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HIGHWAY TRUST FUND

Financial Status and Outlook

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Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to testify on the financial condition and outlook for the Highway Trust Fund. We hope to contribute to a better understanding of the Highway Trust Fund and its ability to support surface transportation infrastructure needs in the future.

My testimony today is based on work GAO has conducted over the past several years, and updated information on the Highway Trust Fund.[1] I will focus on how the Highway Trust Fund operates and its ability to meet existing and future funding needs.

The Highway Trust Fund

The federal Highway Trust Fund was established in 1956 essentially as an accounting mechanism to finance the federal-aid highway program. In 1982, the fund was divided into a highway account and a mass transit account. Programs funded through the highway account are generally administered by the Federal Highway Administration (FHWA), with the Federal Transit Administration (FTA) administering those funded through the transit account.

Financing for the fund is derived from a variety of highway user taxes. Currently, these federal taxes include fuel taxes of 18.3-cents per gallon of gasoline, a 24.3-cents per gallon tax on diesel fuel, a graduated tax on certain tires, and a heavy vehicle use tax imposed on large trucks.

During fiscal year 1995, these taxes generated about $23.7 billion for the Highway Trust Fund,[2] with 60 percent of these revenues coming from the gasoline tax. (See Appendix I for a listing of the receipts generated by various highway user taxes in fiscal year 1995). The total tax collections, however, were subject to certain tax refunds, credits, and transfers, such as a tax rebate for diesel powered vehicles, totaling about $1.1 billion, thus net taxes generated totaled approximately $22.6 billion in fiscal year 1995.

When revenues credited to the fund exceed the amount required for current expenditures, an account balance exists. This balance is invested in public debt securities, and interest earned on these securities is

[1] Highway Trust Fund: Condition and Outlook for the Highway Account (GAO/RCED-89-136, May 1989); Highway Trust Fund: Revenue Sources, Uses, and Spending Controls (GAO/RCED-92-48FS, Oct. 1991); Highway Trust Fund: Strategies for Safeguarding Highway Financing (GAO/RCED-92-245, Sept. 1992); Transportation Trust Funds (GAO/AIMD-95-95R, Mar. 1995).

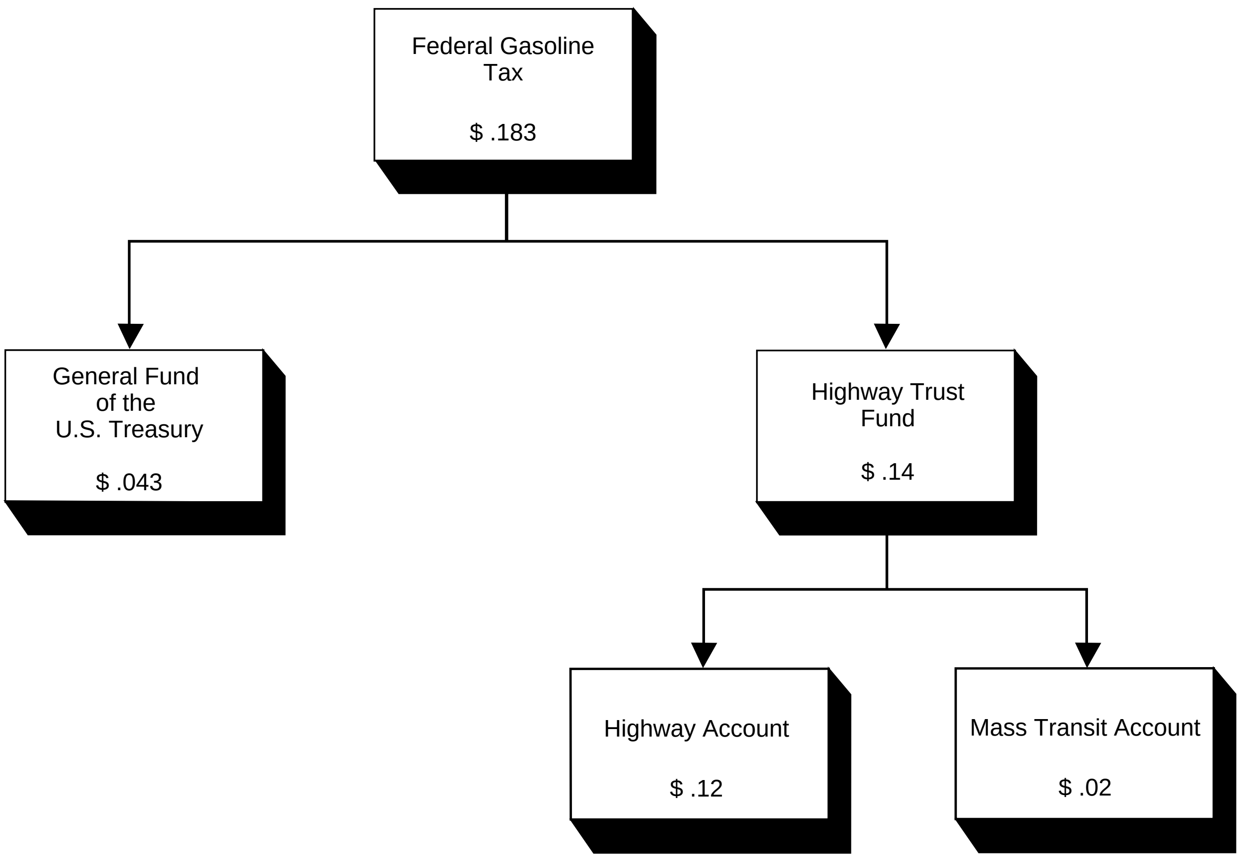
[2] Represents total excise tax receipts prior to any refunds or tax credits.

