



Statement for the Record

Status of the Highway Trust Fund

Sarah Puro
Analyst for Surface Transportation Programs

For the
Committee on the Budget
U.S. House of Representatives

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Mr. Chairman, Congressman Van Hollen, and Members of the Committee, I am pleased to provide information about the Congressional Budget Office's (CBO's) projections of future spending from the Highway Trust Fund and the agency's estimates of the excise taxes that will be credited to the fund. By CBO's estimates, the revenues from the 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, adjusted for inflation.

Specifically, CBO's analysis indicates the following:

- The current trajectory of the Highway Trust Fund is unsustainable. Starting in fiscal year 2015, the trust fund will have insufficient amounts 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. An additional transfer of \$12.6 billion is authorized for 2014. If lawmakers chose to continue such transfers, they would have to transfer an additional \$14 billion to prevent a projected shortfall in 2015.
- Lawmakers could also address that shortfall by substantially reducing spending for surface transportation programs, by boosting revenues, or by adopting some combination of the two. Bringing the trust fund into balance in 2015 would require cutting the authority to obligate funds in that year from about \$51 billion projected under current law to about \$4 billion, raising the taxes on motor fuels by about 10 cents per gallon, or undertaking some combination of those options.

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. 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.¹ 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 (MAP-21, Public Law 112-141) is the most recent authorization for highway and transit programs. (It expires on September 30, 2014.) A total of about \$51 billion in contract authority has been provided for fiscal year 2013, and the obligation limitations for this year amount to about \$50 billion.

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 spending; 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 the existing obligations of the fund far exceed the amounts currently in the fund. For example, at the end of 2012, the total obligated amounts of contract authority in the highway account were equal to about two years of collections of excise taxes. That amount totaled about \$67 billion at the end of 2012, and tax receipts dedicated to the highway account are projected to be about \$33 billion a year over the next two years.

Projections of Outlays and Revenues

CBO estimates that the highway account will end fiscal year 2013 with a balance of \$5 billion, compared with a \$10 billion balance at the end of fiscal year 2012 (see Table 1 and Figure 1). By CBO's estimates, outlays from the highway account will total \$44 billion in 2013, while revenues and interest earnings will amount to only \$33 billion for the year. To partly bridge that gap, MAP-21 transferred \$6 billion of general funds to the highway account in 2013.

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

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

Table 1.

Projections of Highway Trust Fund Accounts Under CBO's February 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	5	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	44	45	45	45	46	46	46	47	48	48
End-of-year balance	10	5	5	a	a	a	a	a	a	a	a	a
Cumulative shortfall ^a	n.a.	n.a.	n.a.	-6	-16	-26	-35	-46	-56	-68	-79	-92
Transit Account												
Start-of-Year Balance	7	5	3	a	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	8	9	9	9	9	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	-20	-25	-29	-34

Source: Congressional Budget Office.

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

n.a. = not applicable.

- 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 February 2013 baseline for highway and transit spending, which are projected by adjusting the 2013 limitations for inflation.
- 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.
- Sections 40201 and 40251 of Public Law 112-140, 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.
- Outlays include amounts "flexed," or transferred, between the highway and transit accounts. CBO estimates that those amounts would total about \$1 billion annually.

interest earnings are projected to amount to \$5 billion in 2013, but outlays are expected to total \$7 billion.

Assuming that obligations from the 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. Under that assumption, as well as an assumption (incorporated in CBO's baseline projections) that taxes dedicated to the Highway Trust Fund are extended beyond their 2016 expiration date, the shortfall will grow steadily larger, as revenues from the excise taxes are

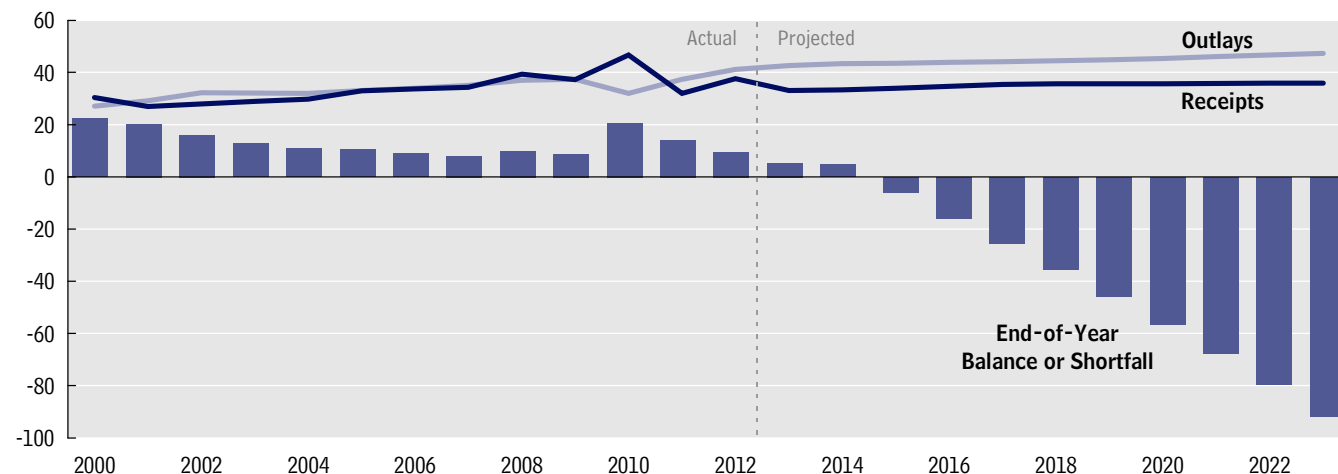
expected to grow very little in coming years. Under those conditions, the cumulative shortfalls will total about \$92 billion for the highway account and about \$34 billion for the transit account by the end of 2023, CBO projects.

