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CBO

The Highway Trust Fund and the Treatment of Surface Transportation Programs in the Federal Budget

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Notes

Numbers in the text and tables may not add up to totals because of rounding.

The photograph on the cover, taken by Fred Ward, appears courtesy of the Environmental Protection Agency.

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Summary

The federal government spends more than $50 billion per year on surface transportation programs, mostly in the form of grants to state and local governments. Much of this spending is for highways and mass transit programs financed through the Highway Trust Fund. Those programs have an unusual treatment in the federal budget, and the way they are classified in the budget facilitates the spending of more money from the trust fund than there are dedicated revenues to support such spending. Those revenues come from excise taxes on the sale of motor fuels, trucks and trailers, and truck tires, and from taxes on the use of certain kinds of vehicles.

This report of the Congressional Budget Office (CBO) describes the status of the Highway Trust Fund and options that the Congress might consider to address the imbalance between revenues and spending from the fund. Part of the discussion concerns the transportation programs' unique budgetary classification and how that treatment limits the effectiveness of the standard mechanisms for budgetary control.

Spending From the Highway Trust Fund Exceeds Its Revenues

In the past 10 years, outlays from the Highway Trust Fund have exceeded revenues by more than $52 billion, and outlays will exceed revenues by an estimated $167 billion over the 2015–2024 period if obligations from the fund continue at the 2014 rate (with adjustments for future inflation) and the expiring taxes on fuels and heavy vehicles are extended at their current rates. Since 2008, lawmakers have addressed those shortfalls by transferring $54 billion, mostly from the general fund of the Treasury, to the Highway Trust Fund. Under current law, the trust fund cannot incur negative balances, nor can it borrow to cover unmet obligations. To match the trust fund's resources with its spending, lawmakers could choose to authorize additional transfers, reduce spending for surface transportation programs, boost the fund's revenues, or adopt some combination of those approaches.

Surface Transportation Programs Have a Split Budgetary Classification

Federal programs obtain the authority to incur financial obligations (referred to as budget authority) either in permanent law or in annual appropriation acts; the spending to pay for those obligations is recorded as outlays in the budget. Budget authority and outlays derived from annual appropriation acts are usually classified as discretionary, and those derived from other laws are labeled mandatory. Generally, the budget authority and outlays of a federal program are both classified in the federal budget as either mandatory or discretionary. However, since 1988, for the surface transportation programs examined in this report, the budget authority has been classified as mandatory while the outlays have been classified as discretionary.

Most Procedures for Controlling Federal Spending Do Not Apply to Spending for Surface Transportation

The processes that the Congress uses to manage the budget—procedural points of order and other Congressional rules designed to control budget deficits—are largely designed to monitor either a program's mandatory outlays or its discretionary budget authority. But, with mandatory budget authority and discretionary outlays, surface transportation programs funded from the

Highway Trust Fund are generally not subject to the processes that control spending for most other programs:

- Spending for mandatory programs is usually subject to certain reductions—mostly across-the-board cuts—under budget rules. However, outlays for the trust fund's surface transportation programs are not subject to those rules because they are considered discretionary.

- Spending for most discretionary programs is controlled by statutory caps on discretionary budget authority. However, outlays for the trust fund's surface transportation programs are not constrained by those caps because the budget authority for those programs is considered mandatory.

That split budgetary treatment allows programs funded by the Highway Trust Fund to skirt budgetary control mechanisms and makes understanding the potential budgetary implications of legislation more difficult for policymakers and transportation stakeholders. (How CBO displays transportation funding in its cost estimates is explained in *Anatomy of a Cost Estimate for Legislation Funding Transportation Programs*, June 2014, www.cbo.gov/publication/45398.)

Reclassifying Transportation Programs Would Subject Them to Standard Budgetary Control Mechanisms

If the Congress wanted to gain more budgetary control over transportation programs, it could classify both budget authority and outlays for surface transportation programs as either mandatory or discretionary. Doing so would be more consistent with typical ways of designating programs within the federal budget, and it would subject programs funded by the Highway Trust Fund to the same trade-offs and constraints faced by other types of programs. Alternatively, the Congress could keep the split classification of mandatory budget authority and discretionary outlays but count transfers from the general fund to the Highway Trust Fund as new budget authority and outlays; that approach, which is currently used in the House of Representatives, aims to manage spending for surface transportation programs by focusing on the difference between revenues and spending in the Highway Trust Fund.

The Highway Trust Fund

The federal government's surface transportation programs are financed mostly through the Highway Trust Fund, an accounting mechanism in the federal budget that comprises two separate accounts, one for highways and one for mass transit. The trust fund records inflows from revenues collected through excise taxes on the sale of motor fuels, trucks and trailers, and truck tires; taxes on the use of certain kinds of vehicles; and interest credited to the fund. Those tax revenues peaked in 2006 and then declined until 2010. Although revenues from the gasoline tax continued to decline over the 2010–2013 period, changes in the accounting treatment of certain tax refunds to state and local governments, along with increasing revenues from taxes on trucks and trailers, resulted in net revenues credited to the fund growing by an average of about 2 percent per year.[1] Over the 2014–2024 period, mandated increases in corporate average fuel economy standards will probably limit revenue growth.[2] Revenues generated by excise taxes and credited to the Highway Trust Fund are projected to rise from about $38 billion in 2014 to about $39 billion in 2024 if the taxes that are scheduled to expire in 2016 are extended at their current rates.

The Highway Trust Fund also records cash outflows for spending on designated highway and mass transit programs, mostly in the form of grants to state and local governments. In general, outlays from the Highway Trust Fund have outpaced tax revenues since 2001, and the fund's balances fell through most of that period with the exception of 2010.[3] The shortfall has been made up by periodic transfers, mostly from the general fund of the

1. The Hiring Incentives to Restore Employment Act of 2010 (Public Law 111–147; 124 Stat. 71) stipulates that refunds to state and local governments for the taxes they paid on motor fuels are drawn from the general fund of the Treasury rather than the Highway Trust Fund.

