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HIGHWAY TRUST FUND

Overview of Highway Trust Fund Financing

Statement for the Record of JayEtta Z. Hecker
Director, Physical Infrastructure Issues



Mr. Chairman and members of the subcommittee:

We appreciate the opportunity to provide testimony on the Highway Trust Fund. Our statement today is based on our June 2000 report on problems with Highway Trust Fund information,¹ work we performed as the principal auditor of the annual financial statements of the Department of Treasury's Internal Revenue Service (IRS), and other work we do to assist the Department of Transportation Office of Inspector General in its annual audits of the Highway Trust Fund and Department of Transportation financial statements. The Highway Trust Fund is the principle mechanism for funding federal highway programs authorized by the Transportation Equity Act for the 21st Century (TEA-21). Under TEA-21, the funding levels for federal highway programs are adjusted annually upward or downward based on actual and projected receipts of the Highway Trust Fund. These adjustments are referred to as the Revenue Aligned Budget Authority (RABA). We are currently reviewing the fiscal year 2003 RABA adjustment. We can provide you the results of that work at a later time.

This statement will provide a description of (1) how TEA-21 changed the budgetary treatment of programs financed by the Highway Trust Fund, (2) how RABA is calculated, and (3) the results of our review of the Department of the Treasury's excise tax distributions to the Highway Trust Fund for fiscal year 2001.

In summary:

- TEA-21 made significant changes to the budgetary treatment of federal highway and transit programs financed by the Highway Trust Fund. In particular, TEA-21 guaranteed annual funding levels for most highway and transit programs and more closely linked highway user tax receipts, such as those from motor fuel and truck tire taxes, to the annual funding levels for highway programs.
- RABA adjustments are made to the annual guaranteed funding level provided in TEA-21 as Highway Account receipt levels change. For the first time, the RABA adjustment for fiscal year

¹U.S. General Accounting Office, *Highway Funding: Problems with Highway Trust Fund Information Can Affect State Highway Funds*, [GAO/RCED/AIMD-00-148](#) (Washington, D.C.: June 2000).

2003 is negative—decreasing the guaranteed level of highway funding by \$4.369 billion.

- Our work shows that the amounts distributed to the Highway Trust Fund for the first nine months of fiscal year 2001, as adjusted based on IRS' certifications, were reasonable and adequately supported based on available information.

TEA-21 and the Highway Trust Fund

TEA-21 authorized \$217.9 billion for highway, mass transit, and other surface transportation programs for fiscal years 1998 through 2003. TEA-21 continued the use of the Highway Trust Fund—which is divided into a Highway Account and a Mass Transit Account—as the mechanism to account for federal highway user tax receipts that fund various surface transportation programs. Prior to TEA-21, these programs competed for budgetary resources through the annual appropriations process with other domestic discretionary programs. In a major change to federal budget rules, TEA-21 guaranteed a minimum level of spending for various highway and transit programs. New budget categories were established for highway and transit spending, effectively establishing a budgetary “firewall” between those programs and other domestic discretionary spending programs. Of the \$217.9 billion authorized for surface transportation programs over the 6-year life of TEA-21, about \$198 billion is protected by the budgetary firewall—about \$162 billion for highway programs and \$36 billion for transit programs. TEA-21 enhanced the linkage between highway user tax receipts in the Fund’s Highway Account and federal highway program funding levels in several ways, including (1) guaranteeing annual funding levels for most highway programs over a 6-year period on the basis of the projected receipts in the Highway Account, and (2) adjusting the guaranteed spending level for each fiscal year upward or downward if the receipt levels in the Highway Account increased or decreased from those projected in TEA-21.

