RSC
Republican Study Committee
Rep. John Shadegg (R-AZ), Chairman
Neil Bradley, Executive Director
432 Cannon House Office Building
Washington, D.C. 20515
http://www.house.gov/burton/RSC/
(202) 226-9717

February 26, 2002……………………….…..For Additional Information Contact: Neil Bradley

Highway Funding for Fiscal Year 2003

Following submission of the President's Budget earlier this month, the Chairman and Ranking Member of the Transportation Committee introduced legislation designed to restore the "cut" in transportation funding outlined in the Budget. The background information printed below, prepared by RSC staff in response to numerous inquiries, may be helpful in understanding the current situation. Please note, the RSC has not taken an official position on this legislation.

The Law: 1998 Highway Bill (TEA-21)

The 1998 highway bill guarantees that new federal highway spending authority will match federal highway tax collections (which includes taxes on gas, diesel, and trucks). Under this law, when the budget is submitted each year, the Treasury revises its projections of highway revenue. Based on these revised projections and a comparison of actual revenue to prior projections, highway spending for the upcoming fiscal year is adjusted - either up or down - to match revenues. This is known as Revenue Aligned Budget Authority or RABA.

The following information submitted for the Congressional Record by then Transportation Chairman Bud Shuster explains this provision:

> "In section 1105, the Conference adopts a provision that adds a new section 110 to title 23, United States Code, (thereby repealing current section 110, relating to project agreements) to annually adjust highway funding up **or down** to correspond with the latest data on Highway Trust Fund receipts. Subsection 110(a) provides that, in fiscal year 2000 and each fiscal year thereafter, the Secretary shall allocate an amount of funds equal to any additional amount of discretionary highway spending made available under section 8101 of this Act related to the budget firewall for HTF spending. If the annual discretionary **highway spending limit decreases** under section 8101 for fiscal year 2000 or any fiscal year thereafter, the Secretary, in the succeeding fiscal year, **shall proportionately reduce the amounts authorized to carry out the Federal-aid highway and highway safety construction programs** (other than the emergency relief program) **by an amount equal to the amount of such spending decrease**." (House of Representatives - October 10, 1998) [emphasis added]

Implementation in 1998-2002: Rising Estimates Produce Additional Spending

As required by the law, the Federal government has increased highway spending each of the last 3 years to match rising projected highway tax collections. Over the three years, the total increase equaled $9 billion. A year ago, the Treasury increased its projections of these revenues for 2002 by $4.5 billion, triggering an automatic increase in highway spending in 2002 equal to that amount. While it became clear last summer that Treasury had over-estimated highway tax revenue, the law required that 2002 spending be increased in any event. In December, $31.8 billion in highway funding for 2002 was made available to the States, which included this $4.5 billion increase.

Implementation in 2003: Correcting for Previous Spending in Excess of Revenues

When actual and estimated highway tax receipts fall short of projections, the law requires future spending to be adjusted downward to correct for prior spending that exceeded revenues. As a result, highway spending was adjusted downward by $4.4 billion in 2003, and the President's budget follows the law by fully funding this adjusted guarantee level. **Over the years 2002-03, States will receive exactly what they were promised in the 1998 highway bill, and $4.5 billion of that amount was advanced to them a year early.**

(Obligation Limitations in Billions of Dollars)

	1998	1999	2000	2001	2002	2003
TEA-21 Authority	21.5	25.5	26.1	26.5	27.2	27.6
RABA	--	--	+1.5	+3.1	+4.5	-4.4
Total	21.5	25.5	27.5	29.6	31.8	23.2

The Assertions and Legislative Proposals

1. Some have asserted that the President's budget cuts highway programs by $8.5 billion (the difference between FY 2002 and FY 2003, as adjusted), and that state highway programs will be disrupted, eliminating jobs in the midst of a recession.
2. Proponents of increasing highway funding have asserted that there is an $18 billion balance in the Highway Trust Fund that could be used to "pay for" a legislative fix.

Transportation Committee Chairman Don Young has introduced a bill (H.R. 3694) that would set funding for Highway programs at $27.7 billion for FY 2003, $4.5 billion above the level of $23.2 billion currently prescribed in law.