2. For more information on the effect of fuel economy standards on the Highway Trust Fund, see Congressional Budget Office, *How Would Proposed Fuel Economy Standards Affect the Highway Trust Fund?* (May 2012), www.cbo.gov/publication/43198.

3. In 2010, the trust fund saw a significant decrease in outlays because states spent money provided from the general fund by the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-6; 123 Stat. 115). The ARRA funds required no state contribution or "match," and the same projects that were eligible for funding from the Highway Trust Fund were eligible for ARRA funding.

Treasury, to the Highway Trust Fund. Those transfers totaled $54 billion over the 2008–2014 period.[4]

Spending from the Highway Trust Fund is partly determined by authorization acts that provide budget authority for highway programs, mostly in the form of contract authority (the authority to obligate funds in advance of an appropriation act). How much of that contract authority can be used in a given year is governed by obligation limitations that are customarily set in annual appropriation acts. The Moving Ahead for Progress in the 21st Century Act (MAP-21; P. L. 112-141; 126 Stat. 405) is the most recent authorization for highway and transit programs. It expires on September 30, 2014. A total of about $51 billion in contract authority has been provided for fiscal year 2014, and the obligation limitations for this year amount to about $50 billion.

CBO regularly produces baseline projections of what federal spending, revenues, surpluses, and deficits would look like if current laws governing federal taxes and spending generally remained unchanged. For surface transportation programs funded from the Highway Trust Fund, CBO's baseline projections of outlays do not consider whether projected balances in the trust fund are sufficient to support any particular amount of spending. Rather, CBO's projections of the balances or shortfalls in the trust fund reflect the cash flows that would stem from the spending and revenues as projected separately in CBO's baseline.[5] Those projections incorporate the assumption that the obligation limitations imposed in appropriation acts will increase with inflation each year, and that the taxes dedicated to the Highway Trust Fund that are scheduled to expire in 2016 will be extended beyond their expiration date.

In its April 2014 baseline for programs funded from the highway account, CBO projects outlays of $465 billion and revenues of $343 billion from 2015 through 2024. The combination of spending and revenues and a balance of $2 billion at the beginning of 2015 would result in a cumulative shortfall in the highway account of about $120 billion in 2024—an impossible situation in practice (see Figure 1 and Table 1). For the transit account, the cumulative shortfall would total about $44 billion in 2024. Those shortfalls reflect a mismatch between the trust fund's revenues and spending if the tax and spending policies that are currently in effect are maintained. If lawmakers fail to address the shortfall, through either an increase in trust fund revenues or additional transfers from the general fund, the Department of Transportation (DOT) will have to delay its reimbursements to states for the costs of construction, as it did in 2008.[6] Because deposits into the fund are made only twice each month, to maintain sufficient liquidity, DOT has notified states that it would need to delay payments if balances fell below $4 billion in the highway account or below $1 billion in the transit account.[7] CBO anticipates that such a delay will probably take effect sometime during the summer of 2014 for projects funded from the highway account and sometime in the first half of 2015 for projects funded from the transit account.

Most obligations for the highway and transit accounts involve capital projects that take several years to complete—meaning that outlays for such projects are often spread across several years after funds have been committed. (The Federal-Aid Highway program, for example, typically spends about 25 percent of its budgetary resources in the year funds are first made available for obligation; the rest is spent over the next several years.) Thus, in any given year, the vast majority of outlays from the Highway Trust Fund stem from contract authority provided and obligated in prior years. Because existing obligations far exceed the amounts in the fund at any given time, most of the trust fund's current obligations will be met using tax revenues that have not yet been collected.

4. Legislation authorizing those transfers was not recorded as causing new spending even though it facilitated the liquidation of obligations from the Highway Trust Fund more quickly than would have occurred under current law because CBO's baseline already incorporates the assumption that the liquidation of those obligations would occur. Such an assumption in the baseline is consistent with the rules in the Balanced Budget and Emergency Deficit Control Act of 1985 and with the way CBO constructs its baseline projections for the Old-Age and Survivors Insurance Trust Fund, the Disability Insurance Trust Fund, and certain other trust funds.

5. CBO's baseline for highway and transit programs does not explicitly incorporate any additional transfers from the general fund of the Treasury to the Highway Trust Fund after 2014.

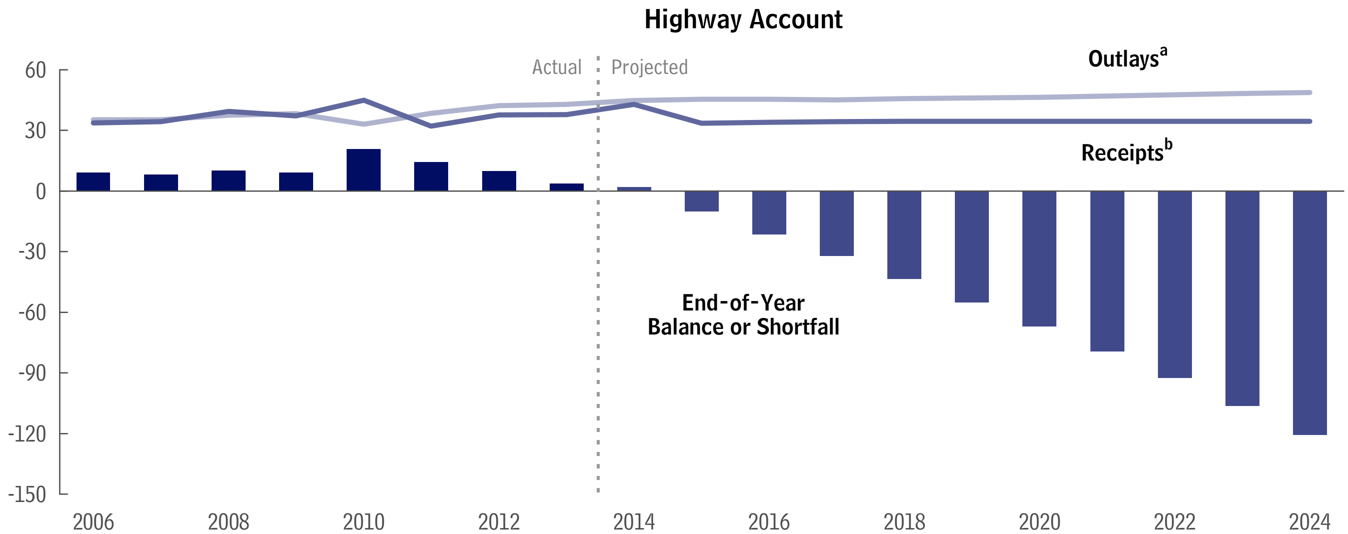
6. In 2008, DOT notified states that it would begin reimbursing them on a weekly, rather than a daily, basis because of the limited balances available in the Highway Trust Fund. Lawmakers subsequently transferred about $8 billion from the general fund of the Treasury into the highway account, and DOT resumed daily reimbursements of bills submitted by the states.

