CBO TESTIMONY

Statement of
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NOTICE

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Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning to discuss the President's proposed budget and other issues related to reauthorization of the federal highway program. I will begin by reviewing CBO's baseline projections for the Highway Trust Fund, after which I will turn to the implications of the Omnibus Budget Reconciliation Act of 1990 (OBRA) for the highway budget and the Highway Trust Fund. I will present CBO's analysis of the President's budget, comparing it with CBO's baseline and with spending in past years. Finally, I will discuss some of the Administration's highway policy proposals.

FINANCIAL STATUS OF THE HIGHWAY TRUST FUND

The Highway Trust Fund is essentially an accounting mechanism that records revenues from fuel taxes and other taxes on vehicles earmarked for the fund, spending from the fund on designated highway and mass transit programs, and interest on the unexpended balances. Unlike most other federal trust funds, no direct relationship exists between Highway Trust Fund receipts and budget authority for these spending programs. Authorization acts provide budget authority for most highway programs in the form of contract authority, the authority to incur obligations in advance of appropriations. Outlays from the trust fund are for the most part controlled through limits on annual obligations set in appropriation acts, which limit the amount of outstanding contract authority that can be obligated in any one year. The unexpended balance in the trust fund represents the cumulative difference between receipts (taxes and interest) and outlays over the life of the fund.

At the beginning of this fiscal year, the total unexpended balance in the trust fund was $16.8 billion, which included $9.6 billion in the highway account and $7.2 billion in the transit account. The unexpended balance in the highway account has remained almost unchanged over the past decade, except for some year-to-year fluctuations. All of the growth in the unexpended balance of the trust fund--about $6 billion over the past 10 years--can be attributed to the transit account.

The unexpended balance in the Highway Trust Fund does not measure the amount of uncommitted funds available for future spending on highway and transit projects. Outstanding commitments must be paid from this balance. At the beginning of this fiscal year, for example, unpaid commitments for highway programs totaled about $32.5 billion. This amount includes funds already obligated for highway projects ($21.7 billion) and contract authority apportioned to the states but not yet obligated ($10.8 billion). The existing cash balance, along with future years' receipts, will be used to liquidate these commitments.

Future spending from the highway account is limited by a provision of law known as the Byrd Amendment. This provision limits the amount by which unpaid commitments can exceed the cash balance (referred to as unfunded authorizations) to no more than the next two years' receipts (including interest). CBO expects receipts in fiscal years 1992 and 1993 to exceed the unfunded authorizations at the end of the current year by about $14 billion.

Spending and Revenue Projections

Under CBO baseline projections, as shown in Table 1, we estimate that total obligations from the highway account will almost equal total receipts (including interest) over the next five years. Because of an expected decline in unobligated contract authority, however, unpaid commitments will fall to about $26 billion by the end of the period--still $10 billion greater than the unexpended balance but within the level required by the Byrd Amendment, assuming trust fund taxes are extended at current rates. Outlays and tax revenues will be almost equal, indicating that the net impact on the deficit of highway account finances will be very small.

TABLE 1. FINANCIAL POSITION OF THE HIGHWAY TRUST FUND UNDER CBO BASELINE ASSUMPTIONS
(By fiscal **year,** in billions of dollars)

Year	Receipts: Tax Revenue	Receipts: Interest Income	Receipts: Total	Budget Authority[a]	Total Obligations	Outlays	Unexpended Balance
			Highway Account				
1990	12.5	1.0	13.5	15.2	14.5	14.4	9.6
1991	14.9	0.9	15.8	14.3	16.6	14.5	11.0
1992	16.2	1.0	17.2	14.9	17.0	16.0	12.1
1993	16.7	1.0	17.8	15.4	17.8	16.6	13.3
1994	17.2	1.1	18.3	15.9	18.5	17.2	14.4
1995	17.6	1.2	18.8	16.5	18.9	17.9	15.3
1996	18.3	1.2	19.5	17.1	19.5	18.4	16.3
			Transit Account				
1990	1.4	0.6	2.0	1.3	1.3	0.9	7.2
1991	1.7	0.7	2.4	1.4	1.4	1.1	8.5
1992	2.0	0.8	2.7	1.5	1.5	1.2	10.0
1993	2.0	0.9	2.9	1.5	1.5	1.4	11.5
1994	2.0	1.0	3.0	1.6	1.6	1.5	13.0
1995	2.1	1.1	3.2	1.6	1.6	1.6	14.6
1996	2.2	1.2	33	1.7	1.7	1.6	16.3
			Combined Trust Fund				
1990	13.9	1.6	15.4	16.5	15.7	15.3	16.8
1991	16.7	1.6	183	15.7	18.0	15.6	19.5
1992	18.2	1.8	19.9	163	18.5	173	22.1
1993	18.7	1.9	20.6	16.9	19.3	17.9	24.8
1994	19.2	2.1	21.3	17.5	20.0	18.7	27.4
1995	19.7	2.2	21.9	18.1	20.5	19.5	29.9
19%	20.4	2.4	22.8	18.8	21.2	20.0	32.7

