CBO TESTIMONY

Statement of
Kim P. Cawley
Chief
Natural and Physical Resources Cost Estimates Unit

Status of the Highway Trust Fund

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

March 20, 2002

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you this afternoon to discuss the status of the Highway Trust Fund. My testimony will review the status of the trust fund and explain how the Congressional Budget Office (CBO) develops its baseline estimates of the fund's receipts and outlays. In addition, as requested by the staff of the Subcommittee, I will discuss how four alternative approaches to spending would affect trust fund balances.

WHAT IS THE HIGHWAY TRUST FUND?

The Highway Trust Fund is an accounting mechanism in the federal budget that records receipts from fuel and other excise taxes earmarked for spending on designated highway and mass transit programs. The fund comprises two separate accounts, one for highways and one for mass transit (see Table 1). The Federal-Aid

TABLE 1. MAJOR COMPONENTS OF THE HIGHWAY TRUST FUND, FISCAL YEAR 2002
(In billions of dollars)

	Estimated Receipts[a]	Budget Authority and Obligation Limitations[b]	Estimated Outlays
Highway Account			
Federal-Aid Highways program	n.a.	32.6	30.9
Motor carrier safety	n.a.	0.3	0.3
Highway traffic safety	n.a.	0.3	0.3
Other	n.a.	0.1	0.3
Subtotal	27.9	33.3	31.7
Mass Transit Account			
Discretionary grants	n.a.	0	0.4
Trust fund share of transit expenses	n.a.	5.4	5.4
Subtotal	4.4	5.4	5.8
Total, Highway Trust Fund	32.3	38.7	37.5

SOURCE: Congressional Budget Office.

NOTES: Numbers in the table may not add up to totals because of rounding.

n.a. = not applicable.

a. Receipts are deposited in the highway and mass transit accounts but are not earmarked for specific components.

b. Obligation limitations enacted in appropriation acts limit the amount of budget authority available to most Highway Trust Fund programs. These amounts are the sum of obligation limitations and budget authority that is not subject to any such limitation.

Highways program is by far the largest component of the fund, accounting for more than 80 percent of the fund's estimated outlays in 2002. (All years in this statement are fiscal years.)

FUNDING OF HIGHWAY AND MASS TRANSIT PROGRAMS

Unlike some other federal trust funds, the Highway Trust Fund lacks a direct relationship between receipts earmarked for it and budget authority for its spending programs. That is, spending from the fund is not automatically triggered by deposits of receipts. Authorization acts provide budget authority for highway and mass transit spending, mostly in the form of contract authority (the authority to incur obligations in advance of appropriations). For mass transit programs, funding is also provided by appropriations from the general fund of the Treasury. Annual spending from the Highway Trust Fund is largely controlled by limits on annual obligations, which are set in appropriation acts.

The most recent authorization law for the trust fund, the Transportation Equity Act for the 21st Century (TEA-21), was enacted in 1998 and is due to expire at the end of 2003. TEA-21 provided specific amounts of annual contract authority for 1998 through 2003 and authorized appropriations for programs that are not funded through contract authority. In addition, TEA-21 included a new funding mechanism called revenue-aligned budget authority (RABA). RABA compares current estimates of highway account receipts with the amounts specified in TEA-21. The RABA calculation combines "looking back" at the prior fiscal year and "looking ahead" at the current estimate of receipts for the coming budget year. On the basis of that comparison, RABA adjusts both contract authority for the Federal-Aid Highways program and the budget caps for the highway category.