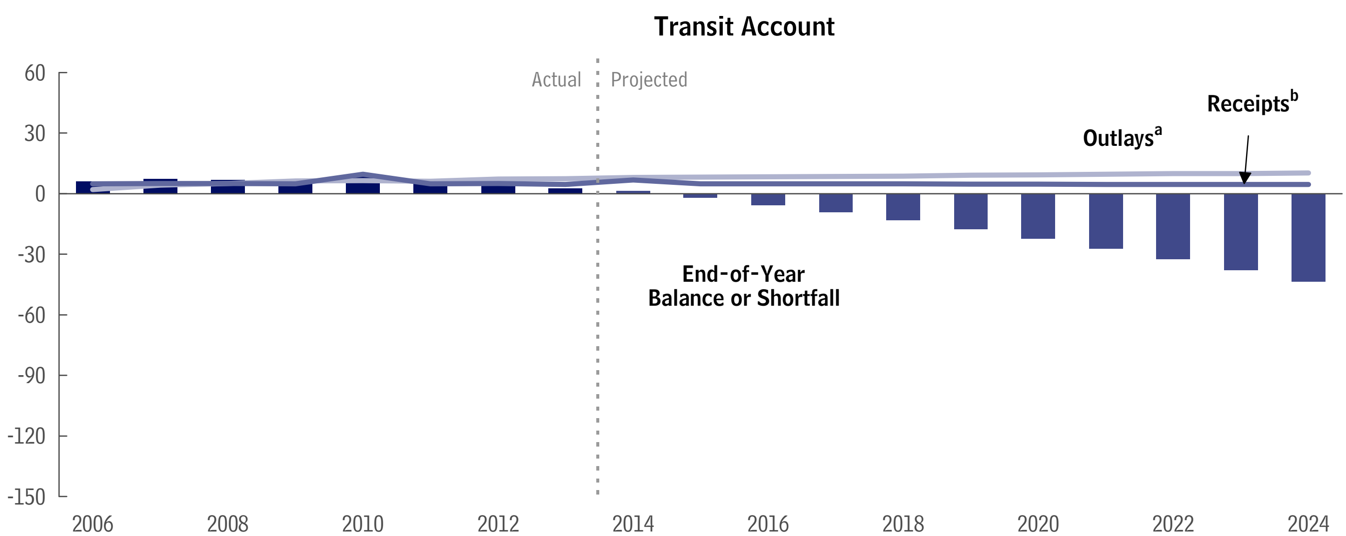
7. Anthony R. Foxx, United States Secretary of Transportation, letter to John Cooper, Director, Alabama Department of Transportation (May 7, 2014), http://go.usa.gov/8Xe3 (PDF; 600 KB).

Figure 1.

Receipts, Outlays, and Balance or Shortfall for the Highway Trust Fund Under CBO's April 2014 Baseline

(Billions of dollars)





Source: Congressional Budget Office.

Note: Under current law, the Highway Trust Fund cannot incur negative balances, nor is it permitted to borrow to cover unmet obligations presented to the fund. Under the Balanced Budget and Emergency Deficit Control Act of 1985, however, CBO's baseline for highway spending must incorporate the assumption that obligations incurred by the Highway Trust Fund will be paid in full.

a. Projections of outlays are calculated by adjusting the obligation limitations set for the current year to account for projected inflation.

b. Projections of receipts are based on market conditions, and they incorporate an assumption under CBO's April 2014 baseline that some taxes (including taxes on certain heavy vehicles and tires and all but 4.3 cents of the federal tax on motor fuels) that are credited to the Highway Trust Fund but scheduled to expire on September 30, 2016, would be extended.

The receipts line includes revenues credited to the Highway Trust Fund and intragovernmental transfers, mostly from the U.S. Treasury's general fund. Since 2008, those transfers (including amounts transferred in fiscal year 2014) have totaled about $54 billion.

Table 1.

Projections of the Highway Trust Fund's Accounts in CBO's April 2014 Baseline

(Billions of dollars, by fiscal year)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Highway Account												
Start-of-Year Balance	10	4	2	a	a	a	a	a	a	a	a	a
Revenues and Interest[b]	32	33	34	34	34	34	34	34	34	34	34	34
Intragovernmental Transfers[c]	6	10	0	0	0	0	0	0	0	0	0	0
Outlays[d]	43	45	45	45	45	46	46	46	47	48	48	49
End-of-Year Balance	4	2	a	a	a	a	a	a	a	a	a	a
Transit Account												
Start-of-Year Balance	5	2	1	a	a	a	a	a	a	a	a	a
Revenues and Interest[b]	5	5	5	5	5	5	5	5	5	5	5	5
Intragovernmental Transfers[c]	0	2	0	0	0	0	0	0	0	0	0	0
Outlays[d]	7	8	8	8	8	9	9	9	10	10	10	10
End-of-Year Balance	2	1	a	a	a	a	a	a	a	a	a	a
Memorandum												
Cumulative Shortfall[a]												
Highway Account Shortfall	n.a.	n.a.	-10	-21	-32	-43	-55	-67	-79	-92	-106	-120
Transit Account Shortfall	n.a.	n.a.	-2	-6	-9	-13	-18	-22	-27	-32	-38	-44

Source: Congressional Budget Office.

