



## **Special Report: An Analysis of the Proposed \$8.6 Billion Cut in the Federal Highway Program Contained in the President's FY 2003 Budget**

### **How the Annual Federal Highway Investment Levels are Determined**

The Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21), enacted by Congress in 1998, authorized federal investment in state and local highway and mass transit programs for the period FY 1998 (which started October 1, 1997) through FY 2003 (which ends September 30, 2003). TEA-21 included provisions that, for the first time since enactment of the highway program in 1956, attempt to directly tie annual federal highway spending levels (appropriations) to incoming highway user fee revenues (gas, diesel, special motor fuels, truck and tire sale federal excises) to the Highway Trust Fund's Highway Account (HTF-HA).

To make this "incoming revenue to annual investment" linkage work, TEA-21 features three key features:

1. It spelled out annual authorization levels for each fiscal year based on projected future HTF-HA revenues, as forecasted by the U.S. Department of Treasury and the Congressional Budget Office in May 1998. These authorization levels were to serve as the **baseline** for annual highway program investment. It was anticipated by the writers of TEA-21 in May 1998, that annual baseline numbers in the law were, in fact, conservative relative to anticipated future HTF-HA revenue collections.
2. The TEA-21 annual authorization, or baseline, number was protected from manipulation during the annual budget and appropriations processes through the institution of a "**budgetary firewall**." The baseline highway program levels are in a sense "untouchable," similar to the automatic increases in annual Social Security benefits, with two exceptions.
3. The first exception is that Congress can always change what they have done previously. The second exception is key at the moment. TEA-21 contains a provision known as the "**Revenue Aligned Budget Authority**" (RABA) mechanism. The purpose of RABA is to harmonize annual TEA-21 federal highway investment levels with actual HTF-HA receipts to ensure that the law, indeed, reflects the "incoming revenue to actual annual investment" philosophy.

### **The Highway Program Budget Development Process**

The transportation programs budget for the next fiscal year (in this case FY 2003, which starts October 1, 2002) is prepared by the U.S. Department of Transportation (USDOT) one calendar year prior (in this case, October-December of 2001). The draft USDOT budget is sent to the White House Office of Management & Budget (OMB) for final review and clearance. This usually is completed in December/January. The President's overall budget, which includes USDOT programs, is published and sent to Congress during the first week of February.

To determine the next fiscal year's highway investment level, USDOT must do the RABA calculation, which is based on HTF-HA revenue reports and projections made by the U.S. Treasury. RABA is a two-step process that is explained in the attached background paper and flow chart.

## **How RABA Plays Out in FY 2003 Highway Budget Proposal: The Recession's Impact**

What the architects of TEA-21—and particularly the RABA provision—did not anticipate, nor plan for, was the significant impact of the current economic recession. This factor has played havoc with the HTF-HA revenue estimates that were made for FY 2001. While total year-on-year federal gas tax and diesel tax revenues remained relatively steady in FY 2001, when compared to FY 2000, they had been projected to increase by \$4 billion. Domestic new truck sales also tanked in 2001. This reduced expected federal truck sales excise revenue to the HTF-HA by more than \$1 billion last year. Gasohol sales in areas with Clean Air Act compliance issues, which contribute less to the HTF-HA than straight gasoline sales, were also up significantly last year. This cost the HTF-HA an estimated \$250 million in revenue.

What all this adds up to is that:

- The RABA adjustments overstated revenues in the FY 2001 and FY 2002 calculations.
- The RABA “look forward” provision is most likely understating total HTF-HA revenues in FY 2003, because the projections are being based on a recessionary outlook.

As a result, a \$4.369 billion negative RABA adjustment, taken from the TEA-21 authorized baseline of \$27.653 billion, is being proposed, as required by law, to the FY 2003 federal highway program. This would yield a federal highway program of \$23.284<sup>1</sup>. This would be an unprecedented year-on-year funding cut of about \$8.6 billion.

## **What This Means for the Marketplace**

An \$8.6 billion cut would be felt in the marketplace over approximately seven years. Based on current state spend out rates, 27 percent (\$2.3 billion) of this total would be lost to construction in FY 2003, an additional 42 percent (\$3.6 billion) would be lost in FY 2004, with the remainder lost 2005-09.

Based on the U.S. Bureau of Economic Analysis' Input-Output Model, ARTBA estimates that an \$8.6 billion cut in federal highway funding would lead to the following selected loss of sales over the next seven years: aggregates (\$465.7 million); asphalt (\$862.3 million); cement and concrete (\$756.9 million); and engineering services (\$500.6 million).

