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Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives

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Mr. Chairman: I am happy to be with you today to discuss highway financing issues, with particular reference to the highway bill reported by the Committee on Public Works and Transportation. In response to a request from your subcommittee, the Congressional Budget Office has reviewed forecasts of revenues for the highway trust fund and has examined the adequacy of projected revenues to meet the costs of the proposed highway program. In my comments this morning, I would like to focus on four aspects of this work: (1) a comparison of current highway programs and those proposed in the House bill; (2) the CBO forecasts of highway trust fund revenues between now and 1982; (3) the need for increased highway taxes implicit in approval of the program levels contained in the House bill; and (4) the need for a review of highway taxes and their equitable distribution among highway users.

The House Highway Bill

The House highway bill authorizes approximately $11 billion annually from the highway trust fund, from $10.7 billion in fiscal year 1979 up to $11.1 billion in fiscal year 1982. This represents a sharp increase of over 50 percent from current policy, which authorizes only $7.2 billion from the

trust fund in fiscal year 1978. Much more moderate increases, approximately the same as the amounts requested by the Administration, are contained in the bill recently reported by the Senate Committee on Environment and Public Works.

Three principal increases in programs are called for in the House bill, as compared with past highway legislation. By far the largest increase is for the bridge replacement program, for which the House bill authorizes $2 billion annually from 1979 onward, an eleven-fold increase from the 1978 level of $180 million. The authorization for the Interstate System in the House bill is $4 billion annually for 1980 and after, compared with the $3.25 billion already apportioned in both 1978 and 1979 and increased from the $3.625 authorized for 1980 by current law. The combined authorizations for the primary, secondary, and urban highway systems total $3.6 billion annually in the House bill, a 41 percent increase from the 1978 level. The Senate bill also provides increases for these three program areas, but the authorization is $2.8 billion less than the House bill.

Projections of Revenues for the Highway Trust Fund

In order to determine whether or not increased taxes would be needed to support either of the proposed highway programs, it is first necessary to

estimate how much revenue will be produced by the existing taxes. In the past, this has been a relatively routine matter. Between 1963 and 1973, travel on the nation's highways increased regularly at an average of 5.0 percent a year, and receipts from motor fuels taxes--the chief source of revenue for the highway trust fund--grew at a fairly even pace, averaging 5.4 percent a year. The oil embargo and events surrounding it broke these trends. Travel and motor fuel tax receipts both fell by about 2 percentage points between 1973 and 1974. Since 1974, the use of the motor fuels has resumed its historic upward trend, although the rate of growth has not been so rapid as before the embargo.

The CBO projects that receipts in the highway trust fund will grow from $7.07 billion in 1979 to $7.66 billion in 1983. This rate of growth is far less than that observed over the last decade. There are two main reasons for this. First, the Energy Policy and Conservation Act of 1975 set standards for the fuel efficiency of new cars and light trucks. These standards become increasingly stringent between now and 1985, and they will cause an increasingly fuel-efficient fleet of vehicles to be phased in during the 1980s. Although CBO projects that these standards are so stringent that they are unlikely to be fully met, our forecasts nonetheless show that they cause a dramatic downturn from past trends in the use of gasoline by automobiles and light trucks. Second, CBO projects that automotive travel in future years will grow at a rate of 3.4 percent a year, somewhat slower than the rate observed during the pre-embargo years.

The CBO projections of highway trust fund revenues are smaller than those presented by the Treasury Department. In 1983, CBO forecasts are $850 million less than those of the Treasury Department. This difference appears to result partly from a somewhat higher Treasury forecast of revenues from the new truck excise tax, and partly from the slightly higher growth rate that the Treasury Department assumes for automotive travel. The major portion of the difference, however, appears to stem from what is assumed about the fuel efficiency standards for new cars. CBO has developed highly detailed procedures to examine the effects of automotive energy conservation policies; using these procedures, we have been unable to reconcile the Treasury Department's forecast of highway trust fund revenues with the claim that they represent full compliance with the Energy Policy and Conservation Act. Indeed, it appears probable that a projection that assumed full compliance with existing fuel efficiency standards would result in a forecast of trust fund revenues even lower than that of CBO.

Authorizations and Trust Fund Receipts

The forecast of trust fund revenues is important in determining whether the highway proposals under consideration can be financed by means of a simple extension of the trust fund or whether increased taxes are

needed. The forecasts of both CBO and Treasury show that, under the House bill, authorizations would be substantially higher than trust fund revenues over the 1979 to 1982 period.