Transfers from the General Fund to the Highway Trust Fund

Because the trust fund's outlays have generally outpaced its receipts since 2000, in some years lawmakers have enacted legislation to transfer money from the general

Figure 1.**Receipts, Outlays, and Balances of the Highway Trust Fund**

(Billions of dollars)



Source: Congressional Budget Office.

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

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, \$41 billion has been transferred, including \$6 billion in 2013; total transfers will grow to almost \$53 billion by the end of 2014 under the provisions of MAP-21. In 2015, lawmakers would need to transfer another \$14 billion to the Highway Trust Fund if they chose to continue funding surface transportation programs as they have in recent years.

Options for Addressing Projected Shortfalls in the Trust Fund

Without additional transfers of general funds, future obligations for spending on transportation programs financed through the Highway Trust Fund will need to be significantly lower than in 2013, revenues available to the trust fund will need to be significantly higher, or some combination of those options will need to be implemented.

If the shortfalls were remedied 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 CBO's baseline projections. 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, those cuts in 2015 would need to total about 92 percent for the highway account and 100 percent for the transit account.² Cuts in subsequent years would have to be about one-quarter of the amounts projected in CBO's baseline.

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 1993.³ If those excise taxes had been adjusted using the consumer price index (CPI), 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, the purchasing

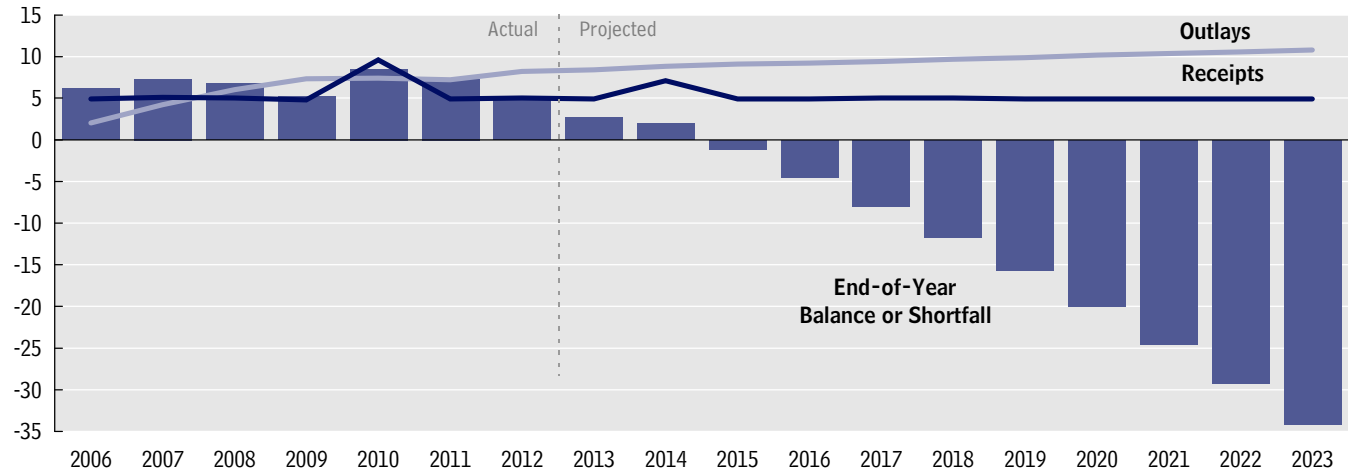
2. Because spending that is estimated to occur each year is only partly from new spending authority, that authority would need to be reduced substantially in 2015 to ensure a sufficient reduction in spending that year.

3. The total gas tax is 18.4 cents per gallon. Of that, 18.3 cents is deposited in the Highway Trust Fund, and 0.1 cent goes to the Leaking Underground Storage Trust Fund. (The 1993 Omnibus Budget and Reconciliation Act 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.)

Figure 2.

Receipts, Outlays, and Balances of the Transit Account

(Billions of dollars)



Source: Congressional Budget Office.

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

power of the excise taxes on motor fuels dedicated to the Highway Trust Fund is about 62 percent of what it was 20 years ago.

According to estimates from staff of the Joint Committee on Taxation, a one-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.⁴ 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.

Of course, many combinations of spending reductions and revenue increases are possible.

Setting Spending Levels for Future Years

In addition to limiting spending to the amount that is collected in current taxes dedicated to the trust fund or maintaining current spending, adjusted for inflation, as discussed above, a wide range of options for future

spending on highways exists. The one policymakers select will influence the amount and distribution of economic benefits from the nation's 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 than current spending, according to the Federal Highway Administration (FHWA), and
- Funding highway projects whose benefits exceed their costs would require even more spending than maintaining current performance—up to about \$83 billion per year more than current spending, according to FHWA. That amount depends on the extent to which benefits would be expected to exceed costs.

Of course, gaining the greatest net benefit from any increase in transportation spending would depend critically on whether or not that spending went to the most advantageous projects.⁵

4. 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. Those reductions would amount to about 24 percent of the estimated increase in excise tax receipts.

5. 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.