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Testimony

Status of the Highway Trust Fund

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Mr. Chairman, Congressman DeFazio, and Members of the Subcommittee, thank you for the opportunity to testify on the Congressional Budget Office's (CBO's) projections of future spending from the Highway Trust Fund and the agency's estimates of the revenues that will be generated by excise taxes and credited to the fund. According to CBO's estimates, the revenues derived from existing excise taxes will fall far short of covering the spending that would result from continuing to obligate funds in the amounts provided for 2013, as adjusted for inflation.[1]

Summary

My testimony today makes three points:

- The current trajectory of the Highway Trust Fund is unsustainable. Starting in fiscal year 2015, the trust fund will have insufficient resources to meet all of its obligations, resulting in steadily accumulating shortfalls.

- Since 2008, the Congress has avoided such shortfalls by transferring $41 billion from the general fund of the Treasury to the Highway Trust Fund. The Congress has enacted an additional transfer of $12.6 billion that is scheduled to occur in 2014. If lawmakers chose to continue authorizing such transfers, they would have to transfer an additional $15 billion in 2015 and increasing amounts in subsequent years to prevent future shortfalls, if spending was maintained at the 2013 level, as adjusted for inflation.

- Lawmakers could also address the projected annual shortfalls by substantially reducing spending for surface transportation programs, by boosting revenues, or by adopting some combination of the two approaches. Bringing the trust fund into balance in 2015 would require entirely eliminating the authority in that year to obligate funds (projected to be about $51 billion), raising the taxes on motor fuels by about 10 cents per gallon, or undertaking some combination of those approaches.

1. Some of the taxes that are credited to the Highway Trust Fund are scheduled to expire on September 30, 2016. Those include taxes on certain heavy vehicles and tires and all but 4.3 cents of federal taxes levied on fuels. However, under the rules governing baseline projections, these estimates reflect the assumption that all of the expiring taxes credited to the fund will continue to be collected.

The Highway Trust Fund

The federal government's surface transportation programs are financed mostly through the Highway Trust Fund, an accounting mechanism in the federal budget that comprises two separate accounts, one for highways and one for mass transit. Revenues credited to those accounts are derived mostly from excise taxes on gasoline and certain other motor fuels. Receipts from taxes on both types of fuel account for more than 85 percent of all contributions to the Highway Trust Fund.[2] The fund also is credited with interest on its accumulated balances.

Spending from the Highway Trust Fund is partly determined by authorization acts that provide budget authority for highway programs, mostly in the form of contract authority.[3] How much of that contract authority can be used in a given year is governed by obligation limitations that are customarily set in annual appropriation acts. The Moving Ahead for Progress in the 21st Century Act (MAP-21; Public Law 112-141) is the most recent authorization for highway and transit programs. (That authorization expires on September 30, 2014.) A total of about $50 billion in contract authority has been provided for fiscal year 2013, and the obligation limitations for this year amount to about $49 billion. MAP-21 provides contract authority of about $51 billion for 2014.

Most obligations for the highway and transit accounts involve capital projects that take several years to complete. (The Federal-Aid Highway Program, for example, typically spends about 25 percent of its budgetary resources in the year funds are first made available for obligation; the rest is spent over the next several years.) Most of the Highway Trust Fund's current obligations will therefore be met using tax revenues that have not yet been collected, because existing obligations far exceed the amounts currently in the fund. For example, at the end of 2012, the total amount of contract authority that had been obligated from the highway account was equal to about two years' worth of excise tax collections. That obligated contract authority totaled about $67 billion at the end of 2012, and tax receipts dedicated to the

2. The other revenues credited to the Highway Trust Fund come from excise taxes on trucks and trailers, on truck tires, and on the use of certain kinds of vehicles.

3. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal funds. Contract authority is the authority to incur obligations in advance of appropriations.

Table 1.