Notes: Details may not add up to totals because of rounding.

n.a. = not applicable.

a. Beginning in fiscal year 2015, CBO projects, revenues credited to the highway and transit accounts of the Highway Trust Fund will be insufficient to meet the fund's obligations. Under current law, the trust fund cannot incur negative balances, nor is it permitted to borrow to cover unmet obligations presented to the fund. Under the Balanced Budget and Emergency Deficit Control Act of 1985, however, CBO's baseline for highway spending must incorporate the assumption that obligations incurred by the Highway Trust Fund will be paid in full. The cumulative shortfalls shown here thus are estimated on the basis of spending that is consistent with obligation limitations contained in CBO's April 2014 baseline—adjusted for projected inflation—for highway and transit spending. To meet obligations as they come due, the Department of Transportation estimates, the highway account must maintain cash balances of at least $4 billion, and the transit account must maintain balances of at least $1 billion. As a result, under CBO's baseline projections, the highway account will probably have to delay some of its payments during the summer of 2014.

b. Some taxes that are credited to the Highway Trust Fund are scheduled to expire on September 30, 2016, among them the taxes on certain heavy vehicles and tires and all but 4.3 cents of the federal tax on motor fuels. Under the rules that govern CBO's baseline projections, however, these estimates reflect the assumption that all of those expiring taxes would be extended.

c. Section 40251 of the Moving Ahead for Progress Act (P.L. 112-141; 126 Stat. 405, 864) required certain intragovernmental transfers, mostly from the U.S. Treasury's general fund, to the Highway Trust Fund. Those amounts totaled about $18 billion. CBO's baseline does not reflect an assumption that additional transfers from the general fund would occur.

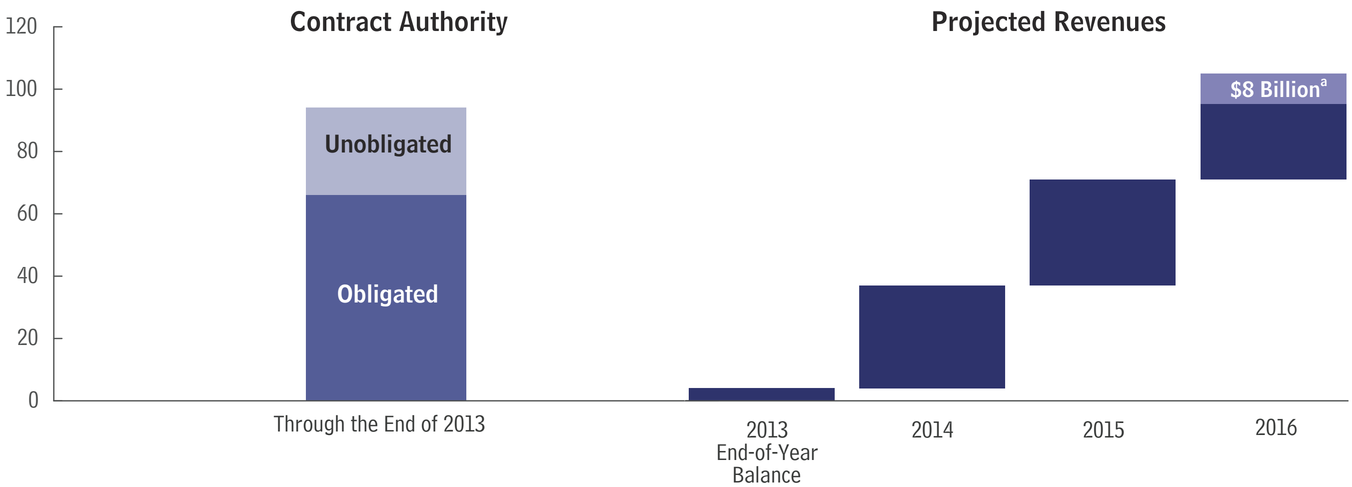
d. Outlays include amounts that are transferred between the highway and transit accounts. CBO estimates that those amounts will total about $1 billion annually.

As a result, the fund's balances are not indicative of the amounts available to cover proposed new spending authority. A more useful measure is the balances in the trust fund minus prior obligations that have not yet been liquidated and that must be paid for from future tax revenues collected under current law. At the end of fiscal year 2013, for example, the highway account had a balance of $4 billion, but $66 billion in contract authority for highway programs had been obligated but not yet spent, and another $28 billion was available to states but not yet obligated, for a total of $94 billion in contract authority. Tax receipts dedicated to the highway account are projected to be about $34 billion per year over the next three years for a total of $102 billion (see Figure 2). As a result, under the calculation suggested above, there would be only about $8 billion ($102 billion minus $94 billion) in the fund over the next three years to cover the costs that

Figure 2.

