



BUDGET BULLETIN



COMMITTEE ON THE BUDGET
Republican Staff

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INFORMED BUDGETEER: EXPANDED HIGHWAY EDITION



- Late on September 30, 2009, two senators attempted to avert a rescission of highway contract authority that would occur by midnight that night. The failed “attempt” provides an apt moment to consider the snowballing problems of the highway program, which the [Bulletin has previously explored](#).

States Temporarily Get More “Seed Corn” Than They Are Allowed to Plant

- Supposedly for the planning purposes of states’ transportation departments, the major multi-year authorization bill for surface transportation programs (aka “the highway bill”) enacts a relatively unique budgetary feature called Contract Authority (CA).
- The most recent “TEA” incarnation (the previous two being ISTEA and TEA-21) of the highway bill – the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) – provided a net \$287 billion in contract authority for 2005-2009. (This advertised six-year figure for SAFETEA-LU reflects the amount that had already been enacted via short-term extensions for 2004. By the time SAFETEA-LU was enacted in August 2005 – not only was 2004 already over, but 2005 was nearly over as well – it was chronologically impossible for SAFETEA-LU to have enacted any funds for 2004.)
- While the sum total of gross contract authority across the relevant years was \$295 billion, section 10212 of SAFETEA-LU also required a rescission of \$8.7 billion of unobligated contract authority to occur on the last day of the act (September 30, 2009). Why the gymnastics to achieve a net \$287 billion?
- Because President Bush had promised to veto any bill if its net contract authority exceeded \$284 billion and its net highway contract authority exceeded the level of authorized obligation limitations. And while SAFETEA-LU did set net contract authority equal to obligation limitations, the extra \$3 billion must have been acceptable since he signed it into law.
- Typically, highway bills raise the hopes of states by providing them marginally more contract authority than the level of obligation limitations authorized in the same highway bill (even though the federal government doesn’t actually allow states to obligate contract authority except as allowed by obligation limitations. States always hold out hope that Congress will eventually increase the allowed obligation level).
- So it was in SAFETEA-LU, where the gross amounts of contract authority, both annually and in total, exceeded the authorized obligation limitations. Nevertheless, states should have known as soon as SAFETEA-LU was enacted in 2005 that they would never have full use of the gross amounts of contract authority because the obligation limitations were lower and because the “extra” contract authority was scheduled to be rescinded.
- States should have known this, except for mixed signals from Congress. If Congress had simply enacted the same level of gross/net contract authority as obligation limitations and had skipped the drama of a rescission on the last day, then there would have been no reason for states to hope for more Congressional action before September 30, 2009. Instead, Congress scheduled a rescission for the last day of the authorization bill – just over four years after the date of enactment of SAFETEA-LU.

- Why? The Chairman of the EPW Committee answered plainly on the Senate floor on September 30, 2009: “The promise at that time years ago was that we would fix it in the days, months, and years ahead.” So the authorizers were winking and nodding to the states that surely Congress would get around to repealing the rescission sometime in the next four years before September 30, 2009 and that states would not have to worry about the rescission. The inside dope was that the “planned” rescission was just a juke to get by President Bush’s veto threat in 2005 and was not to be taken seriously.



Equity Bonus – Some States Fumble the Football to the Tune of \$334 Million



SAFETEA-LU also specified a specific subset of 25 highway programs where each state could apply its share of the \$8.7 billion rescission, although it allowed each state to pick and choose which programs among that subset would contribute to each state’s share.

This means, for example, that a state that uses the Interstate Maintenance (IM) program more heavily than the Transportation Enhancement (TE) program could choose to leave IM untouched and apply more of the rescission towards TE as long as the state meets its total share of the rescission. Allowing states to pick and choose has been the usual way of implementing rescissions of unobligated CA that have been enacted in annual Transportation, Housing and Urban Development (THUD) appropriations bills.

Three programs in particular had been frequent targets of how states have implemented rescissions of contract authority enacted in annual THUD appropriation bills: the Congestion Mitigation and Air Quality Improvement, Bridge Replacement and Rehabilitation, and Transportation Enhancement programs. Because these programs were important to the Chairman of the House Transportation and Infrastructure (T&I) Committee, he authored section 1132 of the Energy Independence and Security Act of 2007 (EISA), which amended SAFETEA-LU by requiring each state to apply its share of the \$8.7 billion rescission more proportionately across the highway programs that still had unobligated contract authority available on September 30, 2009.

