CBO TESTIMONY

Statement of
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on
The Highway Trust Fund

before the
Subcommittee on Surface Transportation
Committee on Transportation and Infrastructure
U.S. House of Representatives

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Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you this morning to discuss the status of the Highway Trust Fund. My testimony will review the current status of the trust fund, present a number of projections of trust fund receipts and outlays for the next six years, and discuss the implications of the projections for the federal budget deficit.

FINANCIAL STATUS OF THE HIGHWAY TRUST FUND

The Highway Trust Fund is a set of accounts in the federal budget for recording the collection of various receipts from fuel taxes and other earmarked excise taxes, spending on designated highway and mass transit programs, and interest earnings on unexpended balances. There are two separate accounts in the fund, one for highway programs and one for mass transit programs.

Unlike most other federal trust funds, there is no direct relationship between the Highway Trust Fund's receipts and budget authority for its spending programs. Authorization acts provide budget authority for most highway programs in the form of contract authority, the authority to incur obligations in advance of appropriations. Outlays from the trust fund are largely controlled by limits on annual obligations set in appropriation acts, which constrain the amount of outstanding contract authority that can be obligated in any one year. The unexpended balance (sometimes called

the cash balance) in the trust fund consists of the amount of cash and Treasury securities credited to the fund, and it represents the cumulative difference between receipts (taxes and interest) and outlays over the life of the fund.

Over the past 10 years, the fund's two accounts received total tax revenues of \$161 billion, spent \$170 billion, and earned \$14 billion in interest. The total unexpended balance grew steadily during the 1980s because balances in the transit account were increasing, but it has been fairly stable since 1991. At the beginning of this fiscal year, the total unexpended balance in the Highway Trust Fund amounted to \$19 billion, consisting of \$9.4 billion in the highway account and \$9.6 billion in the transit account (see Table 1).

Outlays for the highway account have roughly kept pace with new trust fund receipts in recent years. Since 1985, tax revenues and interest income to the highway account have totaled \$153 billion, while outlays have totaled about \$154 billion. As a result, the unexpended balance in this account has fluctuated within a narrow range over the past decade.

The transit account was established in 1983, when 1 cent per gallon of the fuel tax was designated for mass transit programs. The account's unexpended

TABLE 1. FINANCIAL POSITION OF THE HIGHWAY TRUST FUND, 1985-1995 (By fiscal year, in billions of dollars)

Year	Receipts: Tax Revenue[a]	Receipts: Interest Income	Receipts: Total	Budget Authority[b]	Outlays	Unexpended Balance
			Highway Account			
1985	11.8	1.1	12.9	15.2	12.8	10.4
1986	12.3	1.1	13.3	14.8	14.2	9.5
1987	11.8	0.9	12.7	13.8	12.8	9.4
1988	12.8	0.8	13.6	14.1	14.0	9.0
1989	14.4	0.8	15.1	14.4	13.6	10.6
1990	12.5	1.0	13.5	15.2	14.4	9.6
1991	14.5	0.8	15.3	14.3	14.7	10.2
1992	15.7	0.9	16.6	17.9	15.5	11.3
1993	16.0	0.8	16.9	21.5	16.6	11.5
1994	16.3	0.8	17.0	22.5	19.0	9.5
1995	18.8	0.5	19.4	21.4	19.5	9.4
			Transit Account			
1985	1.2	0.2	1.4	1.1	0.5	2.5
1986	1.1	0.3	1.4	1.1	0.6	3.3
1987	1.2	0.3	1.6	1.1	0.7	4.2
1988	1.3	0.4	1.7	1.2	0.7	5.2
1989	1.3	0.5	1.7	1.3	0.8	6.1
1990	1.4	0.6	2.0	1.3	0.9	7.2
1991	2.5	0.7	3.1	1.4	1.1	9.3
1992	1.1	0.7	1.8	1.9	1.3	9.8
1993	2.0	0.7	2.7	2.9	1.9	10.6
1994	2.0	0.7	2.7	3.0	3.4	9.9
1995	2.2	0.6	2.8	2.9	3.2	9.6
			Combined Trust Fund			
1985	13.0	1.3	14.3	16.3	13.3	12.9
1986	13.4	1.3	14.7	15.9	14.8	12.8
1987	13.0	1.3	14.3	14.9	13.5	13.6
1988	14.1	1.2	15.3	15.3	14.7	14.2
1989	15.6	1.2	16.9	15.7	14.5	16.6
1990	13.9	1.6	15.4	16.5	15.3	16.8
1991	17.0	1.5	18.5	15.7	15.7	19.5
1992	16.7	1.7	18.4	19.8	16.8	21.1
1993	18.0	1.6	19.7	24.4	18.6	22.1
1994	18.3	1.4	19.8	25.5	22.4	19.4
1995	21.0	1.2	22.2	24.3	22.7	19.0

