60	(0.35)	9.25	22.65
1988	15.50	14.55	15.50	14.65	13.75	9.25	(0.90)	8.35	24.40
1989	15.50	14.55	15.50	15.15	13.80	8.35	(1.35)	7.00	26.10
1990	15.50	14.55	15.50	15.25	14.00	7.00	(1.25)	5.75	27.60
1991	15.50	14.55	15.50	15.35	14.35	5.75	(1.00)	4.75	28.80

SOURCE: Congressional Budget Office.

NOTE: Details may not add to totals because of rounding. Parentheses denote a negative cash flow.

a. CBO baseline projections plus a rough approximation of the effect of $15 per barrel price for oil through 1991 plus interest on cash balance. Excludes possible effect of lower oil prices on use of gasohol and possible effect on overall economic growth.