The highway bill reported by the House committee authorizes spending from the trust fund of $11 billion dollars a year, although trust fund receipts will average only $7.9 billion dollars a year including interest earned on the trust fund revenues. This imbalance between program levels and receipts cannot be sustained. Such an imbalance would not render the highway trust fund insolvent immediately, because there are delays before the states can obligate trust fund money and further delays before the associated outlays are made. Nevertheless, the current balance in the trust fund is already offset by outstanding obligations. Future receipts to the trust fund would be over-committed, and the level of authorizations contained in the House bill would eventually exhaust the cash available in the fund. The situation is analogous to the way a personal checking account can be handled: you can write checks totaling more than your balance, and it will not become apparent until the checks are cashed. Your account survives because of delays in processing. It is the same with the highway trust fund, except that it often takes years, instead of several days, for the checks to clear. But the end results are similar, and they have crucial implications for the highway programs: the trust fund eventually will be insolvent unless authorizations are reduced or unless new funds are added in the future to cover these increased authorizations.

The financing that apparently is being sought to support the House highway bill, which contains authorizations for four years, is a six-year extension of the highway trust fund. Over six years, the existing highway taxes are expected to yield sufficient revenues to support the four-year authorizations of the bill.

But the commitment of future revenues to current program obligations within the trust fund is not a sound budgetary practice. That approach tends to disguise the financial implications of current programs and will, in the future, either render the trust fund insolvent, or impose sharp reductions in the program level, or require new taxes to support the program. That approach denies this subcommittee and the Congress the opportunity to consider whether the merits of the proposed program justify the taxes that eventually will be required, since the increased taxes would be deferred until after the program had begun.

To place this issue in context, it is helpful to review past practice concerning highway trust fund authorizations and receipts. Generally, authorizations have followed receipts fairly closely, although there have been a few exceptions. In 1959 authorizations exceeded trust fund receipts by $1.4 billion, but the balance was quickly restored through a restriction on

apportionments for the Interstate System and by an increase in highway taxes. In 1974 receipts exceeded authorizations by $1 billion, but the overall balance was maintained because of low revenues and a much higher program in 1976. As illustrated in the figure, the imbalances in all the other years have been relatively small, and under the Senate bill, they would continue to be. Under the House bill, however, the shortfall between authorizations and receipts would grow to about $3 billion a year and would remain at that level.

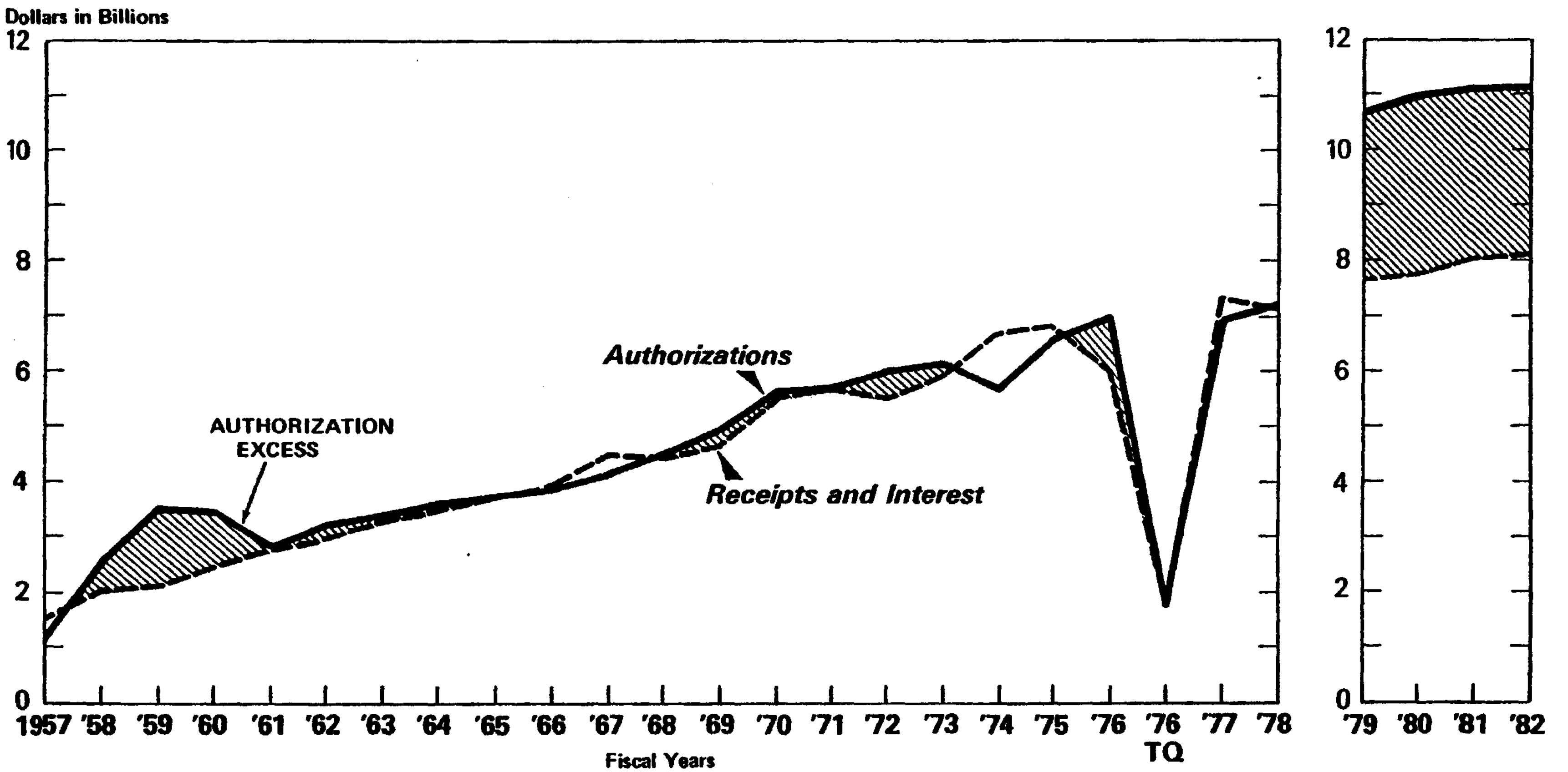
The highway trust fund was established on the principle of "pay as you go." Through this principle, which is embodied in policy statements contained in the 1956 legislation, the Congress established a procedure for keeping highway expenditures in line with highway taxes. This balance would be destroyed if the Congress were to authorize substantial new programs without providing for their financing. Within a few years, such a course of action would force the Congress either to raise highway taxes or to curtail programs sharply in order to rescue the highway trust fund.

