Statement of
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NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EDT), Wednesday, May 9, 1990.

Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning to discuss the Highway Trust Fund and related policy issues. My testimony will review the financial status of the Highway Trust Fund, the effects of trust fund financing on the federal budget deficit, and the effects on budget priorities.

The Highway Trust Fund is essentially an accounting mechanism that records revenues from fuel and other vehicle taxes earmarked for the fund, spending from the fund on designated highway and mass transit programs, and interest on cash balances. The trust fund comprises two accounts--for highways and mass transit; this testimony focuses on the highway account.

FINANCIAL STATUS OF THE HIGHWAY TRUST FUND

The unexpended balance in the Highway Trust Fund represents the cumulative difference between receipts (tax revenues and interest) and outlays over the life of the fund; it does not show the current relationship between revenues from taxes dedicated to the trust fund and spending for highway programs.

Unexpended Balances

At the beginning of this fiscal year, the total unexpended balance in the fund was $16.6 billion, which included $10.6 billion in the highway account and $6.1 billion in the transit account. The balance in the highway account was accumulated largely in the 1970s, however, and is primarily attributable to the natural lag between commitments and outlays for federal highway programs. During the 1980s, outlays have exceeded tax revenues credited to the fund and have been roughly equal to total fund receipts. The unexpended balance has changed very little. As shown in the table, highway account outlays over the past decade totaled $113 billion, compared with tax revenues of $101 billion and total receipts of $111 billion.

Under the CBO baseline projections shown in the table, the unexpended balance in the highway account would grow very slightly over the next five years, reaching $11.5 billion by the end of 1995. Outlays for highway programs funded from the trust fund would increase each year from about $14 billion in the current year to about $16 billion in fiscal year 1995, largely because the projections assume that current program levels will be increased to keep pace with inflation. Total outlays over the five-year period are projected to be $89.8 billion. At the same time, receipts would increase less rapidly--from $14.5 billion in 1990 to nearly $16 billion in 1995, assuming extension of current taxes beyond their expiration at the end of fiscal year 1993. Tax revenues over the five-year period are projected to be $85 billion--

TABLE. FINANCIAL POSITION OF THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND (In billions of current dollars)

Year	Receipts: Tax Revenue	Receipts: Interest Income	Receipts: Total	Outlays	Change in Cash	Balance
			Actual			
1980	6.6	1.0	7.6	9.2	-1.6	11.0
1981	6.3	1.1	7.4	9.2	-1.7	9.3
1982	6.7	1.1	7.8	8.0	-0.2	9.0
1983	7.8	1.1	8.9	8.8	a	9.1
1984	10.5	1.0	11.5	10.4	1.2	10.2
1985	11.6	1.3	12.9	12.8	0.2	10.4
1986	12.3	1.1	13.3	14.2	-0.9	9.5
1987	11.8	0.9	12.7	12.8	-0.1	9.4
1988	12.8	0.8	13.6	14.0	-0.4	9.0
1989	14.4	0.8	15.1	13.6	1.5	10.6
Total, 1980-1989	101.0	10.0	111.0	113.0	-2.0	
			Estimated			
1990	13.5	1.0	14.5	14.0	0.5	11.1
			Projected			
1991	13.7	1.0	14.7	14.4	0.3	11.4
1992	14.0	1.0	15.0	14.7	0.2	11.6
1993	14.3	1.0	15.2	15.1	0.1	11.8
1994	14.6	0.9	15.5	15.5	a	11.8
1995	14.9	0.9	15.8	16.1	-0.3	11.5
Total, 1990-1995	85.0	5.8	90.8	89.8	0.9	

SOURCE: Congressional Budget Office.

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

a. Less than $50 million.

about $5 billion less than outlays. Total receipts including interest are projected to be $90.8 billion.

Additional Spending

The size of the unexpended balance does not indicate whether the fund could sustain additional spending. There are outstanding commitments that must be paid from the trust fund balance. At the beginning of fiscal year 1990, unpaid commitments for highway programs totaled about $32 billion, compared with the unexpended balance of $10.6 billion. Thus, considerably more than the current balance has already been committed to future outlays.

New spending from the highway account is limited by a provision of law known as the Byrd amendment, which limits the amount by which unpaid commitments can exceed the cash balance (referred to as unfunded authorizations) to no more than the next two years' receipts (including interest). CBO expects receipts in fiscal years 1991 and 1992 to exceed the unfunded authorizations at the end of the current year by about $8 billion. This amount indicates the approximate level of additional spending that could be sustained by the highway account without violating the Byrd amendment.

Additional spending authorized by Senator Bryan's bill, S. 2013, would result in a level of unfunded authorizations that would trigger the Byrd amendment in 1993. This bill would authorize spending of $3 billion in each of three years for federal-aid highways in addition to amounts otherwise authorized. Assuming the bill is enacted early in fiscal year 1991, unfunded authorizations at the end of fiscal year 1993 would exceed estimated receipts for the following two fiscal years. The Byrd amendment would require that apportionments to the states at the beginning of that year be reduced by more than $1 billion. In addition, S. 2013 would result in a significant reduction in the cash balance of the highway account, not only by providing additional new spending authority but also by eliminating the ceiling on federal-aid obligations and allowing states to use unobligated balances of contract authority. Together, these actions could eliminate the entire cash balance.

Some people have questioned the need for maintaining a cash balance in the trust fund, because any shortfall in cash probably could be covered by an advance from the general fund. Such action, however, would entail a commingling of dedicated taxes and general funds, and might create confusion about how much of the funding for the highway system is financed through dedicated taxes. A cash balance can serve the useful function of preventing delays in disbursements if spending turns out to be higher than anticipated in any given year. Since spending from the trust fund depends on actions by state governments on many different projects, the exact timing of outlays is often difficult to predict.

