



May 5, 2016

The FAST Act and the Budgetary Treatment of Federal Financing Instruments

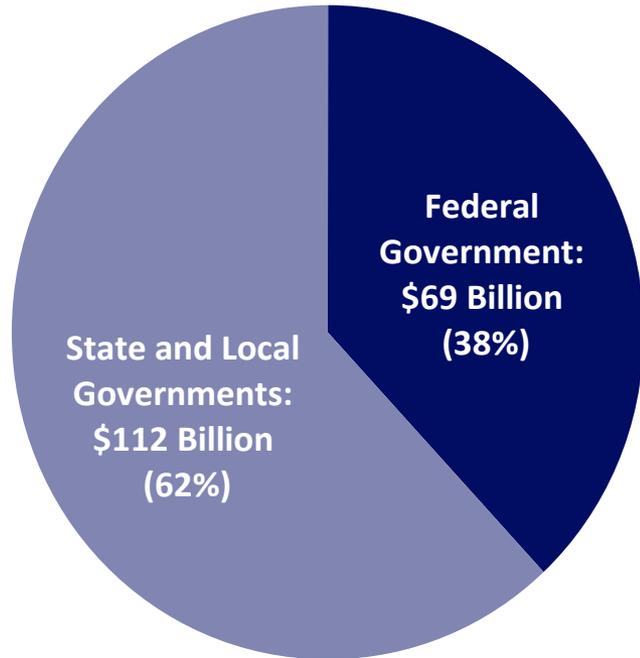
National Federation of Municipal Analysts
Annual Conference

Sarah Puro

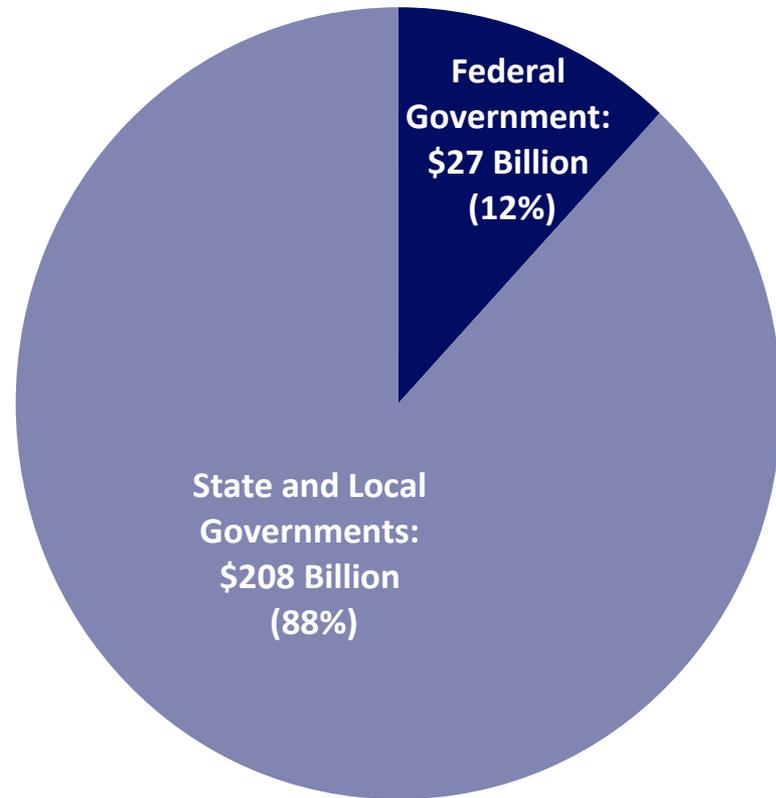
Principal Analyst, Budget Analysis Division

Federal, State, and Local Governments' Shares of Spending on Transportation and Water Infrastructure

**Capital
(\$181 Billion)**



**Operation and Maintenance
(\$235 Billion)**



The FAST Act and the Status of the Highway Trust Fund

The FAST Act provides **\$281 billion in contract authority** for all surface transportation programs through 2020 and **authorizes appropriations of another \$25 billion**, most of which is for transit and rail programs.

The FAST Act also:

- Provides **\$275 million to \$300 million per year** for loan and loan guarantee programs under the Transportation Infrastructure Finance and Innovation Act (TIFIA),
- Allows states to transfer **funds allocated by formula for TIFIA's** subsidy cost, and
- Makes changes to the **Railroad Rehabilitation and Improvement Financing program.**

