CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

May 14, 2014

Honorable Nick J. Rahall II
Ranking Member
Committee on Transportation
and Infrastructure
U.S. House of Representatives
Washington, DC 20515

Re: Two Scenarios for Federal Funding Commitments From the Highway Trust Fund

Dear Congressman:

As you requested, the Congressional Budget Office has analyzed the amount of new federal funding commitments that could be made from the Highway Trust Fund for highway and mass transit programs under the following alternative scenarios:

- Maintain a balance in the trust fund that is greater than zero for each year over the 2015–2024 period, or
- Maintain balances of at least $4 billion in the trust fund's highway account and at least $1 billion in its transit account for each year over the 2015–2024 period.

Under those scenarios, new commitments that could be made for highway and mass transit programs over the next decade would total roughly 35 percent to 40 percent less than the amounts projected under CBO's April 2014 baseline, as summarized in Table 1. In preparing its analysis, CBO assumed that revenues credited to the trust fund would equal those projected in its baseline ($390 billion over the next 10 years) and that new commitments would not exceed the amounts assumed in the baseline in any year.

Table 1.

New Commitments Under Two Scenarios for the Highway and Transit Accounts of the Highway Trust Fund, 2014 to 2024

(Billions of dollars)

	Highway Account	Transit Account	Total
Maintain End-of-Year Balances Greater Than Zero	325	44	369
Maintain End-of-Year Balances of at Least $4 Billion in the Highway Account and at Least $1 Billion in the Transit Account	315	35	350
Memorandum: CBO's Baseline Projection	469	95	564

Source: Congressional Budget Office.

CBO's Baseline Projections of the Status of the Highway Trust Fund

The Highway Trust Fund is an accounting mechanism in the federal budget that comprises two separate accounts, one for highways and one for mass transit. The fund records specific cash inflows from revenues collected through excise taxes on the sale of motor fuels, trucks and trailers, and truck tires; taxes on the use of certain kinds of vehicles; interest credited to the fund; and transfers, mostly from the general fund of the U.S. Treasury (such transfers have totaled $54 billion since 2008). The trust fund also records cash outflows for spending on designated highway and mass transit programs, mostly in the form of grants to states and local governments.

CBO's baseline projections of the trust fund's revenues reflect the assumption that excise taxes dedicated to the fund that are set to expire in 2016 will instead be extended beyond that date. Its projections of outlays do not consider whether balances projected for the trust fund will be sufficient to support any particular amount of spending; rather, they reflect the assumption that the obligation limitations imposed in appropriation acts will increase each year at the rate of inflation. CBO's assumptions follow the rules for constructing a baseline that are specified in the Balanced Budget and Emergency Deficit Control Act of 1985 and in the Congressional Budget and Impoundment Control Act of 1974.

Hence, CBO's baseline projections provide a measure of the prospective mismatch between the trust fund's revenues and the outlays that would result if tax and spending policies were maintained as they are under current law. In the April 2014 baseline projections for surface transportation programs funded from the Highway Trust Fund, CBO projects new commitments of $469 billion from the highway account and $95 billion from the transit account over the 2015–2024 period.[1] That new authority plus spending of accumulated balances would result in total outlays of about $557 billion over the 2015–2024 period, CBO estimates. Under baseline assumptions, excise taxes dedicated to the fund are projected to total $390 billion over that period.

That combination of spending and revenues, along with a projected balance of $3 billion at the beginning of 2015, would result in a cumulative shortfall in the highway and transit accounts of about $164 billion ($120 billion in the highway account and $44 billion in the transit account) in 2024. Because the Department of Transportation (DOT) cannot spend more from the fund than the amounts accrued from tax revenues and interest, such a case is, in practice, impossible. Unless additional funds were provided (either through an increase in revenues or through additional transfers to the general fund), the disparity between the receipts credited to the fund and outlays from the fund would require DOT to delay its reimbursements to states for the costs of construction. Because deposits into the fund are made only twice each month, DOT has notified states that it would need to delay payments if cash balances fell below $4 billion in the highway account or below $1 billion in the transit account.[2] CBO anticipates that such a delay would probably take effect

[1] See Congressional Budget Office, "Highway Trust Fund Accounts—April 2014 Baseline" (April 2014), www.cbo.gov/publication/43884.