Obligated and Unobligated Contract Authority and Three Years of Projected Revenues in the Highway Account

(Billions of dollars)



Source: Congressional Budget Office.

a. Subtracting the $94 billion in contract authority from the total of $102 billion in tax receipts dedicated to the highway account projected for the 2014–2016 period plus balances in the fund at the end of 2013 would leave about $8 billion to cover the costs that would result from providing new spending authority.

would result from providing new spending authority. The situation is similar for the transit account.[8]

Alternatives for Funding Surface Transportation Programs

Decisions about budgetary procedures governing surface transportation programs depend in part on a broader question of policy: Should spending from the trust fund be aligned with revenues dedicated to the fund and raised from users, as was generally the case until 2008, or should user fees be supplemented from the general fund of the Treasury or other sources, as has been the case since 2008? Policymakers could choose to adopt either of those options with or without making changes to the way surface transportation programs are treated in the budget. Those choices are related to, but separate from, the question of how much the government should spend on such programs.[9]

Align Spending From the Highway Trust Fund With Revenues From User Fees

If the Highway Trust Fund is to be used to finance surface transportation programs without transfers of general funds, future obligations financed through the trust fund will need to be significantly lower than the obligation limit that was provided in the Consolidated Appropriations Act, 2014; revenues available to the trust fund will need to be significantly higher; or some combination of those options will need to be implemented.

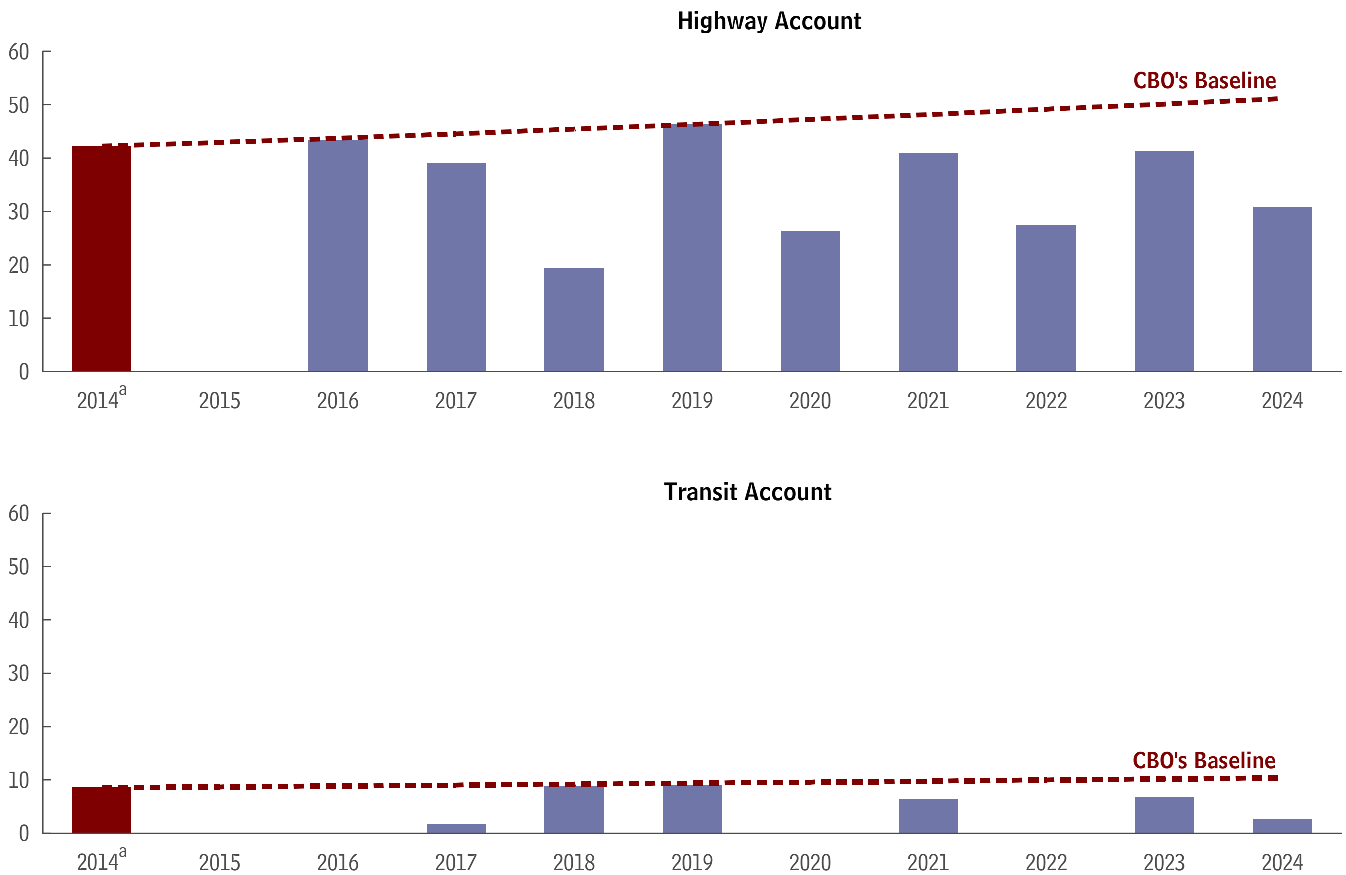
8. See Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015: Appendix* (April 2014), pp. 969–970, 1016, www.whitehouse.gov/omb/budget/Appendix. At the end of fiscal year 2013, the balance in the transit account was about $2 billion, but unspent contract authority for transit programs totaled $14 billion in obligated balances and $9 billion in unobligated amounts. CBO projects revenues credited to the transit account will be about $5 billion per year. Under the calculation suggested above, there would be almost no funds available over the next five years to cover the costs that would result from providing new spending authority.

9. For more information about the range of options available to the Congress for deciding how much to spend on highways and other surface transportation programs, see the testimony of Joseph Kile, Assistant Director for Microeconomic Studies, Congressional Budget Office, before the Senate Committee on Finance, *The Highway Trust Fund and Paying for Highways* (May 17, 2011), www.cbo.gov/publication/41455; and Congressional Budget Office, *Spending and Funding for Highways* (January 2011), www.cbo.gov/publication/22003.

Figure 3.

Estimated New Commitments That Could Be Accommodated by the Highway Trust Fund With No Changes in Receipts

(Billions of dollars)



Source: Congressional Budget Office.