While Section 1132 limited somewhat states’ ability to pick and choose among programs that still had unobligated balances of contract authority on September 30, each state could still shield its favorite programs in advance by making sure that it obligated all of the contract authority in those preferred programs before September 30, 2009.

Although most highway programs require enactment of obligation limitations, the Equity Bonus program is a highway program where states **are allowed to obligate 100 percent of a portion of their contract authority without waiting for subsequent appropriation bills to be enacted to provide them with obligation limitations**, resulting in mandatory outlays charged to the HTF. (SAFETEA-LU created the Equity Bonus program to deal with the donor-donee problem without having to change the underlying highway distribution formula.)

Inexplicably and irrationally, 29 states did not obligate all of their contract authority for their Equity Bonus program before September 30, 2009. So when the \$8.7 billion rescission occurred on that date, those states lost \$334 million in Equity Bonus contract authority. Texas (\$103 million), Illinois (\$81 million), Pennsylvania (\$21 million), and Arizona (\$20 million) were the biggest butterfingers.

So why did some states leave money on the table? There are a variety of possible reasons. Each state has its own process for overseeing its highway program. Perhaps some states didn’t have enough shovel-ready projects. Or, some states may have been surprised that some of the funds that they distributed to local governments went unspent. Or, some states, rather than making sure they obligated all of their Equity Bonus funds before September 30, 2009, carried on expecting that Congress would undo the rescission before that date. For these states, either four years was not sufficient warning or else they fell for the wink and the nod.

No-Huddle Offense During Two-Minute Drill Results in Botched Play

- Just as states had four years to prepare for the rescission, Congress had the same four years to repeal the rescission. And yet the only bill to repeal the rescission came forward late in the afternoon on the last day of SAFETEA-LU and of FY 2009, when the Chairman and Ranking Member of the Senate Environment and Public Works (EPW) Committee jointly asked unanimous consent that the Senate consider the House-passed three-month highway program extension (H.R. 3617) with a substitute that would (among other things) extend the highway program for three months and repeal the \$8.7 billion rescission with only a very partial offset from repealing some funds from the Troubled Assets Relief Program (TARP).
- Objections from both Republican and Democratic members blocked the bill's consideration in the Senate. But even if the Senate had passed the bill, objections in the House, specifically by the Democratic leadership and the parallel committee of jurisdiction in the House T&I Committee regarding the 18-month length of the Senate's proposed extension bill, would have stopped the bill from reaching the House floor, much less the President's desk.
- The Chairman of the House T&I Committee partially explained his objections in a statement released on the same day:

I have heard that the Senate has begun circulating an amendment in the nature of a substitute to H.R. 3617. . . the Senate amendment increases spending[;] it thereby violates the pay-as-you-go (PAYGO) requirements of clause 10 of Rule XXI of the Rules of the House because the amendment does not provide for accompanying spending reductions or revenue increases to offset the increased spending in the amendment. We have made it very clear to the Senate for months that the House will not consider a bill that violates the PAYGO requirements.

- While the Chairman's statement might have been true about a version of the Senate substitute earlier in the day, a later version of the Senate bill attempted to deal with the Paygo issue by providing an offset. But the bill still exceeded EPW's allocation by \$37 billion, triggering other budget points of order.
- It is all the more puzzling that, while these failed efforts prove that highway proponents were not serious about the rescission they authored back in 2005 in SAFETEA-LU, they also waited so long to try to prevent it from occurring – perhaps because they knew that inevitable extensions of the highway bill (needed to continue highway programs after the expiration date of October 31, 2009 that was set in the current one-month Continuing Resolution for FY 2010) would provide other opportunities to revisit?

Conjuring Ghosts



- But waiting until everyone knew it was already too late did provide the opportunity for a bit of Kabuki theater to complain about all the terrible things that would happen as result of rescission. For example, the two Senate sponsors alleged that jobs would be lost immediately as a result. In particular, the EPW chairman and ranking member each (mis)stated on September 30, 2009, respectively:

So as of tomorrow morning, unless this is reversed, we are going to see cuts to the highway program of \$300 million. And it has to be made from existing contracts, so people in your State, in my State, in Kentucky, in the State of the Senator from Nebraska—all of our States are going to suffer. There will be 17,000 people thrown out of work...

What is at stake right now is about \$500 million of projects that will have to be canceled. If you cancel these projects--these contracts have already been let--we are talking about lawsuits. We are talking about around 17,000 jobs being lost unless we are able to fix this rescission thing and to get it offset.

