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Transportation Trust Funds

Statement of
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We appreciate this opportunity to testify on the status of the major federal transportation trust funds--the Highway Trust Fund and the Airport and Airway Trust Fund. These funds currently have large unspent balances that highway and aviation user groups claim should be spent on additional transportation projects. Although each trust fund currently has a large balance, these balances are needed to meet existing or imminent commitments. The question of trust fund balances also raises the larger issue of the use of trust fund monies to mask the size of the federal deficit.

To provide a better climate for making decisions about transportation infrastructure needs, we believe the federal budget should be restructured. This restructuring would distinguish between operating expenses and capital spending for general, trust, and enterprise activities. Deficit reduction targets could then be set to correspond with the revised budget structure.

Now, Mr. Chairman, I would like to discuss the issue and each fund more specifically, starting with the Highway Trust Fund.

HIGHWAY TRUST FUND BALANCE

The Highway Trust Fund was created in 1956 to provide a mechanism for financing the federal-aid highway program. Revenues to the fund come from taxes levied on gasoline, diesel fuel, tires, and parts and accessories for trucks and buses.[1] The monies paid into the fund are earmarked primarily for the federal-aid highway program. The balance in the highway account at the end of fiscal year 1988 was slightly over $9 billion. However, this balance is needed to pay outstanding commitments of $31 billion--$22 billion more than the account balance. This is an acceptable shortfall because payments generally are made over several years as the states submit bills for completed work and revenues continue to come into the trust fund. Over the next 2 years, $29 billion will be paid into the fund. The balance plus revenues through fiscal year 1990, therefore, will exceed outstanding commitments by more than $7 billion.[2]

If the program is reauthorized these uncommitted funds will simply be carried forward as they have been in the past. We expect that the program will be reauthorized, but to see whether there is a surplus in the highway account, assume the program is not reauthorized. No new projects would be authorized after 1991, and trust fund revenues would end after 1993. Then, total revenues

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[1]Since 1982, 1 cent of the 9 cents per gallon tax on gasoline has been earmarked for mass transit. The Highway Trust Fund, therefore, has two accounts, a highway account and a mass transit account.

[2]Based on FHWA's estimates of future obligation ceilings as provided in the President's fiscal year 1990 budget.

would exceed total commitments by $7.4 billion.[3] These uncommitted funds could be spent on additional commitments.

Federal Highway Administration (FHWA) officials told us a prudent minimum balance of $1 to $3 billion is necessary to guard against unforeseen disruptions in revenue flows, like those that occurred during the energy crises of the 1970s. However, these officials said that, while the trust fund could support more commitments, the agency does not favor increasing expenditures for highway projects at this time because doing so would adversely affect the overall federal deficit.

AIRPORT AND AIRWAY TRUST FUND

The Airport and Airway Trust Fund was established in 1971. It is financed by excise taxes levied on air passengers, air cargo, and general aviation fuel. Most of the fund is devoted to airport grants and capital improvements, such as new radar and traffic control towers. Within certain limits, set by the Congress, some of the remaining money can be used to cover the Federal Aviation Administration's (FAA) operations and maintenance (O&M) expenses. That portion of FAA's O&M not paid from trust fund revenues must be financed from the general funds of the U.S. Treasury.

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[3] Highway Trust Fund: Condition and Outlook for the Highway Account (GAO/RCED-89-136, May 1989.)

For almost the entire history of this trust fund, receipts have exceeded trust fund spending. The current $13 billion balance exceeds outstanding commitments by almost $7 billion, and, in that sense, the fund has a surplus.

This surplus, however, is illusory. Trust fund expenditures for O&M have been restricted since 1971. Although the Congress has allowed FAA to spend aviation user fees to cover O&M expenses since 1976, there are limits on how much can be spent for O&M--much less than the full cost of providing services to aviation system users. The maximum allowable amount for O&M costs is further reduced if spending targets for capital programs are not met. If it were not for these limitations, there would be no surplus.

Not only is the surplus illusory, but the existing balance will be temporary. Funding requirements to modernize the aviation system are expected to intensify over the next few years as a number of long-delayed projects reach the implementation stage.

I would like to expand on three points.

Subsidy Issue

First, the overall cap on trust fund spending for O&M is much less than the burden created by the system's users.[4] If the users paid for all the costs occasioned by their use, then the Airport and Airway Trust Fund would be running a deficit of more than $1 billion annually.