The RABA mechanism was designed to strengthen the relationship between the account's receipts and its outlays. However, each year, appropriation acts include an obligation limitation that may or may not contain an adjustment for RABA. Thus far, appropriation acts have incorporated such adjustments—all of them positive—in 2000, 2001, and 2002, adding about $9 billion to the obligation limits specified in TEA-21. Primarily because of a recession-induced drop in revenues in 2001, the Administration has estimated a negative RABA adjustment of about $4.4 billion to highway obligations for 2003 under TEA-21. That adjustment could change, however, after action on appropriations for next year. (The levels of receipts, budget authority, RABA adjustments, obligation limitations, and outlays for the Highway Trust Fund since enactment of TEA-21 are summarized in Table 2.) Over the first

TABLE 2. THE HISTORY OF THE HIGHWAY TRUST FUND UNDER THE TRANSPORTATION EQUITY ACT FOR THE 21ST CENTURY (By fiscal year, in billions of dollars)

	1998	1999	2000	2001	2002	2003
Receipts	28.6	39.3	35.0	31.5[a]	32.3[a]	33.4[a]
Budget Authority	29.4	33.6	35.1	41.3	41.2	37.7[a]
RABA Adjustments to Contract Authority	n.a.	n.a.	1.5	3.1	4.5	0[b]
Enacted Obligation Limitations	24.0	30.1	32.7	35.2	37.8	n.a.
Outlays	24.5	28.9	32.8	34.8	37.5[a]	40.1[a]
End-of-Year Balance	18.6	29.0	31.1	27.7	22.5[a]	15.7[a]

SOURCE: Congressional Budget Office.

NOTE: RABA = revenue-aligned budget authority; n.a. = not applicable.

a. CBO estimate. The estimated outlays for 2003 are CBO's baseline projection, assuming a 2003 obligation limitation of $32.4 billion.

b. An adjustment of -$4.4 billion is scheduled for 2004.

five years of TEA-21, the trust fund's receipts have grown by about 13 percent, and outlays have climbed by more than 50 percent.

STATUS OF THE HIGHWAY TRUST FUND

The status of the Highway Trust Fund is generally assessed by asking two questions. First, will the fund's receipts be sufficient to cover its spending? Second, will the trust fund accounts pass the so-called Byrd test?[1]

Trust Fund Balances

The balances of the Highway Trust Fund represent the cumulative difference between receipts and outlays over the life of the fund and indicate how much the fund has available, at any particular time, to meet its current and future obligations. Exist-

1. Created early in the history of the trust fund, the "Byrd test" (named for Senator Harry Byrd of Virginia) requires that the trust fund meet an ongoing fiduciary test. Any failure to meet the test requires an immediate reduction in highway spending.

ing obligations of the highway account far exceed the amounts now in the trust fund. At the end of 2001, the highway account's balance was $20.4 billion, but the outstanding obligations of highway programs totaled $40 billion. That discrepancy is possible because most of those obligations involve capital projects, on which money is spent over a number of years. In other words, some of the highway programs' existing obligations will be met by using future tax receipts. In comparison, the mass transit account had a balance of $7.4 billion at the end of 2001 and outstanding obligations of $1.2 billion.

The Byrd Test

The Byrd test is applied separately to the trust fund's highway and mass transit accounts. An account is said to pass the test if its unspent budget authority in any year exceeds its balance by no more than its projected receipts for the next two years. For example, to pass the Byrd test at the end of this fiscal year, the highway account's estimated receipts for 2003 and 2004 combined must be greater than the total amount of unspent budget authority above the 2002 balance.

Under current law, if the highway or mass transit account fails the Byrd test, the level of the account's contract authority is automatically cut. However, the test does not effectively measure whether the fund has adequate resources to cover present or future commitments, which are controlled mainly by obligation limitations rather than by budget authority. For that reason, projections may indicate negative balances for the trust fund before the fund fails the Byrd test.

CBO'S BASELINE PROJECTIONS OF THE HIGHWAY TRUST FUND

CBO estimates the balances of the Highway Trust Fund and the results of the Byrd test by projecting the fund's future receipts and outlays. It estimates receipts and outlays independently of each other because of their different bases (receipts depend on the collection of various taxes, and outlays depend largely on the obligation limitations in appropriation acts).

