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The Status of the Highway Trust Fund and Budget Basics for the Treatment of New Programs

Presentation on Capitol Hill in a Panel Discussion with Local Leaders

Sarah Puro

Principal Analyst, Budget Analysis Division

Overview

■ The Highway Trust Fund and Taxes on Motor Fuels

- **Highway Account:** CBO estimates that the highway account of the trust fund may have difficulty meeting all obligations during the latter half of fiscal year 2014
- **Transit Account:** CBO estimates that the transit account of the trust fund will be able to meet all obligations through fiscal year 2014

■ Federal budget basics

- Activities that are governmental in nature are recorded in the budget
- Loan and loan guarantee programs are treated on a net-present-value basis
- Borrowing funds does not constitute a receipt to the federal government

Highway Trust Fund Basics

■ Highway Account

- Highways, highway safety (NHTSA), and regulation of motor carriers (FMCSA)
- Funded by gas tax (18.4 cents/gallon), diesel tax (24.4 cents per gallon), and taxes on certain heavy trucks and truck tires as well as general fund transfers
- CBO estimates that revenues will total about \$33 billion and outlays will total about \$45 billion in FY 2014

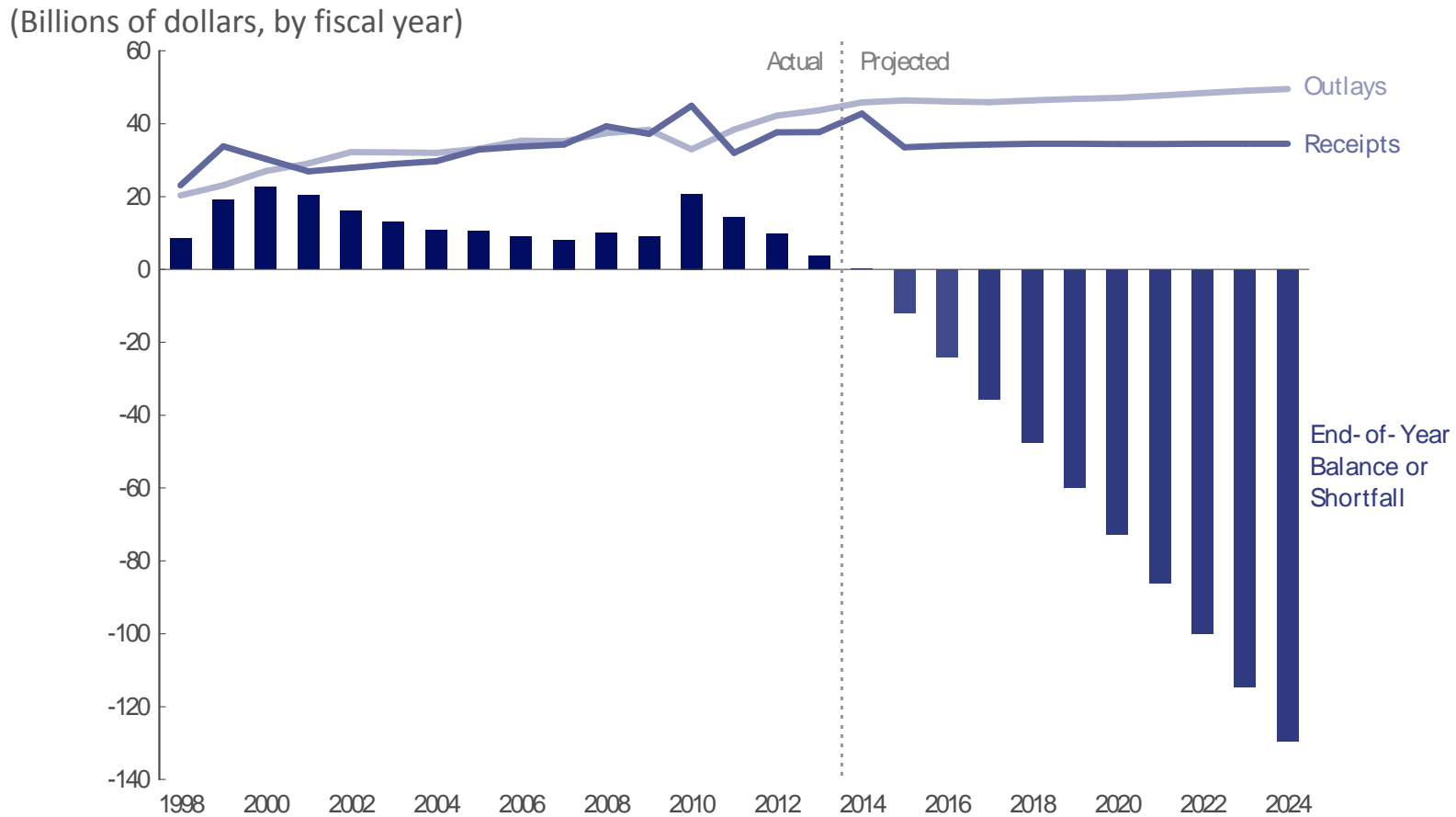
■ Transit Account

- Finances 80 percent of federal transit programs
- Funded by taxes on motor fuels as well as general fund transfers
- CBO estimates that revenues will total about \$5 billion and outlays will total about \$9 billion in FY 2014

Taxes on Motor Fuels

- MAP-21 did not create any new, ongoing revenue for the Highway Trust Fund from users
 - No increase to the gas tax since 1993
 - MAP-21 transferred about \$20 billion, mostly from the general fund of the Treasury, to the Highway Trust Fund
- Gas tax: 18.4 cents per gallon; Diesel tax: 24.4 cents per gallon
- If indexed for inflation since 1993: gas tax would be about 29 cents per gallon; diesel tax would be about 39 cents per gallon
- Rule of thumb: a 1 cent increase in the gas tax generates about \$1.5 billion for the Highway Trust Fund

Receipts, Outlays, and Balance or Shortfall for the Highway Account, 1998 to 2024