- Of course, this cannot be true. The rescission applied only to **unobligated** contract authority; by definition, these are amounts that a state was not yet using.
- If a state **was already** using the funds, then the contract authority would have been obligated (by the federal government approving the state's "project plan" and by a state signing contracts with construction firms); any contract authority already **obligated** was **not** subject to rescission. Because unobligated funds represent amounts not yet contractually committed, no contract signed between a state and construction firm could have been affected by the rescission of unobligated contract authority, and no project could have been canceled.
- The statements above, however, are even more puzzling in light of what the ranking member argued the next day (October 1, 2009) when he expressed his preference that the proposed offset should have been unused stimulus funds instead of TARP funds. He argued that stimulus "[m]oney being unobligated means they do not have a plan for how they are going to spend it and are now nowhere near doing so." Of course, the same thing applies to unobligated highway contract authority.

Congress Has Already Enacted \$15 billion in Transfers from the GF to the HTF

While the first GF transfer of \$8 billion to the HTF in 2008 occurred because the HTF was nearly broke (it had spent more money than it had received in gas taxes), highway authorizers claimed the reason was to correct an alleged past injustice that they themselves authored as part of the Transportation Equity Act for the 21st Century (TEA-21). When TEA-21 was enacted in 1998, they celebrated reducing the balance of the HTF by \$8 billion in exchange for getting a \$60 billion increase in spending with all spending guaranteed through the duration of statutory limits on discretionary spending under the Budget Enforcement Act.

Three months ago, the HTF was going broke again, so Congress enacted another \$7 billion transfer from the GF to the HTF. This time, the grabbers were unimaginative as to their excuse. They simply titled H.R. 3357 – "a bill to *restore* sums to the Highway Trust Fund" [emphasis added], apparently under the misimpression that "restore" is a synonym for "take money out of the General Fund, borrow more, and increase the debt because the Highway Trust Fund is broke."

BE SURE TO CONTINUE READING THE EXPANDED HIGHWAY EDITION IN THE NEXT BULLETIN ISSUE 7B



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INFORMED BUDGETEER: EXPANDED HIGHWAY EDITION CONT.



End-of-Year Balances Show Highway Account is Unsustainable Without GF Transfers If Spending Desires Are To Be Met

	(\$ billions)											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. EOY balance before GF transfers ^a	2	-6	-13	-19	-31	-41	-53	-64	-74	-83	-93	-102
2. GF transfers enacted to date	<u>8</u>	<u>7</u>	=	=	=	=	=	=	=	=	=	=
3. EOY balance after GF transfers ^a	10	9	2	-4	-16	-26	-38	-49	-59	-68	-78	-87
4. Increase in allocation in Bud. Res. [<i>non-add</i>]			13	13	13	14	14	14	14	14	14	14
5. Outlays flowing from this increase ^b			<u>3</u>	<u>9</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>
6. EOY balance under 2010 Budget Resolution			-1	-17	-39	-63	-87	-112	-136	-159	-182	-206
7. EPW substitute (10/26) CA increase over 2010 Bud. Res. level [<i>non-add</i>] ^c			8	8	7	7	7	7	7	7	7	7
8. Outlays flowing from this increase ^b			<u>2</u>	<u>5</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>
9. EOY balance under EPW substitute (10/26)			-4	-24	-53	-83	-115	-146	-177	-207	-237	-268

a. Source: CBO's summer update baseline, August 2009

b. Outlays estimated using CBO spendout pattern over 7 years: 27%, 42%, 17%, 6%, 4%, 2%, 2%

c. EPW substitute hotlined on October 26, 2009, as estimated by CBO

NOTE: Negative EOY balance indicates insufficient gas taxes under current law to cover spending, suggesting likely claim for transfer from General Fund

Excuses for More Money Will Be Dressed Up in Halloween Costumes

- Lacking the support to stop a rescission that they themselves required in SAFETEA-LU, highway authorizers are sure to claim that September 30th witnessed another alleged injustice to be righted, providing another costume to disguise a yet-to-come naked grab of more money from the General Fund (GF) of the Treasury to the Highway Trust Fund (HTF).
- Highway Account of the HTF Is In the Coffin. Let's review just how bad a shape the HTF is in – it is essentially dead as an exclusively user-pays system.
- Since TEA-21, the Congress has claimed it has rededicated itself to the principle that all highway spending would come from gas taxes and other highway user-related revenue, and all such revenues to the highway account would be spent only on highways. But the wheels have come off in a bad way.
- The first line of the table above illustrates how the highway spending that is projected in the CBO baseline cannot be supported by gas taxes alone and will require \$102 billion in transfers from the general fund over the 2008-2019 period just to sustain baseline spending.
- The second line reflects the \$15 billion in GF transfers that Congress has already enacted.
- The third line shows the remaining amount of either gas tax increases or transfers from the GF that would still have to be enacted to make real the baseline level of spending -- \$87 billion by 2019.
- Despite the fact that the current level of gas taxes cannot sustain even the baseline levels of highway spending, the 2010 Budget Resolution allocated to the EPW Committee an additional \$67 billion for such programs for 2010-2014 (line 4). Carrying that increased authority out through 2019 (as the CBO baseline would) results in an additional \$120 billion in highway outlays over the next 10 years that would have to be covered by further increases in either gas taxes or GF transfers (sum of line 5).

