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

September 1992

HIGHWAY TRUST FUND

Strategies for Safeguarding Highway Financing

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

Resources, Community, and
Economic Development Division

B-249463

September 15, 1992

The Honorable Jim Sasser
Chairman, Committee on the Budget
United States Senate

Dear Mr. Chairman:

In December 1991, the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) was enacted, authorizing over $122 billion for federal-aid highway programs through fiscal year 1997.[1] To finance this authorization, ISTEA also extended federal highway excise taxes, such as the taxes on gasoline and diesel fuel, through fiscal year 1999. The majority of the receipts from these taxes are credited to the highway account of the Highway Trust Fund, which serves as an accounting mechanism to record revenues and outlays.

To provide early warning of a potential shortfall in the highway account, existing highway law includes a financial safeguard known as the Byrd Amendment (26 U.S.C. 9503(d)). The Byrd Amendment mandates a reduction in the apportionment of authorized amounts if the account balance plus the 2 following years' anticipated revenues is not sufficient to cover outstanding authorizations.

As you noted in March 1992, the ISTEA highway authorization may exceed revenues to the Highway Trust Fund highway account. This report responds to your request that we examine (1) the capacity of the highway account to support ISTEA's authorization and the reasons for anticipating a shortfall in revenue, (2) the consequences of a shortfall, and (3) the strategies for dealing with a shortfall.

Results in Brief

Revenues projected through fiscal year 1999 will fall $5.9 billion short of authorizations to be paid from the Highway Trust Fund's highway account during the ISTEA authorization period (fiscal years 1992 through 1997), according to official administration projections developed by the Federal Highway Administration (FHWA). A shortfall in actual and anticipated revenues is expected to trigger the Byrd Amendment in fiscal year 1995 and to grow substantially during the remaining 2 years of the authorization

[1]The full ISTEA authorization for all surface transportation programs, including mass transit, totaled $155 billion for fiscal years 1992 through 1997.

period. Most of the projected shortfall is attributable to an anticipated decline in collections of highway excise taxes.

If current revenue projections prove accurate, the Byrd Amendment will require FHWA to reduce states' highway apportionments. These funds will be withheld in an amount equal to the shortfall until revenues are sufficient to satisfy the Byrd test. Under current projections, a slight reduction ($15 million) will be needed in fiscal year 1995 and more substantial reductions will be required in fiscal years 1996 and 1997 ($3.2 billion and $2.6 billion—or 15.0 percent and 12.4 percent of authorized funding—respectively).[2]

A number of strategies are available to address the anticipated revenue shortfall. These strategies—which include implementing, modifying, or suspending the Byrd Amendment—present advantages and disadvantages for the Congress to weigh in deciding how to deal with the shortfall.

Background

Most federal-aid highway programs are funded through a unique financing system. The Congress typically authorizes funding levels for highway programs in periodic authorization acts. The authorized amount for a given year is distributed to the states as apportionments and allocations.[3] After receiving an apportionment, states determine eligible highway projects and make obligations committing the federal government to pay its share of the projects' costs.

For most highway programs, states receive their apportionments as contract authority, which allows them to make obligations before an appropriations act is enacted. In addition, the Congress usually enacts an annual obligation ceiling, or limitation, which compels the states to refrain from obligating their full apportionments and allocations.[4]

Although contract authority allows obligations to occur in advance of appropriations, the Congress must appropriate funds to pay off (liquidate)

[2]Although the cumulative revenue shortfall through fiscal year 1999 would total $5.9 billion, annual funding reductions would be required to total only $5.8 billion. This discrepancy exists because each year's reduction would mitigate the severity of the overall Byrd test violation.

[3]Most authorized funding is apportioned, meaning that it is divided among the states according to a statutory formula. Some funds, however, are allocated, meaning that they are distributed according to administratively determined formulas and/or statutory or project-based criteria.

[4]Annual obligation ceilings are typically specified in multiyear highway authorizations such as ISTEA, but the Congress also enacts the obligation ceilings in annual appropriations acts. At that time, the Congress may revise the ceilings.

the obligations when the bills come due. As highway projects progress, states submit vouchers to the federal government to obtain reimbursement of the federal share. The Congress annually appropriates funds to make reimbursements.