Federal highway user taxes directed to the Highway Trust Fund include excise taxes on motor fuels (gasoline, gasohol, diesel, and special fuels); and truck-related taxes on truck tires, sales of trucks and trailers, and the use of heavy vehicles (see fig. 1). Someone other than the consumer generally pays the excise taxes directed to the Highway Trust Fund. Oil companies typically pay a per-gallon tax on the motor fuels at the point where their fuel is loaded into tanker trucks or rail cars at a terminal. Tire manufacturers pay taxes on truck tires, by weight; and retailers pay taxes

on the sales price of new trucks and trailers. Owners of heavy highway vehicles pay taxes on the use of these vehicles, making this the only highway tax directly paid by the highway user.²

²See our report: U.S. General Accounting Office, *Highway User Fees: Updated Data Needed To Determine Whether All Users Pay Their Fair Share*, GAO/RCED-94-181 (Washington, D.C.: June 1994).

Figure 1: Highway User Taxes (Cents per gallon)

Type of tax	Tax rate	Distribution of tax			
		Highway trust fund	Leaking underground storage tank trust fund	General fund	
		Highway account	Transit account		
Motor fuels taxes					
Gasoline	18.40	15.44	2.86	0.10	-
Diesel	24.40	21.44	2.86	0.10	-
Alternative fuels taxes					
Gasohol (10% ethanol)	13.10	7.64	2.86	0.10	2.5
Liquefied petroleum gas	13.60	11.47	2.13	-	-
Liquefied natural gas	11.90	10.04	1.86	-	-
M85 (from natural gas)	9.25	7.72	1.43	0.10	-
Compressed natural gas (cents per thousand cu. ft.)	48.54	38.83	9.70	-	-
Truck-related taxes					
Tires:	0-40 lbs, no tax Over 40 lbs – 70 lbs, 15 cents per pound in excess of 40 Over 70 lbs – 90 lbs, \$4.50 plus 30 cents per pound in excess of 70 Over 90 lbs, \$10.50 plus 50 cents per pound in excess of 90				
Truck and Trailer Sales Tax	12 percent of retailer's sales price for tractors and trucks over 33,000 lbs gross vehicle weight (GVW) and trailers over 26,000 lbs GVW				
Heavy Vehicle Use Tax	Annual tax: Trucks 55,000 lbs and over GVW, \$100 plus \$22 for each 1,000 lbs (or fraction thereof) in excess of 55,000 lbs (maximum tax of \$550)				

Note: Tax rates as of July 1, 2001. Tax rates for gasohol mixtures vary based on the amount of ethanol contained in the mixture.

Source: Federal Highway Administration (FHWA) and the Office of Tax Analysis, Department of the Treasury.

Twice a month, business taxpayers make deposits of excise taxes—including highway user taxes—generally through Treasury’s Electronic Federal Tax Payment System. Excise taxes are deposited into Treasury’s General Fund as received. Treasury uses a complex and lengthy process—involving four organizations within the department—for distributing excise tax receipts to the various trust funds, including the Highway Trust Fund. The department uses this process, in part, because it does not obtain data from business taxpayers (when they make semimonthly deposits) on the types of excise taxes that these deposits are intended to cover.

Because businesses, rather than consumers generally pay highway user taxes, most of the federal motor fuel and truck taxes come from only the handful of states where those businesses have their corporate headquarters and pay their taxes. As a result, Treasury does not provide the Federal Highway Administration (FHWA) with state-level data on highway tax receipts, and FHWA must therefore estimate these data, which are used in determining the amount of funds distributed to each state under several major highway programs. FHWA estimates state-level contributions through what it refers to as its “attribution process.” Through this process, it estimates each state’s share of highway motor fuel usage on the basis of data provided by the states, and it uses that information to estimate the amount of contributions to the Highway Account attributable to each state’s highway users.

The Revenue Aligned Budget Authority Calculation

TEA-21 used projections of Highway Account receipts to develop guaranteed highway program funding levels for fiscal years 1999 through 2003. Beginning in fiscal year 2000, these guaranteed levels were to be adjusted upward or downward each year on the basis of actual Highway Account receipts and current projections of these receipts. RABA adjustments ensure, for the first time, that highway program funding levels will change as Highway Account receipt levels change.

