United States General Accounting Office

GAO

Report to the Chairman, Committee on Appropriations, U.S. Senate

May 1989

HIGHWAY TRUST FUND

Condition and Outlook for the Highway Account

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United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-234504

May 9, 1989

The Honorable Robert C. Byrd
Chairman, Committee on Appropriations
United States Senate

Dear Mr. Chairman:

In response to your February 28, 1989, request and subsequent agreements with your office, we have reviewed the status of the highway portion of the Highway Trust Fund to determine whether (1) the balance in the Highway Account exceeds amounts needed to meet outstanding commitments, (2) the current authorization for the Highway Account could be increased to allow a higher level of program activity, and (3) the Federal Highway Administration (FHWA) supports an increase in the authorization level.[1] The Highway Trust Fund was created to support highway programs administered by FHWA, which is part of the Department of Transportation.

Results in Brief

The balance in the Highway Account at the end of fiscal year 1988—about $9 billion—is needed to pay commitments to states.[2] The balance, therefore, is not a surplus. These funds, along with projected future revenues, will be used to pay about $31 billion in commitments that were outstanding as of fiscal year 1988.

FHWA officials expect federal highway programs to be extended beyond their present authorization period. However, if it is assumed for purposes of analysis that the programs will not be extended and that no new commitments will be authorized, FHWA estimates that uncommitted funds in the Highway Account will amount to $7.4 billion at the end of fiscal year 1993.[3] This situation means that the Highway Account can support a higher level of program activity by increasing the commitments currently authorized. FHWA officials stated that the Congress could authorize additional commitments because of the anticipated $7.4 billion in uncommitted funds, but a safety cushion of $1 billion to $3 billion would be needed to guard against unforeseen disruptions to

[1] Throughout this letter report, references to the Highway Trust Fund refer only to the Highway Account, unless otherwise stated.

[2] For purposes of this report, commitments is considered to be synonymous with obligations.

[3] FHWA's estimate is based on future obligation levels as provided in the President's fiscal year 1990 budget.

highway user tax income or inaccurate revenue projections. These officials, however, do not believe additional commitments should be made now because of the adverse affect on the overall budget deficit.

Background

The Highway Trust Fund was created in 1956 to provide a mechanism for financing the federal-aid highway program.[4] This umbrella program generally refers to the various components and programs that are funded through FHWA and administered by states' highway or transportation agencies. Revenues collected from various highway user taxes are earmarked for Highway Trust Fund activities. The taxes are levied on such things as gasoline, diesel fuel, tires, and parts and accessories for trucks and buses.[5]

The highway portion of the Highway Trust Fund operates on a reimbursable basis. Under commitment levels set by the Congress, states are permitted to let long-term construction contracts with the understanding that actual payments from the Trust Fund will be made only as vouchers are submitted upon the completion of previously approved projects. FHWA officials told us that there is often a lag time of several years from when a state lets a contract to the time the final cash payment is made from the Trust Fund to reimburse the state for that contract.

Most programs within the federal-aid highway program do not require a two-step process of authorization and appropriation to commit federal funds. Through what is termed "contract authority," sums authorized in the federal-aid highway acts are made available for states to spend before an appropriation action. Contract authority, however, is unfunded and the Congress must subsequently appropriate the funds necessary to liquidate (pay) the obligations incurred by the states under contract authority.

Because the Trust Fund was not permanently enacted, it must be periodically reauthorized. The most recent reauthorization was under the Surface Transportation and Uniform Relocation Assistance Act of 1987 (P.L. 100-17), which extended the user taxes for the Trust Fund for a 5-year period ending September 30, 1993. The act authorized about $88

[4]For details on the process involved in funding federal-aid highways, see Financing Federal-Aid Highways, FHWA (Nov. 1987).

[5]Since 1982, 1 cent of the 9-cent-a-gallon gasoline tax is earmarked for mass transit. The scope of our analysis, however, was limited to the highway portion of the Trust Fund.

billion—$70 billion for highway programs and $18 billion for mass transit.

When the Congress established the Highway Trust Fund in 1956, it also established a safety mechanism, known as the Byrd Amendment, to ensure that sufficient funds would be available to liquidate commitments at the end of each fiscal year. As revised by the Surface Transportation Assistance Act in 1982, the Byrd Amendment now permits the total of projected unpaid commitments against the Highway Account at the close of any fiscal year to exceed the end-of-year balance, as long as projected income for the following 2 fiscal years will be sufficient to cover the commitments. If the balance plus projected revenues do not cover outstanding commitments, proportionate reductions to the amounts apportioned to all programs must be made.

Trust Fund Balance Does Not Represent Excess Cash

According to FHWA, the balance in the Highway Account has often been misunderstood, with many believing that the balance represents excess cash that will not be needed to pay commitments. This view, however, is not an accurate portrayal of the Highway Account balance since these funds are, in fact, needed to pay outstanding commitments. It should also be noted that the Highway Trust Fund exists only as an accounting record. User taxes are actually deposited in the U.S. Treasury and amounts equivalent to these taxes are transferred to the Trust Fund, as needed.

