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Before the  
Committee on Ways and Means  
U.S. House of Representatives

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Mr. Chairman, I am pleased to appear before your Committee to discuss the financial condition of the Highway Trust Fund and the possible effects of proposed tax changes. In the Surface Transportation Assistance Act of 1982, the Congress brought about a major increase in the size of the federal highway program, and raised taxes to place the trust fund on a sound financial footing through 1986. However, the increase in **taxes--notably**, a 5 cent increase in the previous **4** cent tax per gallon of motor **fuel--did** not **fully** offset the larger authorizations.

By 1987, outlays from the Highway Account will exceed receipts by \$1.8 billion, and the fund's existing cash balance will be virtually eliminated by 1989 (see Figure 1). Thus, further revenue or spending changes appear necessary. The Mass Transit Account, by contrast, will accumulate a substantial surplus, largely as a result of interest earned on its cash balance as revenues from its one penny of the motor fuel tax exceed outlays (see Figure 2).

In response to the prospect of a shortfall in the Highway Account, the Congress could consider five options:

- o An increase in the motor fuel tax,
- o An increase in taxes on heavy trucks,
- o A reduction in certain existing tax exemptions,

FIGURE 1

# HIGHWAY ACCOUNT

## OUTLAYS, REVENUES & CASH

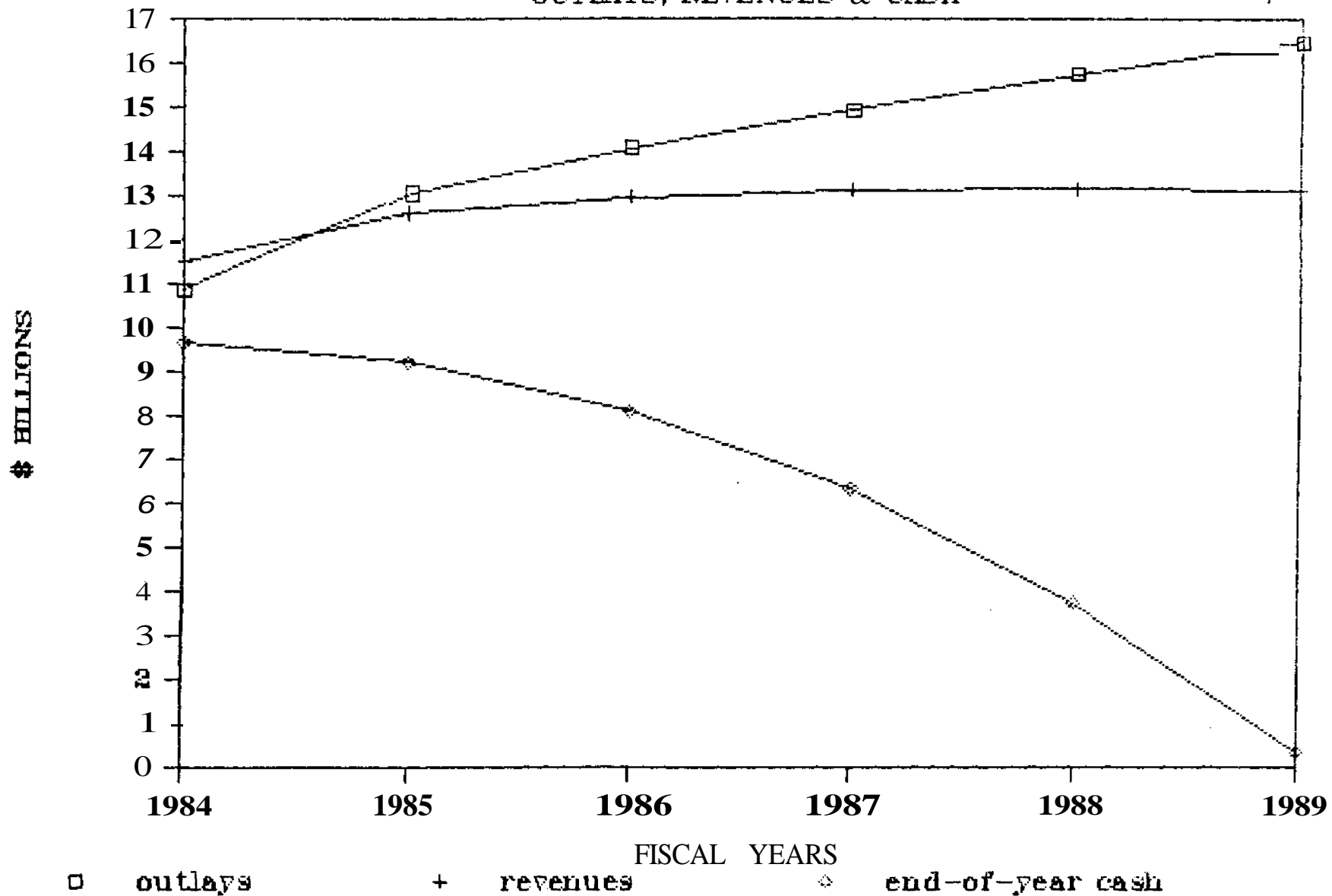
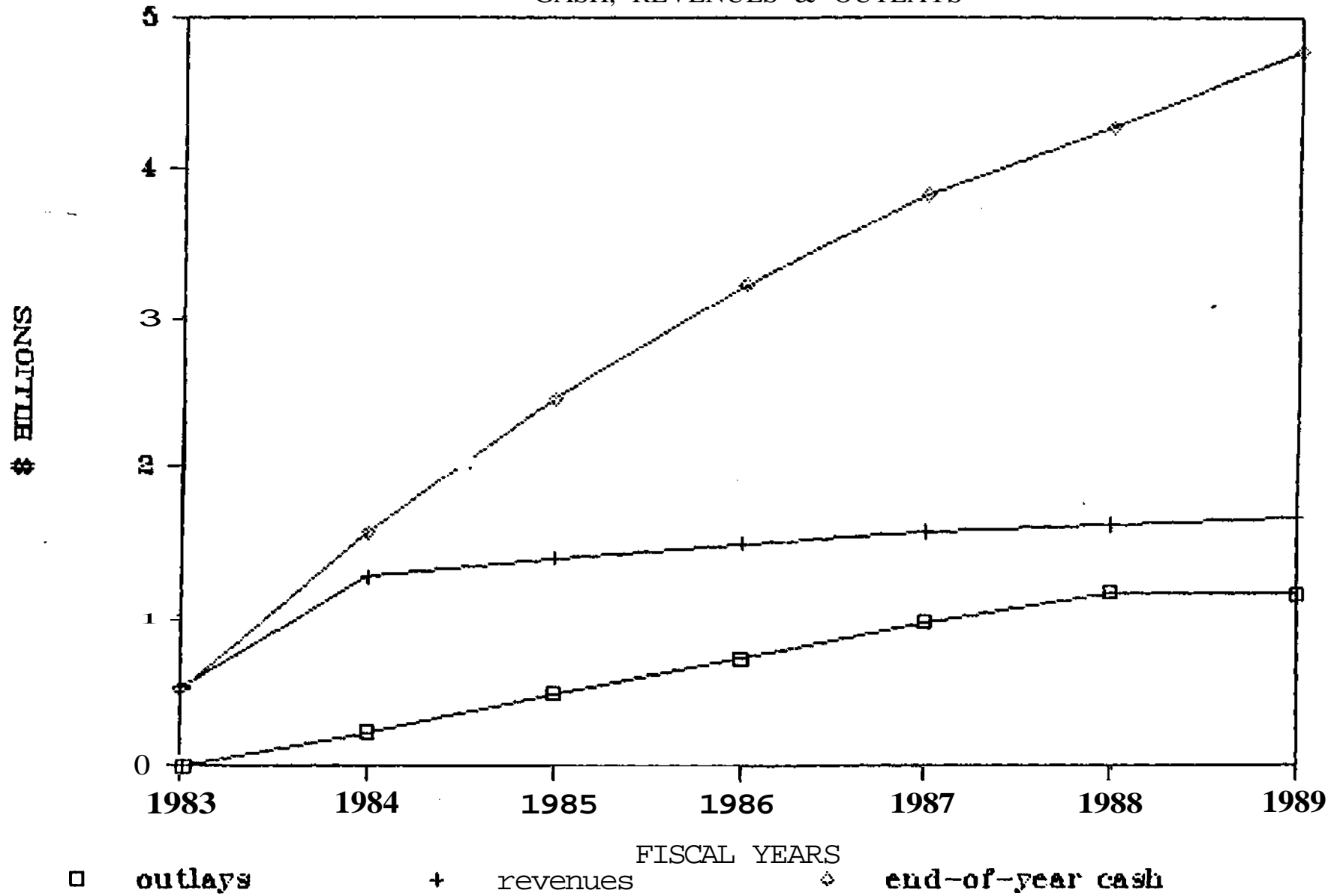


FIGURE 2

# MASS TRANSIT ACCOUNT

GASH, REVENUES & OUTLAYS



- o A transfer of **funds from** the Mass Transit Account, or
- o A reduction in authorizations.