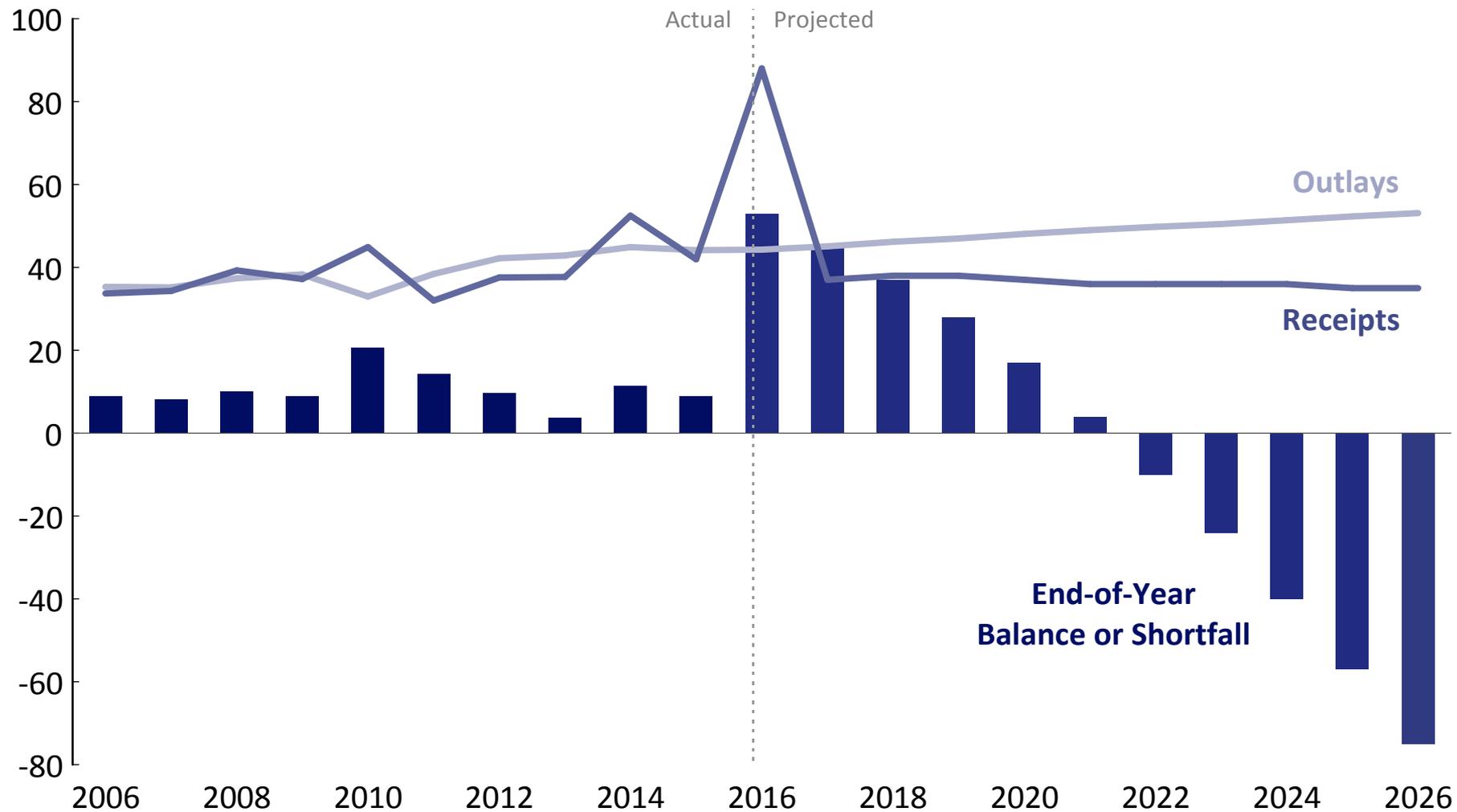
The FAST Act transfers \$70 billion from the general fund of the Treasury to the Highway Trust Fund, mostly from remittances to the Treasury from the Federal Reserve, but **does not generate any new revenue** from transportation users.

Estimated spending from the Highway Trust Fund exceeds its revenues.

Under CBO's baseline projections, the transit and highway accounts may have **difficulty meeting all obligations by 2021 and 2022**, respectively.

Actual and Projected Receipts, Outlays, and Balance or Shortfall for the Highway Account Under the March 2016 Baseline, 2006 to 2026

Billions of Dollars



Budgetary Treatment of Federal Financing Instruments

Some proposals involve establishing a new entity to finance infrastructure investments. Even if such an entity is not officially a federal agency, its activity might be considered part of the federal budget.

What activities are recorded as part of the federal budget?

“Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion.”

—President’s Commission on Budget Concepts (1967)

In CBO's estimate, any entity that is financed by federal funds and subject to federal control is included in the federal budget.

Activities do not have to be conducted by a federal agency to be classified as governmental and included in the budget.