How the Trust Fund functions becomes clearer when it is compared with an individual's charge account. For discussion purposes, assume that an individual has $1,000 in cash from previous monthly paychecks but also has outstanding charges amounting to over $1,500. In this case, the $1,000 in cash cannot be considered excess because it is needed to pay the incoming charges. On the other hand, the individual is also not in a deficit situation since at the end of the month his or her $900 paycheck will be available to help pay the outstanding charges. This scenario is repeated in each succeeding month. Thus, the cash the individual has on-hand plus a future paycheck helps to ensure there will be sufficient funds to pay all outstanding charges.

Similarly, according to FHWA Office of Policy Development data, the Highway Account had a balance of $9 billion at the end of fiscal year 1988, which is analogous to the $1,000 cash-on-hand. At the same time, these FHWA data show that unpaid commitments (charge account balance) amounted to almost $31 billion—$22 billion more than the account balance. This situation, however, is acceptable under a reimbursable system because, although commitments to make payment have been made, payment is not made until the states submit actual bills for completed work at a later date. In the interim, revenues, like the individual's paycheck in the previous example, continue to accrue in the Highway Account.

As discussed previously, the Byrd Amendment requires that the balance in the Highway Account plus 2 years' future revenues must be sufficient to pay all outstanding commitments. Table 1 shows that the Trust Fund balance at the end of fiscal year 1988 plus anticipated revenues for the following 2 years will be sufficient to pay the commitments made through fiscal year 1988. In fact, funds are expected to exceed the requirement by $7.0 billion. In recent years, the Trust Fund balance plus expected revenues have exceeded outstanding commitments, and FHWA data indicate this trend will continue. (See app. I.)

Table 1: Example of Trust Fund Amounts Over the Byrd Amendment Requirement

Dollars in billions

Description	Amount
Fiscal year 1988 Trust Fund balance	$9.0
Anticipated income, fiscal year 1989	14.5
Anticipated income, fiscal year 1990	14.3
Subtotal	**$37.8**
Less 1988 unpaid commitment	30.8
Amount exceeding Byrd Amendment requirement	$7.0

Source: GAO analysis of FHWA's Office of Policy Development Trust Fund data.

Trust Fund Income Estimated to Exceed Commitments

FHWA officials expect that the federal-aid highway program and the Highway Trust Fund will be extended beyond their current authorized period. However, to determine whether Trust Fund income would be greater than outstanding commitments—assuming that the Trust Fund would end in 1993—FHWA compared the total amount of commitments authorized for highway programs with the total amount of Trust Fund revenues expected to be collected. FHWA's analysis showed that the Highway Account can support a higher level of commitment than is currently authorized. If highway user taxes dedicated to the Fund and expenditures from the Fund terminate as now scheduled in 1993, FHWA estimates the Highway Account could have $7.4 billion in uncommitted funds.[6]

[6] FHWA's estimate is based on future obligation levels as provided in the President's fiscal year 1990 budget.

Consequently, the level of commitments for Highway Account purposes could, theoretically, be increased by $7.4 billion and still meet the Byrd Amendment requirements. (See app. II.)

FHWA officials in the Office of Policy Development and Office of Fiscal Services cautioned, however, that if commitments were increased, it would be necessary to maintain a prudent minimum Highway Trust Fund balance to guard against unforeseen disruptions to highway user tax income or inaccurate revenue projections. They suggested a minimum balance of $1 billion to $3 billion.

FHWA does not support increasing commitments so as not to affect the deficit. Otherwise, increased commitments would result in increased spending and draw down the Trust Fund balance. This reduction in the Trust Fund balance would be factored into the calculation of the unified budget deficit. In addition, FHWA officials noted that any increase in commitments now would reduce the interest projected to be earned because the balance in the Trust Fund would be lowered. Therefore, the projected amount of uncommitted funds would be lowered. In addition, an increase in commitments now would reduce the amount of uncommitted funds available for reauthorization in the post fiscal year 1991 federal-aid highway program. If the Congress, as expected, reauthorizes the Highway Trust Fund, the uncommitted Trust Fund balance, as in the past, will probably be carried forward into the next authorization period.

To determine the current financial condition of the highway portion of the Highway Trust Fund, we reviewed relevant sections of the United States budget for fiscal year 1990. We obtained and discussed more detailed financial documents with responsible officials from FHWA's Office of Policy Development and Office of Fiscal Services. We also held discussions with representatives of the American Association of State Highway and Transportation Officials and the Highway Users Federation. We reviewed previous House and Senate hearings to determine FHWA's position on the Highway Trust Fund.