SOURCES: Congressional Budget Office; Office of Management and Budget.

a. About $1.6 billion of the tax revenue collected in 1994 was not deposited in the highway account until 1995. This table shows corrected figures for each year.

b. Includes contract authority for federal-aid highways, motor carrier safety grants, highway traffic safety grants, highway-related safety grants and transit grants, as well as appropriations for several smaller programs.

balance grew gradually until 1993, when it reached $10.6 billion. In the last two years, spending from the transit account has exceeded its income, and the balance has dropped by $1 billion.

The unexpended balance in the Highway Trust Fund does not measure the amount of unobligated funds available for future spending on highway and transit projects. On the contrary, existing obligations far exceed the amounts currently in the fund, but projects are carried out and the money is spent over a number of years. For example, at the end of fiscal year 1995, outstanding obligations of the Highway Trust Fund totaled $36 billion, compared with the $19 billion balance in the fund.

The apportionment to states of contract authority for the highway account is limited by a provision of law known as the Byrd Amendment. Under this provision, unexpended budget authority (referred to as unpaid authorizations) can exceed the cash balance by no more than the projected receipts for the next two years (including interest). A similar mechanism, known as the Rostenkowski test, applies to the transit account, but encompasses only one year's worth of expected revenue. Neither account is currently constrained by these limitations.

These rules do not effectively measure whether the fund has adequate cash resources to pay for present or future commitments, which are largely determined by the rate at which funds are obligated, rather than by the amount of unused budget

authority. At the end of fiscal year 1995, amounts obligated but not yet spent by the highway account exceeded the cash balances by about one year of future income, whereas obligated balances of the transit account are far less than its current cash balance.

SPENDING AND REVENUE PROJECTIONS

The Congressional Budget Office (CBO) has projected spending and receipts for the Highway Trust Fund over the next several years using a number of different assumptions. Under CBO baseline projections, which assume no change in current taxing and spending policies, the Congressional Budget Office estimates that total receipts will exceed obligations and outlays for both the highway and transit accounts over the next seven years.

Revenue Projections

The Highway Trust Fund is financed by excise taxes on motor fuels, a sales tax on tires and tread rubber, a use tax on heavy vehicles, and a sales tax on large trucks and

trailers. Approximately 90 percent of the trust fund's revenue comes from the excise taxes on motor fuels. Of the 18.3 cents a gallon federal gas tax, 14 cents is now dedicated to the trust fund and 4.3 cents goes into the general fund for deficit reduction.

CBO projects that excise tax receipts earmarked for the trust fund will increase significantly in fiscal year 1996, growing to $23.7 billion from the $21 billion collected in 1995. The increase will occur largely because, under the provisions of the Omnibus Budget Reconciliation Act of 1993, 2.5 cents per gallon of gasoline and diesel fuel taxes, which until this year had been allocated to the general fund, is now credited to the Highway Trust Fund. Of that amount, 2 cents is targeted for the highway account and one-half cent is earmarked for the transit account. In subsequent years, CBO projects an increase in excise tax collections of about 2.4 percent per year, assuming that the taxes are extended at current rates when they expire in 1999. By 2002, tax revenues deposited in the trust fund will reach an estimated $27 billion a year. (Recent information suggests that tax receipts earmarked for the trust fund, and thus fund balances, may be higher than estimated under CBO baseline assumptions.)

Baseline Outlay Projections

In estimating baseline outlays, CBO has assumed that most trust fund spending will continue to be limited by appropriations of budget authority or ceilings on annual obligations--either adjusted for inflation or frozen at the 1996 level. In addition, CBO has estimated future obligations for the mandatory programs not covered by such a ceiling--the minimum allocation program, emergency relief, and highway demonstration projects authorized in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA).

