THE NEW ENGLAND COUNCIL

Committee Update

June 13, 2014

"The Highway Trust Fund and the Treatment of Surface Transportation Programs in the Federal Budget"

Dear Transportation Committee Member:

The Congressional Budget Office (CBO) on Wednesday issued an 18-page report that "describes the status of the highway trust fund and options that the Congress might consider to address the imbalance between revenues and spending from the fund." The report also looks at the "unique budgetary classification" of federal surface transportation programs. The report does get a little technical, however it is a good read for those interested in how the trust fund works and how revenues are garnered as well as the budget process that governs surface transportation programs and options for changing the budgetary status. To read the full report, please click on this link.

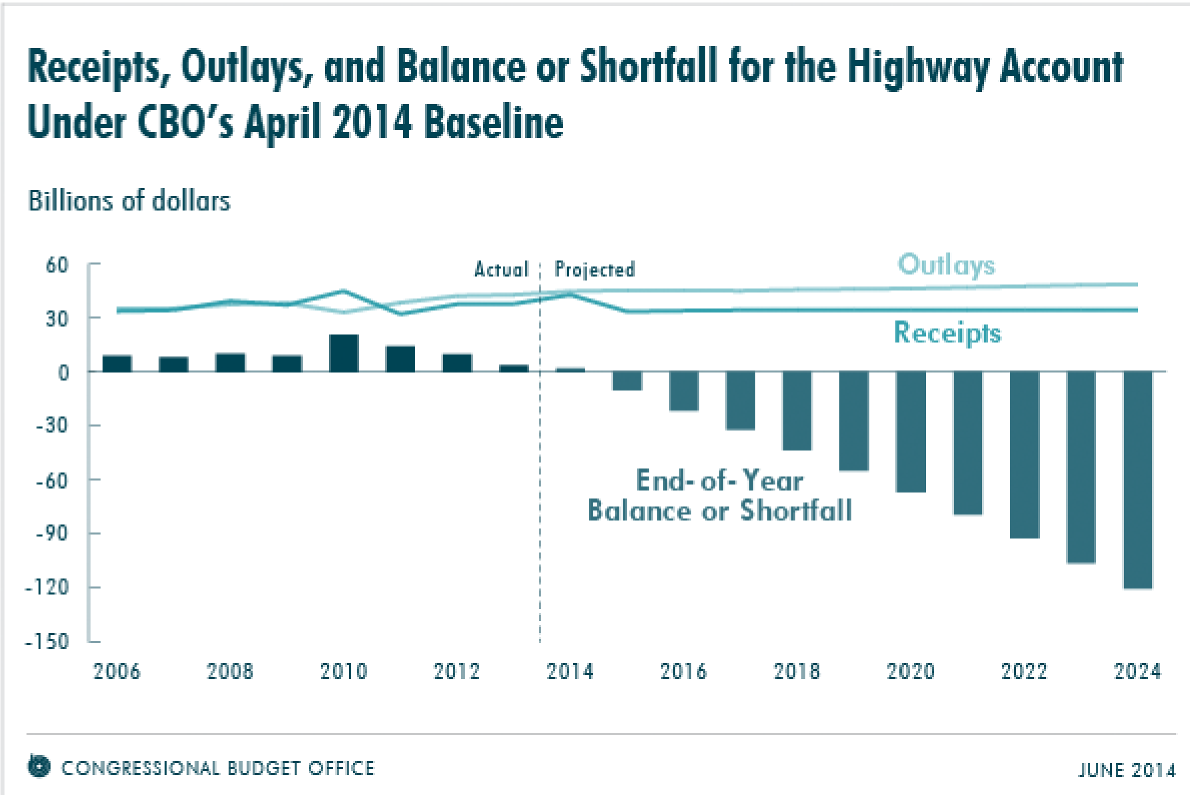
The following is the summary from the report:

"The federal government spends more than $50 billion per year on surface transportation programs, mostly in the form of grants to state and local governments. Much of this spending is for highways and mass transit programs financed through the Highway Trust Fund. Those programs have an unusual treatment in the federal budget, and the way they are classified in the budget facilitates the spending of more money from the trust fund than there are dedicated revenues to support such spending. Those revenues come from excise taxes on the sale of motor fuels, trucks and trailers, and truck tires, and from taxes on the use of certain kinds of vehicles.