We performed our review in March 1989. In developing an uncommitted fund estimate, we relied primarily on FHWA data on the financial status and projections of the Highway Trust Fund, but we did not independently verify their accuracy. We discussed the information in this report with responsible agency officials and incorporated their views and comments where appropriate. However, as you requested, we did not obtain official agency comments. Our review was conducted in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time we will send copies to the Secretary of Transportation; the Executive Director, FHWA; and other interested parties and will make copies available to others upon request.

If you have any questions about this report, please contact me at (202) 275-1000. Major contributors are listed in appendix III.

Sincerely yours,

K. M. Mead

Kenneth M. Mead
Director, Transportation Issues

Contents

Abbreviations

FHWA	Federal Highway Administration
GAO	U.S. General Accounting Office

Application of the Byrd Amendment

The Byrd Amendment ensures that sufficient funds will be available to liquidate (pay) all commitments made against the Highway Trust Fund. As revised by the Surface Transportation Assistance Act in 1982, the Byrd Amendment requires that total projected unpaid commitments against the Highway Account at the close of any fiscal year not exceed the end-of-year balance plus projected income for the following 2 fiscal years. Table I.1 shows that in recent years Trust Fund amounts have been at least $6 billion over the Byrd Amendment requirement, and this trend is expected to continue through the existing life of the Trust Fund—fiscal year 1993.

Table I.1: Trust Fund Amounts Over the Byrd Amendment Requirement

Dollars in millions

Fiscal year	Unpaid commitment	Trust Fund balance	Total income next 2 years	Byrd Amendment requirements
1986	$29,824	$9,486	$26,373	+$6,035
1987	30,802	9,412	28,169	+ 6,779
1988	30,849	9,019	28,847	+ 7,017
1989[a]	31,572	9,828	28,884	+ 7,140
1990[a]	32,137	10,637	29,367	+ 7,867
1991[a]	33,227	12,209	29,811	+ 8,793
1992[a]	22,164	14,552	15,005[b]	+ 7,393
1993[a]	8,847	16,240	0	+ 7,393

[a]Projected.

[b]Represents 1 year only, as user taxes for the Trust Fund now extend to the end of fiscal year 1993

Source: GAO analysis of FHWA's Office of Policy Development Trust Fund data as of March 1989 (See app. II.)

FHWA's Estimated Trust Fund Status for the Highway Account

In 1987, user taxes for the Highway Trust Fund were extended through 1993 under the Surface Transportation and Uniform Relocation Assistance Act in order to support additional commitments for most highway programs through fiscal year 1991. At the end of this period, total income (interest income and tax receipts) over the life of the Highway Account of the Trust Fund is estimated at $277.7 billion. This amount compares with total program authorizations of $270.3 billion. Consequently, the difference between income and commitments through the current life of the Fund is now estimated at $7.4 billion.

Alternatively, an estimate of uncommitted funds can be derived by deducting the total unpaid commitment of $8.8 billion in fiscal year 1993 from the estimated 1993 Trust Fund balance—$16.2 billion. The result is a remaining Trust Fund balance of $7.4 billion. (See table II.1.)

Table II.1: FHWA's Estimated Trust Fund Status, March 6, 1989

Dollars in millions

Fiscal year	Commitment	Total income	Obligations[b]	Expenditure	Unpaid[c] commitment	Trust[d] Fund balance
1986 & prior	$198,430	$178,093	$190,536	$168,606	$29,824	$9,486
1987	13,780	12,728	13,133	12,802	30,802	9,412
1988	14,085	13,645	13,397	14,038	30,849	9,019
1989	14,438	14,524	13,849	13,715	31,572	9,828
1990	14,079	14,323	12,612	13,515	32,137	10,637
1991	14,079	14,561	12,596	12,988	33,227	12,209
1992	1,400[a]	14,806	14,168	12,463	22,164	14,552
1993		15,005		13,317	8,847	16,240[e]
Total	**$270,291**	**$277,685**				

[a]Represents a $1.4 billion apportionment to the states for the Interstate Construction Program

[b]Obligations represent limits under current law and the President's fiscal year 1990 budget proposal for future years.

[c]Unpaid commitment for fiscal year 1987 is calculated by taking the unpaid commitment from 1986 of $29,824 million, adding the 1987 commitment of $13,780 million, and then deducting the fiscal year 1987 expenditure of $12,802 million. The result is an unpaid commitment in 1987 of $30,802 million The same calculation method is followed in each succeeding year.

[d]The fiscal year 1987 Trust Fund balance is calculated by taking the pre-1987 balance of $9.486 million, adding 1987 income of $12,728 million, and then deducting the 1987 expenditure of $12.802 million The result is the 1987 Trust Fund balance of $9,412 million. Once again, the same type of calculation is made in each of the following years.

[e]The $8.8 billion unpaid commitment in fiscal year 1993 would be paid from the fiscal year 1993 Trust Fund balance, which would leave a remaining Trust Fund balance of $7.4 billion.

Source: Office of Policy Development, FHWA.

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