SOURCE: Congressional Budget Office.

NOTE: Details may not add to totals because of rounding.

a. Includes contract authority for federal-aid highways, motor carrier safety grants, highway traffic safety grants, highway-related safety grants and transit grants, as well as appropriations for several smaller programs.

In the transit account, receipts over the next five years will exceed total obligations and outlays by more than $7 billion under CBO baseline assumptions. As a consequence, the unexpended balance in the CBO baseline projections grows to $16.3 billion, the same level as projected for the highway account. Most transit spending is currently financed from the general fund, however. The total baseline program level for all transit programs over this period--$18 billion--exceeds transit account receipts in the trust fund by about $3 billion.

The CBO baseline assumes that current program levels will be increased just enough to keep pace with inflation. Most of the outlays for highway programs are controlled by the obligation ceiling for federal-aid highways, which is assumed to remain at the current year's level, with adjustments for projected inflation. CBO also projects contract authority for these programs, based on the level in the last year of the current authorization, but these amounts have little direct impact on outlays. The baseline projections also assume extension of the taxes that fund the Highway Trust Fund past their scheduled expiration date on September 30, 1995.

Several legislative actions last year will have a significant impact on the financial position of the Highway Trust Fund, increasing the receipts and potential spending of the fund. The Omnibus Budget Reconciliation Act of

1990 raised fuel tax rates, resulting in increased trust fund receipts in both the highway and mass transit accounts. These changes are discussed in more detail below. In addition, baseline spending projections have increased because the 1991 obligation ceiling for federal-aid highways is much higher than that in recent **years--about** $2 billion greater than the 1990 level. Estimated baseline outlays for federal-aid highways over the 1991-1995 period increased by almost $5 billion as a result of the higher 1991 obligation ceiling.

The increased receipts to the trust fund as a result of **OBRA** would outweigh the increased spending and result in a growing unexpended balance. Under our current baseline projections for the 1991-1995 period, CBO estimates that total trust fund receipts would exceed outlays by $13.1 billion, whereas in the last year's baseline (projected from 1990 program levels) estimated receipts exceeded outlays by only $5.6 billion over that period.

OBRA Tax Provisions

Several provisions in OBRA affected Highway Trust Fund revenues, increasing them by almost $17 billion over the 1991-1995 period. Most important, gasoline and diesel excise tax rates were increased by 5 cents per gallon, bringing the tax rates up to 14 cents and 20 cents per gallon, respectively. In addition, the exemptions for taxes on alcohol fuel were reduced. These taxes will be in effect through fiscal year 1995.

Revenue from half of the tax rate increase along with the revenue raised under the pre-OBRA tax rates will be deposited in the Highway Trust Fund. Revenue raised from the other half of the rate increase (2.5 cents per gallon) will remain in the general fund. This is the first time that revenue from highway-related taxes will not be deposited in the Highway Trust Fund since its inception in 1956. CBO's baseline projections assume the Highway Trust Fund taxes are extended beyond their current expiration date of September 30, 1995. These projections, however, do not assume that the 2.5 cents per gallon rate now remaining in the general fund will be extended.

OBRA also changed the formula that determines the split between the revenues deposited into the highway account and the mass transit account. Under the new formula, 1.5 cents per gallon of taxable motor fuel will be deposited into the mass transit account rather than 1 cent per gallon under previous law. As a result, the deposits in the mass transit account will increase by about $600 million in 1991 and by $700 million each year thereafter compared with the allocation under previous law.

