CBO TESTIMONY

Statement of
Kim P. Cawley
Chief
Natural and Physical Resources Cost Estimates Unit

Status of the Highway Trust Fund

before the
Committee on Finance
United States Senate

May 9, 2002
(Revised)

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning to discuss the status of the Highway Trust Fund and to explain how the Congressional Budget Office (CBO) develops its baseline estimates of the fund's receipts and outlays. In addition, as requested by Committee staff, I will discuss how certain alternative approaches to spending and receipts would affect trust fund balances.

WHAT IS THE HIGHWAY TRUST FUND?

The Highway Trust Fund is an accounting mechanism in the federal budget that records receipts from certain fuel and excise taxes, as well as spending on designated highway and mass transit programs. The fund comprises two separate accounts, one for highways and one for mass transit (see Table 1). The Federal-Aid Highway program is by far the fund's largest component, accounting for about 80 percent of its outlays in 2001. (All years in this statement are fiscal years.)

TABLE 1. MAJOR COMPONENTS OF THE HIGHWAY TRUST FUND, FISCAL YEAR 2001
(In billions of dollars)

	Receipts[a]	Budget Authority and Obligation Limitations[b]	Outlays
Highway Account			
Federal-Aid Highway program	n.a.	31.1	28.5
Motor carrier safety	n.a.	0.3	0.2
Highway traffic safety	n.a.	0.3	0.3
Other	n.a.	1.5	0.1
Subtotal	26.9	33.2	29.1
Mass Transit Account			
Discretionary grants	n.a.	0	0.7
Trust fund share of transit expenses	n.a.	5.0	5.0
Subtotal	4.6	5.0	5.7
Total, Highway Trust Fund	31.5	38.1	34.8

SOURCE: Congressional Budget Office.

NOTES: Numbers may not add up to totals because of rounding.

n.a. = not applicable.

a. Receipts are deposited in the highway and mass transit accounts but are not earmarked for specific components.

b. Obligation limitations enacted in appropriation acts limit the amount of budget authority available to most Highway Trust Fund programs. The amounts in the column are the sum of obligation limitations and budget authority that is not subject to any such limitation.

FUNDING OF HIGHWAY AND MASS TRANSIT PROGRAMS

Spending from the Highway Trust Fund is not automatically triggered by deposits of receipts. Authorization acts provide budget authority for highway and mass transit spending, mostly in the form of contract authority (the authority to incur obligations in advance of appropriations). For mass transit programs, funding is also provided by appropriations from the general fund of the Treasury. Annual spending from the Highway Trust Fund is largely controlled by limits on annual obligations, which are set in appropriation acts.

The most recent authorization law for the trust fund, the Transportation Equity Act for the 21st Century (TEA-21), was enacted in 1998 and is due to expire at the end of 2003. TEA-21 provided specific amounts of annual contract authority for 1998 through 2003 and authorized appropriations for mass transit programs and for certain programs that are not funded through contract authority. In addition, TEA-21 included a new funding mechanism called revenue-aligned budget authority (RABA). RABA compares current estimates of highway account receipts with the amounts specified in TEA-21. The RABA calculation combines "looking back" at the prior fiscal year and "looking ahead" at the coming budget year. On the basis of that comparison, RABA adjusts both contract authority for the Federal-Aid Highway program and the budget caps for the highway category of discretionary spending.

The RABA mechanism was designed to strengthen the relationship between the account's receipts and its outlays. However, each year, appropriation acts include an obligation limitation that may or may not contain a RABA adjustment. Thus far, appropriation acts for 2000, 2001, and 2002 have incorporated positive RABA adjustments, adding about $9 billion to the obligation limits specified in TEA-21. Primarily because of a recession-induced drop in revenues in 2001, the Administration has calculated a negative RABA adjustment for 2003 of about $4.4 billion. (The levels of receipts, budget authority, RABA adjustments, obligation limitations, and outlays for the Highway Trust Fund since enactment of TEA-21 are summarized in Table 2.) Over the first five years of TEA-21, the trust fund's receipts have grown by about 13 percent, and outlays have climbed by more than 50 percent.

TABLE 2. THE HISTORY OF THE HIGHWAY TRUST FUND UNDER THE TRANSPORTATION EQUITY ACT FOR THE 21ST CENTURY (By fiscal year, in billions of dollars)

	1998	1999	2000	2001	2002	2003
Receipts	28.6[a]	39.3[a]	35.0	31.5	32.3[b]	33.4[b]
Budget Authority	29.4	33.6	35.1	41.3	41.2	37.7[b]
RABA Adjustments to Contract Authority	n.a.	n.a.	1.5	3.1	4.5	0[c]
Enacted Obligation Limitations	24.0	30.1	32.7	35.2	37.8	n.a.
Outlays	24.5	28.9	32.8	34.8	37.5[b]	40.1[b]
End-of-Year Balance	18.6	29.0	31.1	27.7	22.5[b]	15.7[b]

SOURCE: Congressional Budget Office.

NOTE: RABA = revenue-aligned budget authority; n.a. = not applicable.

a. Receipts in 1998 and 1999 were affected by the Taxpayer Relief Act of 1997. That legislation allowed taxpayers to pay the highway excise taxes normally due in the last two months of 1998 during the first week of 1999, shifting about $6 billion in receipts.

b. CBO estimate. For 2003, the estimated outlays are CBO's baseline projection, assuming total obligation limitations of $38.5 billion.

c. Although the -$4.4 billion RABA adjustment to obligations is scheduled to occur in 2003, the adjustment to contract authority is scheduled for 2004.