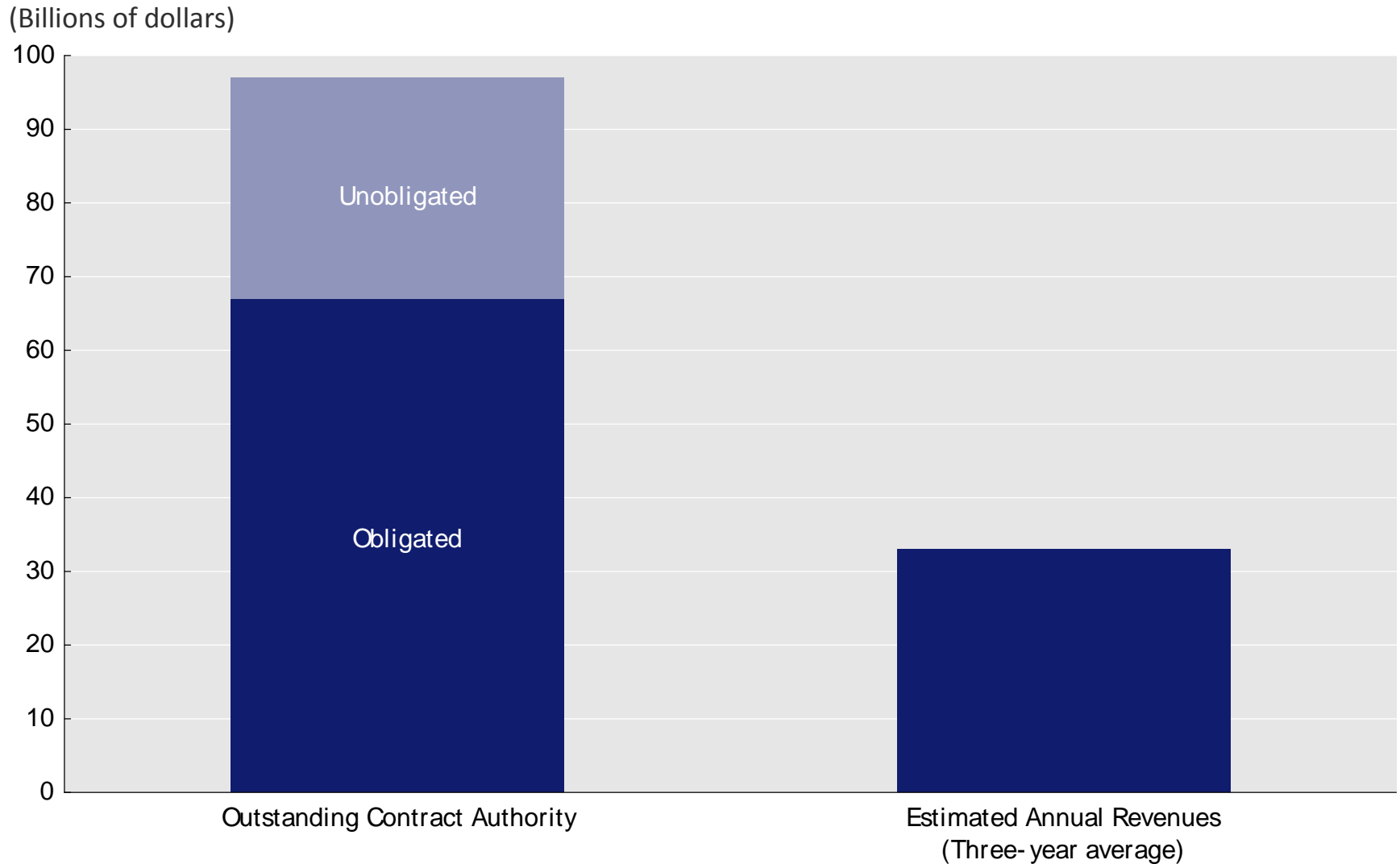
Source: Congressional Budget Office, February 2014 baseline projection

Notes: CBO's projection for outlays is calculated by increasing the obligation limits set for current year by a measure of projected inflation. CBO's 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 \$46 billion since 2008, including the amounts transferred in October 2014.

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.

Highway Account: End of Fiscal Year 2013



Choices Facing the Congress

- Reduce spending
- Increase receipts
- Fund the program from general revenues
- A combination of the three

Federal Budget Basics:

What Activities are Recorded as Part of the 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)

