Current Status of the Highway Trust Fund
Why provide a status update on the HTF?

• One of the places that the COVID-19 situation has caused a dramatic shift is in the Highway Trust Fund (HTF).

• In the FY 2021 President’s Budget, the HTF was estimated to experience a cash shortfall during late FY 2021 to early FY 2022.

• However, with the recent significant reduction in travel, current projections indicate that the HTF will experience a cash shortfall in FY 2021.
What will we discuss?

- What tax receipts support the HTF?
- What is the structure of the HTF?
- How does the HTF get cash?
- What is a cash shortfall?
- Why is the HTF approaching a cash shortfall?
- What is the impact of the COVID-19 virus?
- What are the recommended actions?
What tax receipts support the HTF?

• The HTF is supported with the proceeds of Federal excise taxes. These taxes are levied on:
  – Gasoline (~59% of annual revenue)
  – Diesel (~25% of annual revenue)
  – Truck and trailer sales (~12% of annual revenue)
  – Heavy vehicle use (~3% of annual revenue)
  – Truck tire sales (~1% of annual revenue)

• In FY 2019, the HTF received a total of $44.8 billion in tax revenues.

• Each tax contributed the following amount in FY 2019:

  - Gasoline $26.5 billion
  - Diesel $11.2 billion
  - Truck and trailers $5.3 billion
  - Heavy vehicle use $1.3 billion
  - Truck tires $0.5 billion
  - Diesel $11.2 billion
  - Gasoline $26.5 billion
• The Federal government does not directly collect from the consumer most of the excise taxes credited to the HTF.

• Who pays the taxes?
  – *Gas, diesel, and tire taxes* are paid by the producer.
  – *Truck and trailer sales taxes* are paid by the retailer.
  – *Heavy vehicle use taxes* are paid by the owner.

• How are the taxes paid?
  – Taxpayers file twice-monthly estimated payments.
  – Every quarter Treasury reconciles these estimates to determine the exact amount of taxes that should be attributed to the HTF.
What is the structure of the HTF?

• The HTF has two accounts: the Highway Account and the Mass Transit Account.

**Highway Account**
- Includes programs from FHWA, FMCSA, NHTSA, and OST.
- Receives cash from all the HTF taxes.
- FY 2019 revenue was **$39.4 billion**.

**Mass Transit Account**
- Includes programs from FTA.
- Receives cash *only* from gas and diesel taxes.
- FY 2019 revenue was **$5.5 billion**.
Since the Highway Account and Mass Transit Account share the gas and diesel taxes, how are they split up?

- The Federal gas tax is 18.4 cents per gallon.
  - The Highway Account gets 15.44 cents.
  - The Mass Transit Account gets 2.86 cents.
  - The Leaking Underground Storage Tank (LUST) Trust Fund gets 0.1 cent.

- The Federal diesel tax is 24.4 cents per gallon.
  - The Highway Account gets 21.44 cents.
  - The Mass Transit Account gets 2.86 cents.
  - The LUST Trust Fund gets 0.1 cent.
Step 1: Twice a month, Treasury estimates how much cash from the taxes should be attributed to the HTF. The cash is deposited into the HTF on the 6th and 17th business days of the month.

- The deposit on the 6th business day is for taxes collected in the 2nd half of the prior month.
- The deposit on the 17th business day is for taxes collected in the 1st half of the current month.

Step 2: Each quarter, Treasury’s reconciliation of the estimated tax payments result in an upward, or downward adjustment to the HTF cash balance.

- This reconciliation occurs approximately 5 months after the end of the quarter and can be significant—on a handful of occasions during the past decade this has resulted in an upward or downward adjustment of over $1 billion.
- For example, the adjustment for the quarter ending Dec 2019 was made in May 2020. This was a downward adjustment of $1.3 billion to the Highway Account and $177 million to the Mass Transit Account.
What is happening?

- In short, there are more bills to pay than cash coming in.
- *Think of it like a bathtub with the faucet on, but the drain is open. Cash is coming in to the HTF, but it is being spent faster than it’s coming in.*
- COVID-19 has exacerbated the situation by significantly reducing receipts.

Will the HTF go broke? Will it go below zero?

- No, a shortfall does not mean the HTF goes “bankrupt.”
- Without additional revenue or General Fund transfers into the HTF, the outlay of cash must be slowed to align with the pace of the incoming cash, which would likely slow project delivery.
Why is the HTF approaching a cash shortfall?

• **Spending is outpacing revenue.**
  - Spending from the HTF has outpaced revenue for over a decade.
  - In FY 2019, the HTF had $56.1 billion in expenditures while taking in $44.5 billion in revenue, **resulting in an $11.6 billion deficit.**

• **Why is spending outpacing revenue?**
  - The programs supported by the HTF have increased in size in recent decades.
  - The taxes that support the HTF were last adjusted by Congress in 1993.
  - Increased fuel efficiency has eroded the revenue from the gas and diesel taxes.