GENERAL PRINCIPLES OF TRUST FUND FINANCING AS THEY BEAR  
ON THE HIGHWAY TRUST FUND

Three general principles ensure the **financial** soundness of a trust **fund**. First, cash on hand must be adequate to cover expected outlays during any given year. Second, the cash on hand plus expected future receipts must together cover promised spending (authorizations). And third, and most important, outlays and receipts must balance in the long term.

The most important financial control for the Highway Account is contained in the **Byrd** Amendment, which has been in effect since **establishment** of the Highway Trust Fund in 1956. The Byrd Amendment focuses on unfunded **authorizations--that** is, total unpaid authorizations less any cash on hand. This provision forces an automatic reduction in funds available to the states if the unfunded authorizations exceed expected revenues over the remaining life of the fund. At present, the taxes that support the Highway Account continue through 1988, while 1986 is the last year of authorization. Thus, current policy implies that unfunded authorizations should not exceed two years' worth of revenues.

## The Highway Account

Highway users finance the federal highway program according to the accepted principle that the system's **users--rather** than the general **taxpayer--should** support its construction and repair. The 1982 act established four federal highway taxes: the 9 cent per gallon tax on motor fuel, a 12 percent sales tax on new trucks over 33,000 pounds gross weight and trailers over 26,000 pounds, a graduated tax on truck tires, and a heavy-vehicle use tax. Receipts from the fuel tax total almost 80 percent of the **\$11.6** billion expected to be raised in 1985 for highways. Receipts from the sales and use taxes both exceed **\$1** billion and account for most of the trust **fund's** remaining income. The heavy-vehicle use tax was increased dramatically, **from the \$240** per truck maximum that prevailed for 20 years to a maximum of \$1,900 per year for the heaviest class of truck. This increase is being phased in over four years with the biggest **increase--to \$1,600--scheduled** to take effect this July. The 1982 act also provided economic benefits to some truckers by permitting the use of wider and longer trucks on major intercity routes.

The 1982 legislation raised receipts for the highway program by **\$4.9** billion a year. When interest on the cash balance is added, annual receipts should total about \$12.6 billion. At the same time, however, annual authorizations were increased to **\$14.9** billion in 1985--**about \$2.3** billion

more than annual receipts. Clearly, such a gap cannot be sustained **for** long. Indeed, the trust fund can finance the authorizations made in the 1982 act, but only because of the cushion provided by the \$9 billion in cash built up **from** prior years, and because of the normal lag between authorizations and outlays. Thus under current policy, the criterion of unpaid **authorizations'** not exceeding two **years'** worth of revenues is projected to be violated in 1988 (see attached Table 1).

Though these projections are subject to the usual uncertainties in predicting tax receipts, outlays, and interest rates, the need for action to restore balance to the Highway Account seems clear. If tax changes were enacted to become effective in 1987, an annual increase of about \$2 billion would **suffice--assuming**, of course, a continuation of the current level of authorizations after 1986. Of course, any increase in authorizations above current levels, or an expansion of current tax exemptions, would require an even larger tax or a more immediate one. On the other hand, if total authorizations were to drop in 1991 when the Interstate system is scheduled to be completed, the prospect of reduced spending would permit a smaller tax increase.

Of the **five** options mentioned earlier, four are tax changes:

- o An additional 2 cents per gallon tax on motor fuel,
- o Higher taxes on **heavy** trucks,

- o Reduced tax exemptions for gasohol 1/, buses and taxis, and state and local government vehicles (these exclusions are now estimated to be worth more than \$700 million per year), and
- o Use of surplus funds from the Mass Transit Account (estimated at about \$400 million a year).

Taking the opposite approach, however, spending could be decreased now, perhaps by concentrating construction funds on critical gaps in the Interstate system and by delaying work on other routes until after 1990. This could roughly halve the current \$4 billion spent each year on Interstate construction.