Receipts

The Highway Trust Fund's receipts come from excise taxes on various motor fuels; on the sale of tires, trucks, and trailers; and on heavy-vehicle use (see Table 3). Each year, about 60 percent of the fund's receipts come from the tax on gasoline alone. As

TABLE 3. HIGHWAY TRUST FUND RECEIPTS FOR FISCAL YEAR 2000 (In billions of dollars)

	Highway Account	Mass Transit Account	Total Trust Fund
Gross Receipts from Taxes			
Gasoline	18.0	3.3	21.3
Gasohol	1.3	0.5	1.8
Diesel and special motor fuels	7.4	1.0	8.4
Tires	0.4	0	0.4
Trucks and trailers	3.3	0	3.3
Heavy-vehicle use	0.9	0	0.9
Other	*	*	*
Subtotal	31.3	4.8	36.2
Refunds and Tax Credits	-0.8	-0.2	-1.0
Transfers to Other Trust Funds	-0.2	*	-0.2
Net Receipts	30.3	4.6	35.0

SOURCE: Congressional Budget Office.

NOTES: * = less than $100 million.
Numbers in the table may not add up to totals because of rounding.

a general rule, CBO's baseline projections of tax receipts for 2003 through 2012 (the current projection period) incorporate the assumption that current tax laws remain in place and that scheduled changes and expirations occur on time. The only exception to that rule is the treatment of excise taxes dedicated to trust funds, including the Highway Trust Fund. The Balanced Budget and Emergency Deficit Control Act requires CBO to assume that the federal government will continue to collect tax receipts that are earmarked for a trust fund even if those taxes are scheduled to expire. For example, gasoline taxes are due to expire on September 30, 2005, but CBO's baseline includes receipts from the gasoline tax throughout the 10-year baseline projection period.

In forecasting Highway Trust Fund receipts, CBO's economic models must take many factors into consideration. For example, estimates of gasoline consumption depend on estimates of economic growth, relative fuel prices, and the average fuel efficiency of gasoline-powered vehicles. Projections of receipts from the gasoline tax equal gasoline consumption multiplied by the federal tax rate (18.4 cents per gallon under current law). For 2000, the Highway Trust Fund received $21.3 billion from the gasoline tax and a total of $35 billion in receipts.

Spending

In its baseline projections of outlays for the Highway Trust Fund, CBO assumes that policymakers will continue to control spending through obligation limitations set in annual appropriation acts. (The obligation limitation for the Federal-Aid Highways program controls more than 70 percent of the outlays from the Highway Trust Fund.) For the current baseline, CBO began with the budget authority and obligation limits enacted in Public Law 107-87, the 2002 appropriation act for the Department of Transportation and related agencies, and then inflated those figures for each of the following years.

CBO's estimates of the fund's outlays are based on historical spending patterns. (For example, the Federal-Aid Highways program expends about 27 percent of budgetary resources in the year they are provided and the rest over the following several years.) That method of projecting baseline spending matches the method CBO uses to estimate outlays for other discretionary programs, which also receive spending authority from appropriation acts, as specified in the Deficit Control Act.