considered revenue to the fund. In fiscal year 1995, interest earned totaled approximately $1.2 billion.

Although the majority of highway user tax revenues are credited to either the highway or mass transit accounts, there is a noteworthy exception. The exception is that 4.3 cents per gallon of fuel taxes are credited to the General Fund of the U. S. Treasury for deficit reduction purposes.

For example, figure 1 shows what happens to the funds from the federal tax on one gallon of gasoline. The federal tax per gallon for other types of motor fuels generally follow a similar breakdown pattern, with 4.3 cents from other fuel sources going to the General Fund of the U. S. Treasury.

Figure 1: Gasoline User Fee Breakdown Per Gallon of Gasoline



Source: Based on a modified FHWA graph.

Revenues in the trust fund are used to reimburse state governments and mass transit authorities for money spent on surface transportation programs including the federal-aid highway system projects and for transit projects. The federal government generally pays 80 percent of a project's cost, although for some projects, such as Interstate projects, the federal share may reach as high as 90 percent, or 100 percent for federal land projects. Once the federal government approves a project, the federal share is considered “obligated.”[3] At that point, a state or transit authority is able to start work, and when the state or transit authority incurs costs for this work, it pays the bills and seeks reimbursement of the federal share. When this reimbursement occurs, the federal funds are actually “outlayed” or “expended.” The outlays for a project are generally spread over a number of years, as they reflect the time lag between the start and completion of a project.

The Congress periodically reauthorizes the funding of federal surface transportation programs, with the most recent reauthorization occurring in 1991 through the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). This legislation authorized a total of approximately $155 billion for surface transportation programs for fiscal years 1992 through 1997, with about $140 billion of the funds coming from the Highway Trust Fund and about $15 billion from the General Fund. Of the approximately $140 billion, about $122 billion were for highways and related programs and about $18 billion for mass transit programs.

However, not all of the funds authorized for a given year may be available in that year for states’ or transit authorities’ use. The Congress may impose an obligation limitation on funds authorized as part of an overall effort to control federal spending. A limitation on obligations acts as a ceiling on the sum of all obligations within a specified time period, usually a fiscal year. The limitation does not reduce the amount of funds already distributed (apportioned) to the states;[4] it only slows the rate of obligations.[5] The funds that are distributed annually for highway and mass transit programs are generally based on prescribed formulas in surface transportation legislation.

[3]A two-step process implements most federal programs. The initial step is the congressional passage of authorizations that sets an upper limit on program funding. But the program may start, only after passage of a second piece of legislation, the appropriations act. In an appropriations act, the Congress appropriates an amount that can actually be used for the program. However, many federal highway and mass transit programs do not require this two-step process to commit or obligate federal funds. Through what is termed “contract authority” (a special kind of budgetary authority), sums authorized for many highway and mass transit programs are made available for obligation without an appropriations action.

[4]For transit, the limitation on obligations sets the amount of funds apportioned to transit authorities.

[5]The Congress could, but rarely does, rescind previously authorized funds. In that case, the amounts rescinded, or eliminated, are not available in the future for the federal-aid highway or transit programs.

The Highway Account Recognizes Future Income

Current projections by FHWA estimate an end of fiscal year 1997 balance of $14.1 billion in the highway account. The balance exists because more money will have been taken into the trust fund than spent at that time.

The trust fund balance, however, has often been misunderstood, with many believing that the balance represents excess cash. How the trust fund functions becomes clearer when it is compared with an individual's charge account. For discussion purposes, assume an individual has cash on-hand but not enough to pay his or her total monthly charges. In this case, the cash cannot be considered excess because it is needed to pay the incoming charges. On the other hand, the individual is also not in a deficit situation because at the end of the month his or her monthly income will be available to help pay the outstanding charges. Thus, the cash the individual has on-hand plus future income helps to ensure that there will be sufficient funds to pay all outstanding charges.