STATUS OF THE HIGHWAY TRUST FUND

The status of the Highway Trust Fund is generally assessed by asking two questions. First, will the fund's receipts be sufficient to cover its spending? Second, will the trust fund accounts pass the so-called Byrd test?

Trust Fund Balances

The balances of the Highway Trust Fund represent the cumulative difference between receipts and outlays over the life of the fund and indicate how much the fund has available, at any particular time, to meet its current and future obligations. Existing obligations of programs paid out of the highway account far exceed the amounts now in the account. At the end of 2001, the highway account's balance was $20.4 billion, but the outstanding obligations of highway programs totaled $40 billion. That discrepancy is possible because most of those obligations involve capital projects, on which money is spent over a number of years. In other words, some of the highway programs' existing obligations will be met by using future tax receipts. In comparison, the mass transit account had a balance of $7.4 billion at the end of 2001 and outstanding obligations of $1.2 billion.

The Byrd Test

The Highway Revenue Act of 1956 created the Highway Trust Fund, and it established a test that was designed to ensure that the fund's future resources would be sufficient to cover its spending authority. The test is still called the Byrd test after Senator Harry Byrd of Virginia, a member of the Senate Finance Committee in 1956.

Today, the Byrd test is applied separately to the trust fund's highway and mass transit accounts. An account is said to pass the test if its unspent budget authority at the end of the fiscal year exceeds its balance by no more than its projected receipts for the next two years. For example, to pass the Byrd test at the end of this fiscal year, the highway account must show estimated receipts for 2003 and 2004 combined that are greater than the total amount of unspent budget authority above the 2002 balance.

If the highway or mass transit account fails the Byrd test, the level of the account's contract authority is automatically reduced. The trust fund has failed the test only once, resulting in cuts to the level of contract authority for 1961. (Those cuts occurred before TEA-21 created separate highway and transit accounts.)

Currently, however, the test does not effectively measure whether the fund has adequate resources to cover present or future commitments. That is because spending is now controlled mainly by obligation limitations rather than by budget authority. For that reason, even if projections indicated no failure of the Byrd test, they might still indicate that the fund's balances would be depleted. That situation occurs under CBO's baseline, as discussed later.

CBO'S BASELINE PROJECTIONS OF THE HIGHWAY TRUST FUND

CBO estimates the Highway Trust Fund's balances and the results of the Byrd test by projecting the fund's future receipts and outlays over a 10-year period. Receipts and outlays are estimated independently of each other because of their different bases—receipts depend on the collection of various taxes, and outlays depend largely on the obligation limitations in appropriation acts.

Receipts

The Highway Trust Fund's receipts come from excise taxes on various motor fuels; on the sale of tires, trucks, and trailers; and on heavy-vehicle use (see Table 3). Each year, about 60 percent of the fund's receipts come from the tax on gasoline alone. As a general rule, CBO's baseline projections of tax receipts for 2003 through 2012 (the current projection period) incorporate the assumption that current tax laws remain in place and that scheduled changes and expirations occur on time. The only exception to that rule is the treatment of excise taxes dedicated to trust funds, including the Highway Trust Fund. The Balanced Budget and Emergency Deficit Control Act requires CBO to assume that the federal government will continue to collect tax receipts that are earmarked for a trust fund even if those taxes are scheduled to expire. For example, gasoline taxes are due to expire on September 30, 2005, but CBO's baseline includes receipts from the gasoline tax throughout the 10-year baseline projection period.

TABLE 3. HIGHWAY TRUST FUND RECEIPTS FOR FISCAL YEAR 2001 (In billions of dollars)

	Highway Account	Mass Transit Account	Total Trust Fund
Gross Receipts			
Gasoline	16.9	3.1	20.1
Gasohol	1.5	0.6	2.1
Diesel and special motor fuels	7.2	1.0	8.1
Tires	0.3	0	0.3
Trucks and trailers	1.5	0	1.5
Heavy-vehicle use	0.6	0	0.6
Other	*	*	*
Subtotal	28.0	4.7	32.7
Refunds and Tax Credits	-0.9	-0.1	-1.0
Transfers to Other Trust Funds	-0.2	*	-0.2
Net Receipts	26.9	4.6	31.5

SOURCE: Congressional Budget Office.

NOTES: * = less than $50 million.

Numbers may not add up to totals because of rounding.

In forecasting Highway Trust Fund receipts, CBO's economic models must consider numerous factors. For example, estimates of gasoline consumption depend on estimates of economic growth, relative fuel prices, and the average fuel efficiency of gasoline-powered vehicles. Projections of receipts from the gasoline tax equal gasoline consumption multiplied by the federal tax rate (18.4 cents per gallon under current law). For 2001, the Highway Trust Fund received $20.1 billion from the gasoline tax and a net total of $31.5 billion in receipts.

Spending

In its baseline projections of outlays for the trust fund, CBO assumes that policymakers will continue to control spending through obligation limitations set in annual appropriation acts. (The obligation limitation for the Federal-Aid Highway program controls more than 70 percent of the outlays from the Highway Trust Fund.) For the current baseline, CBO began with the budget authority and obligation limits enacted in Public Law 107-87, the 2002 appropriation act for the Department of Transportation and related agencies, and then inflated those figures for each of the following years of the baseline period. Using that method, CBO projects obligation limitations well beyond 2003, the year that TEA-21 expires.