#### PROBLEMS IN TRUCK TAXES UNDER 1982 LAW

In addition to increasing highway revenues, the 1982 legislation imposed a significant realignment of truck taxes. These were adjusted to shift part of the highway cost burden **from** light trucks to heavy trucks. The change in truck taxes followed in response to a DOT study, which found that, while passenger cars paid roughly their share of **federal** highway costs, operators of single-unit trucks (delivery trucks, dump trucks, and the like)

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1. Gasohol is taxed at only 4 cents per gallon, providing a subsidy of 5 cents per gallon. Since ethanol is only 10 percent of gasohol, this translates into a 50 cent per gallon subsidy for the production of ethanol **fuel**.



paid nearly twice their share, and the heaviest group of trucks (the familiar tractor-trailers) paid only about 59 percent of their associated costs. 2/

While the 1982 act made improvements, some imbalances clearly remain: cars overpay by about 6 percent, pickups and vans by 18 percent, and **single-unit** trucks by 14 percent, while combination trucks underpay by 20 percent. The heaviest class of **trucks--those** with gross weights exceeding 75,000 **pounds--pay**, on average, about two-thirds of their share of costs.

After the major increase in the heavy vehicle use tax scheduled for this July, the heaviest class of trucks will be paying about \$1.2 billion in federal highway **taxes--but** this is still some \$600 million a year less than those **trucks'** share of costs. The difference takes the form of a subsidy from other highway users which is neither equitable nor efficient. Though small in the context of the \$100 billion spent each year on intercity truck freight movement, the \$600 million subsidy does not encourage the most effective use of the **nation's** highways and gives the trucking industry an advantage over its **competitors--primarily** railroads. In addition, the taxes on heavy trucks do not appear commensurate with the likely long-term

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2. See Federal Highway Administration, Alternative to Tax on Use of Heavy Trucks, Report to Congress (January 1984).

benefits to the trucking industry from the larger and heavier trucks now permitted.

The heavy vehicle use tax is, at best, an approximate mechanism for matching taxes with cost responsibility. Graduated by vehicle size, the use tax will range in 1985 from \$50 per year for 33,000 pound trucks to \$1,600 for trucks of 80,000 pounds gross weight. It does not vary with distance, however. Thus, most trucks that travel less than 40,000 miles each year--as about one-fourth of the heaviest class of trucks do--will pay more than their allocated share of highway costs. On the other hand, the roughly one-fourth of heavy trucks that travel more than 100,000 miles each year will enjoy a bargain, since their highway tax payments cover less than one-half of their share of costs. Similar inequities are associated with the sales tax on new trucks, since vehicles that are used intensively will cause more wear and tear than they pay to fix.

#### CURRENT TRUCK TAX PROPOSALS

Several tax proposals before the Congress would reduce or eliminate the heavy vehicle use tax. Under these plans, the revenues lost would be replaced fully or in part by a higher tax on diesel fuel imposed only on trucks. None of these proposals, however, addresses the longer-term need

to restore a balance between revenues and outlays. Further, none improves the equity among vehicle classes.