Projections of Highway Trust Fund Accounts Under CBO's May 2013 Baseline

(Billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
						Highway Account						
Start-of-Year Balance	14	10	5	4	a	a	a	a	a	a	a	a
Plus: Revenues and Interest[b]	35	33	33	34	35	35	36	36	36	36	36	36
Plus: Intragovernmental Transfers[c]	2	6	10	0	0	0	0	0	0	0	0	0
Minus: Outlays[c]	42	44	45	45	45	46	46	46	47	48	48	48
End-of-year balance	10	5	4	a	a	a	a	a	a	a	a	a
Cumulative shortfall[a]	n.a.	n.a.	n.a.	-7	-18	-28	-39	-49	-61	-73	-85	-97
						Transit Account						
Start-of-Year Balance	7	5	3	2	a	a	a	a	a	a	a	a
Plus: Revenues and Interest[b]	5	5	5	5	5	5	5	5	5	5	5	5
Plus: Intragovernmental Transfers[c]	0	0	2	0	0	0	0	0	0	0	0	0
Minus: Outlays[d]	7	7	8	8	8	9	9	9	9	10	10	10
End-of-year balance	5	3	2	a	a	a	a	a	a	a	a	a
Cumulative shortfall[a]	n.a.	n.a.	n.a.	-1	-5	-8	-12	-16	-21	-25	-30	-35

Source: Congressional Budget Office.

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

n.a. = not applicable.

a. Under CBO's baseline projections, the highway and transit accounts of the Highway Trust Fund will have insufficient revenues to meet all obligations starting in fiscal year 2015. Under current law, the Highway Trust Fund cannot incur negative balances and has no authority to borrow additional funds. However, following the rules in the Deficit Control Act of 1985, CBO's baseline for highway spending incorporates the assumption that obligations incurred by the Highway Trust Fund will be paid in full. The cumulative shortfalls shown in this table are estimated on the basis of spending consistent with the obligation limitations contained in CBO's May 2013 baseline for highway and transit spending, which are projected by adjusting the 2013 limitations for inflation.

b. Some of the taxes that are credited to the Highway Trust Fund are scheduled to expire on September 30, 2016. Those include taxes on certain heavy vehicles and tires and all but 4.3 cents of federal taxes levied on fuels. However, under the rules governing baseline projections, these estimates reflect the assumption that all of the expiring taxes credited to the fund continue to be collected.

c. Sections 40201 and 40251 of Public Law 112-141, the Moving Ahead for Progress in the 21st Century Act, require certain intragovernmental transfers, mostly from the general fund of the Treasury to the Highway Trust Fund.

d. Outlays include amounts "flexed," or transferred, between the highway and transit accounts. CBO estimates that those amounts would total about $1 billion annually.

highway account are projected to be about $33 billion a year over the next two years.[4]

Projections of Outlays and Revenues

Since 2000, spending from the Highway Trust Fund has generally outpaced revenue collections, so fund balances have fallen over most of that period.[5] That trend will continue in 2013. According to CBO's estimates, the highway account will end fiscal year 2013 with a balance of $5 billion, compared with a balance of $10 billion at the end of fiscal year 2012 (see Table 1 and Figure 1). Outlays from the highway account will total $44 billion in 2013, while revenues and interest credited to the fund will amount to only $33 billion for the year. To partly bridge that gap, MAP-21 transferred $6 billion from