Note: The figure shows the new commitments that could be provided from the highway and transit accounts of the Highway Trust Fund as long as the minimum balance in the highway account was at least $4 billion, the minimum balance in the transit account was at least $1 billion, and the obligation limitation for each account did not exceed the amounts projected in CBO's April 2014 baseline.

a. Data for 2014 represent the obligation limitations contained in the Consolidated Appropriations Act, 2014 (P.L. 113-76; 128 Stat. 5), and contract authority that is exempt from those limitations.

Many combinations of changes to the trust fund's spending and revenues are possible. If lawmakers chose to avert projected shortfalls solely by cutting spending, then the trust fund would be unable to support any new obligations in 2015 because reimbursements to states for multiyear projects already under way would be expected to exceed the revenue collections for that year. The highway account would be able to support new obligations in 2016, but the transit account would not.

Over the 2015–2024 period, new commitments from the highway account would see a decrease of more than 30 percent, relative to CBO's baseline, and such authority for the transit account would decrease by about 65 percent (see Figure 3). For example, such a cut would reduce obligations for highway programs from current projections of about $45 billion per year, on average, to about $32 billion per year, on average, from 2015 through 2024. Similarly, such a cut would reduce obligations for transit projects from current projections averaging about $10 billion per year to an average of about $4 billion per year for the 2015–2024 period. If lawmakers wanted to limit spending for surface transportation programs to amounts collected from user fees, one approach would be to impose a rule limiting the amount of new obligations to the balance in the trust fund minus prior obligations that have not yet been liquidated and that must be paid from future tax revenues collected under current law. If revenues dedicated to transportation programs were not raised, however, this option would require that surface transportation programs have no funding in 2015 and reduced funding in subsequent years.

Another approach to balancing the trust fund's finances without general fund transfers would be to increase its revenues. Excise taxes credited to the Highway Trust Fund primarily come from an 18.4-cent-per-gallon tax on gasoline and ethanol-blended fuels and a 24.4-cent-per-gallon tax on diesel fuels.[10] Those taxes were last increased in 1993. If those excise taxes had been adjusted to keep pace with the consumer price index, for example, the tax on gasoline today would be about 30 cents per gallon and the tax on diesel fuels would be about 40 cents per gallon.

According to estimates by the staff of the Joint Committee on Taxation, a one-cent increase in the taxes on motor fuels, effective October 1, 2014, would raise about $1.5 billion annually for the Highway Trust Fund over the next 10 years (assuming that the taxes are extended beyond 2016).[11] If lawmakers chose to meet obligations projected for the trust fund solely by raising revenues, they would have to increase the taxes on motor fuels by between 10 cents and 15 cents per gallon, starting in fiscal year 2015. (That increase would return fuel taxes to roughly the level they were in 1993, after adjusting for the effects of inflation.) Another approach would be to institute a mileage-based user fee to raise revenues.

10. The total gas tax is 18.4 cents per gallon. Of that, 18.3 cents is deposited in the Highway Trust Fund, and 0.1 cent goes to the Leaking Underground Storage Tank Trust Fund. (The 1993 Omnibus Budget and Reconciliation Act increased the gas tax by 4.3 cents, from 14.1 cents to 18.4 cents; the added receipts were initially not deposited into the trust fund but, instead, into the general fund of the Treasury.)

11. Because excise taxes reduce the tax base of income and payroll taxes, higher excise taxes would lead to a reduction in revenues from income taxes and payroll taxes. The estimates shown here do not reflect those reductions. Those reductions would amount to roughly 25 percent of the estimated increase in excise tax receipts. For additional information, see Joint Committee on Taxation, *New Income and Payroll Tax Offsets to Changes in Excise Tax Revenues for 2014–2024,* JCX-8-14 (February 2014), http://go.usa.gov/85Zk.

Deriving revenues dedicated to the trust fund from fees for using highways could lead to more efficient use of the transportation system, particularly if the fees took account of where and when users drive and the weight per axle of heavy trucks.[12]

Supplement User Fees With General Funds

Lawmakers could choose to continue to supplement the Highway Trust Fund with transfers of general revenues, thus providing more money for highways and transit systems than is collected from excise taxes dedicated to those purposes. To continue funding for surface transportation programs at the average amounts provided in recent years, adjusted for inflation, lawmakers would need to transfer $18 billion to the Highway Trust Fund in 2015, CBO estimates. That transfer would cover a projected cumulative shortfall in the Highway Trust Fund of $13 billion and allow the trust fund to maintain balances of at least $4 billion in the highway account and at least $1 billion in the transit account. Lawmakers would need to transfer $13 billion in 2016, and such transfers would need to increase gradually to $18 billion by 2024 to maintain current spending, adjusted for inflation. At that pace, by 2024, CBO projects, general fund transfers would account for about one-third of the receipts credited to the Highway Trust Fund.

Spending resulting from such transfers could be paid for by reducing other spending or by increasing broad-based taxes, such as income taxes, or it could add to deficits and thus increase federal borrowing. Reductions in other spending would mean that the benefits of the spending on transportation would be at least partially offset by a reduction in whatever benefits that other spending would have provided. Boosting the already-high federal debt would have long-term negative effects on the economy.

There are arguments for and against using broad-based taxes to support spending on surface transportation. An argument in favor of this option is that transferring funds could promote better transportation infrastructure, and some benefits of better transportation infrastructure are

12. For more discussion of user fees other than taxes on motor fuels and a discussion of the trade-offs between equity and economic efficiency when making decisions about highway funding, see Congressional Budget Office, *Alternative Approaches to Funding Highways* (March 2011), www.cbo.gov/publication/22059; and *Spending and Funding for Highways* (January 2011), www.cbo.gov/publication/22003.

distributed more broadly than to just users. Also, small changes in tax rates have the potential to raise a large amount of revenue with few, if any, incremental administrative costs associated with collecting those additional funds. An argument against this option is that general revenues are often a less efficient source of financial support for infrastructure than are user fees because they provide no incentive for the efficient use of the system.