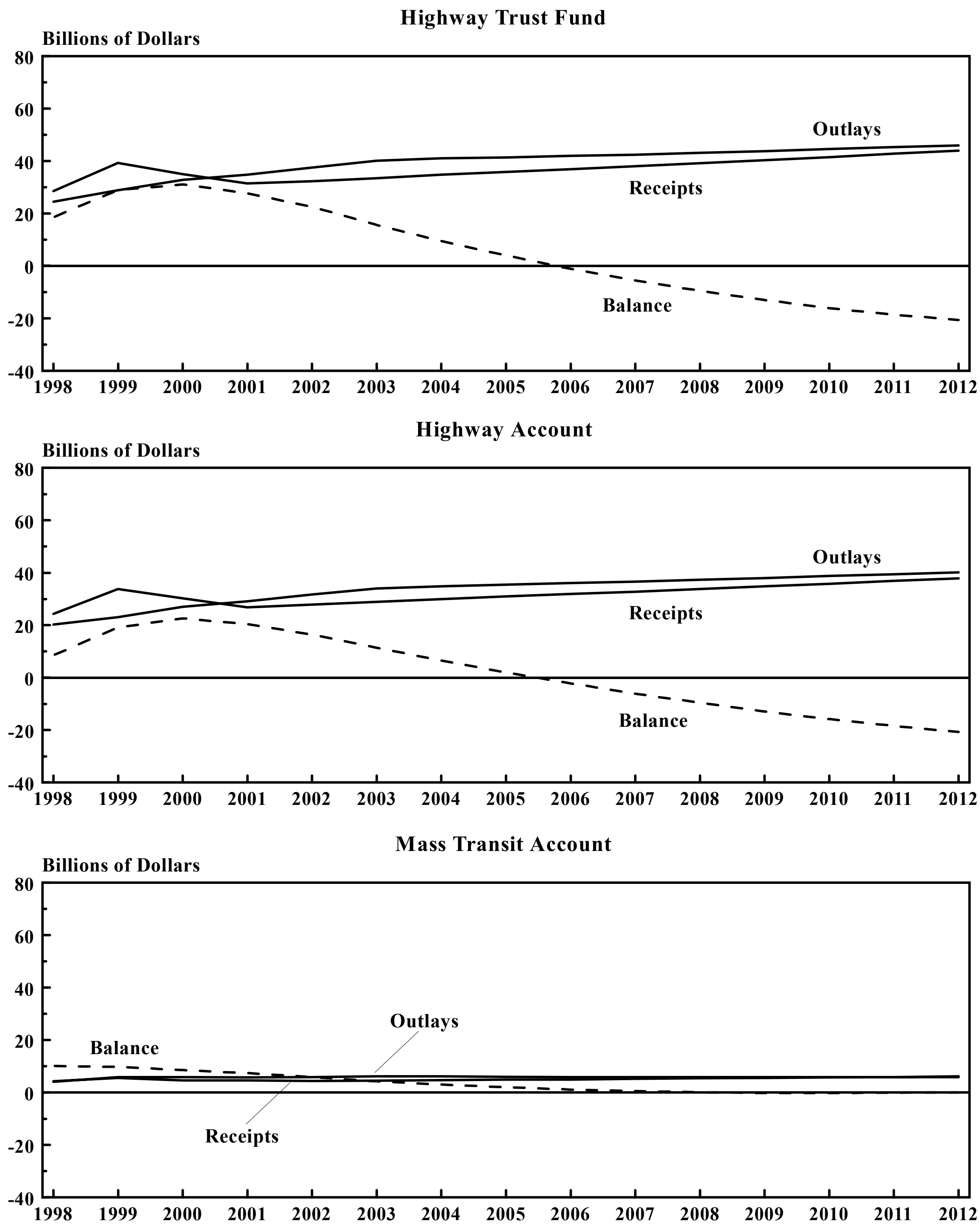
BALANCES IN THE TRUST FUND ACCOUNTS UNDER CBO'S BASELINE

Under its current baseline, CBO projects that the balance in the highway account will be depleted in 2006 and that the balance in the mass transit account will hit zero in 2009 (see Figure 1). However, CBO estimates that the highway and mass transit accounts will not fail the Byrd test in any year of the current projection period.