If the appropriated limits are adjusted for inflation, CBO estimates that trust fund outlays will grow to about $25 billion in 2002 (see Table 2). If the appropriations are maintained at the current level, trust fund outlays will remain at $22 billion to $23 billion a year (see Table 3). Neither of these projections includes highway demonstration projects other than those authorized in ISTEA. If CBO assumed future authorizations for such projects in annual amounts similar to those in ISTEA, estimated outlays after 1999 would increase by about $1 billion a year.

TABLE 2. CBO BASELINE PROJECTIONS FOR THE HIGHWAY TRUST FUND, WITH ADJUSTMENT FOR INFLATION (By fiscal year, in billions of dollars)

Fiscal Year	Receipts: Tax Revenue	Receipts: Interest Income	Receipts: Total	Budget Authority	Total Obligations	Outlays	Unexpended Balance
			Highway Account				
1996	20.8	0.7	21.5	18.4	20.6	20.1	11.0
1997	21.1	0.7	21.8	22.6	20.9	20.4	12.2
1998	21.7	0.8	22.5	23.4	20.8	20.6	14.1
1999	22.2	1.0	23.2	23.7	21.0	20.5	16.7
2000	22.8	1.1	23.9	24.2	21.4	20.8	19.8
2001	23.3	1.3	24.6	24.6	22.0	21.2	23.1
2002	23.9	1.5	25.4	25.1	22.5	21.8	26.8
			Transit Account				
1996	2.8	0.7	3.5	2.8	2.8	3.1	10.0
1997	2.9	0.6	3.6	4.8	2.9	3.1	10.5
1998	3.0	0.7	3.6	4.9	2.9	2.9	11.2
1999	3.1	0.7	3.8	5.1	3.0	2.9	12.1
2000	3.1	0.8	3.9	5.2	3.1	3.0	13.0
2001	3.2	0.8	4.0	5.4	3.2	3.1	14.0
2002	3.3	0.9	4.2	5.5	3.3	3.1	15.0
			Combined Trust Fund				
1996	23.7	1.3	25.0	21.2	23.3	23.2	20.8
1997	24.0	1.4	25.4	27.4	23.7	23.5	22.7
1998	24.6	1.5	26.1	28.3	23.7	23.5	25.3
1999	25.3	1.7	27.0	28.8	24.0	23.5	28.8
2000	25.9	1.9	27.8	29.4	24.5	23.8	32.8
2001	26.5	2.2	28.7	30.0	25.1	24.3	37.2
2002	27.2	2.4	29.6	30.6	25.8	24.9	41.9

SOURCE: Congressional Budget Office.

TABLE 3. CBO BASELINE PROJECTIONS FOR THE HIGHWAY TRUST FUND, WITHOUT ADJUSTMENT FOR INFLATION (By fiscal year, in billions of dollars)

Fiscal Year	Receipts: Tax Revenue	Receipts: Interest Income	Receipts: Total	Budget Authority	Total Obligations	Outlays	Unex-pended Balance
Highway Account							
1996	20.8	0.7	21.5	18.4	20.6	20.1	11.0
1997	21.1	0.7	21.8	22.6	20.3	20.4	12.3
1998	21.7	0.8	22.5	23.3	19.7	20.1	14.7
1999	22.2	1.0	23.2	23.7	19.3	19.6	18.3
2000	22.8	1.3	24.1	24.1	19.2	19.4	22.9
2001	23.3	1.6	24.9	24.6	19.2	19.3	28.6
2002	23.9	2.0	25.9	25.0	19.1	19.3	35.2
Transit Account							
1996	2.8	0.7	3.5	2.8	2.8	3.1	10.0
1997	2.9	0.6	3.6	4.8	2.8	3.0	10.6
1998	3.0	0.7	3.7	4.9	2.8	2.8	11.4
1999	3.1	0.7	3.8	5.1	2.8	2.8	12.4
2000	3.1	0.8	3.9	5.2	2.8	2.8	13.6
2001	3.2	0.9	4.1	5.4	2.8	2.8	14.9
2002	3.3	1.0	4.2	5.5	2.8	2.8	16.3
Combined Trust Fund							
1996	23.7	1.3	25.0	21.2	23.3	23.2	20.8
1997	24.0	1.4	25.4	27.4	23.1	23.4	22.8
1998	24.6	1.5	26.2	28.3	22.4	23.0	26.0
1999	25.3	1.8	27.0	28.7	22.1	22.4	30.7
2000	25.9	2.1	28.0	29.3	22.0	22.2	36.5
2001	26.5	2.5	29.0	29.9	21.9	22.1	43.4
2002	27.2	2.9	30.1	30.6	21.9	22.1	51.5

SOURCE: Congressional Budget Office.