[2] Anthony R. Foxx, Secretary, Department of Transportation, "Letter from Secretary Foxx to State DOT Directors on the Highway Trust Fund," (May 7, 2014), http://go.usa.gov/8g3k.

sometime during the summer of 2014 for projects funded from the highway account and sometime in the first half of 2015 for transit projects.[3]

Alternative Scenarios

You have asked CBO to provide estimates under two scenarios of the maximum annual obligations that could be supported by the highway and transit accounts of the Highway Trust Fund from 2015 through 2024. In particular, you asked for an estimate of the maximum annual obligations that could be made while maintaining a balance above zero in each account, or alternatively, while maintaining balances of at least $4 billion in the highway account and of at least $1 billion in the transit account.

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 obligation; the rest is spent over the next several years.) To satisfy the conditions of the two scenarios that you specified, new commitments for the highway and transit accounts would need to be significantly less than the amounts in CBO's baseline over the 2015–2024 period (see Figure 1).

Scenario 1: Maintain Balances Above Zero in the Highway Account and in the Transit Account. Under this alternative, in fiscal year 2015 DOT could enter into new obligations of about $4 billion from the highway account but none from the transit account, CBO estimates—compared with $42 billion and $9 billion, respectively, in 2014. Most of the revenues credited to the trust fund in 2015 would be used to meet obligations made before that year. Over the 2015–2024 period, the highway account would see a decrease in new commitments of 30 percent and the transit account would see a decrease of 55 percent, compared with CBO's baseline.

Scenario 2: Maintain Balances of at Least $4 Billion in the Highway Account and at Least $1 Billion in the Transit Account. Under this alternative, CBO estimates, neither the highway account nor the transit account could accommodate any new obligations in fiscal year 2015. All revenues credited to the fund in 2015 would be used to meet prior obligations. Over the 2015–2024 period, the highway account would see a decrease in new commitments of more than 30 percent and the transit account would see a decrease of about 65 percent, compared with CBO's baseline.

Such reductions in spending would probably have significant negative consequences for the condition and performance of the nation's highway and mass transit infrastructure. In addition, unless some other federal spending was increased or federal taxes were lowered, such spending reductions would slow economic growth and employment over the next few years relative to what it would otherwise be. Over the longer term, the smaller amount of infrastructure would impose a drag on economic performance, but the smaller amount of federal debt stemming from the lower amount of spending would provide an economic boost.

---

[3] For more information about the Highway Trust Fund, see the testimony of Joseph Kile, Assistant Director for Microeconomic Studies, Congressional Budget Office, before the Senate Committee on Finance, *The Status of the Highway Trust Fund and Options for Financing Highway Spending* (May 6, 2014), www.cbo.gov/publication/45315 .

CBO did not attempt to estimate the effects of the sudden year-to-year shifts in the amount of obligations that would occur under the scenarios presented here. Such abrupt swings in spending authority would probably make program administration and planning difficult for DOT and state and local grantees.

I hope that this information is helpful to you. If you need further details on this analysis, we would be pleased to provide them. The CBO staff contact is Sarah Puro.