This CBO report describes the status of the Highway Trust Fund and options that the Congress might consider to address the imbalance between revenues and spending from the fund. Part of the discussion concerns the transportation programs' unique budgetary classification and how that treatment limits the effectiveness of the standard mechanisms for budgetary control.

Spending From the Highway Trust Fund Exceeds Its Revenues

In the past 10 years, outlays from the Highway Trust Fund have exceeded revenues by more than $52 billion, and outlays will exceed revenues by an estimated $167 billion over the 2015–2024 period if obligations from the fund continue at the 2014 rate (with adjustments for future inflation) and the expiring taxes on fuels and heavy vehicles are extended at their current rates (see the figure below).



Since 2008, lawmakers have addressed those shortfalls by transferring $54 billion, mostly from the general fund of the Treasury, to the Highway Trust Fund. Under current law, the trust fund cannot incur negative balances, nor can it borrow to cover unmet obligations. To match the trust fund's resources with its spending, lawmakers could choose to authorize additional transfers, reduce spending for surface transportation programs, boost the fund's revenues, or adopt some combination of those approaches.

Surface Transportation Programs Have a Split Budgetary Classification

Federal programs obtain the authority to incur financial obligations (referred to as budget authority) either in permanent law or in annual appropriation acts; the spending to pay for those obligations is recorded as outlays in the budget. Budget authority and outlays derived from annual appropriation acts are usually classified as discretionary, and those derived from other laws are labeled mandatory. Generally, the budget authority and outlays of a federal program are both classified in the federal budget as either mandatory or discretionary. However, since 1988, for the surface transportation programs examined in this report, the budget authority has been classified as mandatory while the outlays have been classified as discretionary.

Most Procedures for Controlling Federal Spending Do Not Apply to Spending for Surface Transportation

The processes that the Congress uses to manage the budget—procedural points of order and other Congressional rules designed to control budget deficits—are largely designed to monitor either a program's mandatory outlays or its discretionary budget authority. But, with mandatory budget authority and discretionary outlays, surface transportation programs funded from the Highway Trust Fund are generally not subject to the processes that control spending for most other programs:

- Spending for mandatory programs is usually subject to certain reductions—mostly across-the-board cuts—under budget rules. However, outlays for the trust fund's surface transportation programs are not subject to those rules because they are considered discretionary.
- Spending for most discretionary programs is controlled by statutory caps on discretionary budget authority. However, outlays for the trust fund's surface transportation programs are not constrained by those caps because the budget authority for those programs is considered mandatory.

That split budgetary treatment allows programs funded by the Highway Trust Fund to skirt budgetary control mechanisms and makes understanding the potential budgetary implications of legislation more difficult for policymakers and transportation stakeholders. (How CBO displays transportation funding in its cost estimates is explained in Anatomy of a Cost Estimate for Legislation Funding Transportation Programs, June 2014.)

Reclassifying Transportation Programs Would Subject Them to Standard Budgetary Control Mechanisms

If the Congress wanted to gain more budgetary control over transportation programs, it could classify both budget authority and outlays for surface transportation programs as either mandatory or discretionary. Doing so would be more consistent with typical ways of designating programs within the federal budget, and it would subject programs funded by the Highway Trust Fund to the same trade-offs and constraints faced by other types of programs. Alternatively, the Congress could keep the split classification of mandatory budget authority and discretionary outlays but count transfers from the general fund to the Highway Trust Fund as new budget authority and outlays; that approach, which is currently used in the House of Representatives, aims to manage spending for surface transportation programs by focusing on the difference between revenues and spending in the Highway Trust Fund."

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