The Congressional Budget Office recently concluded that private aviation (commercial and general) operations are responsible for about 85 percent of the costs of FAA's aviation programs, while public aviation (primarily military) operations are responsible for the remaining 15 percent. In 1988, if private sector users were to support 85 percent of total FAA spending, the trust fund would have paid almost three-fourths of FAA's O&M expenses. The actual proportion was slightly more than one-fourth. Therefore, almost one-half of FAA's O&M expenses were covered by a taxpayer subsidy to aviation system users.[5]

The subsidy to private users will increase further if the trigger tax provision of the Airport and Airway Safety and Capacity Expansion Act of 1987 takes effect. While the spending cap limits

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[4]Trust fund spending for O&M is currently capped at an amount equal to 50 percent of the total amounts available for airport grants, facilities and equipment, and research and development.

[5]Congressional Budget Office, The Status of the Airport and Airway Trust Fund, Washington, D.C., Dec. 1988.

trust fund outlays for FAA's O&M costs, the trigger tax provision reduces aviation trust fund taxes and, therefore, income to the trust fund, by 50 percent, if capital spending fails to meet congressional targets.[6] Unless the Congress acts, aviation excise taxes will fall by $1.2 billion in 1990, and the taxpayer subsidy will increase.

We believe that the Congress should consider eliminating the restrictions on spending for FAA's O&M costs. Over time, the aviation community has agreed to finance an ever larger portion of O&M. We support this direction. We believe that users should bear their share of the cost of operating the aviation system. Given the current federal budget deficit and the strains on the nation's aviation system resources, we believe the Congress should give serious consideration to the recent recommendation of the President's Commission on Aviation Safety to expand the use of the fund to pay for more of FAA's operations, including work force salaries and expenses.

Penalty Clause

Second, in addition to the overall cap on spending for FAA's O&M, there is also a penalty provision that reduces the maximum

[6]The trigger provision reduces aviation excise taxes by 50 percent if the sum of the obligation limits for airport grants and appropriations for facilities and equipment acquisition and research and development for 1988 and 1989 is less than 85 percent of the total amounts the Congress authorized.

amount that can be spent for O&M in proportion to any shortfall in spending on capital programs.[7] If not for this penalty clause, the trust fund, rather than general revenues, would have been used to fund $5.3 billion for FAA operations between 1983 and 1989. When interest on these unspent funds is added in, the impact of the penalty clause on the trust fund balance amounts to $6.8 billion--nearly the entire current surplus.

To the extent that spending out of the trust fund for FAA's O&M costs has been limited, the shortfall has been made up by payments from the general fund, resulting in what amounts to a subsidy by the general taxpayers to aviation system users.

National Airspace System Plan Impacts

Finally, the trust fund balance is large because FAA has experienced delays in modernizing the nation's air traffic control system. Our prior work has found that the delays have resulted primarily from unrealistic initial schedules and problems in developing new technologies.[8] System development delays are

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[7]In the Airport and Airway Safety and Capacity Expansion Act of 1987, the penalty clause reduced the amount of FAA's operating costs that could be covered by the trust fund by $2.50 for each $1.00 that appropriations for airports, facilities and equipment acquisition, and research and development fell below the levels the Congress authorized.

[8]Issues Related To An Independent FAA, (GAO/T-RCED-88-45, June 2, 1988.)

related to FAA's underestimating (1) the complexity of highly automated systems, (2) the time needed to develop system software, and (3) the interdependencies among systems.

In addition, contractors have been unable to perform on schedule. For example, in the case of the $511 million Flight Service Station project, computers had to be stored for several years because the required software was not ready. Other major systems whose schedules suffered because of contractor delivery problems include the $5 billion Advanced Automation System, the $786 million Voice Switching and Control System, and the $489 million Mode S Communications System. These and other problems have led to the accumulation of unspent balances in the trust fund.

The cost of modernizing the air traffic control system has risen dramatically, creating a pent-up demand for future trust fund expenditures. FAA estimates that it will cost $4 billion more than the original $12 billion planned to complete the program. We believe that total air traffic control modernization costs are even greater. In November 1988 we estimated that, if the costs of all associated projects to modernize the system are included, the total cost will be about $25 billion through the year 2000.[9] More recently, information provided by FAA's Systems Engineering and

[9] Air Traffic Control: Continued Improvements Needed in FAA's Management of the NAS Plan (GAO/RCED-89-7, Nov. 10 1988).

Integration Contractor identified even greater costs--some $27 billion, over that same period.

RESTRUCTURING THE FEDERAL BUDGET

To this point, our testimony has focused on the trust fund balances. Now, Mr. Chairman, we would like to discuss trust funds in the context of the federal budget structure.