The Highway Account

Over the 1998-2001 period, outlays averaged $24.9 billion a year, and revenues averaged $28.8 billion. Since enactment of TEA-21 in 1998, the highway account's balances have increased from $8.5 billion at the end of 1998 to $20.4 billion at the end of 2001. But programs' unpaid obligations (money obligated that had not yet been paid out) were growing—from $32.7 billion at the end of 1998 to $40 billion at the end of 2001. As a result, unpaid obligations in 2001 exceeded receipts for that year by $13.1 billion, and highway programs' unpaid obligations are now 22 percent higher than they were at the end of 1998. The balance of the highway account is gradually depleted under CBO's current baseline because estimated outlays exceed

FIGURE 1. STATUS OF THE HIGHWAY TRUST FUND AND THE HIGHWAY AND MASS TRANSIT ACCOUNTS UNDER CBO'S BASELINE



SOURCE: Congressional Budget Office.

estimated revenues each year from 2003 through 2012. Over the next 10 years, projected outlays from the highway account average \$37.1 billion annually, while receipts average only \$33.4 billion.

The Mass Transit Account

The prospect for balances of the mass transit account under CBO's baseline is similar to that of highway account balances. Over the next 10 years, outlays will average \$5.9 billion a year, CBO estimates, and receipts will average \$5.3 billion.

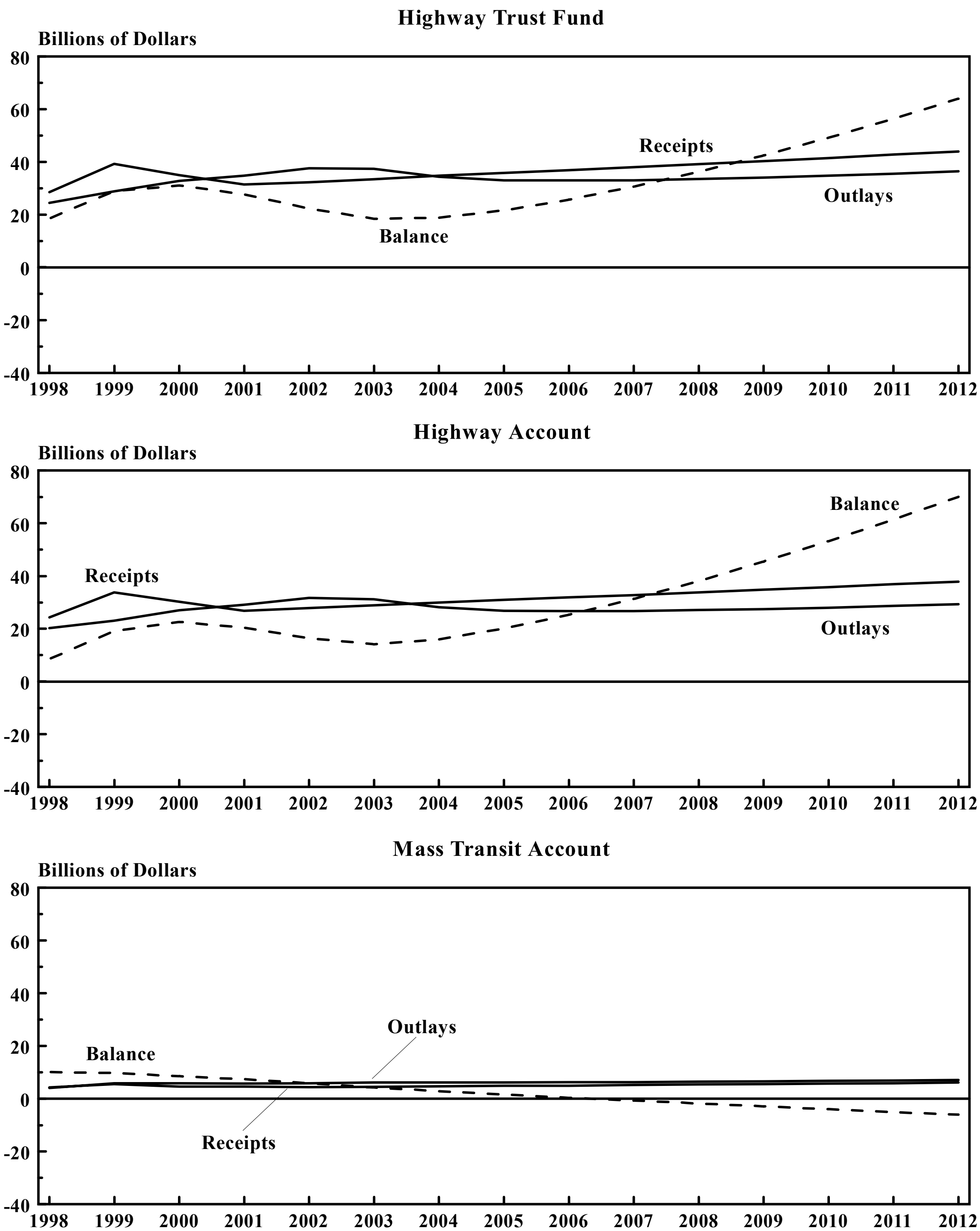
One feature of funding for the mass transit programs is the Treasury's use of an expenditure transfer from the trust fund to the general fund. Budgetary resources for mass transit programs come from both the Highway Trust Fund and the general fund. In implementing the budget, the Treasury merges resources from those funds by recording the transfer as an outlay from the trust fund and a receipt to the general fund. The result of the expenditure transfer between government accounts is that the balances of the mass transit account are depleted faster than the money is actually paid out by the Treasury.

