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The Budgetary Treatment of Surface Transportation Programs and Federal Financing Instruments

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The Budgetary Treatment of Surface Transportation Programs

Identifying all of the budgetary effects of legislation funding major surface transportation programs can be complicated because those programs have split budgetary treatment.

Their **budget authority** is classified as **mandatory** and their **outlays** are classified as **discretionary**.

CBO cost estimates show the incremental effect of legislation relative to what would occur under current law, or for certain programs, what is assumed in CBO's baseline projections.

As a result, **the effects shown in the cost estimate may differ from the total cost to the Treasury** of implementing the legislation because some of the effects of the legislation are assumed in CBO’s baseline projections (as required by the laws that govern those projections).

Direct (Mandatory) Spending and Revenues

Pay-As-You-Go rules are enforced on the basis of the effects of legislation on direct (or mandatory) spending and revenues.

Direct spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority.

Contract authority—one type of mandatory budget authority—is the authority to obligate funds in advance of an appropriation act.

As required by law, CBO's baseline for contract authority reflects the amount provided in law and the assumption that **most mandatory programs** (including programs funded from the Highway Trust Fund) that expire on specific dates **will continue to operate** as they did immediately before their expiration.

Cost estimates typically show the **incremental change** in contract authority relative to that baseline.

The taxes credited to the Highway Trust Fund are **excise taxes**. As required by law, CBO's baseline reflects the assumption that expiring excise taxes dedicated to trust funds will be **extended beyond their expiration**.

As a result, when the FAST Act extended those taxes, the effects of those extensions were not shown in the cost estimate, which shows only the changes relative to CBO's baseline.

Spending Subject to Appropriation (Discretionary)

Obligation limitations are set and controlled through the appropriation process and control the amount of contract authority that can be used in any given year.

Therefore, spending from the Highway Trust Fund, which is subject to those limitations, is also considered to be subject to future appropriation action.

Outlays stemming from the bill's authorizations are treated as **discretionary**.

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 estimates, 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.

Loan recipient

$100

Annual repayments and interest payments

Treasury disburses the loan amount ($100) and receives payments

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:

Appropriation to agency ($10)

Agency calculates the subsidy rate (10%) and awards the ($100) loan

Agency records a cost of $10

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.

- 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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