ARTBA estimates the American job loss that would be precipitated by an \$8.6 billion highway program cut would be over 360,000, with most of those jobs lost in FY 2003 and FY 2004. (See attached state analysis.)

Also of concern is how this drastically lower program baseline might affect FY 2004 and TEA-21 reauthorization levels. This is unknown.

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<sup>1</sup> A proposal in the budget to transfer some highway funds to the Federal Motor Carrier Safety Administration would reduce this by another \$80 million to \$23.204 billion.

## How the FY 2003 “RABA” Adjustment in the Bush Budget Was Calculated

The revenue-aligned budget authority (RABA) adjustment for Fiscal Year (FY) 2003 is computed by a two-step process that is set out in section 8101(d) of TEA-21.

- The first step is to “look back” at the just-completed fiscal year (FY 2001) and compute the difference between:
  - (1) receipts credited by the U.S. Department of the Treasury to the Highway Account of the Highway Trust Fund for FY 2001, minus
  - (2) the adjusted baseline estimate of Highway Account receipts for FY 2001<sup>1</sup>.
  - (3) The difference between these two figures comprises one component of the FY 2003 RABA adjustment.
  
- Then “look forward” to the budget year (FY 2003) and compute the difference between:
  - (4) the latest estimate of Highway Account receipts for FY 2003 from OMB’s Final Sequestration Report minus
  - (5) the baseline estimate of Highway Account receipts for FY 2003 from TEA-21 section 8101(d)(2).
  - (6) The difference between these two figures comprises the other component of the RABA adjustment.
  
- The sum of the “look back” and “look forward” results is the RABA adjustment for FY 2003.
  
- Finally, the original estimate of Highway Account receipts for the budget year (FY 2003) in section 8101(d)(2) of TEA-21 is replaced by the latest estimate used in the RABA computation, in order to eliminate double-counting in any future RABA computations.

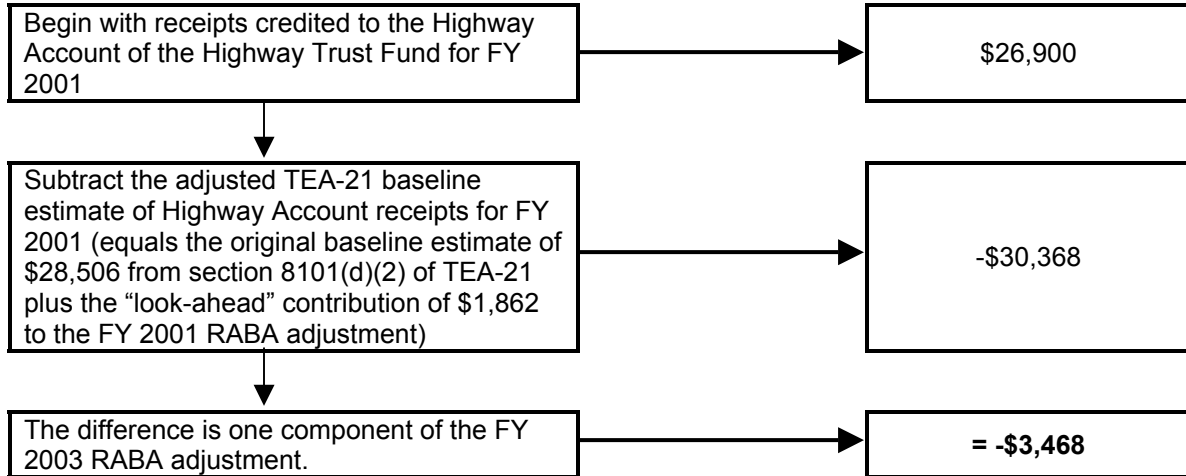
The attached flow chart shows how the FY 2003 RABA adjustment was computed.