The RABA adjustment to the funding levels authorized in TEA-21 is based on actual receipts from 2 years prior to the budget year, as reported by Treasury, and revised Treasury receipt projections for that year. For example, for fiscal year 2000, this adjustment was calculated by comparing (1) actual Highway Account receipts for fiscal year 1998 with the TEA-21 projection of these receipts (the “look back” portion of the calculation) and (2) revised projections of Highway Account receipts for fiscal year

2000 with the TEA-21 projection of these receipts (the “look forward” portion of the calculation). The sum of these differences was the RABA adjustment. To determine the amount of the RABA adjustment, the Office of Management and Budget and the Office of the Secretary in the Department of Transportation rely on information on Highway Account receipts supplied by Treasury. Specifically, the Bureau of Public Debt provides the actual Highway Account receipts for the prior fiscal year, and the Office of Tax Analysis (OTA) provides a projection of Highway Account receipts for the next fiscal year.

Figure 2 shows the RABA calculations and resulting adjustments for fiscal years 2000 through 2003. As shown, the RABA adjustments for fiscal year 2000 through fiscal year 2002 were positive—increasing highway funding levels by a total of over \$9 billion. However, the RABA adjustment for fiscal year 2003 is negative \$4.369 billion. This is because actual Highway Account receipts for fiscal year 2001 were less than the TEA-21 estimate for fiscal year 2001, and Treasury’s projection of Highway Account receipts for fiscal year 2003 was less than the TEA-21 estimate for that year.

Figure 2: RABA Calculation for Fiscal Years 2000 through 2003 (In millions of dollars)

Fiscal year	'Lockback'		'Lockahead'		RABA
FY2000	1998 actual Highway Account receipts	23,135	2000 est. Highway Account receipts	28,551	1,466
	less: 1998 TEA-21 est. Hwy. Account receipts	22,164	less 2000 TEA-21 est. H-A receipts	28,066	
	less: lock-ahead result for 1998	0			
	subtotal	971	subtotal	485	
FY2001	1999 actual Highway Account receipts	33,815	2001 est. Highway Account receipts	30,368	3,068
	less: 1999 TEA-21 est. Hwy. Account receipts	32,619	less 2001 TEA-21 est. Highway Account receipts	28,506	
	less: lock-ahead result for 1999	0			
	subtotal	1,196	subtotal	1,862	
FY2002	2000 actual Highway Account receipts	30,334	2002 est. Highway Account receipts	31,732	4,543
	less: 2000 TEA-21 est. Hwy. Account receipts	28,066	less 2002 TEA-21 est. Highway Account receipts	28,972	
	less: lock-ahead result for 2000	485			
	subtotal	1,783	subtotal	2,760	
FY2003	2001 actual Highway Account receipts	26,900	2003 est. Highway Account receipts	28,570	(4,369)
	less: 2001 TEA-21 est. Hwy. Account receipts	28,506	less 2003 TEA-21 est. Highway Account receipts	29,471	
	less: lock-ahead result for 2001	1,862			
	subtotal	(3,468)	subtotal	(901)	

Note: Actual receipts are net tax receipts (excluding fines and penalties) after deduction of transfers and refunds. OTA prepares forecasts of tax receipts to the Highway Account of the Highway Trust Fund for the president's budget and other analyses. References to TEA-21 estimates are to the estimates of Highway Account receipts in TEA-21. The Congressional Budget Office prepared these estimates.

Source: Department of Transportation and the Office of Tax Analysis, Department of the Treasury.

We are currently reviewing the fiscal year 2003 RABA calculation and will report our results at a later date. We have, however, completed our annual review of the Treasury's distribution of excise taxes to the Highway Trust Fund for fiscal year 2001—which account for about 80 percent of the total negative RABA of \$4.369 billion.