The Highway Trust Fund was established in 1956 as an accounting mechanism to finance the federal-aid highway program; in 1982, the fund was divided into a highway account and a mass transit account. When revenues credited to the fund exceed the amount required for current outlays, an account balance exists. This balance is invested in public debt securities, and interest earned on these securities is considered revenue to the fund.[5]

The highway account balance does not necessarily represent a surplus, since all outstanding commitments from previous years' authorizations must be honored when the states submit vouchers for reimbursement. The total of these outstanding authorizations has always exceeded the account balance, creating the appearance of a shortfall. This apparent deficit is permissible, however, because a number of years elapse between a project's approval and completion so that outlays (expenditures) are spread out for several years after funds are obligated. Federal law therefore allows outstanding authorizations to exceed the account balance, permitting the use of future years' revenues to help cover past years' authorizations. By limiting future revenues that may be counted against outstanding authorizations to 2 years' anticipated income, the Byrd Amendment controls the extent to which authorizations rely on future revenues.

The Byrd Amendment was enacted in 1956 as part of the legislation creating the Highway Trust Fund and was substantially modified in 1982. As revised, the Byrd Amendment requires that, in any given year, the highway account balance plus revenue collections anticipated through the next 2 years be sufficient to cover outstanding authorizations. As FHWA officials note, despite a common misconception, the level of funds appropriated and limitations placed on highway obligations do not directly affect the outcome of the Byrd test. Rather, the Byrd Amendment concerns only (1) available and anticipated highway account revenues over the next 2 years and (2) authorized levels of funding.

[5]Highway excise taxes are actually deposited in the General Fund. The Department of the Treasury, which manages the Trust Fund, makes a paper transfer of the collections as needed.

Revenue Shortfalls Could Trigger Byrd Amendment in Fiscal Years 1995 Through 1997

Current FHWA projections, as well as Congressional Budget Office projections, indicate that excise tax revenues will not be sufficient to satisfy the Byrd test in fiscal years 1995, 1996, and 1997. The official administration projections developed by FHWA are based on (1) the most recent highway tax revenue outlook provided by the Department of the Treasury (July 1992), (2) FHWA's estimate of the actual cost to cover the ISTEA authorization, and (3) obligation levels projected from the President's fiscal year 1993 budget.[6] Based on independent revenue estimates, Congressional Budget Office projections show consistent revenue shortfalls for fiscal years 1995 through 1997.

Cumulative Shortfall Is Expected to Rise During ISTEA Authorization Period

Table 1 projects the outcome of the Byrd test throughout the ISTEA authorization period; these projections are based on FHWA highway account data.

Table 1: Estimated Outcome of the Byrd Test for Fiscal Years 1992-97

Dollars in billions

	1992	1993	1994	1995	1996	1997
Account balance (end of year)	$11.37	$10.78	$9.30	$7.53	$5.90	$4.45
Anticipated revenues, 2 years	33.65	33.99	34.27	34.72	35.27	35.99
Subtotal	**45.02**	**44.77**	**43.57**	**42.25**	**41.17**	**40.44**
Less outstanding authorizations	33.87	37.56	40.14	42.26	44.34	46.34
Byrd test outcome[a]	**11.15**	**7.21**	**3.43**	**(0.01)**	**(3.17)**	**(5.90)**

[a]The Byrd test calculation depicts a cumulative outcome. The outcome does not reflect the impact of annual apportionment reductions required by the Byrd Amendment.

Source: GAO analysis of FHWA highway account data.

As table 1 illustrates, revenues will be sufficient to satisfy the Byrd test for the first 3 years of the ISTEA authorization period. The account balance at the end of fiscal year 1992 ($11.37 billion), together with 2 years' anticipated revenues ($33.65 billion), will cover the amount authorized through fiscal year 1992 ($33.87 billion) and leave $11.15 billion. In other words, if fiscal year 1992 were the final year of the highway authorization but revenues continued to be collected for 2 additional years, $11.15 billion would remain in the account after all outstanding authorizations had been covered.

[6]Although obligation levels do not directly affect the outcome of the Byrd test, as previously noted, they can have bearing on the highway account balance, which is entered directly into the Byrd test calculation. For example, if total fiscal year 1993 obligations do not exceed $19.5 billion, the Byrd Amendment will probably not be triggered until fiscal year 1996.