The Response

1. The actual reduction in spending (outlays) from FY 2002 to FY 2003 is less than 3%, from $29.2 billion to $28.7 billion. Outlays are the best measure of the employment effect of highway spending since this is the actual amount of Federal dollars being spent on the ground on transportation projects. States may adjust spending behavior this year to accommodate the change, but the change will have minimal construction and employment effects this year. The adjustment will occur in 2003 when almost all projections indicate the economy will be out of recession.

	2000	2001	2002	2003
Federal-aid Highway Outlays *Dollars in Billions*	25.2	27.5	29.2	28.7
Highway Jobs*	0.959 million	1.047 million	1.111 million	1.092 million

*Assumes 38,061 jobs per $1 billion in Federal highway spending. This does not include jobs attributable to State and Local highway spending, which accounts for 79% of all highway spending.

2. The "surplus" in the Highway Trust Fund that some point to has actually already been spent. Under the laws governing the Highway Trust Fund, the federal government has authority to obligate an amount equal to the current cash balance in the fund plus the amount of receipts estimated to be collected during the following two years. Once you take into account the obligations the government has already made, you end up with an encumbered balance. The encumbered balance for the Highway Trust Fund for FY 2002 is -$29.8 billion (NOTE: this is a negative balance) and is anticipated to rise to -$34.4 billion in FY 2003.

Potential Concerns:

Some Members may be concerned that passing a bill to increase highway funding in violation of existing law would:

- **Break faith with the 1998 highway bill's guarantee to match spending and receipts thereby negatively impacting reauthorization of TEA-21.** In 1998, the bill's main sponsors pledged publicly that they would accept the ups and the downs of the revenue aligned funding system. While we have enjoyed the "ups" provided by the system that was implemented, this is the first time the commitment to also weather the downs has been tested. If we cannot abide by the current program of linking highway spending to trust fund revenues, then there may be efforts to delink the system during the next reauthorization bill.
- **Further increase the deficit.** Any increase in spending beyond what is proscribed in law would either require offsets or would require the Government to run a higher deficit in FY 2003 and FY 2004.
- **Further expand a program that punishes donor states.** Many Members have expressed concerns that despite the improvements made by TEA-21, highway funding is still allocated in a manner that fails to reflect the amount of funds each state pays into the Highway Trust Fund. Taxpayers in "donor" states see their tax dollars used to improve roads in other states that receive more funding from the federal government than they paid into the highway trust fund. Simply increasing funding for highways (as proposed by H.R. 3694) does nothing to address the fundamental fairness of the current system. Some Members have indicated that any bill proposing to increase highway funds should first address the inequity in the current system. The following chart indicates the ratio of funds provided to a state versus funds paid in by the state (in other words the rate of return on each dollar contributed by the state):

State	Ratio of Apportionments and Allocations to Payments FY 2000	State	Ratio of Apportionments and Allocations to Payments FY 2000
Alabama	0.92	Montana	2.15
Alaska	5.74	Nebraska	0.93
Arizona	0.85	Nevada	1.06
Arkansas	0.96	New Hampshire	1.08
California	0.92	New Jersey	0.90
Colorado	0.87	New Mexico	1.14
Connecticut	1.41	New York	1.19
Delaware	1.62	North Carolina	0.90
Dist. of Col.	3.48	North Dakota	1.92
Florida	0.89	Ohio	0.87
Georgia	0.86	Oklahoma	0.89
Hawaii	2.23	Oregon	1.01
Idaho	1.42	Pennsylvania	1.17
Illinois	0.94	Rhode Island	2.20
Indiana	0.90	South Carolina	0.87
Iowa	0.98	South Dakota	2.09
Kansas	0.98	Tennessee	0.90
Kentucky	0.91	Texas	0.85
Louisiana	0.88	Utah	1.14
Maine	0.94	Vermont	1.90
Maryland	0.88	Virginia	0.89
Massachusetts	0.98	Washington	0.93
Michigan	0.90	West Virginia	1.49
Minnesota	1.09	Wisconsin	0.95
Mississippi	0.85	Wyoming	1.51
Missouri	0.95	Total	0.99