If administrative procedures were changed so as to leave mass transit resources in the trust fund until they were spent, the transit account would reach a zero balance under CBO's baseline somewhat later than it is now projected to do. A change of that type would not affect the budget's overall surplus or deficit, but it would boost the balances of the mass transit account. They would still gradually decline, however, as long as spending exceeded receipts.

BALANCES IN THE TRUST FUND ACCOUNTS UNDER THE PRESIDENT'S BUDGET

The President's budget proposes an obligation limitation of \$23.2 billion for the Federal-Aid Highways program for 2003 (see Figure 2). The Administration has recently revised its budget request to reduce the negative RABA adjustment that is due to take effect under the provisions of TEA-21 from about \$5.0 billion to roughly \$4.4 billion. Under the President's budget, the obligation limitation for the program would be increased by about 2 percent for each subsequent year of the projection period. Using CBO's projections of receipts and outlays, highway account balances would rise quickly over the next 10 years, exceeding both annual receipts and outlays by 2008 and reaching \$70.1 billion by the end of 2012.

FIGURE 2. STATUS OF THE HIGHWAY TRUST FUND AND THE HIGHWAY AND MASS TRANSIT ACCOUNTS UNDER THE PRESIDENT'S BUDGET



SOURCE: Congressional Budget Office.

The balances of the mass transit account run out more quickly under the President's budget than they do under CBO's baseline assumptions, reaching zero by 2007. Even so, CBO estimates that the mass transit account will not fail the Byrd test under the President's budget.

BALANCES IN THE HIGHWAY ACCOUNT UNDER VARIOUS SPENDING ALTERNATIVES

The remainder of my testimony will focus solely on the highway account. As requested by the Subcommittee's staff, CBO has projected balances in that account under three different obligation limitations for the Federal-Aid Highways program. For each of those alternatives, CBO varied the assumptions governing only the Federal-Aid Highways program. Estimates of receipts and outlays for all other trust fund programs were kept at their baseline levels.