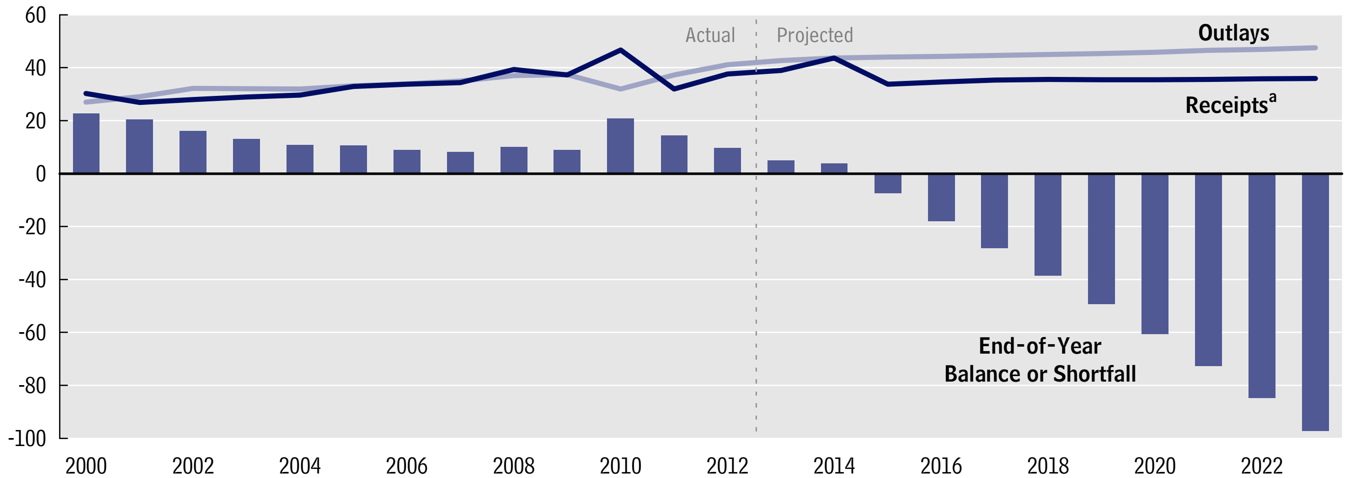
4. In addition, unobligated balances of the highway account equaled about $30 billion, or about one year's worth of excise tax collections.

5. In 2010, the trust fund saw a significant decrease in outlays because states spent funds from the general fund of the Treasury that were appropriated by the American Recovery and Reinvestment Act (ARRA; Public Law 111-5). The ARRA funds required no state contribution or "match," and the same projects that were eligible for funding from the Highway Trust Fund were eligible for ARRA funding.

Figure 1.

Receipts, Outlays, and Balances of the Highway Account

(Billions of dollars)



Source: Congressional Budget Office.

Note: Estimates are based on CBO's May 2013 baseline projections.

a. The receipts line includes revenues credited to the highway account of the Highway Trust Fund and intragovernmental transfers to the account. Those transfers have totaled about $36 billion since 2008. Under a provision of the Moving Ahead for Progress in the 21st Century Act, a transfer of $10.4 billion from the general fund of the Treasury is scheduled for 2014.

the general fund of the Treasury to the highway account in 2013.

The situation with the transit account is similar. The transit account will end fiscal year 2013 with a balance of $3 billion, CBO estimates, down from $5 billion a year earlier (see Figure 2). Revenues and interest earnings are projected to amount to $5 billion in 2013, but outlays are expected to total $7 billion.