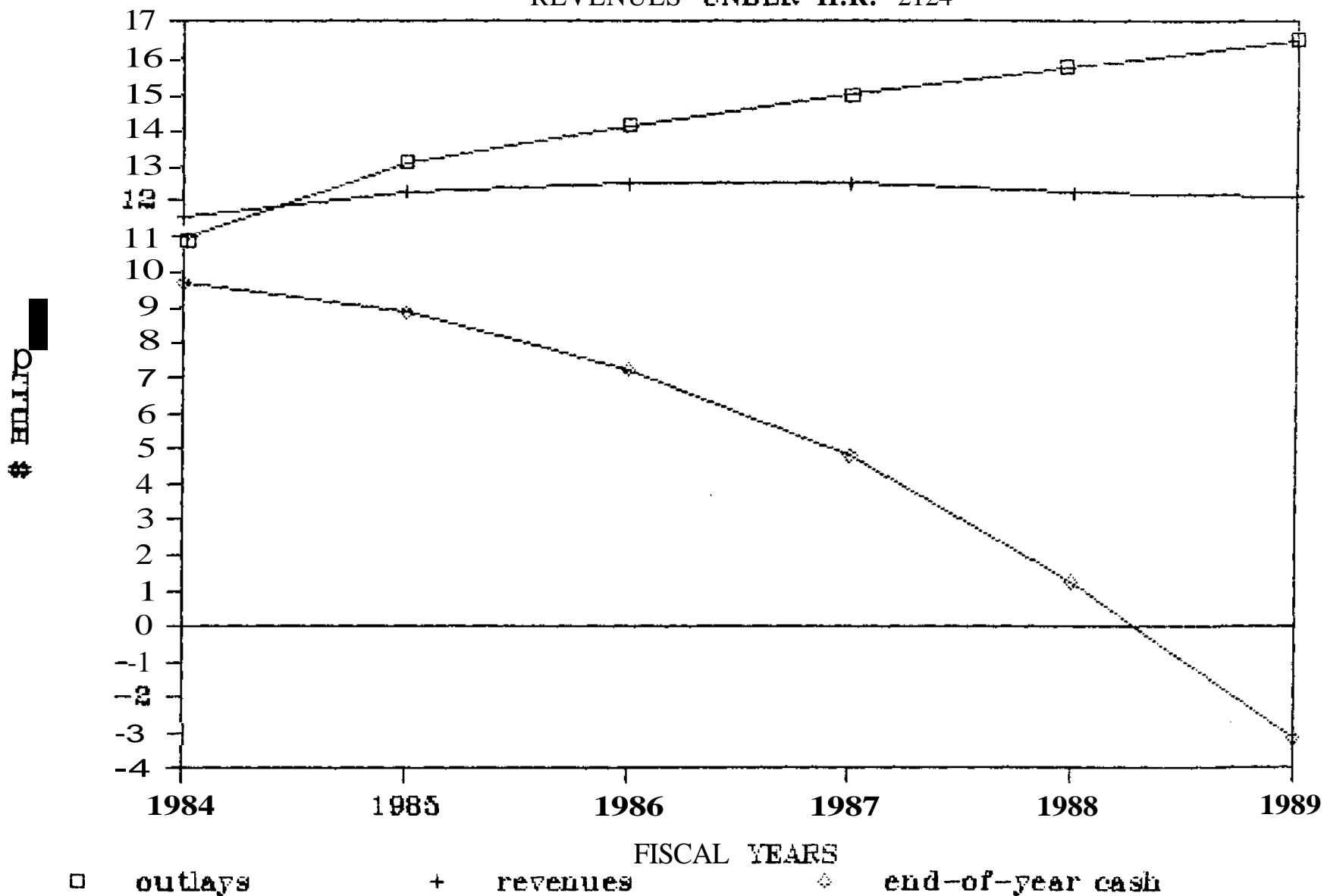
#### H.R. 2124

The most prominent proposal, H.R. 2124, would eliminate the heavy-vehicle use tax and increase the 9 cent federal tax per gallon of diesel fuel by 5 cents. Vehicles weighing less than 10,000 pounds would have access to a rebate through their regular income tax filing. On balance, DOT estimates that tax receipts would decline by about \$2 billion over the next four years. As shown in Figure 3, this change from current policy would generate a \$3 billion deficit in the Highway Account for 1989 (see attached Table 2). Unfunded authorizations would exceed two years of revenues in 1987. The revenue could of course be raised through a still higher "diesel differential" tax of perhaps 7.5 cents per gallon. H.R. 2124 would move heavy trucks and passenger vehicles further away from their cost-based share of federal highway taxes. Combination trucks over 75,000 pounds would pay only 58 percent of their share of costs, in contrast to the current 66 percent and the 59 percent of costs based on 1982 taxes (see attached Table 3.)

FIGURE 3

# HIGHWAY ACCOUNT

REVENUES UNDER H.R. 2124



## Department of Transportation Proposals

The Department of Transportation has proposed several options, including a 6 cent per gallon diesel fuel tax for trucks over 10,000 pounds, along with a greatly reduced **heavy-vehicle** use tax. The use tax would be imposed only on vehicles over 55,000 **pounds--which** would eliminate it for some 750,000 medium-weight trucks. For trucks paying the tax, the maximum charge would be reduced to \$650 per vehicle. This proposal would have very little effect on total receipts, and it would effect virtually no change in the cost-recovery ratios set by the 1982 act. As with **H.R. 2124**, it would create an additional administrative burden to rebate taxes paid by vehicles weighing less than 10,000 pounds. Owners of some 3.6 million vehicles could be expected to file for a rebate on their federal income taxes.

## Other Approaches

The heavy vehicle use tax could be **modified to reflect** better the costs imposed by different users. For example, the mileage threshold for the heavy-vehicle use tax could be raised from the present 5,000 miles to perhaps 15,000 or 20,000 miles per year, insuring that few trucks would actually overpay. The use tax could then be graduated with higher rates for

those trucks that were driven the most. Heavily used trucks, such as those driven more than 100,000 miles a year, would end up with a higher use tax than under current law.