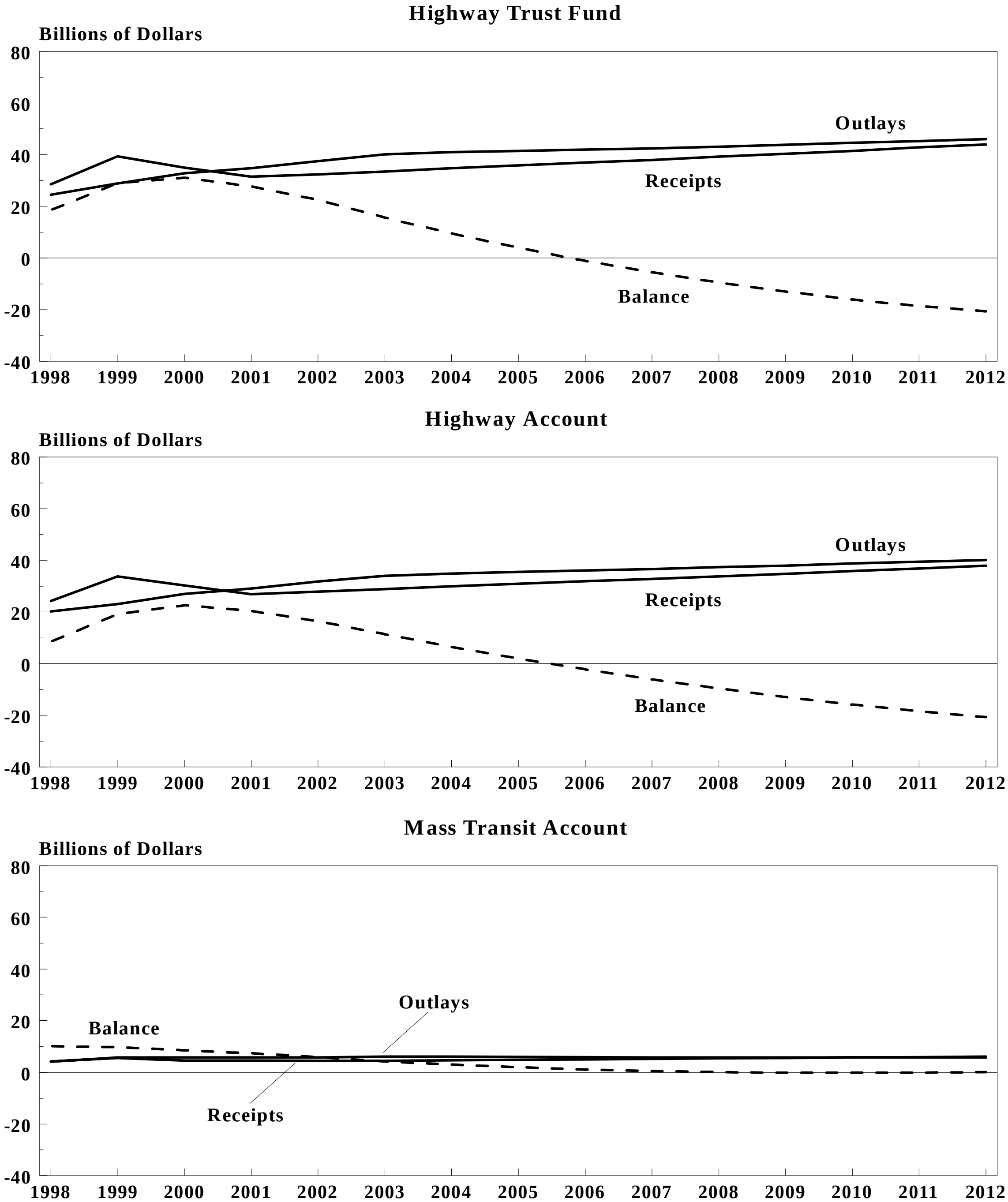
CBO bases its estimates of the trust fund's outlays on historical spending patterns. For example, the Federal-Aid Highway program expends about 27 percent of budgetary resources in the year they are provided and the rest over the following several years.

The Deficit Control Act prescribes the method that CBO uses to project baseline resources and spending for the highway program. That same method is used to estimate outlays for other discretionary programs, which also receive spending authority from appropriation acts. Any change to the way CBO treats transportation spending in its baseline would require amending that law.

BALANCES IN THE TRUST FUND ACCOUNTS UNDER CBO'S BASELINE

Under its current baseline, CBO projects that the highway account will be depleted in 2006 and that the balance in the mass transit account will fall to zero in 2009 (see Figure 1). However, CBO estimates that the highway and mass transit accounts will not fail the Byrd test in any year of the current projection period (through 2012).

FIGURE 1. STATUS OF THE HIGHWAY TRUST FUND UNDER CBO'S BASELINE



SOURCE: Congressional Budget Office.

The Highway Account

Balances in the highway account are gradually depleted under CBO's current baseline because estimated outlays exceed estimated revenues each year from 2003 through 2012. Over the next 10 years, projected outlays from the highway account average $37.1 billion annually, while receipts average only $33.4 billion.

Over the 1998-2001 period, highway account balances grew because receipts to the account averaged $28.8 billion a year and outlays averaged $24.9 billion. Over the same period, however, the highway programs received significant increases in funding. Many obligations have not been discharged yet, and the program's unpaid obligations are now 22 percent higher than they were at the end of 1998. Because many existing obligations must be met with future tax receipts, new spending will be constrained both by receipts and by outlays for previous years' obligations.

The Mass Transit Account

Like the balances of the highway account, the balances of the mass transit account are gradually depleted under CBO's baseline. Over the next 10 years, outlays will average $5.9 billion a year, CBO estimates, and receipts will average $5.3 billion.

One feature of funding for the mass transit programs is the Treasury's use of an expenditure transfer from the trust fund to the general fund. Budgetary resources for mass transit programs come from both the Highway Trust Fund and the general fund. In implementing the budget, the Treasury merges resources from those funds by recording the transfer as an outlay from the trust fund and a receipt to the general fund. The result of the expenditure transfer between government accounts is that the balances of the mass transit account are depleted faster than the money is actually paid out by the Treasury.