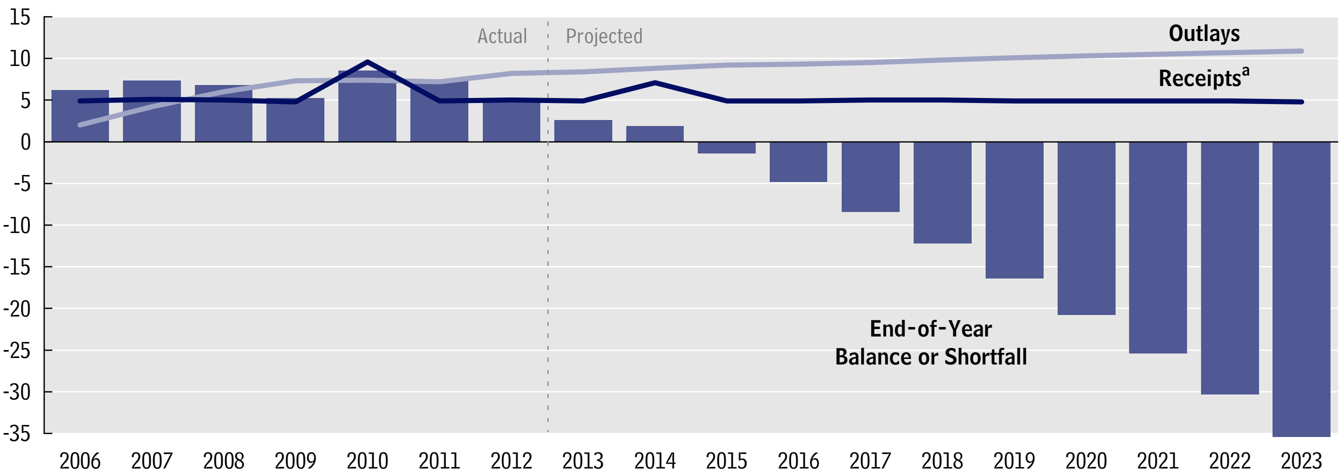
Revenues generated by excise taxes and credited to the Highway Trust Fund are expected to increase from about $38 billion in 2013 to about $41 billion in 2023, an average increase of less than 1 percent per year. Those projections reflect the assumption that taxes dedicated to the Highway Trust Fund will be extended beyond their 2016 expiration date (an assumption incorporated in CBO's baseline projections). The projected slow growth in excise tax revenues is largely attributable to the expectation that annual increases in revenues from taxes on the use of diesel fuel and on truck sales will be partially offset by annual declines in revenues from the tax on gasoline use. Tax revenues from diesel fuel use and from truck sales are projected to increase, on average, by about 3 percent annually over the 2013–2023 period. In contrast, revenues from the tax on gasoline use are projected to decline at an average annual rate of 1 percent over that period. The declines in revenues from the tax on gasoline use are mostly attributable to increases in corporate average fuel economy standards.

Assuming that obligations from the trust fund increase from year to year at the rate of inflation, CBO projects that both the highway account and the transit account will have insufficient revenues in 2015 to meet all obligations and that the shortfalls in the trust fund will grow steadily larger. Under those conditions—in which spending increased at the rate of inflation and revenues showed slower growth—the cumulative shortfalls in the Highway Trust Fund would total about $97 billion for the highway account and about $35 billion for the transit account by the end of 2023, CBO projects. If lawmakers failed to provide funds to liquidate obligations (either through an increase in revenues or through additional transfers from the general fund), the rate of spending from the trust fund would slow, and reimbursement to states for construction costs would be delayed until sufficient tax receipts were credited to the trust fund. Such a slowdown was seen in 2008 when the Department of Transportation (DOT) announced that balances in the

Figure 2.

Receipts, Outlays, and Balances of the Transit Account

(Billions of dollars)



Source: Congressional Budget Office.

Note: Estimates are based on CBO's May 2013 baseline projections.

a. The receipts line includes revenues credited to the transit account of the Highway Trust Fund and transfers to the account from the general fund of the Treasury. Those transfers totaled about $4.8 billion in 2010. Under a provision of the Moving Ahead for Progress in the 21st Century Act, a transfer of $2.2 billion is scheduled for 2014.

highway account had fallen below amounts needed to reimburse states for the bills they presented to the fund.

Transfers From the General Fund to the Highway Trust Fund

Because the trust fund's outlays have tended to outpace its receipts since 2000, lawmakers have at certain times enacted legislation to transfer money from the general fund of the Treasury to the Highway Trust Fund. Such intragovernmental transfers allow the fund to maintain a positive balance but do not change the amount of receipts collected by the government. Since 2008, a total of $41 billion has been transferred, including $6 billion in 2013; total transfers are scheduled to grow to almost $53 billion by the end of 2014 under the provisions of MAP-21. In 2015, CBO estimates, outlays from the Highway Trust Fund will total more than $53 billion and revenues will total less than $39 billion. As a result, lawmakers would need to transfer another $15 billion to the Highway Trust Fund if they chose to continue funding surface transportation programs at about the level they have in recent years. That transfer would be required to cover a projected cumulative shortfall in the Highway Trust Fund of $9 billion and to maintain cash balances of at least $4 billion in the highway account and between $1 billion and $2 billion in the transit account. DOT has indicated that it needs those cash balances to be readily available in order to pay bills as they come due.[6] Furthermore, general fund transfers would need to total about $15 billion per year through 2018 and would need to grow to about $19 billion annually by 2023 to maintain spending at current levels, as adjusted for inflation.