Projected Fund Balances

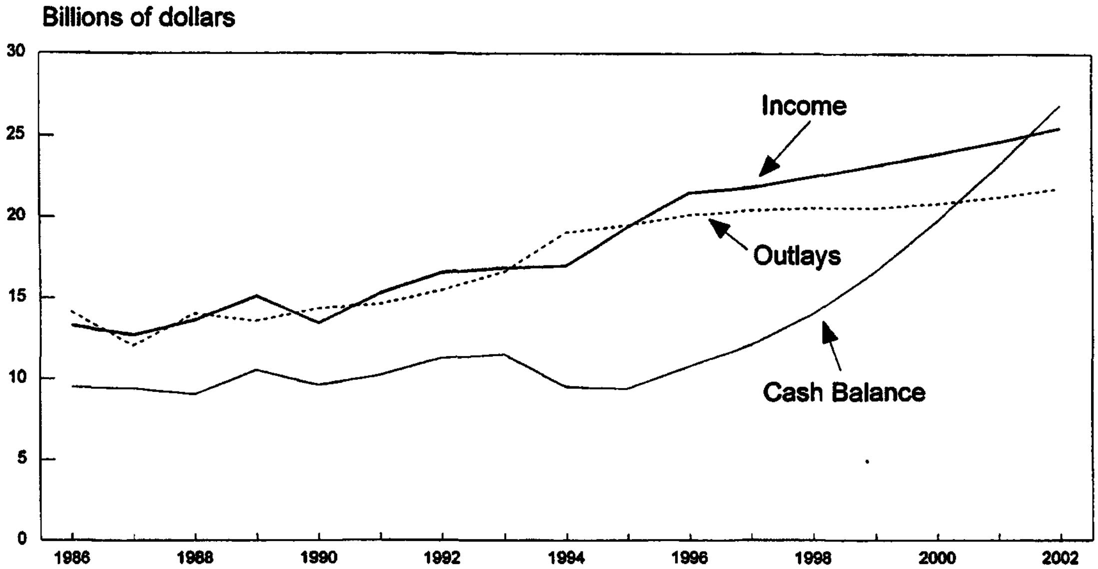
Under both sets of baseline projections, receipts from taxes and interest would significantly exceed new obligations and outlays, leading to a large unexpended balance in the trust fund in 2002: about $42 billion if spending grows with inflation and $52 billion if it remains at current levels.

In the highway account, receipts over the next seven years would exceed total outlays by about $18 billion if discretionary obligations grow with inflation (see Figure 1, top) and by $26 billion if they are frozen at the 1996 level. As a consequence, the highway account's unexpended cash balance would grow to $27 billion in the first instance and $35 billion in the second. In either case, CBO projects that the Byrd Amendment would not be triggered in the next seven years.

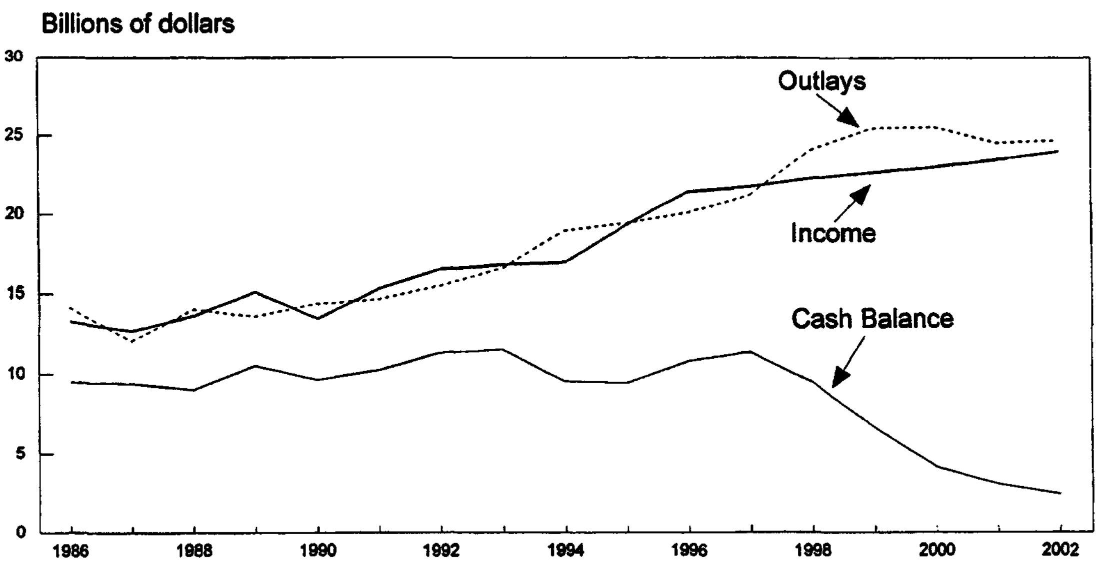
Under baseline assumptions, the transit account's unexpended balance would grow to $15 billion or $16 billion by 2002. The mechanism of the Rostenkowski test would be close to being triggered in 2002 under the baseline adjusted for inflation, when the cash balance plus projected revenue for 2003 would exceed the unexpended budget authority by only $1.5 billion. The account would contain substantial cash balances, however, and would be in no danger of insolvency as long as obligations remained significantly below the projected contract authority.