Federal Budget Basics:

What Activities are Recorded as Part of the Budget?

- Any entity that is financed by federal funds and subject to federal control is recorded as part of the budgetary activities of the federal government.
- Activities do not have to be conducted by a federal agency to be classified as governmental and included in the budget.

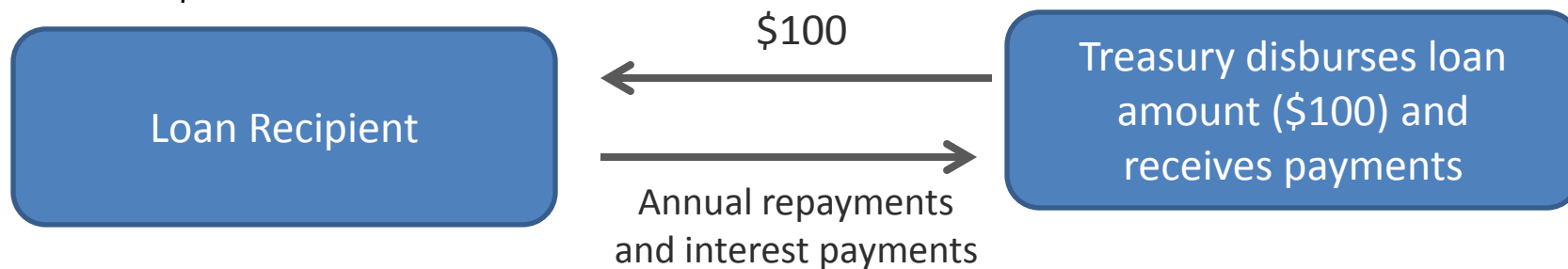
Federal Budget Basics:

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).
 - This value is the subsidy cost.
 - For example: A loan with a subsidy rate of 10% would provide \$100 million for projects, but would be recorded in the budget as costing \$10 million.