Distribution of Highway Taxes Among Highway Users

Not only was the highway trust fund established on a "pay as you go" principle in 1956, but also the Highway Revenue Act of that same year

Comparison of Authorizations and Receipts for the Highway Trust Fund Under Different Legislative Proposals

House Bill - CBO Revenues



articulated a policy that the highway tax burden should be distributed equitably among users of federal-aid highways (or those otherwise deriving benefits from highways). This policy reflected the concern of the Congress that vehicles of different sizes and weights had different effects on the program cost and thus should be taxed differentially. In recognition of the need for detailed information to guide the tax decisions, the Congress called for a study of how highway costs should be allocated. That study and a subsequent supplementary report, which were prepared by the Bureau of Public Roads, have been weighed by the Congress when making adjustments in highway user taxes.

Although the Congress has a continuing interest in maintaining equitable highway taxes, the issue naturally comes to the forefront when new taxes are added to existing ones. Because of inflation and slower growth in projected highway revenues, an increase in highway taxes appears likely, either now or in a few years. Therefore, the Congress will need to make an informed judgment about how to impose those taxes equitably. A new study of the allocation of costs, incorporating today's programs and up-to-date information, could be a valuable aid to the Congress in making that judgment.

Almost all of the increased funding proposed in the House version of the highway bill would go to two greatly expanded programs: $2 billion for

bridge replacement and $1 billion earmarked for resurfacing, rehabilitation, and restoration (RRR). The upgrading of bridges so that they can carry heavier loads provides benefits primarily for those heavier vehicles now restricted from use. If the costs were borne exclusively by those beneficiaries, then the costs allocated to some groups of heavy vehicles would be substantially greater than under current allocation procedures. Similarly, the costs of the RRR program are likely to be closely related to the experience with pavement damage, and available evidence shows that heavy vehicles cause damage to pavement that is immensely disproportionate to their weight. Other considerations, such as weather-induced damage, must also be taken into account in order to arrive at an equitable allocation of highway costs. Both of these major new program areas appear to have costs that are occasioned very differently than was the case for previous programs. Thus, a simple increase in the tax on motor fuels, or even a proportionate increase in all highway taxes, may not prove to be an equitable way to meet the need for increased highway revenues.

The information on which the most recent cost allocation was based was collected as much as 20 years ago, and some of it has become increasingly outdated and unreliable. The composition of traffic has shifted as maximum weight restrictions have been relaxed. Highway design and construction practices and costs have changed, and vehicular fuel economy has been increasing and is likely to increase even more in the future. Each

of these changes has an effect upon the rate at which various classes of vehicles pay taxes into the trust fund, and ultimately they influence whether the current charges are equitable. Yet, these characteristics have not been updated completely in recent federal cost allocation studies.

A new cost allocation study therefore appears warranted for several reasons. First, it appears that increased highway taxes will be required either now or in the near future, and the Congress will have to make an informed judgment on how to assess those taxes equitably. Second, some of the proposed highway programs appear to differ markedly from former programs in terms of the costs attributable to each class of vehicles. Third, the information upon which conventional procedures for cost allocation are based has become increasingly outdated and unreliable. A thorough reexamination of highway cost allocation is essential if an equitable set of highway user charges is to be maintained.

Mr. Chairman, I would be happy to answer any questions that you or members of the subcommittee might have.