Figure 1. Alternative Projections of Spending, Receipts, and Balances for the Highway Account of the Highway Trust Fund (By fiscal year)

Spending, Receipts, and Cash Balance under CBO Baseline Assumptions (Including Adjustments for Inflation)



Spending, Receipts, and Cash Balance under a Full-Funding Scenario



Note: Fiscal year 1994 and 1995 revenue data are corrected to show amounts collected for each year.

Alternative Projection: Full Funding at Authorized Levels

CBO has also developed projections assuming that the Congress provides additional contract authority after ISTEA expires in 1997 (at ISTEA levels adjusted for inflation) and allows the obligation of all available contract authority. In this scenario, trust fund outlays would increase significantly--to about $30 billion in 2002--compared with $27 billion in tax receipts in that year (see Table 4). The trust fund's total receipts would be less than they would be under baseline assumptions because interest income into the trust fund would fall as the cash balances decline. The unexpended balances would drop to less than $7 billion by the end of 2002 and continue to decline thereafter.

Under the full-funding scenario, the cash balance in the highway account would be quite low--about $2 billion by the end of 2002--leaving little room for error in estimates of future revenues or spending (see Figure 1, bottom). Nevertheless, the Byrd rule--established to protect the account from insolvency--would not be triggered. By the end of 2002, the cash balance in the transit account would be about $4 billion and falling each year, and spending would be $2 billion a year above tax receipts. That rate of spending would be unsustainable over the long term.

TABLE 4. CBO PROJECTIONS FOR THE HIGHWAY TRUST FUND UNDER A FULL-FUNDING SCENARIO (By fiscal year, in billions of dollars)

Fiscal Year	Receipts: Tax Revenue	Receipts: Interest Income	Receipts: Total	Budget Authority	Total Obligations	Outlays	Unexpended Balance
			Highway Account				
1996	20.8	0.7	21.5	18.4	20.6	20.1	11.0
1997	21.1	0.7	21.8	22.6	25.7	21.3	11.3
1998	21.7	0.7	22.3	23.4	26.9	24.2	9.5
1999	22.2	0.5	22.7	23.7	26.9	25.5	6.7
2000	22.8	0.3	23.1	24.2	24.4	25.6	4.2
2001	23.3	0.2	23.5	24.6	24.8	24.6	3.1
2002	23.9	0.2	24.1	25.1	25.2	24.7	2.4
			Transit Account				
1996	2.8	0.7	3.5	2.8	2.8	3.1	10.0
1997	2.9	0.6	3.5	4.8	4.8	3.9	9.7
1998	3.0	0.6	3.6	4.9	4.9	4.0	9.2
1999	3.1	0.6	3.6	5.1	5.1	4.3	8.5
2000	3.1	0.5	3.6	5.2	5.2	4.7	7.4
2001	3.2	0.4	3.6	5.4	5.4	5.0	6.1
2002	3.3	0.3	3.6	5.5	5.5	5.2	4.5
			Combined Trust Fund				
1996	23.7	1.3	25.0	21.2	23.3	23.2	20.8
1997	24.0	1.3	25.3	27.4	30.5	25.3	21.0
1998	24.6	1.3	25.9	28.3	31.9	28.2	18.6
1999	25.3	1.1	26.3	28.8	32.0	29.8	15.1
2000	25.9	0.8	26.7	29.4	29.6	30.3	11.6
2001	26.5	0.6	27.1	30.0	30.1	29.6	9.2
2002	27.2	0.5	27.7	30.6	30.7	29.9	6.9

SOURCE: Congressional Budget Office.