By 1997, however, the situation will be substantially different. At the end of fiscal year 1997, the account balance ($4.45 billion) plus 2 years' anticipated revenues ($35.99 billion authorized through fiscal year 1999) will not offset the outstanding authorizations through the end of fiscal year 1997 ($46.34 billion). If current revenue projections hold true, total revenue authorized under ISTEA will fall $5.9 billion short of meeting outstanding authorizations.

Shortfall Is Attributable to Revised Revenue and Cost Estimates

This shortfall was not expected when ISTEA was enacted; in fact, a balance of $2.7 billion was anticipated as the outcome of the Byrd test. The reversal in outlook can be attributed to revisions of two estimates. First, the Department of the Treasury's January 1992 revenue projection, reaffirmed by the July 1992 update, shows that collections of highway excise tax receipts will grow more modestly than previously anticipated.[7] This downward revision accounts for the bulk of the expected shortfall. Second, the remaining portion of the expected shortfall is primarily due to revised ISTEA cost estimates for certain authorized funding categories.[8]

Treasury Is Responsible for Tracking Status of Highway Account

The Byrd Amendment requires the Department of the Treasury to estimate the outcome of the Byrd test for the next fiscal year and report the results to key congressional committees at least quarterly.[9] However, the Treasury currently reports on the highway account's financial status just once a year, in March.

Because the outcome of the Byrd test depends on actual and projected highway excise tax collections, the projected shortfall could prove more pronounced, less pronounced, or nonexistent. Given this situation, timely quarterly reporting of actual and projected revenues is critical to accurately assessing the highway account's financial status. The quarterly reports would be even more useful if they were projected an additional year into the future in keeping with the Byrd test's consideration of 2 years' anticipated revenues.

[7]Fuel tax receipts, for instance, fluctuate with the number of miles driven each month. Because the number of miles driven is tied to the level of national economic activity, collections credited to the highway account can vary slightly from year to year, depending on the state of the economy.

[8]ISTEA included a number of funding categories designed to promote equity among the states. At the time of ISTEA's enactment, a preliminary cost estimate for the equity adjustment categories was made, but subsequently this estimate proved to be understated.

[9]The cited Senate committees are Finance, Budget, and Environment and Public Works. The cited House committees are Ways and Means, Budget, and Public Works and Transportation.

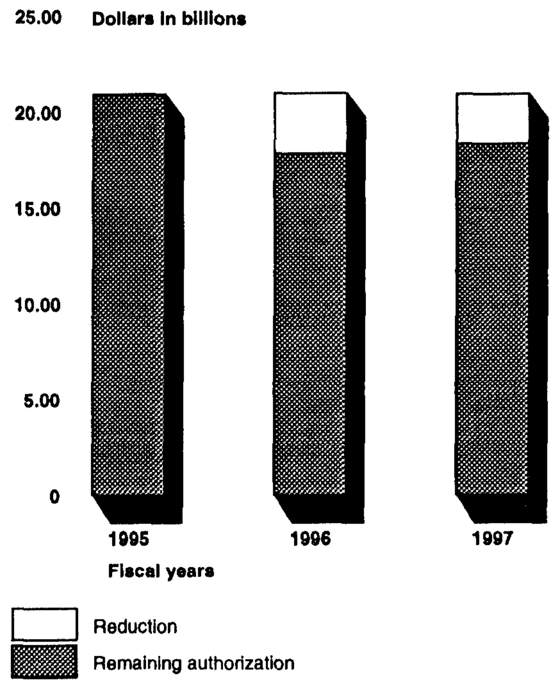
In response to GAO's findings, Department of the Treasury officials have stated that beginning with the fall 1992 edition, the agency's quarterly Treasury Bulletin will reflect the data required by the Byrd Amendment.

Revenue Shortfalls Would Limit State Highway Funding

In addition to establishing a test to provide early warning of a potential solvency problem, the Byrd Amendment mandates a response to an impending shortfall. At the beginning of any fiscal year in which the Byrd Amendment will be triggered, FHWA must proportionately reduce all program apportionments funded from the highway account. The purpose of these adjustments is to limit distribution of authorized funds to a level that future revenues can support.