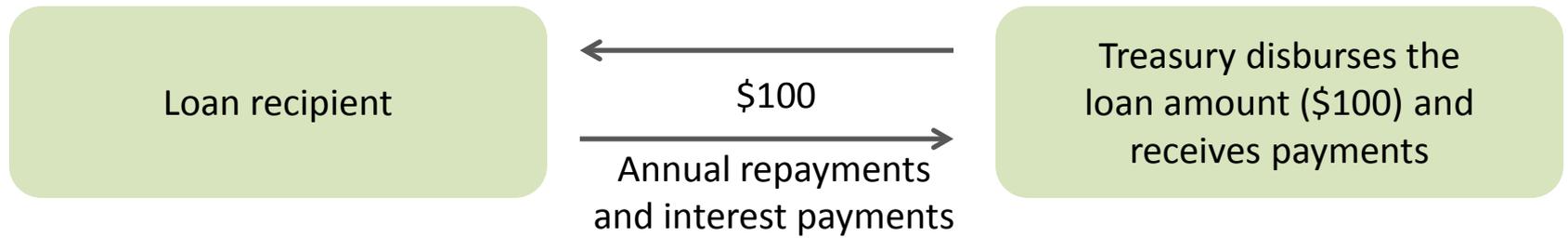
How does the federal budget treat loan and loan guarantee programs?

Under the Federal Credit Reform Act of 1990 (FCRA), the cost of loans and loan guarantees is recorded as the net present value of the cash flows to and from the government when the loan is disbursed (accrual accounting).

That **net present value is the subsidy cost.**

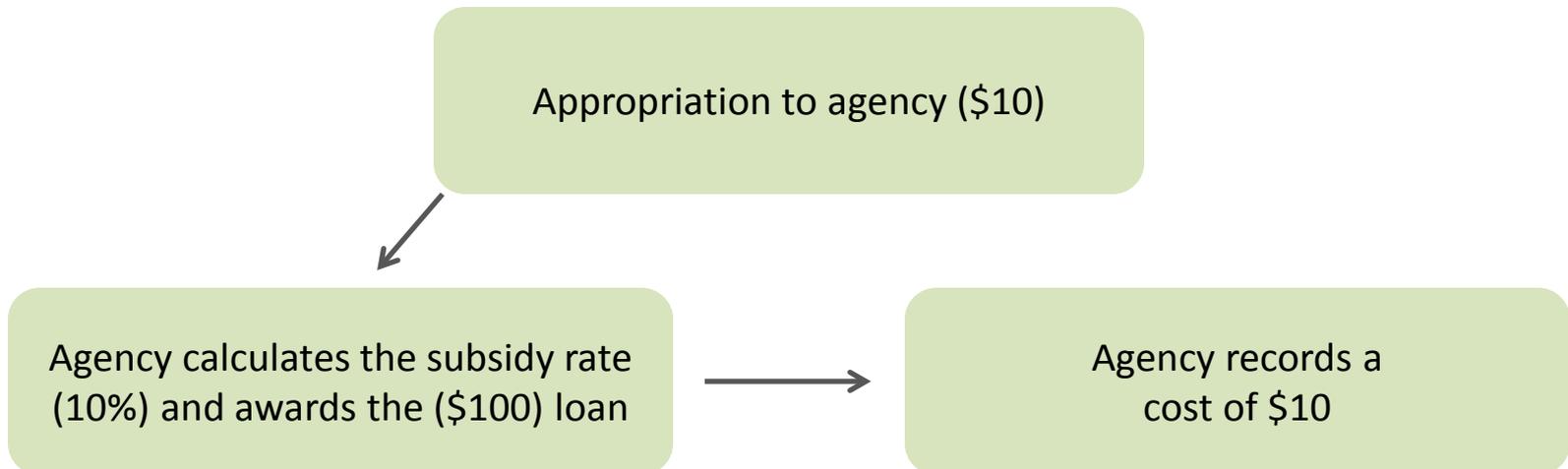
A Simplified Credit Reform Model

The loan is \$100.



Disbursement and repayment of the loan (and interest payments) are not recorded in the federal budget because those transactions are only “financing” cash flows.

The federal budget shows:



Under FCRA, for direct loans, principal repayments and interest **payments are not available to revolve into new loans.**

Those receipts are accounted for in the estimated net present value of the loan. Spending of such receipts would require additional authority and result in additional costs.

Borrowing is not a receipt. Bond proceeds or repayable equity investments are a means of financing a project—not the ultimate source of capital—and are not treated as federal receipts.

Notes about slide 7:

CBO's baseline projection for outlays is calculated by increasing the obligation limits set for the current year by a measure of projected inflation. CBO's baseline projection for receipts is based on market conditions, and incorporates the assumption that the current tax on fuels and on heavy vehicles will be extended.

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 \$114 billion since 2008.

The Highway Trust Fund cannot incur negative balances. Once account balances are exhausted, the chart illustrates the cumulative annual shortfalls for the highway account under CBO's baseline.

- Cost estimates for legislation:
www.cbo.gov/search/ce_sitesearch.cfm
- Other CBO publications on transportation and infrastructure:
www.cbo.gov/topics/infrastructure-and-transportation
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