- But this huge increase that is protected by the 2010 Budget Resolution appears to be just an appetizer. On October 26, the EPW Committee hotlined a six-month highway bill that they call an “extension” of SAFETEA-LU.
- But that six-month bill is no mere extension of the 2009 levels of highway spending like the one-month highway extension (in effect through October 31, 2009) that was included in the one-month Continuing Resolution for 2010. Instead, the six-month bill is an expansion bill – it would increase contract authority by another \$37 billion for 2010-2014 (see amounts for these years on line 7) – far above the already unsustainable levels allocated in the 2010 Budget Resolution (and even further above the unsustainable baseline spending levels). Observant budgeteers will have figured out the pattern by now – meeting this increased level of spending would require yet another \$62 billion in transfers from the GF over the next 10 years (sum of line 8).
- Fortunately, the Budget Act provides members with the tools to focus attention on such budget-busting proposals. **Because this expansion bill exceeds EPW's allocation, there is a point of order against it** (under section 320(f) of the Congressional Budget Act) that can only be waived with 60 votes in the Senate.
- If the six-month expansion bill is enacted, the highway program will, like a vampire, end up sucking the lifeblood out of the General Fund to the tune of \$268 billion over the 2008-2019 period (line 9). When such general fund transfers are enacted, they immediately increase the debt and count against the debt limit.
- The costumes worn by the \$15 billion in GF transfers that have already been enacted probably cannot be worn again, but highway proponents have been busy planning what their next costumes will be, as they eagerly eye the candy bowl of the General Fund.
- Zombie Contract Authority Rises Again. Even though the rescission of \$8.7 billion of contract authority has occurred and the books have closed on FY 2009, authorizers will still attempt to “repeal” the SAFETEA-LU rescission. This is an existential impossibility since no funds can be added to a year – FY 2009 – that is already over. Since we are already in FY 2010, authorizers will attempt to enact \$8.7 billion in

new contract authority to replace the amount rescinded and will try to label the bill a “repeal” or “restoration.”

- Phantom of Interest. In TEA-21, authorizers agreed to end the practice of calculating interest on HTF balances in exchange for the spending increases and other concessions they won in the bill. But now, authorizers want to “restore” \$19.5 billion in what they claim is “forgone interest” to the HTF.
- Only the Bureau of Public Debt (BPD) can authoritatively determine how much interest would have accrued to the HTF using Treasury fiscal investment policy guidelines for non-marketable securities, but the Bureau has not conducted such an analysis. Instead, authorizers use back-of-the-envelope guesses from the Department of Transportation, which admits that they have no real idea what the HTF would have earned over the past 11 years.
- Disaster Body Snatchers. The Emergency Relief (ER) program provides states with a total of \$100 million in annual mandatory funds to repair or reconstruct roads that have suffered serious damage as a result of natural disasters. States’ annual requests, however, always exceed this limit. So, as required by law, between 1989 and 2004, Congress appropriated \$6.8 billion out of the HTF for ER amounts provided to states above the \$100 million limit.
- After 2004, when states have asked for far more ER funds than they had requested in previous years (starting with the aftermath of Hurricane Katrina in 2005), Congress has appropriated ER funds out the General Fund to avoid making the HTF go broke even faster than was already scheduled by SAFETEA-LU. Inexplicably, authorizers now seek to “restore” \$7.3 billion (not the \$6.8 billion that was appropriated) to the HTF for amounts appropriated for ER from 1989-2004.
- “I Got A Rock”. To the extent that Congress enacts any of these tricks, the only way that the HTF will be able to make good on the spending that would be expected to flow from them would be to subsequently enact additional transfers from the General Fund like the \$15 billion that Congress has enacted over the past year or so.
- If successful, the highway trick or treaters will have grabbed up all the candy to their hearts’ desire. The taxpayers, however, like poor Charlie Brown, can only look at the debt placed in their bag and lament – “I got a rock.”