Under existing projections of the highway account's status, the Byrd Amendment would compel FHWA to begin reducing apportionments to the states on October 1, 1994—the first day of fiscal year 1995. Figure 1 depicts the annual reductions that would be required if current projections prove accurate. As indicated, in fiscal year 1995, apportionments to the states would have to be adjusted downward by 0.0007 percent ($15 million), a reduction that is not discernible in the figure. However, apportionments would have to be reduced by 15 percent ($3.2 billion) in fiscal year 1996 and by 12.4 percent ($2.6 billion) in fiscal year 1997.

Figure 1: Annual Impact of Apportionment Reductions, Fiscal Years 1995-97



Reductions in the authorization are due to projected reductions in apportionments required by the Byrd Amendment. The reductions apply only to apportioned programs.

Appendix I provides a detailed analysis of the relationship between annual apportionment reductions and obligation ceilings and discusses the relative impacts of apportionment reductions on the states.

Strategies Are Available to Address Projected Revenue Shortfall

A number of strategies could be employed to deal with the expected shortfall in the highway account, and some strategies could avert the reductions in apportionments now projected for 1995 through 1997. Although DOT officials have expressed their views on these strategies, they have not developed any independent action plans to administer the reductions because they believe that the economy could recover sufficiently to generate highway revenues that would equal or exceed outstanding authorizations. However, officials from the Department of the Treasury and the Congressional Budget Office state that they do not expect tax collections to rebound sufficiently to prevent the Byrd

Amendment from being triggered. Accordingly, we have identified seven strategies available to the Congress.

First, the Congress could allow the Byrd Amendment to take effect. Under this strategy, a portion of the ISTEA authorization would be withheld from states in fiscal years 1995 through 1997 unless revenues rebounded sufficiently to prevent the Byrd Amendment from being triggered in these years. These apportionment reductions would reduce obligation levels for some highway program areas, as further discussed in appendix I. Moreover, because the withheld share of the ISTEA authorization would still be outstanding, during the next reauthorization, the Congress could either repeal the withheld authority or incorporate it in the new highway authorization.

Second, the Congress could increase revenues to the highway account. A number of alternatives are available for raising revenues, including the following two alternatives. First, the tax on gasohol (8.6 cents per gallon) could be raised to equal the gasoline tax.[10] This action would raise about $3.6 billion between fiscal years 1993 through 1999, thereby offsetting a major portion of the anticipated shortfall, though not all of it. Alternatively, revenues to the highway account could be increased by extending an existing 2.5-cent portion of the federal motor fuel tax currently scheduled to expire at the end of fiscal year 1995. Under this alternative, these receipts, which are currently targeted to reducing the federal budget deficit, would be credited to the highway account, starting in fiscal year 1996.

Extending the 2.5-cent portion of the fuel tax for transportation purposes would fully satisfy the Byrd test throughout the ISTEA authorization period and leave the highway account with a $9.3-billion surplus by the end of fiscal year 1997, as shown in appendix II. In addition, it would leave the Byrd Amendment's early warning benefits intact. However, if this strategy were adopted, collections associated with extending the 2.5-cent tax would no longer be available to help reduce the federal deficit. Moreover, a portion of a federal tax that was scheduled to expire would be extended.

A third strategy for preventing the Byrd Amendment from being triggered would severely limit annual obligation levels, starting immediately.

[10]The federal fuel tax is the primary component of all federal highway excise taxes. The federal gas tax currently totals 14.1 cents per gallon, and the diesel tax is 20.1 cents per gallon. These totals include the 2.5-cent portion dedicated to reducing the federal budget deficit, as well as a 0.1-cent tax dedicated to the Leaking Underground Storage Tank Trust Fund. This 0.1-cent tax is scheduled to expire at the end of calendar year 1995.

