BUDGET PERSPECTIVE:
Highway Authorizers Need Budget Traffic School to Understand Highway Extension in Reid Substitute "Jobs" Bill
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Media reports on this bill have noted the starkly different interpretations of the budgetary impact of the highway title of the Reid substitute bill. One press article contrasted Senator Gregg's criticism of the bill (for its addition to the federal deficit and debt) against highway authorizers' rejection of that criticism and counterclaim that interest owed to the highway trust fund (HTF) is "paying for" the extension.

An earlier Budget Perspective (http://budget.senate.gov/republican/pressarchive/2010-02-10BudgetPerspective.pdf) on the Baucus-Grassley version of this bill, combined with the CBO estimate (http://www.cbo.gov/ftpdocs/112xx/doc11230/hr2847.pdf) of the Reid substitute bill already documents the huge effect this bill would have on future deficits and debt. (Both the Baucus-Grassley bill and the Reid substitute have identical versions of the highway extension.)

What is puzzling is authorizers' lack of understanding of the bill and its budgetary impact. They argue that the extension of the highway program is "paid for" by "interest" and "has no revenue effect."

Why would anyone say that Title IV (the highway extension) of the Reid substitute "has no revenue effect"? Because they are just parroting what the Finance Committee says (p. 3 of http://finance.senate.gov/press/Bpress/2010press/prb021110a.pdf), even though it doesn't make any sense in the context of what is included in Title IV.

True, most of the Reid substitute deals with changes to tax laws, increasing some and decreasing other federal revenues. **But the highway portion of the bill does not deal with federal revenues at all**. Instead, **Title IV deals only with spending**. So if there are no changes to taxes in Title IV, then of course Title IV will have no revenue effect. Saying Title IV has "no revenue effect" is irrelevant to thinking about the budgetary impact of Title IV.

According to the CBO cost estimate, Title IV <u>does</u> increase highway spending authority by $142 billion over the 2010-2020 period. The bill does <u>not</u> include either a spending cut or a revenue increase to offset the highway spending increase.
What people <u>do</u> care about is the effect of Title IV on future deficits and debt. And ultimately, the spending increase in Title IV will result in future transfers from the General Fund (GF) to the HTF (since the bill does not offset the spending with a commensurate increase in revenues, such as gas taxes, dedicated to the HTF), thereby increasing the debt by $142 billion.

Oddly, even while echoing the Finance Committee mantra of "no revenue effect," highway authorizers seem to suspect that the **spending in the bill <u>does</u> have a cost**, which is why they attempt to argue that it is paid for. When they say it is "paid for," they are talking about a provision in Title IV that, upon enactment, appropriates $19.5 billion from the GF to the HTF. What is this appropriation for? It is for the same purpose as recent previous transfers from the GF to the HTF ($7 billion in 2009, $8 billion in 2008, and $32 billion in 2004) – the HTF is insolvent, runs out of money (from gas tax revenue) every year because it spends more than it takes in, and needs transfers from the GF to reimburse states for highway obligations entered into years ago. So the General Fund of the Treasury, which is already broke and deep in debt, has been bailing out a bankrupt highway trust fund.

In submitting its 2011 budget, the Administration has advised the Congress that the HTF might not have enough money to reimburse states (beginning about June of 2010) and has requested $9 billion in transfers from the GF to the highway and transit accounts in the HTF to survive 2010, and another $11 billion in transfers to get through 2011. This bill would essentially fulfill that $20 billion request. But that amount is mostly to cover highway and transit obligations entered into before enactment of this bill. How is the HTF supposed to cover the outlays that will flow from the $142 billion increase in spending authority in this bill? Absent enactment of an increase in taxes dedicated to the HTF, future transfers from the GF to the HTF (and a commensurate increase in the deficit and the debt) will be required to allow those outlays to occur. There is nowhere else that spending can come from.

It is bizarre that people think a transfer from the GF is an "offset." Unfortunately, under current scoring conventions, CBO does not score the transfer at all (even though it will allow spending to be higher in 2010 than it otherwise would be; that is the point of the transfer after all – without it, states would not get paid and outlays would be lower). So the transfer is obscured by scoring during consideration of the legislation; after the legislation is enacted, however, the transfer shows up as an increase in the debt (see, for example, the $7 billion transfer from the GF enacted last summer and recorded as an increase in the debt on August 14, 2009: ftp://ftp.publicdebt.treas.gov/fib/dfi69X81021200908.txt) – but it certainly does not appear as an "offset" to spending elsewhere in the bill. Under that theory, any time Congress needed an offset for a spending increase, it could just direct that the Treasury go out and borrow the needed amount of money and, presto, you have your offset.

Finally, there is the ruse of attaching the word "interest" to the $19.5 billion transfer from the GF in this bill. The transfer is a transfer is a transfer – Congress can enact a law to transfer whatever amount it agrees with the President is necessary to allow the HTF to keep paying the bills, just as it has transferred $47 billion over the last six years. But the authorizers always seem to feel a little guilty taking money from the GF and increasing the debt accordingly, so they have developed the habit of coming up with an excuse for each transfer.

This time, the excuse is that the highway trust fund is "owed" interest. That is rather hilarious for several reasons. The concept of "owed" suggests that a legal obligation exists, usually entered into by contract or law. But that common-sense concept of "owed" does not apply to the current situation with the HTF. In fact, the opposite situation applies.

In 1998, **it was the Environment and Public Works Committee**, along with the other relevant committees of jurisdiction in the House and Senate, that decided to write a highway bill (TEA-21) that declared that the HTF would <u>NOT</u> be owed any interest after enactment of that bill. TEA-21 was enacted, so the HTF has not earned or been owed any interest since then. Now those committees are claiming temporary insanity. They implicitly suggest they did not mean to write the law that way in 1998, would like to pretend that they had not done that, and are now asking the taxpayer to please go out and borrow $19.5 billion to compensate the HTF for the authorizers' "mistake." The Reid substitute cheekily titles the section that appropriates this $19.5 billion as "RESTORATION OF CERTAIN FOREGONE INTEREST TO HIGHWAY TRUST FUND." But it is impossible for the HTF to have "forgone" any interest in the past 12 years because the law never entitled it to receive interest over that period.

Further, the $19.5 billion of "interest" is a totally imaginary number that is "conveniently" close to the amount the Administration says is needed in the HTF to get through the end of FY 2011. No one has any idea how much interest might have been credited to the HTF if TEA-21 had not been enacted. Only the Bureau of the Public Debt can do such calculations, and the Bureau has not done one in this case and is not planning to do one.

Don't be fooled. This highway extension bill costs money, none of which is offset. If it didn't cost money, then it would have no real-world impact, right? But one of the highway organizations demonstrated this week how the real world views this situation; John Horsley, executive director of the American Association of State Highway and Transportation Officials, said, "States are losing $1 billion each month without a long-term extension."

States have become accustomed to having about $42 billion per year to spend. Without this bill, they will have about only $30 billion to spend every year (operating on a continuing resolution basis). With enactment of this bill, they will get an extra $21 billion in 2010 and the extra $12 billion they want ever year thereafter. That increased amount <u>is not paid for</u> by taxes flowing into the HTF, and <u>it is not offset</u> by other spending cuts. It will be paid for only by future transfers from the GF, resulting in future borrowing and an increase in the debt.