Budget Enforcement Act of 1990

Title XIII of OBRA made changes to budget enforcement mechanisms that have important implications for the Highway Trust Fund. These changes effectively divided the budget into two parts controlled by different rules. Specific dollar limits now apply to discretionary spending, while a "pay-as-you-go" requirement applies to mandatory spending and revenues. The tax receipts going in the trust fund and the spending from the trust fund are now included under different budget enforcement mechanisms, and one cannot be used to offset changes in the other.

Spending from the Highway Trust Fund has always been considered discretionary spending under the Congressional Budget Act. Because outlays are controlled by obligation limits, they have been allocated to the appropriations committees. These outlays are now subject to the discretionary spending caps. Any increase in spending for these programs must compete with spending for other programs covered by the caps.

Changes to trust fund revenues are treated differently. They would be included under the "pay-as-you-go" mechanism, along with other changes in federal revenues and direct spending programs such as Medicare and farm price supports. Increases in Highway Trust Fund taxes could only be used to offset reductions in other taxes or increases in direct spending programs. They could not be used to pay for higher highway spending. To illustrate this point, additional outlays for federal-aid highways resulting from the increased 1991 ceiling on obligations must be accommodated within spending for other discretionary programs even though trust fund revenue increased by a greater amount.

THE PRESIDENT'S BUDGET PROPOSAL

Almost all spending from the highway account within the trust fund is for the Federal-Aid Highways Program, the basic federal program providing grants to states for highway and bridge construction and repair. Adopting the funding levels proposed in the President's budget for this program would result in greater spending over the next five years than over the past five years, but slightly less than under CBO baseline projections. We estimate that outlays for federal-aid highways over the 1992-1996 period would total about $82 billion under the President's budget, compared with $84 billion for that period under the CBO baseline. Compared with the preceding five-year period, outlays would increase by about $14 billion. In real terms (constant dollars), however, spending during the two periods under the President's proposal would remain almost unchanged (see Table 2).

TABLE 2. COMPARISON OF HIGHWAY SPENDING LEVELS PROPOSED IN THE PRESIDENT'S BUDGET, AS ESTIMATED BY CBO, WITH HISTORICAL LEVELS

	Federal-Aid Highways					Other Highway Account Programs[b]	
Year	Budget Authority	Obligation Ceiling	Exempt Obligations[a]	Total Obligations	Outlays	Budget Authority	Outlays
			Actual				
1987	13.5	12.4	0.5	12.8	12.6	0.3	0.2
1988	13.7	11.8	1.3	13.1	13.8	0.4	0.2
1989	14.1	12.0	1.5	13.5	13.3	0.3	0.3
1990	14.9	12.2	1.9	14.1	14.1	0.3	0.3
			Estimated				
1991	14.0	14.3[c]	1.7	16.2	14.1	0.3	0.4
			Administration Proposal				
1992	15.8	15.7	0.7	16.5	15.5	0.4	0.5
1993	16.1	16.0	03	16.3	15.8	0.5	0.5
1994	16.6	16.5	0.4	16.9	16.0	0.5	0.5
1995	18.1	18.0	0.1	18.1	16.6	0.5	0.5
1996	20.1	20.0	0.1	20.1	17.7	0.5	0.5

SOURCE: Congressional Budget Office.

a. Obligations for some programs funded under this account are not subject to obligation ceilings, but operate solely based on contract authority provided by the authorizing committees. These include the emergency relief and minimum allocation programs. CBO estimated obligations based on contract authority levels proposed by the President.

b. In addition to federal-aid highways, programs funded from the highway account include highway safety and motor carrier safety grants.

c. The actual obligation ceiling is $14.5 billion. Obligations would be lower as a result of requested supplemental appropriations language that would allow the Administration to restrict the redistribution of obligational authority among states in the final months of the year.

Outlays under the President's budget would grow more slowly than under the baseline because of the relatively slow growth in obligations. Total obligations for federal-aid highways include those under the appropriated obligation ceiling plus those for programs not covered by the ceiling--including the emergency relief and minimum allocation programs. While the budget includes large increases in the obligation ceiling, it also includes even greater reductions for exempt programs.

The President proposes significantly increased levels of budget authority for federal-aid highways--greater than assumed in the baseline--but it is the level of obligations in each year rather than budget authority that directly affects spending. Under the CBO baseline, ceilings on obligation would be significantly higher than the underlying budget authority, allowing the use of the large unobligated balance of budget authority carried over from earlier years. Under the President's budget, obligations would just equal budget authority and the unused balances would remain.