Matching Spending and Income

Because the Highway Trust Fund's projected income is above current spending levels and growing, the fund can support a higher rate of expenditure. But a large portion of the fund's outlays occur well after money is obligated. Therefore, significant increases in the rate of spending are difficult to accomplish quickly without overshooting the mark later on--as in the full-funding case just discussed. Therefore, the fund's unexpended balance is likely to grow for the next few years, even if the obligation rate is increased substantially.

BUDGETARY IMPACT OF THE TRUST FUND

The federal budget as a whole basically operates on a cash basis; this year's tax collections and other incoming payments from the public are used to pay for this year's cash outlays. The shortfall in receipts compared with outlays constitutes the budget deficit and is financed by borrowing from the public.

Viewed in this light, the Highway Trust Fund has a different impact on the budget than the trust fund accounting implies. The principal difference is that the interest earnings of the fund are intragovernmental transactions that have no net effect on the budget deficit. The interest receipts credited to the fund are matched

dollar for dollar by Treasury outlays. Therefore, the current budgetary impact of the trust fund is simply the difference between the tax receipts credited to and outlays charged to the fund. Spending less than the annual tax receipts reduces the budget deficit, whereas spending more than the tax revenues increases it, even if the added spending comes from unexpended balances of the fund.

The unexpended balances and the resulting interest earnings are indicators of the cumulative effects on federal borrowing needs of past spending and taxing policies associated with the trust fund. Tax revenues credited to the highway account exceeded spending from that account in the 1970s; the same situation occurred with the transit account in the 1980s. As a result, the federal deficit and the government's borrowing from the public during those years were reduced. The interest credited to the trust fund is largely a measure of the current savings in interest costs resulting from those past policies.

The presence of cash balances has led some people to conclude that the Highway Trust Fund is currently being used to reduce the federal deficit. That has not been the case in recent years. From 1991 through 1995, for example, the fund's outlays have totaled $96 billion, exceeding the $91 billion in tax revenues credited to the fund during that time.

Recent trends will not necessarily hold in the future, however, particularly because an additional 2.5 cents per gallon of the gasoline tax is now allocated to the Highway Trust Fund. As a result, under CBO's baseline assumptions, tax revenues credited to the fund would exceed outlays in each of the next several years. (General fund receipts, however, would decline correspondingly.) Under the full-funding scenario, in which obligations and outlays are increased above baseline projections, the deficit would increase over the 1997-2002 period by about $30 billion in relation to CBO's baseline with inflation and by about $38 billion in relation to the baseline without inflation, excluding interest effects. Thus, while it is possible to increase spending from the fund over the next several years by drawing down its balances, such a policy would have a significant adverse effect on the federal deficit.

Such increases in spending would encounter another budgetary constraint--the limits on discretionary spending. The federal government has been in, and is likely to remain in, a period of fiscal stringency, particularly for nondefense discretionary spending. Under current policies aimed at balancing the budget by 2002, such spending is likely to decline, or at best remain level, over the next few years. Therefore, if highway and transit spending is to grow as trust fund income increases, it will have to compete against other spending priorities in order to obtain a growing share of limited discretionary resources.

CONCLUSION

Deciding the appropriate level of federal infrastructure spending while attempting to balance the budget will be difficult, but the existence of trust fund balances should not, by itself, justify additional highway or transit spending. Although beneficiary-based taxes are certainly a reasonable way to finance government spending, decisions about additional spending on highways and transit programs--as with any federal program--are best made on the basis of the benefits to be derived, not on the basis of available earmarked revenues. Such decisions should also take into account the appropriate role for state and local governments, which pay most of the country's highway and transit costs, and the resources that are available to them. There is no fundamental economic reason why federal spending for transportation infrastructure should be identical to the income from the gasoline tax and other transportation-related excise taxes. Rather, our nation is best served if limited resources are allocated to programs and projects that yield the greatest net benefits to society.