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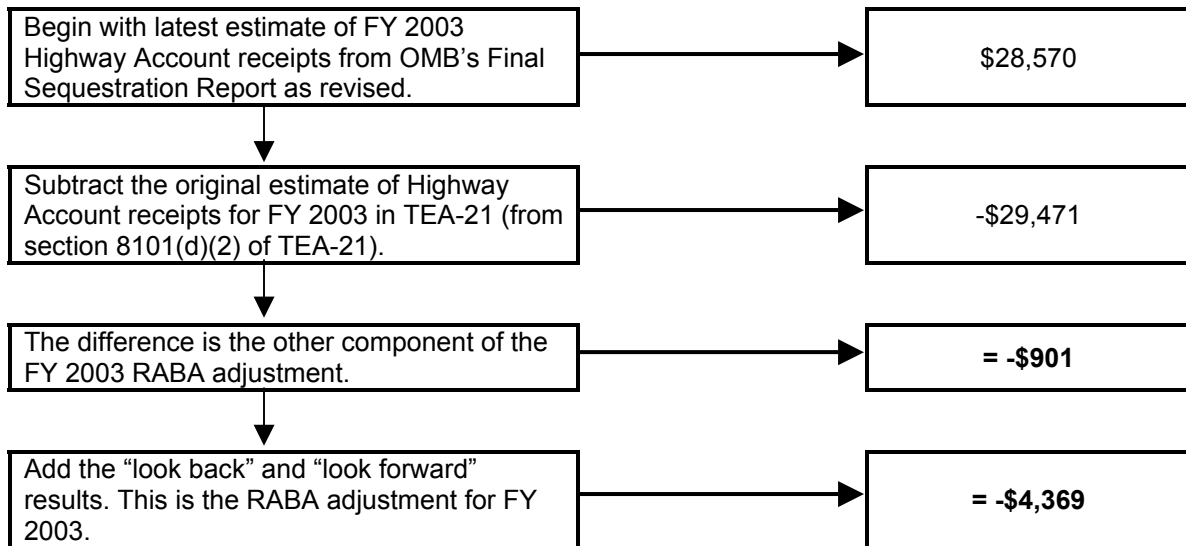
<sup>1</sup> The *adjusted* baseline estimate of Highway Account receipts for FY 2001 is the sum of (1) the original TEA-21 baseline estimate from section 8101(d)(2) plus (2) the “look ahead” contribution to the RABA adjustment that was made for FY 2001.

## How The FY 2003 “RABA” Adjustment in the Bush Budget Was Calculated

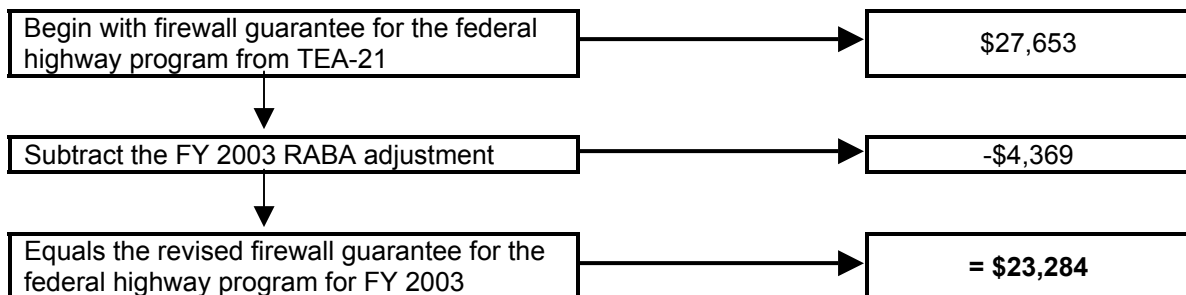
### The “look-back” computation (\$millions)