The Administration uses expenditure transfers under two different circumstances: whenever one budget account buys goods or services from another account or whenever resources are transferred between a trust fund account and a non-trust fund account. That policy is applied throughout the federal budget.

If administrative procedures were changed so as to leave mass transit resources in the trust fund until they were spent, balances in the transit account would reach zero under CBO's baseline somewhat later than is now projected. A change of that type would not affect the budget's overall surplus or deficit, but it would boost the balances of the mass transit account. Balances would still gradually decline, however, as long as spending exceeded receipts.

BALANCES IN THE HIGHWAY ACCOUNT UNDER VARIOUS ALTERNATIVES FOR SPENDING

At the request of Committee staff, CBO projected balances in the highway account under three different obligation limitations for 2003 for the Federal-Aid Highway program. (Under the current baseline, CBO projects an obligation limitation of $32.4 billion for the program in 2003.) For those alternatives, CBO varied only the assumptions governing the Federal-Aid Highway program; estimated receipts and outlays for all other trust fund programs were kept at their baseline levels. My discussion of these alternatives focuses solely on the highway account.

Spending Alternative 1: Use the TEA-21 Level Without a RABA Adjustment for 2003

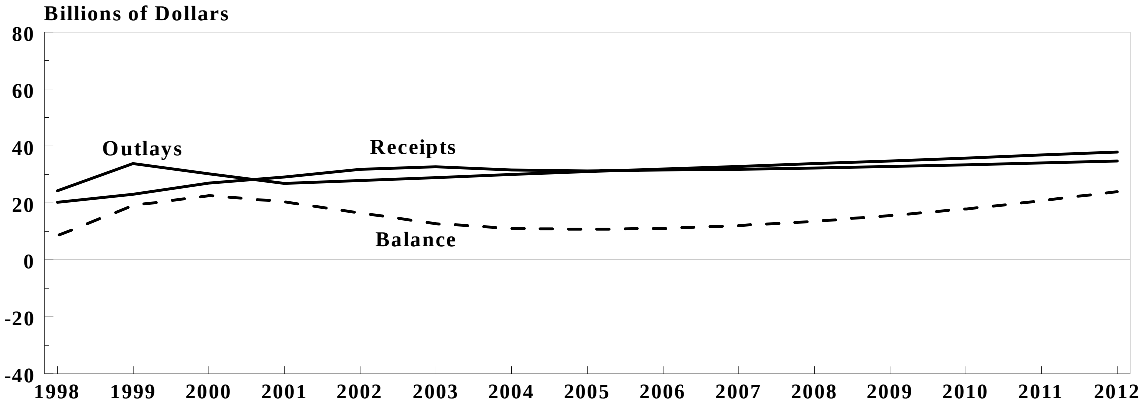
The first alternative would provide the Federal-Aid Highways program with an obligation limitation of $27.7 billion for 2003 and then inflate that amount for each subsequent year through 2012 (see Figure 2). That obligation limitation for 2003 would equal the amount authorized under TEA-21 but without the negative RABA adjustment of $4.4 billion. Under this alternative, the highway account's balances would drop to about $11 billion in 2005 and then gradually increase over the following years. The highway account would not fail the Byrd test under this alternative.

Spending Alternative 2: Use the Obligation Limitation from the Budget Resolution Reported by the Senate Budget Committee for 2003

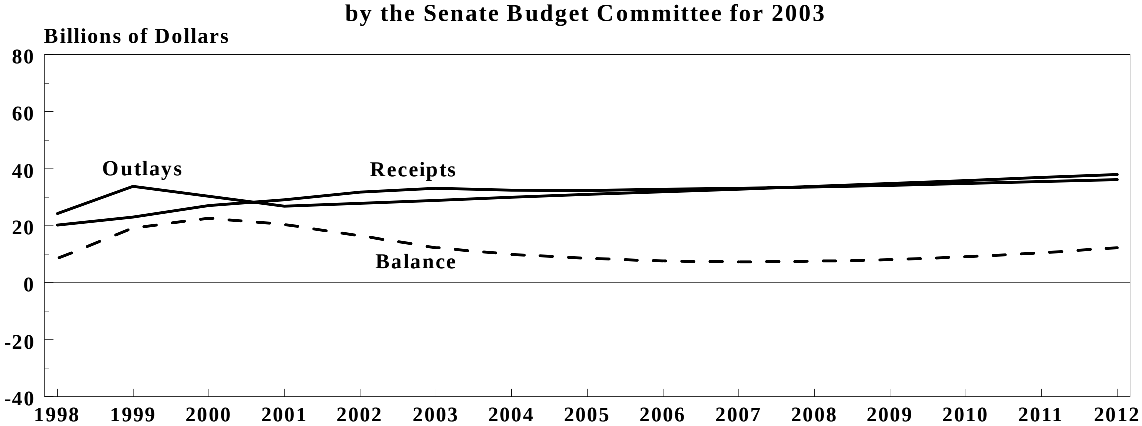
The second alternative would set the obligation limitation for the Federal-Aid Highway program for 2003 at $28.9 billion and then inflate that amount for each subsequent year. The limitation for 2003 is the amount assumed in the version of the 2003 budget resolution reported by the Senate Budget Committee—Senate Concurrent Resolution 100—on March 22, 2002. (That assumption is identified in S. Report 107-141.) The balances of the highway account under this alternative would drop to about $7 billion in 2007 and then gradually climb over the following years. Again, under this scenario, the account would not fail the Byrd test during the next 10 years.