However, annual obligations would need to be limited to about $13 billion, starting in fiscal year 1993, and a cutback of this magnitude would limit achievement of ISTEA's basic objectives. If this strategy were selected, interest earnings on the highway account balance would grow rapidly enough to forestall the need for reducing apportionments, assuming an average interest rate of 6 percent.[11] This approach would be comparable to minimizing withdrawals from a personal savings account in order to earn as much interest as possible on the account balance. Each year, this strategy would permit the states to obligate just over half of the funds that they are authorized to receive under ISTEA, or about 66 percent of the funds that would be available for obligation under the administration's projected annual obligation levels of about $19.5 billion for fiscal years 1993 through 1997.

In some cases, a limit of this magnitude could cause a share of contract authority to expire. For some highway programs, contract authority expires (lapses) if it is not used within 1 to 4 years.[12] If obligation levels were held to $12 billion to $13 billion a year through 1997, contract authority excluded from obligation would eventually build up to such an extent that some apportioned funding could lapse before states obtained authority to obligate it.

Under a fourth strategy, the Byrd test might be revised to consider future offsetting revenues for 3 years instead of 2 years. This strategy would eliminate the expected shortfall if revenue collections were similarly extended by 1 year, from 1999 to 2000.[13] As an FHWA policy official notes, when the Highway Trust Fund was first created in 1956, revenues were authorized for 3 years beyond the authorization, creating a precedent for this type of extension. The extension would prevent reductions in state apportionments without increasing highway excise tax rates, but it would also increase uncertainty by extending the revenue stream needed to pay off outstanding bills as they came due. This uncertainty could compromise the early warning benefits provided by the existing Byrd Amendment. Annual program levels would be unaffected under this strategy.

[11]The Byrd Amendment considers total income to the highway account, including both tax receipts and interest earned on the account balance.

[12]Traditionally, apportionments have not lapsed because states obligate their oldest apportioned funding as soon as possible under existing obligation ceilings.

[13]An FHWA policy official stated that extending the Byrd test's consideration of future revenues makes sense, since a number of years elapse before obligations are fully liquidated. On average, for each dollar obligated, 17 cents is liquidated in the year of obligation, 52 cents in the second year, 15 cents in the third year, 5 cents in the fourth year, and the remaining 11 cents over the next few years.

Fifth, the Byrd test could be altered to apply to the full Highway Trust Fund.[14] If the Byrd test were applied to the two accounts jointly, FHWA would not be required to reduce apportionments, since the amended Byrd test would be satisfied for each year of the ISTEA authorization and program levels would be unaffected. However, using the mass transit account in this way could be seen as undermining the mass transit account and its objectives for the purpose of masking a highway financing problem. Also, bringing the mass transit account into the Byrd test calculation would not resolve the basic revenue shortfall.

Sixth, the Byrd test could be modified to weigh total outstanding obligations—not total outstanding authorizations—against available and anticipated revenues to the highway account. This strategy would prevent reductions in apportionments as long as obligation ceilings remained substantially lower than authorizations and would permit stable program levels. Supporters of such a change argue that the current calculation is overly conservative, since it takes into account funds presently excluded from obligation by obligation ceilings.

In the long term, however, the funds excluded from obligation (known as the "unobligated balance") roll over to the next fiscal year and remain available throughout the specified availability period.[15] Limiting the Byrd test to consideration of outstanding obligations would make the test substantially more lenient and thus diminish the law's capacity to warn of an imbalance between total authorizations and total anticipated revenues. This strategy would give the revenue picture time to improve, but if revenues did not rebound, the Congress could repeal $5.9 billion of the unobligated balance or incorporate $5.9 billion of the unobligated balance in the next reauthorization.

Finally, a complete legislative suspension of the Byrd Amendment would forestall apportionment reductions, and program levels could be maintained as currently expected. A suspension, however, would not maintain the Byrd test's ability to signal future solvency problems. Under this scenario, states would have access to the full ISTEA authorization

[14]Federal law currently establishes separate financial condition standards for the highway and mass transit accounts, requiring the transit account to adhere to a more stringent version of the Byrd test. Whereas outstanding authorizations against the highway account may be offset by 2 years' future revenues, outstanding authorizations against the mass transit account may be offset by only 1 year's additional revenues.

[15]As noted above, the availability of apportionments for obligation is limited to 1 to 4 years for some highway programs. However, some highway program apportionments are available for obligation indefinitely.

because FHWA would have no authority to reduce apportionments. Thus, when the highway account was exhausted, the federal government would be under substantial pressure to reimburse state expenditures. It is likely that such reimbursements would have to be made out of the General Fund, adding to the federal budget deficit.