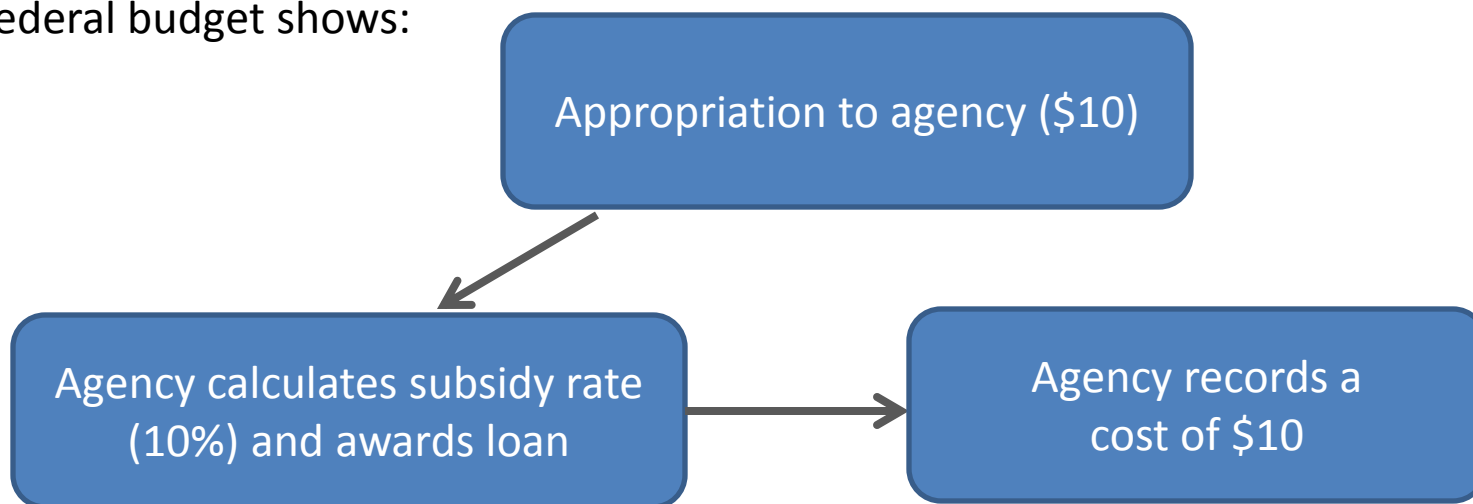
Federal Budget Basics: A Simplified Credit Reform Model

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:



Federal Budget Basics:

Loans and Loan Guarantees

- Under FCRA, in the case of direct loans, funds are not available to revolve (into new loans).
 - Loan repayments are unavailable for future spending; those repayments are already accounted for in the estimated net present value of the loan.
 - Many state infrastructure banks allow funds to revolve.
- Allowing loan repayment to be used for new loans would raise the effective FCRA subsidy cost of the original loans to 100% (equivalent to a grant).
- FCRA does not account for market risk. Market risk is the sensitivity of private investors to losses that cannot be avoided through diversification.

Federal Budget Basics: 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
- Source of capital for infrastructure projects is the income that will be generated by their operation, which usually comes from federal spending even in the cases with third-party financing

Further Information

Cost Estimates for Legislation:

www.cbo.gov/search/ce_sitesearch.cfm

Other CBO Transportation and Infrastructure Publications:

www.cbo.gov/topics/infrastructure-and-transportation

My Contact Information:

Sarah Puro

Principal Analyst

Congressional Budget Office

sarah.puro@cbo.gov