Options for Addressing Projected Shortfalls in the Trust Fund

Without additional transfers from the general fund of the Treasury or another source, lawmakers will have to reduce future obligations financed through the Highway Trust Fund to well below their 2013 level, significantly increase revenues available to the trust fund, or implement some combination of those options.

6. See Department of Transportation, Office of the Inspector General, *Highway Trust Fund Solvency* (attachment to a letter to the Honorable Judd Gregg, June 24, 2009), http://tinyurl.com/m92pt4l.

If lawmakers addressed the projected shortfalls solely by cutting spending, contract authority and obligation limitations for the highway account would have to be reduced by about one-quarter in 2014 and in subsequent years, compared with amounts projected in CBO's baseline. Those reductions would be about 50 percent for the transit account. If lawmakers chose to wait until fiscal year 2015—at the expiration of MAP-21—to reduce spending, they would need to reduce the authority to obligate funds in 2015 to zero in both the highway and transit accounts.[7] To maintain adequate balances in those accounts in subsequent years, lawmakers would need to cut funding by about one-quarter compared with the amounts projected in CBO's baseline. For example, such a cut would reduce obligations for the Federal-Aid Highway Program from current projections of about $45 billion per year, on average, to about $34 billion per year, on average, from 2016 to 2023.

Another approach to bringing the trust fund's finances into balance would be to increase its revenues. Excise taxes credited to the Highway Trust Fund come primarily from an 18.4 cent-per-gallon tax on gasoline and ethanol-blended fuels and a 24.4 cent-per-gallon tax on diesel fuels. Those taxes were last increased in 1993.[8] If those excise taxes had been adjusted using the consumer price index, the tax on gasoline today would be about 29 cents per gallon, and the tax on diesel fuels would be about 39 cents per gallon. In other words, excise taxes on motor fuels dedicated to the Highway Trust Fund are worth about 38 percent less than they were 20 years ago.

According to estimates from staff of the Joint Committee on Taxation, a 1 cent increase in the taxes on motor fuels, effective October 1, 2014, would raise about $1.5 billion annually for the trust fund over the next 10 years.[9] If lawmakers chose to meet obligations projected for the trust fund solely by raising revenues, they would have to increase the taxes on motor fuels by about 10 cents per gallon, starting in fiscal year 2015.

Of course, many combinations of changes to spending and revenues are possible, depending on policymakers' choices about the amount of transportation spending at all levels of government and the goals of the federal program.[10]

Setting Spending Levels for Future Years

Funding for highway infrastructure ultimately comes either from highway users or from taxpayers, regardless of how the financing of a project is structured. The Congress faces a number of options for setting the level of spending (and revenues generated from those users or taxpayers). In addition to the approaches described above—limiting spending to the amount that is collected in revenues and dedicated to the trust fund or maintaining current spending, as adjusted for inflation—a wide range of options for future spending on highways exists. The ones policymakers select will influence the amount and distribution of economic benefits from the nation's

7. Because spending that is estimated to occur each year is only partly from new spending authority, that authority would need to be reduced substantially in 2015 to ensure a sufficient reduction in spending that year. For example, the Federal-Aid Highway Program typically spends about one-quarter of its budgetary resources in the year funds are first made available; to reduce spending in the highway account by $1 billion in the current year, lawmakers would need to reduce the authority to obligate by about $4 billion, CBO estimates. To reduce spending in the transit account by $1 billion in the current year, lawmakers would need to reduce the authority to obligate by between $6 billion and $7 billion, CBO estimates, or by about 80 percent of current program levels.