Similarly, the fiscal year 1997 estimated highway account balance of $14.1 billion will be needed to cover outstanding authorizations but is not sufficient to cover all of ISTEA's authorizations. FHWA estimates that the authorized amounts outstanding, or commitments, will total about $44.6 billion in fiscal year 1997.[6]

This apparent shortfall, however, needs to be viewed in relation to the financial design of the Highway Trust Fund. When the Congress established the Fund in 1956, it also established a safety mechanism, referred to as the Byrd Amendment, to ensure that sufficient funds would be available to liquidate commitments at the end of each fiscal year. As revised by the Surface Transportation Assistance Act in 1982, the Byrd Amendment permits the total of projected unpaid commitments against the trust fund at the close of any fiscal year to exceed the end-of-year balance, as long as projected income for the following 2 fiscal years will be sufficient to cover the commitments. If the balance plus projected income does not cover outstanding commitments, proportionate reductions to the amounts apportioned to all programs must be made.

Thus, if it is assumed for purposes of analysis that the federal-aid highway program will not be extended and that no new commitments will be authorized beyond fiscal year 1997, the highway account is designed so that revenue will continue to be credited to the account through fiscal year

[6]Includes funds constrained from state spending through obligation ceilings.

1999.[7] Given this infusion of revenue for fiscal years 1998 and 1999, there would be sufficient revenue to pay off all commitments and leave an estimated balance of $16.7 billion.

This estimated balance of $16.7 billion could be used to support future authorizations. However, because revenue forecasts can and do change because of changes in economic assumptions and conditions, FHWA recommends that a safety cushion of up to $3 billion be provided for, thus reducing the projected beginning balance available for future authorizations to $13.7 billion.

The Mass Transit Account Recognizes Future Revenues

As mentioned earlier, the Highway Trust Fund also includes a transit account, which is funded through a share of the federal motor fuel taxes. The Federal Transit Administration (FTA) estimates that the transit account will have a balance of $9.8 billion at the end of fiscal year 1997. But once again, this ending balance is not the end of the financing story for the transit account, because like its highway counterpart, outstanding commitments will remain to be paid.[8] Nonetheless, even after all unpaid commitments are considered, the revised uncommitted balance is estimated to total approximately $4.0 billion at the end of fiscal year 1997.

However, because both the highway and mass transit accounts are designed to recognize future revenues, a future revenue stream will increase the funds available for reauthorization. Similar to the Byrd Amendment, which provides the highway account with 2 years' of future revenues, the "Rostenkowski Amendment" provides the transit account with one future year's revenues to apply against outstanding commitments. Because the transit account is expected to have a balance of approximately $4.0 billion after providing for all outstanding commitments, the additional income (taxes plus interest) projected for fiscal year 1998 would increase the funds expected to be available to $7.6 billion.

However, if it is assumed for purposes of analysis that the mass transit programs funded through the Highway Trust Fund are not extended and that no new commitments will be authorized beyond fiscal year 1997, the mass transit account will continue to have revenues credited to the account through fiscal year 1999, one year beyond what the Roskenkowski

[7]Estimated revenue in fiscal year 1998 and 1999 is approximately $23.2 billion and $24 billion respectively, thus bringing the revenue total during the 2-year period to about $47.2 billion.

[8]These unpaid commitments are estimated to total approximately $5.9 billion in fiscal year 1997.

Amendment provides for. Thus, the uncommitted balance of approximately $7.6 billion, plus additional income (taxes plus interest) projected at about $3.6 billion for fiscal year 1999 would increase the funds expected to be available to $11.2 billion. The $11.2 billion is the amount estimated to be left after all ISTEA authorizations have been considered. In other words, the amount could be used to support future authorizations. But, a senior Department of Transportation budget analyst recommended a safety cushion of $.5 billion to guard against revenue fluctuations, thus reducing the estimated starting balance of funds available to support a new authorization for transit programs to $10.7 billion.

This concludes my prepared statement. I will be happy to respond to any questions that you or members of the Subcommittee might have.

Federal Highway User Tax Receipts for the Highway Trust Fund Fiscal Year Ended September 30, 1995

Dollars in millions

Type of Tax	Receipts[a]	Percentage of Total Receipts
Gasoline	$14,172	60
Gasohol	758	3
Diesel	5,669	24
Special motor fuels	37	•
Tires	395	2
Trucks and trailers	2,009	8
Use tax on heavy vehicles	682	3
Fines and Penalties	11	•
Total	**23,733**	**100**

[a]Represents total excise tax receipts prior to any refunds or tax credits or transfers, which in fiscal year 1995 totaled about $1.1 billion. In addition, the receipts include approximately $1.59 billion that was actually collected in fiscal year 1994 but not credited to the Fund by the Treasury Department until fiscal year 1995.

Source: FHWA

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