Budget Process Issues for Surface Transportation Programs

Surface transportation programs funded by the Highway Trust Fund receive a unique treatment in the federal budget. For those programs, the authority to incur obligations (that is, budget authority in the form of contract authority) is recorded as mandatory and the outlays as discretionary. Because the budget authority is mandatory, spending would usually be subject to automatic across-the-board spending cuts under the Budget Control Act of 2011 (P.L. 112-25; 124 Stat. 8), but the outlays for the trust fund programs are not subject to those cuts because they are considered discretionary. At the same time, however, because the budget authority is mandatory, spending on those surface transportation programs is not controlled by the statutory caps on discretionary budget authority that were established in the Budget Control Act. The split budgetary treatment allows those programs to skirt budgetary control mechanisms, and it makes understanding the potential budgetary implications of legislation more difficult for policymakers and transportation stakeholders. This section reviews how the Congressional budget process is intended to work and addresses a number of the key budget process issues resulting from the anomalous budgetary classification of surface transportation programs.

The Congressional Budget Process

The federal budget is split into three broad categories: spending for programs and activities, revenues, and net interest costs.[13] Budget authority for programs and activities is classified as mandatory or discretionary depending on the type of legislation that creates the budget authority, and outlays are nearly always classified in the same way as the budget authority from which they result. Congressional procedures for enforcing budgetary rules governing discretionary and mandatory programs are different. Consequently, cost estimates prepared by CBO, which are designed to inform the Congressional budget process, identify and report separately mandatory and discretionary amounts.

Budgetary Treatment of Most Programs. There are two general types of Congressional committees: authorizing committees and appropriations committees. The authorizing committees usually produce legislation that either *provides* mandatory budget authority that may be obligated and spent without additional action by the Congress or *authorizes* the future appropriation of discretionary budget authority in the annual appropriation bills. In general, programs whose budget authority is provided and controlled by legislation originated by authorizing committees are defined as mandatory (for example, Social Security, Medicare, unemployment compensation, and agricultural price supports); those whose budget authority is provided and controlled in annual appropriation acts are discretionary (for example, most defense spending, grants to states for elementary and secondary education, and the personnel costs of most federal agencies).[14]

The Congressional Budget Act of 1974 (P.L. 93-344) specifies that budget authority and outlay amounts are to be allocated to authorizing and appropriations committees by a budget resolution, which lays out the Congress's general budget plan. (However, the Congress does not always adopt such a joint resolution.)[15] Legislation originating with a committee that does not fit within the budget resolution's limits faces procedural hurdles to its passage. The budget committees use a scorekeeping

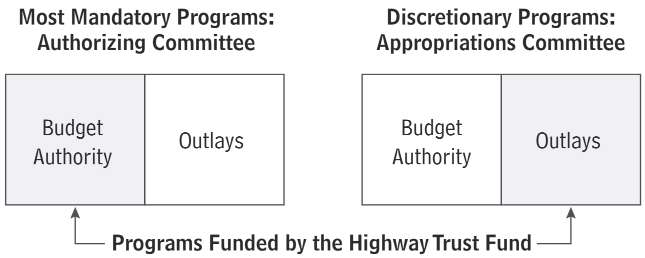
13. The spending category includes certain types of collections, called offsetting collections or offsetting receipts, that are recorded as reductions in spending rather than as revenues.

14. In their annual bills, the appropriations committees sometimes act to limit or expand the spending authority for mandatory programs. Certain benefit programs are classified as mandatory even though their funds are appropriated annually. For such programs, like Medicaid, certain veterans' programs, and the Supplemental Nutrition Assistance Program, appropriated amounts cover the costs of providing benefits to all people who apply and are eligible. If the appropriated amount does not cover those costs, lawmakers need to appropriate additional funds or the agency administering the program has to cut benefits.

15. When no budget resolution is adopted by the Congress, the Senate and the House of Representatives often separately allocate authority to committees based on their respective priorities or operate under the allocations contained in a prior year's budget resolution.

Figure 4.

Classification of Spending Authority and Expenditures



Source: Congressional Budget Office.

Note: Certain benefit programs are classified as mandatory even though their funds are appropriated annually. For such programs, like Medicaid, certain veterans' programs, and the Supplemental Nutrition Assistance Program, appropriated amounts cover the costs of providing benefits to all people who apply and are eligible.

system, based on estimates of budget authority and outlays, to assess whether legislation is within the specified limits.

For most federal programs, the committee to which budget authority is allocated is also the one to which outlays are allocated. For example, if an appropriation bill provides budget authority for a federal program, then the budget authority and outlays for that program are generally both considered to be discretionary in the budget and are attributed to the appropriations committee for Congressional scorekeeping purposes. Similarly, budget authority and associated outlays are categorized as mandatory when legislation originating in an authorizing committee provides the authority for agencies to obligate and spend funds without subsequent appropriation action (see Figure 4).[16]

16. Scorekeeping guidelines were established by the Congress in the conference report for the Balanced Budget Act of 1997 to ensure consistent treatment of spending authority, appropriations, and outlays across programs and over time. The guidelines and the classification of specific budget accounts (mandatory or discretionary) are updated occasionally upon agreement by all of the scorekeepers, a group that consists of the House and Senate Committees on the Budget, CBO, and the Office of Management and Budget. See Committee on the Budget, U.S. House of Representatives, *Compilation of Laws and Rules Relating to the Congressional Budget Process*, CP-3 (August 2012, http://go.usa.gov/8c3C (PDF; 974 KB).