Each of the seven strategies that we have discussed presents a unique mix of advantages and disadvantages. To evaluate the effect of each strategy on resolving the financial difficulties facing the highway account, we identified four key objectives for a solution. These objectives are (1) preserving the early warning benefits offered by the existing Byrd Amendment; (2) preventing Byrd Amendment apportionment reductions throughout the ISTEA authorization period; (3) allowing states a steady, predictable annual program (obligation) level throughout the ISTEA authorization period; and (4) fully closing the impending gap between authorization and revenue levels, thereby leaving the highway account in a sound financial position at the end of the ISTEA authorization period. Table 2 presents each of the seven strategies that we have discussed and indicates whether it would meet the stated objectives.

Table 2: Strategies for Safeguarding Highway Financing

	Objectives			
Strategy	**Preserves Byrd Amendment early warning**	**Prevents apportionment reductions**	**Allows stable annual program (obligation) level**	**Eliminates shortfall**
Allow Byrd Amendment to take effect	Yes	No	No	Yes, but only with corrective action[a]
Extend 2.5-cent tax	Yes	Yes	Yes	Yes
Severely limit obligations	Yes	Yes	No	Yes
Extend Byrd test and revenue collections to 3 years	Partial[b]	Yes	Yes	Yes
Apply Byrd test to full trust fund	Yes	Yes	Yes	Partial[c]
Apply Byrd test to outstanding obligations	No	Yes	Yes	Yes, but only with corrective action[a]
Suspend Byrd Amendment	No	Yes	Yes	No

[a]Necessary corrective actions include either (1) repealing budget authority in the amount of the anticipated shortfall or (2) including the equivalent portion of the ISTEA authorization (or unobligated balance) in the next reauthorization.

[b]Although the Byrd Amendment would remain intact under this strategy, its early warning benefits would be compromised because of the uncertainty inherent in considering revenues a full 3 years into the future.

[c]Although the full Highway Trust Fund would end the ISTEA authorization period in a sound position, the highway account's health would have been achieved by depleting the mass transit account balance.

Conclusions

The ISTEA highway authorization sets higher funding levels than currently projected revenues can support. The resulting shortfall, estimated at $5.9 billion, will reduce states' apportionments in fiscal years 1995, 1996, and 1997. The accuracy of this estimate will depend on the extent to which actual revenues correspond to current estimates. If monitoring of the highway account continues to indicate that revenues will not cover authorizations, a variety of policy options are available to respond to the projected shortfall. They range from allowing the Byrd Amendment to take effect to suspending the Byrd Amendment entirely. Alternatives include increasing revenues credited to the highway account, severely limiting obligations, or changing the method for computing the Byrd test.

At present, the Department of the Treasury is not submitting mandated quarterly reports on the outcome of the Byrd test to key congressional committees. Officials from the Treasury have reported plans to take corrective action that would meet the Byrd Amendment's mandate. This mandate requires the Treasury to project the outcome of the Byrd test for 1 year into the future. However, if the mandate were revised to require a 2-year projection, it would be consistent with the Byrd test's consideration of 2 years' anticipated revenues.

Matters for Consideration by the Congress

The Congress may wish to consider a range of strategies to address the expected revenue shortfall in the highway account. We have presented seven primary strategies for consideration, some of which will prevent reductions in apportionments and some of which will also solve a long-term projected revenue shortfall. The Congress may also wish to consider requiring the Department of the Treasury to extend the period for reporting the outcome of the Byrd test from 1 fiscal year to 2 fiscal years into the future, thus bringing the reporting requirements into conformity with the Byrd test calculation.

Agency Comments

We discussed this report with agency officials from the Office of the Secretary of Transportation and the FHWA Office of Chief Counsel, Office of Policy Development, and Office of Fiscal Services. We also obtained the views of officials from the Department of the Treasury, principally from the Office of Tax Analysis. Officials from each of these offices generally agreed with our findings, and we have incorporated their comments and clarifications. As agreed with your office, we did not obtain written comments on a draft of this report.