FIGURE 2. HIGHWAY ACCOUNT BALANCES UNDER ALTERNATIVE OBLIGATION LIMITATIONS FOR THE FEDERAL-AID HIGHWAY PROGRAM

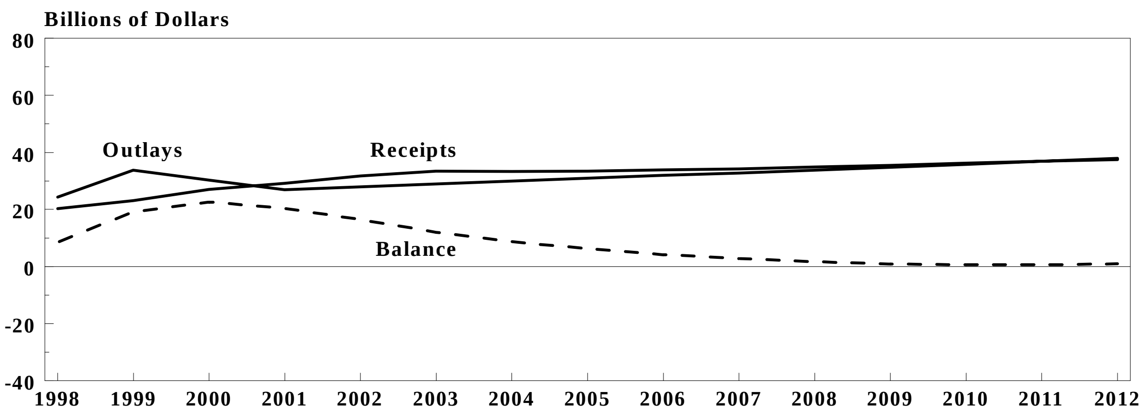
Spending Alt. 1: Use the TEA-21 Level Without a RABA Adjustment for 2003



Spending Alt. 2: Use the Obligation Limitation from the Budget Resolution Reported by the Senate Budget Committee for 2003



Spending Alt. 3: Set the Obligation Limitation at $30.1 Billion for 2003



SOURCE: Congressional Budget Office.

NOTE: TEA-21 = Transportation Equity Act for the 21st Century; RABA = revenue-aligned budget authority.

Spending Alternative 3: Set the Obligation Limitation at $30.1 Billion for 2003

The third alternative would set the 2003 obligation limitation for the program at $30.1 billion and then inflate that amount for each subsequent year. Under that spending path, the balances of the highway account would fall below $1 billion but never reach zero. Once again, the account would not fail the Byrd test over the next 10 years. This alternative approximates the highest possible obligation limitation for 2003 that could be inflated for each year of the baseline period without causing the account's balances to fall to zero.

A spending plan that draws down trust fund balances nearly to zero runs the risk of leaving the fund with insufficient balances to meet its obligations. CBO's projections of the fund's future balances are merely estimates; actual spending or receipts are likely to deviate from that path in one direction or another. For example, spending may vary from historical averages, the economy may rise or fall unexpectedly, or the Congress may appropriate additional resources from the trust fund to pay for unanticipated or emergency expenses.

Table 4 summarizes CBO's estimates of highway account balances under its current baseline and the three alternative spending options for the Federal-Aid Highways program.

BALANCES IN THE HIGHWAY ACCOUNT UNDER VARIOUS ALTERNATIVES FOR RECEIPTS

As requested, CBO projected balances in the highway account under two different options for modifying the receipts credited to the Highway Trust Fund beginning in 2004. For both alternatives, CBO estimated the change in receipts to the highway account as well as the additional amount of spending that those receipts would accommodate. To estimate the additional spending, CBO varied the assumptions governing only the Federal-Aid Highway program. The obligation limitation was set at the highest level possible for 2003 that could be inflated for each year of the baseline period without causing the balances of the highway account to fall to zero. As discussed earlier, that level, under the assumption about receipts from CBO's current baseline, would be $30.1 billion. For this analysis, estimates of outlays for all other trust fund programs were kept at their baseline levels.

TABLE 4. ESTIMATED HIGHWAY ACCOUNT BALANCES UNDER VARIOUS SPENDING OPTIONS (In billions of dollars)

	Federal-Aid Obligation Limitation, 2003	Average Annual Obligation Limitation, 2003-2012	Average Annual Outlays, 2003-2012	Account Balance, 2012
CBO's Baseline	32.4	35.6	37.1	-20.7
Requested Alternative Paths				
Use the TEA-21 level without a RABA adjustment for 2003	27.7	30.3	32.6	24.0
Use the obligation limitation from the budget resolution reported by the Senate Budget Committee for 2003	28.9	31.7	33.8	12.3
Set the obligation limitation at $30.1 billion for 2003	30.1	33.0	34.9	1.0

SOURCE: Congressional Budget Office.

NOTES: CBO's baseline estimates of receipts to the highway account average $33.4 billion annually from 2003 to 2012. CBO used those estimates in analyzing each of the alternatives presented in this table.