EFFECTS OF TRUST FUND FINANCING ON THE FEDERAL BUDGET DEFICIT

The existence of the Highway Trust Fund as a distinct entity within the federal budget has raised questions about its effects on the budget deficit and about how spending and receipts are counted within the unified federal budget.

The presence of cash balances has led some people to conclude that the Highway Trust Fund is being used to reduce the federal deficit, that is, that the balance is being "hoarded" in order to make the deficit appear smaller than it is. This reasoning is not correct. The federal deficit is determined by the difference between the flow of total receipts (from all sources) to the Treasury and total outlays (for all purposes) from the Treasury. (Interest that is credited to the trust fund is an intragovernmental accounting transfer and thus is deficit neutral.) If, in any given fiscal year, outlays from the Highway Trust Fund are increased while revenues are not, the federal deficit is increased. As shown in the table, highway account outlays exceeded tax revenue in almost every year of the past decade and are expected to do so over the period 1990 to 1995, with the net effect of increasing the deficit.

Drawing down the trust fund balance would entail spending more from the fund than it receives in tax revenues and interest. The federal budget deficit would increase by the amount of any additional outlays, assuming that tax revenues do not increase. Enactment of S. 2013, for example, would increase federal outlays, and therefore the budget deficit, by at least $5 billion over three years. Changing highway spending or financing would have the same effect on the deficit whether the increases or decreases in spending or revenues occurred in the trust fund or the general fund.

Some people have suggested taking the Highway Trust Fund off-budget or removing its receipts and outlays from the Gramm-Rudman-Hollings deficit reduction targets and calculations. Taking the trust fund out of the unified budget would not change the amount of borrowing needed, but it would weaken the usefulness of the federal budget deficit in measuring the impact of federal policies on the economy. The purpose of the unified federal budget is to show total receipts and outlays encompassing the full range of federal activities in order to indicate the effects of government activities on the economy and on the Treasury's cash borrowing needs. There is no economic basis for distinguishing trust fund spending and receipts from other government spending and receipts.

As noted earlier, CBO expects highway account receipts (including interest) and outlays to be roughly equal, if current spending policies are maintained. Their inclusion in or exclusion from Gramm-Rudman-Hollings calculations, therefore, would make little difference for purposes of meeting the act's deficit reduction targets under CBO baseline assumptions. One point that would have to be clarified if the trust fund were removed from these calculations is the treatment of interest on the cash balance, which now is simply an intragovernmental transfer with no effect on the deficit. Removing from the calculations the interest received by the trust fund, but not the interest payments made to the fund by the Treasury, would increase the Gramm-Rudman-Hollings deficit.

EFFECTS ON BUDGET PRIORITIES

The existence of the Highway Trust Fund tends to focus public attention on the unexpended balance instead of on the relative merits and funding levels of alternative transportation or other spending programs. Given overall federal budgetary constraints, trade-offs must be made among all programs to see where on the margin the greatest benefits can be achieved. In addition to creating the incorrect perception that tax revenues are being hoarded to reduce the federal deficit, the unexpended balance also generates demands by the beneficiaries of these programs to release these trust fund resources and to increase spending on programs financed by the trust fund.

Decisions about additional spending on highways--as on any federal program--should be made on the basis of the benefits to be derived, not on the basis of available revenues. Limited budgetary resources should be allocated to programs and projects that yield the greatest net benefits to society. Information from the Federal Highway Administration indicates that investments in maintaining urban portions of the interstate highway system have very high returns and therefore would rank high relative to alternative programs competing for federal dollars. Such investments should be made regardless of the balance in the highway account of the trust fund.

As the economy changes and new technologies emerge, however, there may come a time when some investments in high-speed rail, telecommunications links, or other services would yield higher payoffs than most additional investments in the highway system. The amount of highway spending yielding returns as high as alternative programs might become small relative to the size of available funds in the highway account of the trust fund. Yet the existence of the cash balance could generate pressure to spend the balance on highway projects that provided fewer net benefits to society than alternative spending programs. Having money on hand and earmarked for a specific purpose does not guarantee that sufficient opportunities will exist to spend that sum profitably. To make positive contributions to economic well-being, spending decisions should be forward-looking, anticipating future benefits and returns on investment rather than spending accrued balances.

Revenue concerns also affect the size and uses of the trust fund. The earmarking of revenues from gasoline and diesel fuel taxes and other vehicle taxes for highway programs reflects an attempt to have users pay for the government services they enjoy. But these taxes do not reflect all of the costs that users impose on the highway system or on society as a whole, such as congestion and pollution. For instance, vehicles emit pollutants that are associated with a variety of health and environmental problems. Raising fuel taxes is a way of charging users for polluting the air. If pollution-related taxes on fuel were enacted, and if the revenues continued to be earmarked for highway spending, the result might be to build up balances in the highway trust fund that could be larger than the amounts needed to fund highway investments with returns comparable with other spending opportunities. There is no fundamental economic or governmental reason for earmarking tax revenues for specific purposes. Existing accounting systems are adequate to calculate how revenues from certain taxes compare with spending for particular purposes--the primary informational function of a trust fund--without creating incentives to spend whatever revenues are collected.

CONCLUSION

The Highway Trust Fund records revenues from fuel and other vehicle taxes earmarked for the fund, spending on certain highway and mass transit programs, and interest on the cash balance. The balance in the highway account largely reflects lags between commitments and outlays for federal highway programs. For purposes of measuring effects on the federal budget deficit, what is important is the relationship between current revenues and outlays, not the cash balance in the fund. Taking the fund off-budget would make the budget a less precise indicator of fiscal policy. Finally, the existence of the fund and the presence of cash balances can lead to pressures for spending that impede deficit reduction and distort budget priorities.