• **How have shortfalls been avoided in the past?**
  - Since 2008, Congress has transferred $144 billion in additional funds into the HTF – primarily from the Treasury’s General Fund.
  - This includes a $70 billion transfer from the General Fund authorized by the FAST Act in FY 2016.
Why is the HTF approaching a cash shortfall?

- The HTF is annually spending nearly $12 billion more than its receipts.
When did the FY 2021 President’s Budget estimate a cash shortfall?

- In the FY 2021 President’s Budget, the Highway Account was estimated to experience a cash shortfall in **FY 2022** while the Mass Transit Account was estimated to experience a shortfall sooner in **FY 2021**.

*Balances shown in this table reflect accrual basis.*
What is the impact of the COVID-19 virus on the HTF?

• Since the emergence of the COVID-19 virus, there has been a significant decline in the amount of HTF taxes collected.

• Current projections indicate that both the Highway and Mass Transit accounts will experience cash shortfalls earlier than estimated in the 2021 Budget.
What is the impact of the COVID-19 virus on the HTF year-to-date?

- What is the impact on revenue year-to-date?
What is the impact of the COVID-19 virus on the HTF year-to-date?

- What is the impact on revenue in recent weeks?

Weekly HTF Tax Revenue: FY 2019 vs FY 2020

- Mar 16-31
- Apr 1-15
- Apr 16-30
- May 1-15

Fiscal Year

FY 2019 Actual
FY 2020 Actual
FY 20 Est. from PB

Billions of Dollars

$2.07B
$1.98B
$1.19B

Does not reflect quarterly Treasury receipt reconciliation adjustments.
### Treasury Semi-Monthly HTF Revenue Estimates

<table>
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<tr>
<th>Weeks</th>
<th>2019</th>
<th>2020</th>
<th>2019-2020</th>
<th>% Change</th>
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<tr>
<td>April 1 - 15</td>
<td>1,662</td>
<td>1,224</td>
<td>(438)</td>
<td>-26%</td>
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<tr>
<td>April 16 - 30</td>
<td>1,567</td>
<td>853</td>
<td>(714)</td>
<td>-46%</td>
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<td>May 1 - 15</td>
<td>1,809</td>
<td>1,043</td>
<td>(766)</td>
<td>-42%</td>
</tr>
</tbody>
</table>

Taxes paid in a given bi-monthly period reflect economic activity from prior periods.

- Highway Account revenue declined by **26 percent** during the first half of April when compared to the same period in 2019.
- Revenue declined by **46 percent** for the second half of April when compared to the same period in 2019.
- Revenue declined by **42 percent** for the first half of May when compared to the same period in 2019.
What do we project is the longer-term impact of the COVID-19 virus on the Highway Account?

• When will the Highway Account reach a shortfall?

  – *Predicting a shortfall is dependent on a series of assumptions.*

  – First, FHWA has to estimate any potential changes in disbursements to States:

    o Disbursements represent actual reimbursements to States, which require available cash in the Highway Account.

    o To-date, disbursements have been approximately $2 billion higher than in FY 2019.

    o For modeling COVID-19 impacts on the Highway Account, FHWA assumes that disbursements stayed consistent with the President’s Budget baseline projection of increased outlays in FY 2020 and FY 2021 over FY 2019.
What do we project is the longer-term impact of the COVID-19 virus on the Highway Account?

• **When will the Highway Account reach a shortfall (continued)?**

  – Second, FHWA has run potential scenarios to estimate the timing of the shortfall.

    o These potential scenarios start with a 40% reduction in expected baseline revenue for May 2020.

    o Then a gradual increase in revenue until pre-COVID-19, baseline (normal) levels are reached.

      ▪ Scenario #1 assumes a gradual return to normal revenue by October 2020.

      ▪ Scenario #2 assumes a gradual return to normal revenue by January 2021.

      ▪ Scenario #3 assumes a gradual return to normal revenue by April 2021.

  – All three scenarios project that the Highway Account will reach a critical point in Spring 2021 and a shortfall in Summer 2021.
What is the longer-term impact of the COVID-19 virus on the Highway Account?

• When will the Highway Account reach a critical point?
What are the next steps?

- FHWA, FTA, and the Office of the Secretary are actively monitoring the status of the Highway Trust Fund.
- Should it become necessary, the Department will also work with FHWA and FTA to update cash management plans for Highway and Mass Transit Accounts.
- The Department will continue to provide timely updates to stakeholders.