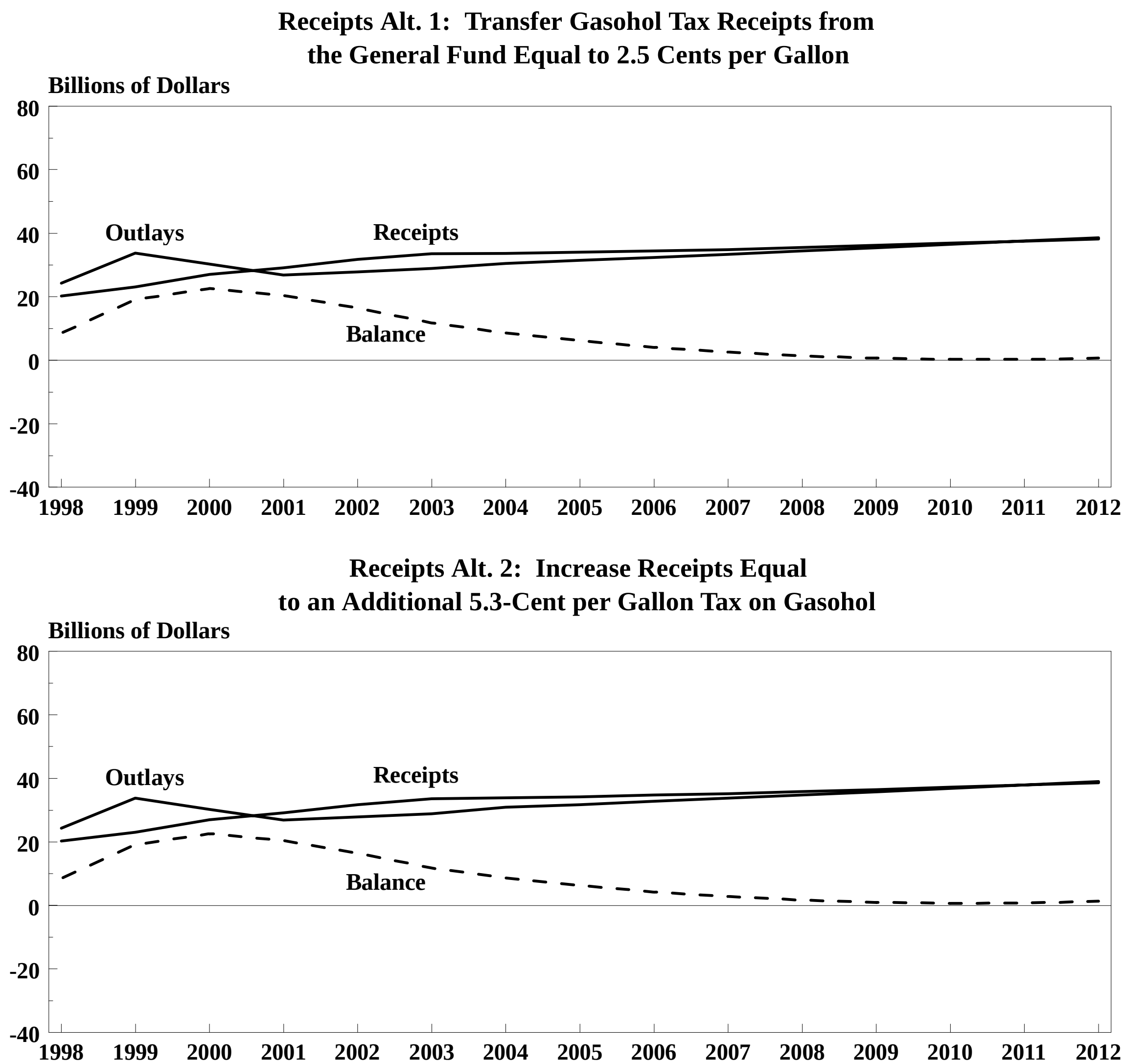
TEA-21 = Transportation Equity Act for the 21st Century; RABA = revenue-aligned budget authority.

Receipts Alternative 1: Transfer Gasohol Tax Receipts from the General Fund Equal to 2.5 Cents per Gallon

Gasohol is a blend of gasoline and ethanol. Of the total receipts collected from the current tax on gasohol, 2.5 cents per gallon remain in the general fund. Under this alternative, legislation would direct that those receipts be deposited in the highway account instead of the general fund beginning in 2004. The total amount of receipts collected by the federal government would not change, only where such receipts would be recorded in the budget.

This alternative would shift an average of about $600 million in receipts to the highway account each year, CBO estimates, for a total of $5.4 billion over the 2004-2012 period. With that shift, the obligation limitation for the Federal-Aid Highway program could be set at $30.7 billion for 2003 and then increase with inflation for each of the following years without the highway account's balances dropping to zero over the period (see Figure 3). That obligation limitation is $600 million more than the highest limitation for 2003 that could be set using the projection of receipts under CBO's current baseline.

FIGURE 3. HIGHWAY ACCOUNT BALANCES UNDER ALTERNATIVE GASOHOL RECEIPTS LEVELS AND OBLIGATION LIMITATIONS FOR THE FEDERAL-AID HIGHWAY PROGRAM



SOURCE: Congressional Budget Office.

Receipts Alternative 2: Increase Receipts to the Highway Account Equal to an Additional 5.3-Cent-per-Gallon Tax on Gasohol

The tax on gasohol is currently lower than the tax on gasoline by 5.3 cents per gallon. Under this alternative, receipts to the highway account could be increased in two ways. Policymakers could enact legislation so that gasohol would be taxed at the same rate as gasoline, increasing overall receipts to the federal government. Or the Congress could require that the Administration estimate the additional receipts that would be collected if the gasohol tax equaled the gasoline tax and then transfer that amount from the general fund to the highway account each year. The transfer would not change the federal government's overall receipts, only where such receipts would be recorded.

CBO estimates that this alternative would either shift or increase receipts to the highway account by an average of about $1.3 billion annually and a total of $11.7 billion over the 2004-2012 period. With those receipts deposited in the highway account, the obligation limitation for the Federal-Aid Highway program could be set at $31.4 billion in 2003 and increase with inflation for each of the following years without the account's balances reaching zero over the next 10 years. That limitation is $1.3 billion more than the highest limitation for 2003 that could be set using receipts projected under CBO's baseline.