Proponents of increased trust fund spending for capital improvement projects have recommended taking the transportation trust funds off-budget or, if they remain on-budget, exempting them from Gramm-Rudman-Hollings sequestering. There have also been proposals to use the balances in the funds to set up revolving loan funds. However, all proposals to increase spending by "freeing up" the transportation trust funds ignore the central point that there is only one overall federal budget. They also overlook the fact that the monies are needed to meet existing or imminent commitments. Because the congressional budget process sets limits on budget authority and outlays by budget programs, increased spending out of the transportation trust funds would increase pressure to cut spending elsewhere in order to reduce the deficit.

We believe that trust funds should be excluded from the unified budget only in cases where the federal government holds the funds in a fiduciary trust for others, the customary meaning of a trust fund.[10] This is not the case for the transportation trust funds. We are concerned that creating off-budget entities to carry out governmental functions will avoid the discipline of the budget process. Such entities can be a serious threat to the integrity of the government's budget and financial management systems. If off-budget accounts are allowed to proliferate, they will produce to grave doubts about the credibility of the government's reports on its financial operations and condition. Reduced credibility will make it even more difficult for decisionmakers and the public to understand and deal meaningfully with the overriding problem of the budget deficit.

On the other hand, we believe that the current budget structure, with its focus on a single deficit total, masks trust and non-trust fund fiscal relationships. By restricting trust fund spending to amounts below the levels authorized and below revenues coming into the fund, the resulting surplus lowers the total federal deficit. For example, the $155 billion total federal budget deficit reported for fiscal year 1988 does not reveal that the non-trust fund deficit was $246 billion, offset by trust fund surpluses for the year of $91 billion. Moreover, this masking effect is becoming more pronounced over time as some trust fund

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[10]Statutory trust funds, such as the transportation trust funds, differ from the customary public understanding of a trust fund--money belonging to one party held by another, a trustee, acting as a fiduciary. Most trust funds in the federal government lack the fiduciary relationship. The beneficiaries do not own the funds and the Congress can, and often does, modify the terms of the funds.

surpluses soar, especially the social security trust funds. Proponents of increased trust fund spending also claim that creating trust fund surpluses to reduce the overall deficit breaks the implied agreement underlying the original trust fund tax enactment--to use the tax receipts solely for trust fund programs.

We believe that the incentives to restrict spending out of the transportation trust funds as a way of masking the deficit and the resulting pressures to take the trust funds off-budget, could be eliminated or lessened significantly. To do this, the current federal budget's structure would need to be modified to distinguish between operating expenses and capital investments for general, trust, and enterprise activities.

The current single-number focus of federal deficit reduction efforts is based on a highly questionable assumption--all outlays and debt are the same, whether for capital investments or operating expenses. This is not the case. Capital outlays do not immediately reduce the resource base of the government the way outlays for current operations do, because capital outlays represent asset exchanges. When outlays are made and related debts are incurred to acquire such assets as highways or runways, they produce future streams of benefits to the government and to society-at-large. Therefore, debt incurred to finance capital investments should be thought of as "capital financing" rather than as a contributor to the "deficit."

The current budget also creates a budget bias against capital investment programs, which could lead to uneconomical decisions. Because the current budget recognizes capital investment costs in the early years of a program, a proposed new investment appears more costly, on a yearly basis, than it really is. Under the present budget rules, a $50-million outlay to construct a new highway or runway in a given year contributes to the year's deficit the same as a $50-million expenditure for the government's day-to-day operations. Capital projects are at a disadvantage during budget deliberations when competing with an alternative means of financing the investment that would have lower initial costs, such as leasing, but which have significantly higher long-term costs. This difference could lead decisionmakers to select the leasing option even though it would entail larger, long-term costs without the sizable benefit of eventual ownership.

A restructured federal budget would distinguish between operating expenses and capital investments and better highlight trust and enterprise activities. Deficit goals could be established to reflect the appropriate balance between spending for operations and for capital investments. Also, budget goals could be separately tailored for trust and enterprise funds, taking into account their special requirements.

CONCLUSIONS

In conclusion, Mr. Chairman, while there are balances in the Highway and in the Airport and Airway Trust Funds, these balances are needed to meet outstanding and imminent commitments. In the Highway Trust Fund, current commitments exceed the fund's balance. Although the current balance plus future revenues exceed outstanding commitments, increasing commitments will adversely affect the overall federal deficit. The Airport and Airway Trust Fund currently has a surplus primarily because trust fund spending for FAA's O&M expenses has been restricted. Future capital improvement costs, however, will place increased demands on this surplus. Finally, we believe that the federal budget needs to be restructured. With its focus on a single deficit total, the current budget creates a budget bias against capital investments, like those financed by the transportation trust funds, and masks trust and non-trust fund fiscal relationships.

This concludes my prepared statement. I would be glad to answer any questions.