As a result of the slight growth in obligations, as well as a supplemental appropriation action requested by the President for fiscal year 1991, estimated fiscal year 1992 outlays under the budget would be about $0.1 billion below the CBO baseline. The requested supplemental language would amend language directing the Secretary of Transportation to redistribute unused obligational authority among the states in the last two months of the fiscal year, making this action discretionary on the part of the secretary. We estimate that the secretary would act to reduce 1991 obligations by about $0.2 billion. The effect on outlays would fall primarily in fiscal year 1992.

The Administration proposes greater increases in program levels for federal-aid highways in the later years. By fiscal year 1996, total obligations under the budget would exceed those in the CBO baseline. These increasing program levels are reflected in outlays, which we estimate would grow from $14.1 billion in fiscal year 1991 to $17.7 billion in fiscal year 1996. As noted above, however, total outlays over the period would still be less than the CBO baseline.

Impact on the Financial Position of the Trust Fund

Because of the relatively slow growth in obligations, total outlays from the highway account under the budget would be below baseline levels over the next five years, as shown in Table 3. Nevertheless, the unexpended balance would be lower at the end of fiscal year 1996 because of reduced receipts in that year. The Administration proposes to extend the motor fuel taxes at the lower pre-OBRA rates of 9 cents per gallon for gasoline and 15 cents per

TABLE 3. FINANCIAL POSITION OF THE HIGHWAY TRUST FUND UNDER THE PRESIDENT'S BUDGET, AS ESTIMATED BY CBO
(By fiscal year, in billions of dollars)

Year	Receipts: Tax Revenue	Receipts: Interest Income	Receipts: Total	Budget Authority[a]	Total Obligations	Outlays	Unex-pended Balance
			Highway Account				
1990	12.5	1.0	13.5	15.2	14.5	14.4	9.6
1991	14.9	0.9	15.8	14.3	16.6	14.5	11.0
1992	16.2	1.0	17.2	16.3	16.9	16.0	12.2
1993	16.7	1.1	17.8	16.6	16.8	16.3	13.6
1994	17.2	1.2	18.3	17.1	17.4	16.5	15.4
1995	17.6	1.3	18.9	18.6	18.6	17.1	17.2
1996	15.5	1.3	16.8	20.6	20.6	18.2	15.7
			Transit Account				
1990	1.4	0.6	2.0	1.3	1.3	0.9	7.2
1991	1.7	0.7	2.4	1.4	1.4	1.1	8.5
1992	2.0	0.8	2.7	3.2	3.2	1.6	9.6
1993	2.0	0.8	2.8	3.2	3.2	2.1	10.3
1994	2.0	0.8	2.9	3.2	3.2	2.8	10.4
1995	2.1	0.8	2.9	3.2	3.2	3.2	10.1
1996	1.5	0.7	2.2	3.3	3.3	3.5	8.9
			Combined Trust Fund				
1990	13.9	1.6	15.4	16.5	15.7	15.3	16.8
1991	16.7	1.6	18.3	15.7	18.0	15.6	19.5
1992	18.2	1.7	19.9	19.5	20.2	17.6	21.8
1993	18.7	1.9	20.6	19.8	20.0	18.5	23.9
1994	19.2	2.0	21.2	20.4	20.6	19.3	25.8
1995	19.7	2.1	21.8	21.8	21.8	20.3	27.3
1996	17.0	2.0	19.0	23.9	23.9	21.7	24.6

SOURCE: Congressional Budget Office.

NOTE: Details may not add to totals because of rounding.

a. Includes contract authority for federal-aid highways, motor carrier safety grants, highway traffic safety grants, highway-related safety grants and transit grants, as well as appropriations for several smaller programs.

gallon for diesel for 1996, dropping the OBRA 5 cents-per-gallon increase in the tax rate. This proposal would reduce trust fund tax receipts by $3.4 billion in 1996 from the projected OBRA level. The amount by which unpaid commitments would exceed the cash balance by the end of 1996 under the President's budget--$22 billion-would be almost equal to the amount anticipated at the end of the current year, and well within the constraints of the Byrd Amendment.

Estimated spending from the transit account, however, would be much greater under the President's budget than estimated under baseline assumptions. As a result, we estimate that the unexpended balance at the end of fiscal year 1996 would fall to $8.9 billion if the President's proposals are adopted--roughly equal to the expected level at the end of this year, but $7 billion less than under the CBO baseline. This difference largely reflects the President's proposal to fund most transit programs from the trust fund rather than from the general fund. The total level of spending for transit programs proposed by the President would be slightly less than that assumed in the CBO baseline. In previous budgets, the Administration has proposed larger reductions in transit program spending.