We performed our work from March through August 1992 in accordance with generally accepted government auditing standards. A detailed description of our scope and methodology appears in appendix III.

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 of this report to the Secretary of Transportation; the Secretary of the Treasury; the Administrator, Federal Highway Administration; and other interested parties. We will make copies available to others on request.

This work was performed under the direction of Kenneth M. Mead, Director, Transportation Issues, who can be reached on (202) 275-1000 if you or your staff have any questions. Other major contributors to this report are listed in appendix IV.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Contents

Abbreviations

DOT	Department of Transportation
FHWA	Federal Highway Administration
GAO	General Accounting Office
ISTEA	Intermodal Surface Transportation Efficiency Act of 1991

Apportionment Reductions and Obligation Ceilings

According to the Federal Highway Administration's (FHWA) Office of Chief Counsel, the reductions mandated by the Byrd Amendment would postpone the apportionment of funding to the states until revenues to the highway account increased enough to allow their apportionment. Under current projections, apportionments totaling about $5.8 billion would be withheld in fiscal years 1995 through 1997.

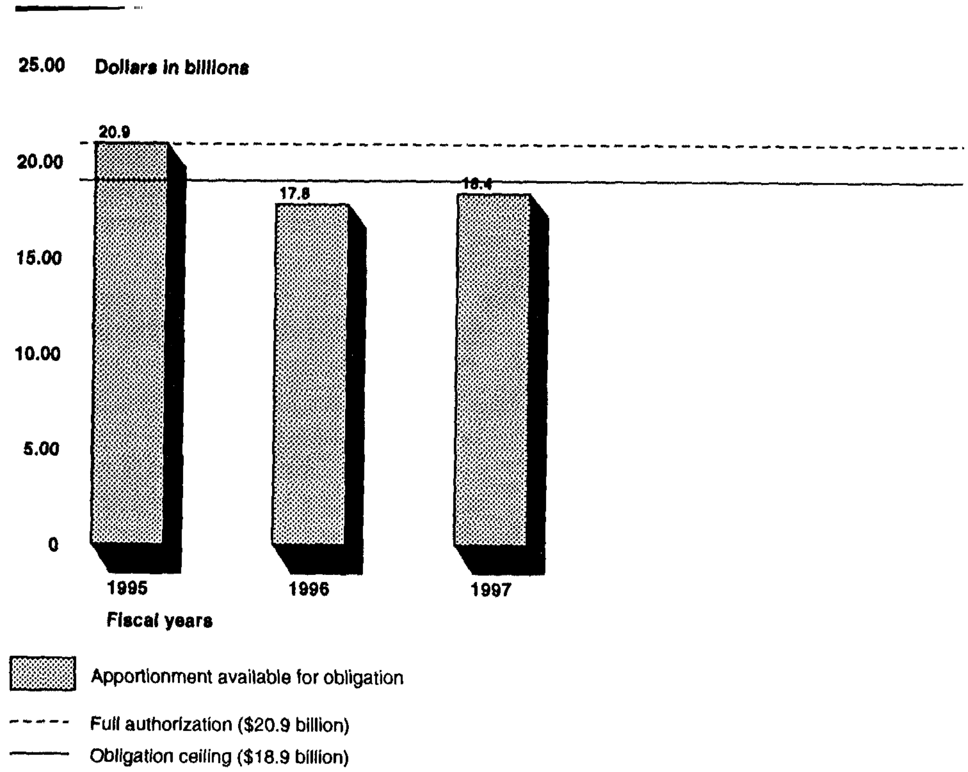
Impact of Reductions in Apportionments Could Be Mitigated

The impact of reductions in apportionments on state highway spending would initially be mitigated by the constraints that obligation ceilings already impose. Unless an apportionment reduction undercut the obligation ceiling, there would be no change in the amount that a state could obligate in a given fiscal year for programs subject to the obligation ceiling.[1]

As figure I.1 shows, a 0.0007-percent reduction in apportionments for fiscal year 1995 would not affect the states' ability to obligate funds, since the obligation ceiling proposed by the administration for that year would already exclude about 10 percent of the authorized funding from obligation.

[1]Most, but not all, highway programs are subject to the obligation ceiling. Of the programs exempt from the obligation ceiling, only the minimum allocation program also qualifies as apportioned.