Table 5 summarizes estimated highway account receipts under CBO's current baseline and the two alternatives for gasohol receipts and higher obligation limitations requested by Committee staff.

AUTHORIZING HIGHWAY TRUST FUND BALANCES TO EARN INTEREST

Until the end of fiscal year 1998, the Highway Trust Fund accrued interest on its balances. The Treasury credited the fund with special-issue securities whose interest rate equaled the average rate of all securities that formed the public debt from the previous month. During the time that the trust fund accrued interest, its securities matured twice every year, at the end of June and December. (Today, most securities credited to a trust fund mature only once a year, at the end of June.)

TABLE 5. ESTIMATED HIGHWAY ACCOUNT BALANCES UNDER VARIOUS RECEIPTS OPTIONS (In billions of dollars)

	Average Annual Receipts, 2003-2012	Federal-Aid Obligation Limitation, 2003	Average Annual Outlays, 2003-2012	Account Balance, 2012
CBO's Baseline	33.4	32.4	37.1	-20.7
Requested Alternative Paths				
Transfer gasohol tax receipts from the general fund equal to 2.5 cents per gallon	34.0	30.7	35.5	0.7
Increase receipts equal to an additional 5.3-cent-per-gallon tax on gasohol	34.7	31.4	36.2	0.5

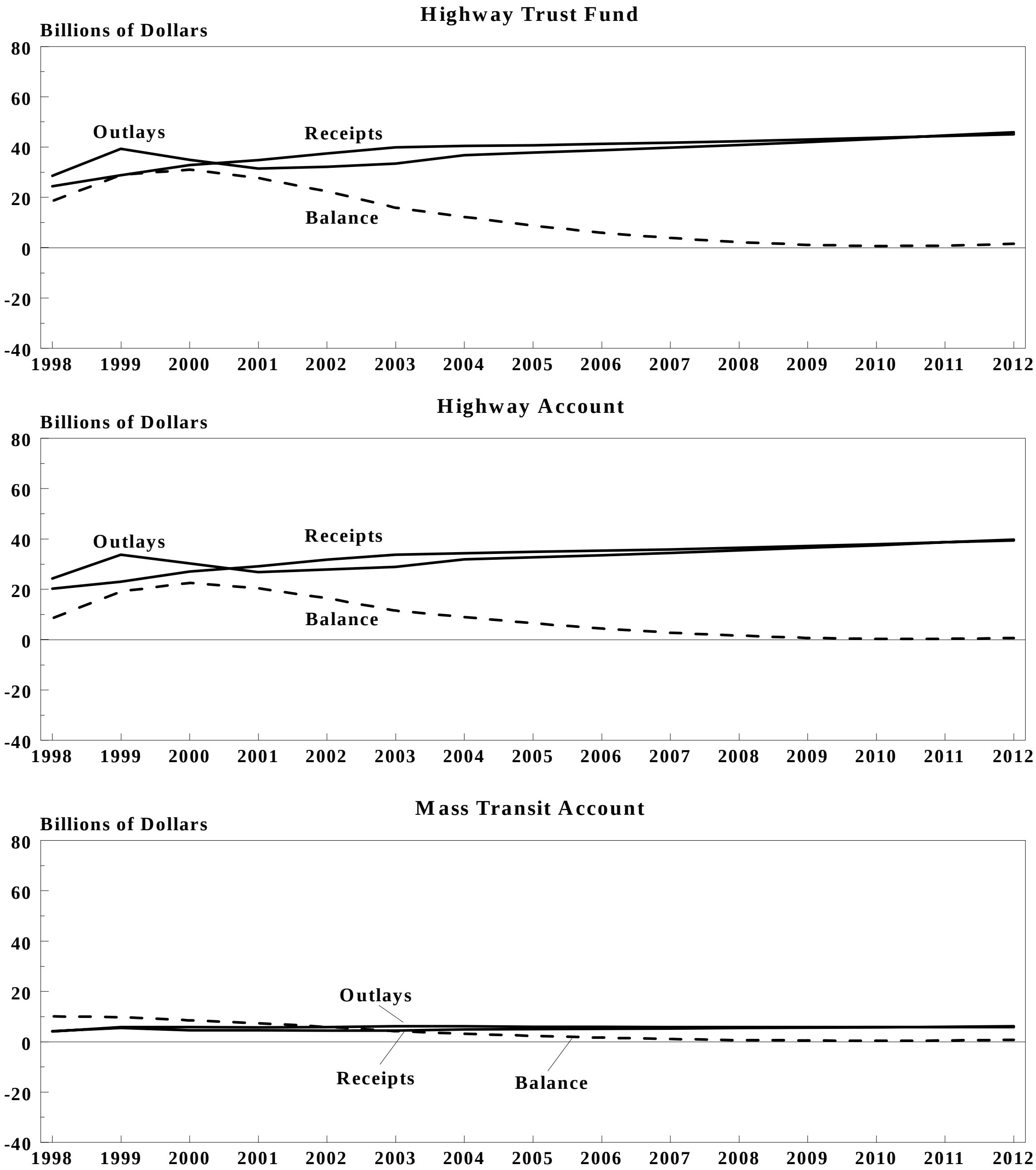
SOURCE: Congressional Budget Office.

As noted earlier, the federal government's trust funds, including the Highway Trust Fund, are accounting mechanisms that record receipts and outlays from a set of budget accounts. For that reason, the securities credited to a fund do not bring the federal government additional receipts. Rather, the securities represent an intragovernmental transfer: when they mature, the general fund is decreased and the trust fund increased by equal amounts.

