Answer to a Question for the Record Following a Hearing on the Future of Highway Funding Conducted by the Senate Committee on Finance

On June 18, 2015, the Senate Committee on Finance convened a hearing at which Joseph Kile, Assistant Director for Microeconomic Studies at the Congressional Budget Office, testified about the status of the Highway Trust Fund and about options for paying for highway spending. After the hearing, Chairman Hatch submitted a question for the record. This document provides CBO's answer.

Question. Dr. Kile, as funding from the Highway Trust Fund has become more unstable and authorizations have been for shorter periods of time, there has been more interest from States, localities, and many Members of Congress in financing mechanisms. I am talking about things like tax-exempt bonds, and infrastructure banks, and other instruments where the intention is to get private money invested in public infrastructure. Dr. Kile, to what extent, if at all, can financing options be thought of as substitutes for money from the Highway Trust Fund? Does relying more on financing reduce the need of the Federal government, or any government, to come up with the money to produce infrastructure?

Answer. The money in the Highway Trust Fund comes from taxes on gasoline, ethanol-blended fuels, and diesel fuel; other transportation-related taxes; and a very small amount of interest that is credited to the fund. In recent years, the Highway Trust Fund has also received transfers from the general fund of the Treasury. But other sources of revenues, such as state taxes and user fees, also pay for transportation projects; and if financing options increased the extent to which those revenues paid for transportation projects, those options could be considered substitutes for money from the Highway Trust Fund. Many of those financing options—such as loans that are made or guaranteed by the federal government and tax-preferred borrowing by state and local governments or the private sector—impose some costs on the federal government but do not necessarily draw upon the resources of the Highway Trust Fund.

For example, tax-exempt bonds (which pay interest that is not subject to federal income tax) can be issued to finance the functions of state and local governments or, in the case of qualified private activity bonds, certain types of projects undertaken by the private sector. Another, more recently developed type of tax preference for infrastructure financing is associated with tax credit bonds. Most of the costs of paying off tax-exempt and tax credit bonds are borne by state and local governments or the private sector, but some of them are transferred to the federal government, in the form of either forgone federal tax revenues or, in the case of direct-pay tax credit bonds, a federal outlay. But those costs are not attributed to the Highway Trust Fund. The support offered for surface transportation by most proposed infrastructure banks would not differ substantially from the loans and loan guarantees already offered by the Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. In principle, an infrastructure bank could use any of several methods to finance projects, including federal loans, lines of credit, and guarantees for private loans. Depending on how the program was structured, the resulting costs might not be attributable to the Highway Trust Fund.

Financing is a mechanism for making future tax or user fee revenues available to pay for projects sooner; it is not a new source of revenues. Ultimately, money that is borrowed has to be repaid with some future source of revenues. So borrowing to finance highway projects can augment the funds available for such projects in the short term, but revenues that are committed for repaying borrowed funds will be unavailable to pay for new transportation projects or other government spending in the future.