Alternative 1: Continue the 2002 Obligation Limitation for 2003

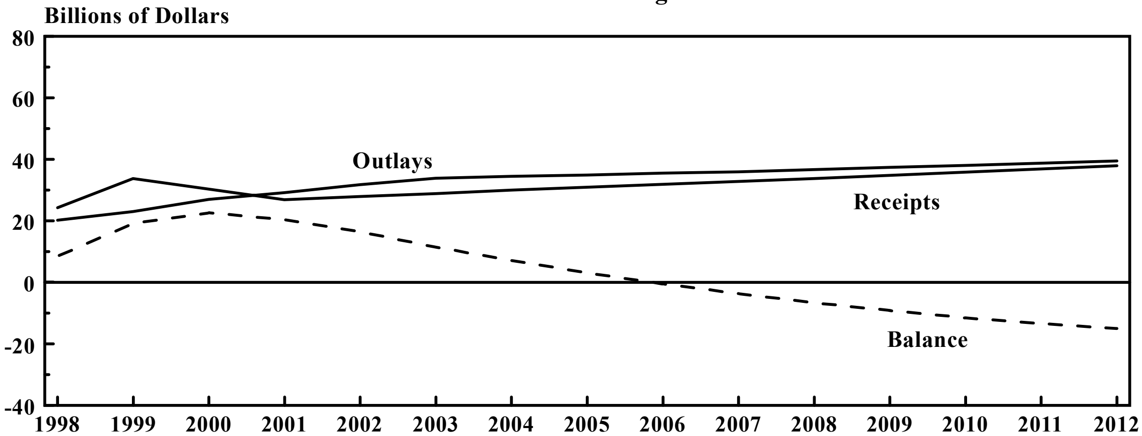
The first alternative would provide an obligation limitation of $31.8 billion for the Federal-Aid Highways program for 2003—the same amount provided for 2002—and would then inflate the limitation for each subsequent year through 2012 (see Figure 3). The combination of the accounts' current balances and expected revenues over the next 10 years would be far less than the outlays that would stem from this spending path. As a result, by 2006, highway account balances would be depleted under this alternative, and the account would fail the Byrd test, triggering automatic cuts in contract authority.

Alternative 2: Set the Obligation Limitation at $30.1 Billion for 2003

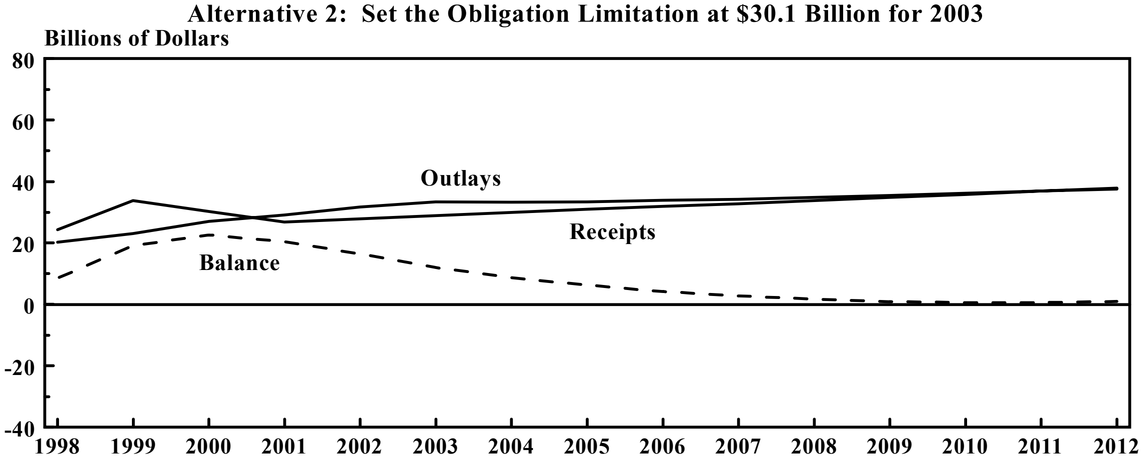
The second alternative would set the obligation limitation at $30.1 billion for the Federal-Aid Highways program for 2003 and then inflate the limitation for each subsequent year. Under that spending path, the balances of the highway account would fall below $1 billion but never reach zero. The account would not fail the Byrd test over the next 10 years. This alternative approximates the maximum amount of program funding that could be provided under CBO's current baseline assumptions without entirely depleting the account's balances.