Although the Treasury continues to credit the Highway Trust Fund with special-issue securities, TEA-21 exempted the fund from the authority to accrue interest. At the request of Committee staff, CBO projected the increase in receipts from returning that authority to the fund beginning in fiscal year 2004. For the purposes of this analysis, CBO assumed that the Treasury would credit the trust fund with special-issue securities carrying an interest rate similar to the rate used before 1999 and that the securities would mature once a year.

My testimony will focus on the results of an approach that includes additional receipts from the two gasohol tax alternatives described earlier. Again, CBO projected the highest level of obligation limitation possible for 2003 for the Federal-Aid Highway program, similar to the analysis provided for receipts alternatives.

FIGURE 4. STATUS OF THE HIGHWAY TRUST FUND WITH ADDITIONAL RECEIPTS FROM BOTH GASOHOL ALTERNATIVES, INTEREST AUTHORITY, AND A DIFFERENT OBLIGATION LIMITATION FOR THE FEDERAL-AID HIGHWAY PROGRAM



SOURCE: Congressional Budget Office.

TABLE 6. ESTIMATED TRUST FUND ACCOUNT BALANCES UNDER THE INTEREST ALTERNATIVE (In billions of dollars)

	Federal-Aid Obligation Limitation, 2003	Average Annual Interest Accrual, 2003-2012	Average Annual Outlays, 2003-2012	Account Balance, 2012
Highway Account				
CBO's baseline	32.4	0	37.1	-20.7
Requested path: Increase receipts equal to a 7.8-cent-per-gallon tax on gasohol and accrue interest on account balances	32.0	0.2	36.8	1.2
Mass Transit Account				
CBO's baseline	5.8	0	5.9	*
Requested path: Accrue interest on account balances	5.8	0.1	5.9	0.8

SOURCE: Congressional Budget Office.

* = Balances fall to zero in 2009.

The gasohol alternatives alone would increase highway account receipts by an average of $1.9 billion annually and by a total of $17.1 billion over the 2004-2012 period. Interest would bolster receipts by another $1.9 billion over the period. Highway account balances would accrue about $550 million in interest in 2004, CBO estimates, but as the balances fell closer to zero, interest would drop, amounting to about $50 million in 2012.

By crediting the highway account with additional receipts from the gasohol tax alternatives and the interest accrued on balances, the obligation limitation for the Federal-Aid Highway program for 2003 could be set at $32.1 billion and then increase with inflation for each of the following years without the account's balances falling to zero (see Figure 4). That obligation limitation is $2 billion more than the highest limitation for 2003 that could be set using the receipts projected under CBO's baseline.

Under this alternative, the mass transit account of the Highway Trust Fund would accrue an average of about $100 million in interest each year and a total of almost

$1 billion over the 2004-2012 period. (The gasohol tax proposals would not affect receipts deposited to the mass transit account.) The account's balances would not fall to zero as they do under CBO's baseline, but they would decline to well below $1 billion for several years.

Table 6 summarizes CBO's estimates of the balances of the highway and mass transit accounts under CBO's baseline with and without the authority to accrue interest.

BALANCES OF THE HIGHWAY TRUST FUND UNDER VARIOUS SPENDING, RECEIPTS, AND INTEREST ALTERNATIVES

My testimony has highlighted how each alternative requested by Committee staff would affect the balances of the highway and mass transit accounts. As discussed earlier, the alternatives for spending and receipts would affect the trust fund independently of each other. Most spending from the fund depends on the budgetary resources provided in appropriation acts, and receipts depend on the collection of various taxes. If trust fund balances accrued interest, however, CBO's projection of additional receipts would depend both on estimated spending and estimated receipts. For example, interest authority would have a different impact on trust fund balances if the Congress also provided higher obligation limitations. In general, the trust fund would be credited with more interest as receipts to the fund increased or as outlays from the fund decreased.

Table 7 summarizes each of the requested alternatives. It includes information about fund balances, obligation limitations, outlays, and receipts for each variation. If the Committee would like CBO to analyze other combinations of those alternatives, we would be happy to provide them for the record.

TABLE 7. SUMMARY OF REQUESTED ALTERNATIVES FOR THE HIGHWAY ACCOUNT (In billions of dollars)

	Federal-Aid Obligation Limitation, 2003	Average Annual Receipts, 2003-2012	Total Receipts Above Baseline Estimates, 2003-2012[a]	Average Annual Outlays, 2003-2012	Lowest Balance in the Highway Account
CBO’s Baseline	32.4	33.4	0	37.1	-20.7
Spending Alternatives					
Use the TEA-21 level without a RABA adjustment for 2003	27.7	33.4	0	32.6	10.8
Use the obligation limitation from the budget resolution reported by the Senate Budget Committee for 2003	28.9	33.4	0	33.8	7.3
Set the obligation limitation at $30.1 billion for 2003	30.1	33.4	0	34.9	0.6
Receipts Alternatives					
Transfer gasohol tax receipts from the general fund equal to 2.5 cents per gallon	30.7	34.0	5.4	35.5	0.3
Increase receipts equal to an additional 5.3-cent-per-gallon gasohol tax	31.4	34.7	11.7	36.2	*
Interest Alternative					
Increase receipts equal to a 7.8-cent-per-gallon tax on gasohol and accrue interest on account balances	32.1	35.5	19.0	36.8	0.8

SOURCE: Congressional Budget Office.

NOTES: TEA-21 = Transportation Equity Act for the 21st Century; RABA = revenue-aligned budget authority.

* = less than $50 million.

a. These figures are additional receipts to the highway account and do not necessarily represent increased receipts to the federal government. (Some of the alternatives requested by Committee staff would shift receipts from the general fund to the highway account.)