Treasury's Excise Tax Distributions to the Highway Trust Fund for the First 9 Months of Fiscal Year 2001 Are Reasonable

The federal government levies excise taxes on entities and individuals to finance general federal activities and specific government programs. Several different bureaus and offices within Treasury collected about \$69 billion of net excise taxes in fiscal year 2000. However, IRS accounted for the majority of excise taxes in fiscal year 2000, with about \$54 billion in net excise tax collections on the purchase, use, or inventory of various types of goods or services, such as gasoline. The various excise tax receipts accounted for by IRS are initially deposited into the General Fund of the Treasury as they are paid by the business taxpayer; subsequently, a portion of these deposits is distributed to nine excise tax-related trust funds, which are administered by six federal agencies. More than 63 percent of these funds are ultimately distributed to the Highway Trust Fund.

The secretary of treasury is required to transfer applicable excise tax receipts from the General Fund to trust funds on a monthly basis. These transfers are based on estimates because data are not available to allocate excise taxes to the appropriate trust funds when the deposits are initially made. Treasury's OTA prepares these semimonthly estimates based on historical IRS certification data and actual current excise tax revenue collections. The estimates are used to prepare accounting entries for the initial distributions to the trust funds. Subsequently, IRS certifies the actual excise tax revenue collections that should have been distributed to the trust funds based on the payments and tax returns IRS receives from taxpayers.³ Using the IRS certifications, Treasury then makes quarterly adjustments to the initial trust fund distributions. For example, in March 2001, Treasury made an adjustment to decrease the Highway Trust Fund's fiscal year 2001 excise tax distributions to correct for actual collections in

³Typically, IRS certifies quarterly excise tax distributions 6 months after the end of the quarter. This is to allow sufficient time for receipt and processing of the tax returns, including returns filed late. Even though IRS certifies collections 6 months after the end of a quarter, certifications for any given quarter routinely contain some amounts related to prior quarters.

the fourth quarter of fiscal year 2000. The certified fourth quarter receipts were \$1.2 billion less than what was initially distributed based on OTA's estimates for that quarter. According to an official from OTA, the original estimated transfer amounts for the quarter had been calculated using an economic model that assumed a higher rate of economic growth through calendar year 2000 than was actually the case.⁴ As a result, the downward adjustment was made, effectively reducing fiscal year 2001 distributions to the Highway Trust Fund by \$1.2 billion, which contributed to the fiscal year 2003 negative RABA.

We are issuing today a report on the results of procedures we performed related to the distributions of excise taxes to the Highway Trust Fund in fiscal year 2001.⁵ On the basis of this work, we believe the amounts distributed to the Highway Trust Fund for the first nine months of fiscal year 2001, which were subject to IRS' quarterly excise tax certification process and which were adjusted based on this process, were reasonable and were adequately supported according to available information. Additionally, we believe the March 2001 adjustment made by Treasury to reduce fiscal year 2001 Highway Trust Fund excise tax distributions by \$1.2 billion was reasonable and appropriately supported. The certifications for distributions of excise tax revenue collected during the period July 1, 2001, through September 30, 2001, will not be completed by IRS until March 2002. Consequently, the distributions of fourth quarter fiscal year 2001 excise tax revenue were based solely on estimates prepared by OTA. Although we reviewed certain procedures associated with OTA's estimates, we did not audit the estimation process nor did we audit the estimates themselves. Therefore, we cannot draw any conclusions about the reasonableness of the distributions made to the Highway Trust Fund for the fourth quarter of fiscal year 2001.

Contact and Acknowledgement

For questions regarding this testimony please contact JayEtta Z. Hecker at (202) 512-2834 or on heckerj@gao.gov. Individuals making key contributions to this testimony included Nikki Clowers, Ted Hu, Stephen Rossman, Steven Sebastian, and Ronald Stouffer.

⁴Prior to December of 2000, this process used economic models and was linked to OTA's receipt estimates for inclusion in the president's budget.

⁵U.S. General Accounting Office, *Report on Applying Agreed-Upon Procedures: Highway Trust Fund Excise Taxes*, [GAO-02-379R](#) (Washington, D.C.: February 2002).