The Administration has proposed a number of changes in federal highway policy in addition to the budgetary proposals. These include creating new categories of programs, changing the share of costs the federal government pays, allowing greater use of toll roads, and expanding the research program.

One of the major elements of the Administration's highway reauthorization proposal is to establish a National Highway System (NHS) of about 150,000 miles, which will include the present interstate system and other major routes designated by the Secretary of Transportation in consultation with state and local government officials. Selection of routes is to be based on such criteria as meeting national defense requirements, serving interstate and interregional travel, and serving major population centers, ports, airports, and international border crossings.

Although these criteria are intended to capture the spillovers that are part of the federal interest, they are likely to lead to including roads for which the federal interest is weaker than that implied by the proposed funding formula. That formula maintains the federal government's share at 90 percent of funding costs for roads that are part of the present Interstate Highway System and 75 percent of funding costs for others. For example, highways in urban areas often carry a small amount of interstate relative to local traffic. It is difficult to make an economic case for including such roads in a federally subsidized system.

Another major proposal is to create an Urban and Rural Program, which would consolidate several existing programs and include current primary and secondary roads not designated for the National Highway System. The federal share for this program would be 60 percent. At the same time, however, it would offer greater flexibility to state and local governments in selecting projects, including the ability to use funds for either highway or transit projects. This proposal should enhance efficiency from the standpoint of the state and local governments, although they might choose projects that yield greater local benefits at the expense of national benefits.

The Administration's proposal would encourage the use of tolls by permitting states to use federal funds for building and improving toll roads and for converting roads that now are free of charge to toll roads. It also would permit cities with serious air quality problems to experiment with pricing strategies for peak periods in order to reduce demand and alleviate congestion. These are certainly steps in the direction of improving management of resources.

Pricing mechanisms can be very effective in alleviating congestion, promoting more efficient use of highways, suggesting where additional highway spending is likely to have the greatest returns, and raising funds to finance individual projects. Highway congestion is a serious problem in many metropolitan areas, and the associated delays diminish productivity as well as leisure time. The economic solution to excess demand--in this case, the amount of highway services demanded exceeding the amount supplied--is to raise the price. This approach serves two purposes: it ensures that the scarce resource goes to its most highly valued use, and it helps signal where additional investment is likely to have the largest return. Charging a toll on an expressway at peak hours (or charging a higher toll at peak than off-peak periods) will cause drivers who do not value use of the highway at that time highly enough to use other roads, to travel at other times, or to take an alternative mode such as mass transit. It may also encourage such resource-conserving behavior as car-pooling, as groups form to share the tolls.

Toll financing poses two potential concerns. First, tolls might impose a hardship on low-income people needing to use a particular road at a particular time. But carefully designed subsidies might alleviate this problem to some degree. Second, because the appropriate structure and level of tolls depend heavily on local conditions, it is difficult to project how much revenue they could raise for the highway system as a whole. Still, these problems are not insurmountable, and solutions most likely will become evident as experience with toll roads increases.

The Administration's proposal sets the maximum federal share for toll projects at 35 percent, compared with 75 percent for the National Highway System Program and 60 percent for the Urban and Rural Program. In light of the desirability of encouraging the use of tolls to improve efficiency, the reason for the low share for toll roads is not clear.

The ability to collect tolls without creating additional traffic tie-ups could be enhanced through research on intelligent vehicle/highway systems **(IVHS,** also known as "smart cars"), for which funding is increased substantially in the President's budget. Additional IVHS applications, as well as other promising research areas, are included in the Administration's proposal. It is fitting that the federal government plays a relatively large role in research and development in light of the many spillover benefits it provides.

CONCLUSION

The Administration's budget proposes no increases in program levels for highways in real (inflation-adjusted) terms until fiscal year 1996, but continues to build on the increase already enacted for the current fiscal year. Transit programs would be funded at slightly reduced levels from those provided in 1991 when measured in real terms. Imbedded in the proposed budget, however, are several proposals that would change the share of responsibilities among federal, state, and local levels of government. The conceptual distinctions the Administration made in proposing the national and urban and rural programs bear close scrutiny, as does the proposed use of pricing mechanisms to relieve congestion.