The closest coordination of the costs of highway wear and tear to tax receipts, of course, would be achieved by a weight/distance tax. Under such a scheme, the tax would vary according to the weight of the truck and the distance it travels. Ten states already have some form of weight/distance tax. The state of Oregon, for example, has collected a weight/distance tax for more than 30 years. In the long run, such a tax might be the simplest choice, since only two taxes would be **required--a** motor fuel tax and a weight/distance tax. Thus, it could permit ending the sales tax on trucks. Solving the administrative problems required to implement such a plan would, of course, require considerable advance planning.

## CONCLUSION

The pending shortfall in the Highway Account is clearly the most important problem affecting the trust fund since passage of the 1982 act. Though this problem could be deferred until the next major highway **authorization--presumably in 1986--at** some point, the Congress will face a difficult choice between higher taxes or a smaller highway program. The

truck tax options currently before the Congress do not address this problem and in fact some would increase the current imbalance between spending and receipts.

TABLE 1. FINANCIAL PROJECTIONS FOR THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND  
(In millions of dollars)

Fiscal Year	Highway Authorizations	Outlays <u>a/</u>	Trust Fund Income <u>b/</u>	Start-of-Year Cash Balance	Change	End-of-Year Cash Balance	Unfunded Authorizations
1984	14,120	10,900	11,510	9,060	+610	9,670	16,710
1985	14,860	13,080	12,630	9,670	-450	9,230	18,940
1986	15,660	14,100	13,000	9,230	-1,100	8,130	21,590
1987	16,320 <u>c/</u>	14,950	13,160	8,130	-1,790	6,340	24,760
1988	16,980 <u>c/</u>	15,760	13,180	6,340	-2,580	3,760	28,560
1989	17,630 <u>c/</u>	16,520	13,130	3,760	-3,390	360	33,060

SOURCE: Congressional Budget Office.

NOTE: Totals may not add because of rounding.

- a. Outlays based on obligation ceilings which are less than authorizations. Level of outlays also depends on when Interstate construction funds for 1984 are released.
- b. Treasury forecast of tax receipts with CBO interest rate assumptions.
- c. CBO current policy projections.



TABLE 2. FINANCIAL PROJECTIONS FOR THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND  
UNDER H.R. 2124 (In millions of dollars)

Fiscal Year	Highway Authorizations	Outlays	Trust Fund <u>a/</u> Income <u>b/</u>	Start-of-Year Cash Balance	Change	End-of-Year Cash Balance	Unfunded Authorizations
1984	14,120	10,900	11,510	9,060	+610	9,670	16,710
1985	14,860	13,080	12,260	9,670	-820	8,850	19,310
1986	15,660	14,100	12,480	8,850	-1,620	7,240	22,490
1987	16,320 <u>c/</u>	14,950	12,500	7,240	-2,450	4,790	26,310
1988	16,980 <u>c/</u>	15,760	12,230	4,790	-3,540	1,250	31,070
1989	17,630 <u>c/</u>	16,520	12,170	1,250	-4,350	3,100	36,520

SOURCE: Congressional Budget Office.

NOTE: Totals may not add because of rounding.

- a. Outlays based on obligation ceilings, which are less than authorizations. Level of outlays also depends on when Interstate construction funds for 1984 are released.
- b. DOT forecast of tax receipts with CBO interest rate assumptions.
- c. CBO current policy projections.

TABLE 3. REVENUE-TO-COST RATIOS FOR 1985 UNDER DIFFERENT TAX SCHEMES

Vehicle Class	Under Pre-1982 Law	Under Current Law	Under H.R. 2124
Passenger Cars and Motorcycles	0.97	1.06	1.09
Buses	0.0	0.0	0.0
Pickups/Vans	1.17	1.18	1.21
Single-Unit Trucks	1.76	1.14	1.19
Under 26,000 pounds	(1.38)	(1.12)	(1.21)
Over 26,000 pounds	(2.07)	(1.16)	(1.17)
Combination Trucks	0.80	0.82	0.74
Under 50,000 pounds	(1.21)	(0.90)	(1.02)
50-70,000 pounds	(1.22)	(1.20)	(1.07)
70-75,000 pounds	(0.78)	<b>(0.84)</b>	(0.76)
Over 75,000 pounds	(0.59)	(0.66)	(0.58)
All Vehicles	1.00	1.00	1.00

SOURCE: Congressional Budget Office from analysis by the Department of Transportation.

NOTES: A number greater than 1 represents overpayments, while a lesser number shows underpayments. Numbers in parenthesis are sub-totals.