### The “look forward” computation



### Computation of firewall guarantee for FY 2003 after RABA adjustment



## FY2003 Federal Highway Funds & Employment Loss Resulting From \$8.6 Billion Highway Investment Cut<sup>1</sup>

State	FY 2002 Highway Program Funds/2	Est. FY 2003 Program Funds/2	FY 2003 Highway Funds Lost/2	Employment Loss/3
Alabama	\$561,369,840	\$421,025,208	-\$140,344,632	-5,894
Alaska	\$314,796,052	\$246,539,742	-\$68,256,310	-2,867
Arizona	\$486,224,631	\$365,140,719	-\$121,083,912	-5,086
Arkansas	\$362,652,003	\$275,455,607	-\$87,196,396	-3,662
California	\$2,517,465,102	\$1,899,291,678	-\$618,173,424	-25,963
Colorado	\$353,164,878	\$265,780,999	-\$87,383,879	-3,670
Connecticut	\$408,920,297	\$313,495,052	-\$95,425,245	-4,008
Delaware	\$119,922,416	\$91,097,545	-\$28,824,871	-1,211
Dist. of Col.	\$110,273,846	\$81,398,200	-\$28,875,646	-1,213
Florida	\$1,289,548,451	\$974,165,577	-\$315,382,874	-13,246
Georgia	\$988,693,630	\$745,903,153	-\$242,790,477	-10,197
Hawaii	\$142,271,252	\$106,770,543	-\$35,500,709	-1,491
Idaho	\$211,278,292	\$160,135,462	-\$51,142,830	-2,148
Illinois	\$933,065,783	\$697,096,259	-\$235,969,524	-9,911
Indiana	\$638,900,893	\$486,743,971	-\$152,156,922	-6,391
Iowa	\$329,542,978	\$247,574,819	-\$81,968,159	-3,443
Kansas	\$324,857,477	\$241,313,125	-\$83,544,352	-3,509
Kentucky	\$483,920,664	\$362,099,979	-\$121,820,685	-5,116
Louisiana	\$433,579,090	\$330,471,089	-\$103,108,001	-4,331
Maine	\$147,088,238	\$109,890,629	-\$37,197,609	-1,562
Maryland	\$446,350,792	\$339,318,294	-\$107,032,498	-4,495
Massachusetts	\$514,207,475	\$387,835,987	-\$126,371,488	-5,308
Michigan	\$894,938,840	\$673,029,684	-\$221,909,156	-9,320
Minnesota	\$408,448,438	\$309,125,401	-\$99,323,037	-4,172
Mississippi	\$355,307,069	\$268,482,622	-\$86,824,447	-3,647
Missouri	\$646,930,635	\$488,228,184	-\$158,702,451	-6,666
Montana	\$266,187,164	\$204,791,716	-\$61,395,448	-2,579
Nebraska	\$216,342,091	\$159,818,713	-\$56,523,378	-2,374
Nevada	\$199,134,908	\$149,455,313	-\$49,679,595	-2,087
New Hampshire	\$140,217,067	\$107,247,956	-\$32,969,111	-1,385
New Jersey	\$724,639,854	\$541,582,536	-\$183,057,318	-7,688
New Mexico	\$268,593,028	\$203,825,094	-\$64,767,934	-2,720
New York	\$1,410,507,671	\$1,064,982,917	-\$345,524,754	-14,512
North Carolina	\$776,521,747	\$584,307,329	-\$192,214,418	-8,073
North Dakota	\$179,364,937	\$134,932,708	-\$44,432,229	-1,866
Ohio	\$959,669,321	\$725,512,146	-\$234,157,175	-9,835
Oklahoma	\$428,337,012	\$318,248,522	-\$110,088,490	-4,624
Oregon	\$337,801,111	\$255,489,120	-\$82,311,991	-3,457
Pennsylvania	\$1,391,790,146	\$1,045,698,054	-\$346,092,092	-14,536
Rhode Island	\$164,112,784	\$123,469,448	-\$40,643,336	-1,707
South Carolina	\$461,162,748	\$350,138,781	-\$111,023,967	-4,663
South Dakota	\$198,817,128	\$150,819,598	-\$47,997,530	-2,016
Tennessee	\$624,496,977	\$476,815,649	-\$147,681,328	-6,203
Texas	\$2,146,259,084	\$1,614,117,018	-\$532,142,066	-22,350
Utah	\$216,504,854	\$161,358,980	-\$55,145,874	-2,316
Vermont	\$124,155,175	\$94,175,207	-\$29,979,968	-1,259
Virginia	\$710,248,118	\$544,143,511	-\$166,104,607	-6,976
Washington	\$493,771,495	\$368,381,629	-\$125,389,866	-5,266
West Virginia	\$308,059,534	\$234,857,433	-\$73,202,101	-3,074
Wisconsin	\$545,548,760	\$410,919,572	-\$134,629,188	-5,654
Wyoming	\$188,997,682	\$143,820,077	-\$45,177,605	-1,897
<b>State Total</b>	<b>\$27,904,959,458</b>	<b>\$21,056,318,555</b>	<b>-\$6,848,640,903</b>	<b>-287,643</b>
<b>Allocated programs</b>	<b>\$3,894,144,542</b>	<b>\$2,148,468,445</b>	<b>-\$1,745,676,097</b>	<b>-73,318</b>
<b>Grand Total</b>	<b>\$31,799,104,000</b>	<b>\$23,204,787,000</b>	<b>-\$8,594,317,000</b>	<b>-360,961</b>

1/ Includes \$80 million reduction due to proposed transfer to Federal Motor Carrier Safety Administration

2/ Source: FHWA 2/4/02 Comparison of Estimated FY 2003 Distribution of Obligation Limitation and ... President's Budget

3/ Employment loss is spread over 7 years, with most loss occurring in 2003 and 2004.



**Current Balance in Highway Account of the Highway Trust Fund: \$18,855,632,135**

***There is no reason to cut federal highway investment by \$8.6 billion when the Highway Trust Fund's Highway Account balance stands at almost \$19 billion!***