Figure I.1: Comparison of Impacts: Apportionment Reductions Versus Obligation Ceilings



Obligation ceilings as projected by FHWA on the basis of the administration's fiscal year 1993 budget.

Reductions in the authorization are due to projected reductions in apportionments required by the Byrd Amendment. The reductions apply only to apportioned programs.

However, as figure I.1 further shows, 15-percent and 12.4-percent reductions in apportionments in fiscal years 1996 and 1997, respectively, could impose an additional check on the states' ability to obligate funds, since these reductions would cut even deeper than the obligation ceilings projected in the President's fiscal year 1993 budget proposal.

As figure I.1 makes plain, if obligation ceilings were lower than about $17.5 billion in fiscal years 1996 and 1997, the reductions in apportionments would continue to have no effect on the amount of money available for obligation for programs subject to the ceiling. The impact of the reductions would not be apparent because the lower obligation ceilings would hide the effect of the reductions on state obligation levels.

Impacts on Individual States Would Vary

The impact of reductions in apportionments on individual states would vary because certain highway funding categories would be exempt from the reductions. States that receive a greater percentage of their funding for exempt programs would fare better than other states. Exemptions occur because FHWA distributes (allocates) funds to the states for some projects on the basis of administrative criteria and/or statutory or project-based criteria rather than on the basis of a statutory formula such as is used to distribute (apportion) most highway funds.

Since reductions in apportionments mandated by the Byrd Amendment apply only to programs that receive apportioned funds, funding for allocated funding categories, such as demonstration projects, would not be reduced, and apportioned programs would carry the full weight of the reductions. Department of Transportation officials said that they might seek legislation to ensure that all programs would be subject to proportionate cuts under the Byrd Amendment, but they have not yet done so.

Revenue Impacts of Extending and Redirecting the 2.5-Cent Motor Fuel Tax

Dollars in billions

	Amounts credited by fiscal year[a]				
	1995	**1996**	**1997**	**1998**	**1999**
Proposed 2.5-cent tax to the highway account	[b]	$3.5	$3.8	$4.0	$4.2
2 future years' revenues from proposed 2.5-cent tax	7.3	7.8	8.2	•	•
Total offsetting revenues	**7.3**	**11.3**	**12.0**	•	•
Less expected shortfall	0	3.2	2.7	•	•
Outcome of the Byrd test	**7.3**	**8.1**	**9.3**	•	•

[a]Includes interest earned.

[b]Current law provides that 2.5 cents of the per-gallon motor fuel tax be used for deficit reduction purposes through September 30, 1995. Hence, these funds are credited to the General Fund for fiscal year 1995.

Source: GAO's analysis of FHWA highway account data.

Scope and Methodology

We performed our work from March through August 1992 in accordance with generally accepted government auditing standards. We obtained financial reports on the current and projected status of the Highway Trust Fund highway account from officials in the Federal Highway Administration and the Office of the Secretary of Transportation, and we discussed the information with them. We obtained revenue projections prepared by the Department of the Treasury for the administration's fiscal years 1992 and 1993 budgets, and Treasury officials responded to specific questions regarding the forecasts. We discussed the projections with officials from the Congressional Budget Office and the Office of Management and Budget. Also, we compared past years' revenue estimates against actual revenues and determined that over a 4-year span, the cumulative variance was less than 2 percent. Nevertheless, some differences between projected and actual outcomes will occur.

To determine the consequences of an anticipated shortfall in highway financing, we reviewed relevant legislative materials, such as the Byrd Amendment; key congressional reports; and transcripts of hearings. In addition, we discussed the consequences of the Byrd Amendment's taking effect with officials in FHWA and in the Office of the Secretary of Transportation.

On the basis of our analysis of the status of the highway account and the Byrd Amendment's impact, we identified a range of strategies to address the anticipated shortfall. In addition, we solicited proposals and comments on the strategies' advantages and disadvantages from officials in FHWA, the Office of the Secretary of Transportation, and the American Association of State Highway and Transportation Organizations.

We discussed the information in this report with officials from FHWA and from the Office of the Secretary of Transportation, and we incorporated the clarifications they suggested where appropriate.

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