Sincerely,

for Robert A. Sunshine

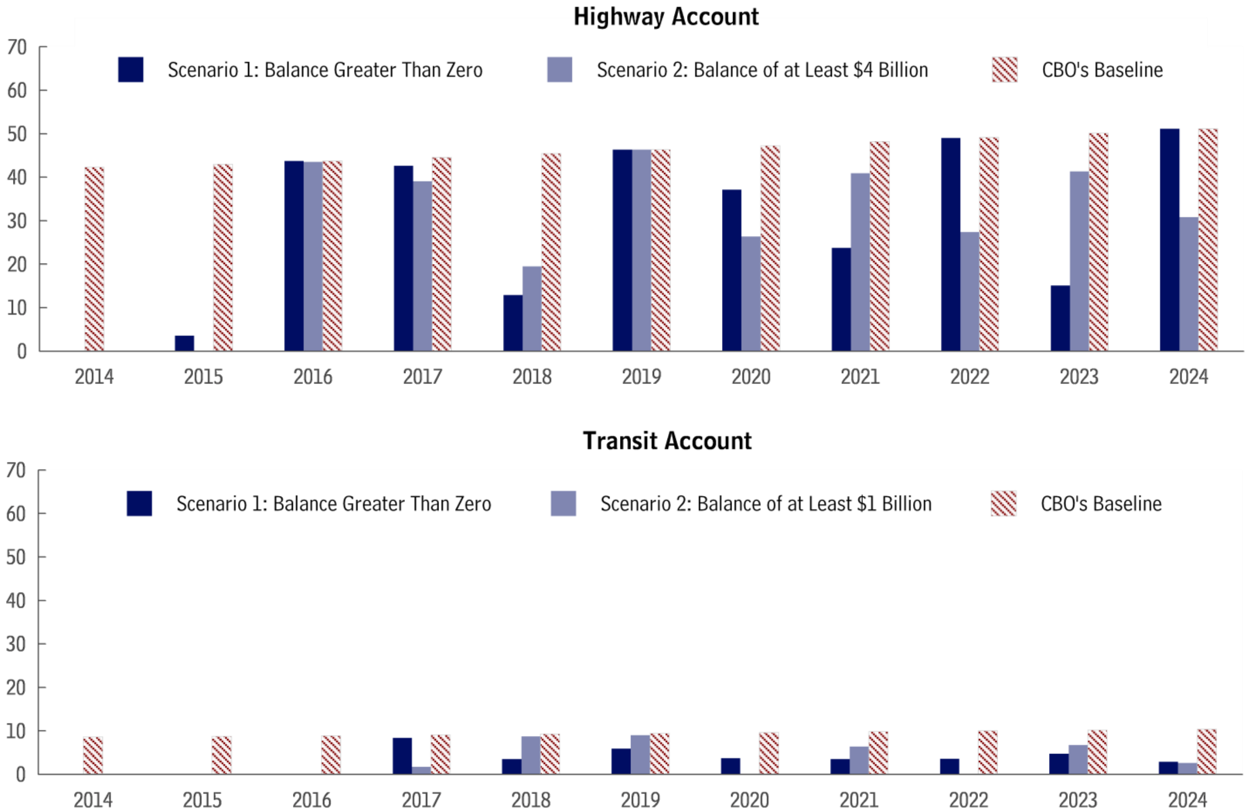
Douglas W. Elmendorf
Director

cc: Honorable Bill Shuster
Chairman

Figure 1.

Estimated New Commitments Under Two Scenarios for the Highway and Transit Accounts of the Highway Trust Fund

(Billions of dollars)



Source: Congressional Budget Office.

Notes: The top panel shows new commitments (obligations) that could be provided from the highway account if the Department of Transportation maintained a minimum balance greater than zero or a balance of at least $4 billion. No new commitments would be possible in fiscal year 2015 if a $4 billion balance was maintained.

The bottom panel shows new commitments that could be provided from the transit account if the Department of Transportation maintained a minimum balance greater than zero or a balance of at least $1 billion. No new commitments would be possible in fiscal years 2015 or 2016 if a $1 billion balance was maintained.

Both sets of scenarios reflect an assumption that the obligation limitation would never exceed the amount projected in CBO's April 2014 baseline, under which obligations after 2014 are assumed to grow at the rate of inflation. The amounts shown for both accounts for 2014 are the enacted obligation limitations plus the amounts that are exempt from limitation for that year.