FIGURE 3. HIGHWAY ACCOUNT BALANCES UNDER ALTERNATIVE OBLIGATION LIMITATIONS FOR THE FEDERAL-AID HIGHWAYS PROGRAM

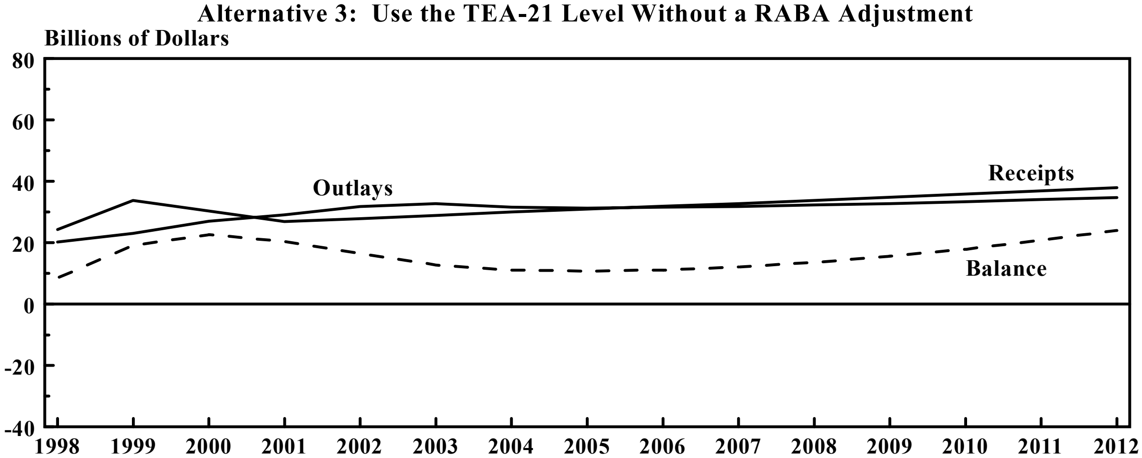
Alternative 1: Continue the 2002 Obligation Limitation for 2003



Alternative 2: Set the Obligation Limitation at $30.1 Billion for 2003



Alternative 3: Use the TEA-21 Level Without a RABA Adjustment



SOURCE: Congressional Budget Office.

Alternative 3: Use the TEA-21 Level Without a RABA Adjustment

The third alternative would provide the Federal-Aid Highways program with an obligation limitation of $27.7 billion for 2003 and then inflate the limitation for each subsequent year through 2012. That obligation limitation for 2003 would equal the amount authorized under TEA-21 but without the negative RABA adjustment of $4.4 billion required under current law. Under this alternative, the balances of the highway account would drop to about $11 billion in 2005 and then gradually increase over the following years. Again, the highway account would not fail the Byrd test under this alternative.

Table 4 summarizes CBO's estimates of highway account balances under its current baseline, the President's budget, and the three alternative funding options for the Federal-Aid Highways program.

TABLE 4. ESTIMATED HIGHWAY ACCOUNT BALANCES UNDER VARIOUS FUNDING OPTIONS (In billions of dollars)

	Obligation Limitation, 2003	Average Annual Obligation Limitation, 2002-2012	Average Annual Outlays, 2002-2012	Fund Balance in 2012
CBO's Baseline	32.4	35.2	37.1	-20.7
President's Budget	23.2	25.1	28.0	70.1
Requested Alternative Funding Paths for the Federal-Aid Highways Program				
Continue the 2002 obligation limitation for 2003	31.8	34.9	36.5	-15.0
Set the obligation limitation at $30.1 billion for 2003	30.1	33.0	34.9	0.9
Use the TEA-21 level without a RABA adjustment	27.7	30.3	32.6	24.0

SOURCE: Congressional Budget Office.

NOTES: CBO's baseline estimates of receipts to the highway account average $32.9 billion annually from 2002 to 2012. CBO used those estimates in analyzing each of the alternatives.

TEA-21 = Transportation Equity Act for the 21st Century; RABA = revenue-aligned budget authority.