8. The total gas tax is 18.4 cents per gallon. Of that, 18.3 cents is deposited into the Highway Trust Fund, and 0.1 cent goes to the Leaking Underground Storage Tank Trust Fund. (The Omnibus Budget Reconciliation Act of 1993 increased the gas tax by 4.3 cents, from 14.1 cents to 18.4 cents; the added receipts were not initially deposited into the trust fund but, instead, into the general fund of the Treasury.)

9. Because excise taxes reduce the tax base of income and payroll taxes, higher excise taxes would lead to a reduction in revenues from income taxes and payroll taxes. The estimates shown here do not reflect those reductions, which would amount to roughly 25 percent of the estimated increase in excise tax receipts.

10. Federal spending on surface transportation has accounted for about 25 percent of total government spending on transportation since 2008. Over that time, federal spending has accounted for about 40 percent of total capital expenses on surface transportation at all levels of government. Historically, about 60 percent of state and local spending on surface transportation infrastructure has been for operations and maintenance. For more information, see Congressional Budget Office, *Public Spending on Transportation and Water Infrastructure* (November 2010), www.cbo.gov/publication/21902; and the testimony of Joseph Kile, Assistant Director for Microeconomic Studies, Congressional Budget Office, before the Senate Committee on Finance, *The Highway Trust Fund and Paying for Highways* (May 17, 2011), www.cbo.gov/publication/41455.

network of highways and roads. For example, spending could be set to accomplish various objectives:

- Maintaining the current performance of the highway and transit system would require at least $13 billion per year more in spending than all levels of government spend on an annual basis, according to the Federal Highway Administration (FHWA).
- Funding all highway projects whose benefits exceeded their costs would require even more spending than maintaining current performance—up to $83 billion per year more than current spending by all levels of government, according to FHWA. That amount depends on the extent to which benefits would be expected to exceed costs.

The additional spending needed to meet specific performance goals or to fund projects whose benefits exceeded their costs would be less if highway users paid tolls that varied with congestion. Implementing such a user fee would reduce demand for future spending by providing an incentive to use those roads less during congested periods. Although the size of that reduction is uncertain, FHWA estimates that the spending required to maintain current services or to realize additional benefits from highways could be one-quarter to one-third less than current estimates if congestion pricing was widely adopted.[11] Further, the revenues generated from congestion pricing could be a source of funding from users of the highway system, suggesting that a smaller amount of general revenues could be used to maintain or expand the system.

Of course, gaining the greatest net benefit from any increase in transportation spending would depend critically on whether that spending went to the most advantageous projects. Achieving the greatest net benefit would also depend to a certain degree on whether decision-making about projects occurred at the level of government best situated to weigh all of the costs and benefits regarding which projects to undertake.[12]

11. For a comprehensive discussion of benefits and challenges of congestion pricing, including options for its design and implementation for highways, see Congressional Budget Office, *Using Pricing to Reduce Traffic Congestion* (March 2009), www.cbo.gov/publication/20241. See also, Department of Transportation, Federal Highway Administration, *2010 Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance*, "Chapter 9: Supplemental Scenario Analysis" (2012), www.fhwa.dot.gov/policy/2010cpr/chap9.htm#9.

12. For more information on the choices faced by policymakers, see the testimony of Joseph Kile, Assistant Director for Microeconomic Studies, Congressional Budget Office, before the Senate Committee on Finance, *The Highway Trust Fund and Paying for Highways* (May 17, 2011), www.cbo.gov/publication/41455.

This testimony and the analysis on which it is based were prepared by Sarah Puro of CBO's Budget Analysis Division. In keeping with CBO's mandate to provide objective, impartial analysis, the testimony contains no recommendations. Loretta Lettner edited the document, and Maureen Costantino prepared it for publication. The testimony is available on CBO's website (www.cbo.gov).