Budgetary Treatment of Surface Transportation Programs. In contrast to the budgetary treatment of most programs, the budget authority for surface transportation programs funded from the Highway Trust Fund is considered to be mandatory and the outlays to be discretionary for purposes of Congressional scorekeeping and thus in CBO's cost estimates. Legislation originating in the Congressional authorizing committees that have jurisdiction over surface transportation programs provides mandatory budget authority over a multiyear period. (See Box 1 for a more detailed explanation of which committees have jurisdiction over which aspects of such legislation.) That budget authority takes the form of contract authority, which is the authority to obligate funds in advance of an appropriation act. States and other grantees are allocated that authority by DOT, which may legally obligate those federal funds for construction projects sponsored and initiated by grantees before an appropriation act is signed into law.[17] As a result, under the Congressional scorekeeping system and in the federal budget, changes in budget authority for programs funded from the Highway Trust Fund are generally attributed to the authorizing committees.

However, the appropriations committees typically control the amount of contract authority DOT can obligate in any one year because, in each year's appropriation bill, they include an obligation limitation—a limit on the obligations that can be made from contract authority that was previously enacted in an authorization act. As a result, in the budget and under the Congressional scorekeeping system, the outlays from the contract authority are attributed to the appropriations committees as discretionary outlays once appropriations are enacted. For example, the new contract authority provided for fiscal year 2014 in authorizing legislation totals about $51 billion; the appropriation act set a limit of $50 billion on the amount of contract authority that can be obligated in 2014 (from the new contract authority provided for 2014 or from contract authority that was provided in previous years). In 2014, CBO estimates that outlays for surface transportation programs funded from the Highway Trust Fund will total more than $53 billion (about $12 billion

17. Originally, contract authority was provided to enable state and local governments to plan future construction schedules. In recent years, however, short-term extensions of the authorization law have made such planning difficult.

Box 1.

Committees With Jurisdiction Over Surface Transportation Programs and Funding

Program Jurisdiction for Authorizing Committees with Responsibilities for Programs Funded from the Highway Trust Fund

Committee	Jurisdiction
Senate	
Environment and Public Works	Federal Highway Administration (FHWA)
Commerce, Science, and Transportation	National Highway Safety Traffic Administration (NHTSA); Federal Motor Carrier Safety Administration (FMCSA)
Banking, Housing, and Urban Affairs	Federal Transit Administration (FTA)
Finance	Excise taxes and other revenues
House of Representatives	
Transportation and Infrastructure	All programs funded from the Highway Trust Fund (FHWA, NHTSA, FMCSA, and FTA)
Ways and Means	Excise taxes and other revenues

Source: Congressional Budget Office.

Surface transportation programs fall under the jurisdiction of one authorizing committee in the House of Representatives and three authorizing committees in the Senate. The authorizing committees are the Committee on Transportation and Infrastructure in the House and the Committee on Environment and Public Works, the Committee on Banking, Housing, and Urban Affairs, and the Committee on Commerce, Science, and Transportation in the Senate. Legislation originating in all of those committees provides contract authority. The Committee on Ways and Means in the House and the Committee on Finance in the Senate are responsible for legislation that involves the excise taxes that are dedicated to the Highway Trust Fund (see the table). Once every several years, the authorizing committees and the tax-writing committees together write the legislation reauthorizing surface transportation programs. Each committee considers the titles over which it has jurisdiction, and the committees combine those titles in a unified bill.

The House and Senate Committees on Appropriations each have a subcommittee that has jurisdiction over transportation programs (the Subcommittees on Transportation, Housing and Urban Development, and Related Agencies). The bills considered by those subcommittees typically place a limitation on the amount of contract authority that can be obligated each year. Such legislation is enacted annually.

from obligations made in 2014 and about $42 billion from obligations made in prior years); that amount is attributed to the appropriation act, and it is recorded in the budget as discretionary spending.

The unusual attribution of costs for surface transportation programs—the split between the authorizing and appropriations committees and between the mandatory and discretionary budget categories—was initiated in the late 1980s. Until then, both the contract authority and the outlays for highway programs were considered to be mandatory even though the appropriations committees had long been placing obligation limitations on contract authority. For example, under the Balanced Budget and Emergency Deficit Control Act of 1985, outlays for transportation programs were still considered to be mandatory even though appropriations committees were limiting annual obligations for surface transportation programs. That treatment was changed in 1988, when lawmakers imposed statutory caps on discretionary spending (both budget authority and outlays) and included outlays (but not contract authority) for transportation programs in the discretionary category.[18]

Budgetary Control Mechanisms

Congressional mechanisms for controlling spending are different depending on whether spending is categorized as mandatory or discretionary. For mandatory spending, the Congress's budgetary control mechanisms primarily focus on outlays. For discretionary spending, the control mechanisms primarily focus on budget authority. In both cases, the mechanisms are enforced either by the prospect of across-the-board spending cuts or by points of order that can be raised against legislation that violates certain broad parameters. (A point of order is a parliamentary objection that legislation violates a certain rule, which, if sustained by the presiding officer, allows a Member of the House or Senate to prevent consideration of the legislation in that chamber unless the objection is overridden by a vote of the Members.) However, most surface transportation programs have split budgetary treatment, that is, mandatory budget authority and discretionary outlays—the reverse of what the Congressional budgetary control mechanisms are intended to address (see Table 2).

Mandatory Spending. In general, three laws provide the Congress with mechanisms to control mandatory spending: the Congressional Budget Act of 1974, the Statutory Pay-As-You-Go Act of 2010 (P.L. 111-139; 125 Stat. 240), and the Budget Control Act of 2011. Under the Congressional Budget Act, points of order can be raised against legislation that would increase outlays from mandatory spending. The other two laws limit outlays from mandatory programs, mostly by imposing automatic across-the-board spending cuts (called sequestration) if legislation that increases the deficit or exceeds certain caps on spending is enacted.[19]

Points of Order. Points of order under the Congressional Budget Act can be raised in both the Senate and the House of Representatives against legislation that increases outlays from mandatory spending. Because outlays for transportation programs are categorized as discretionary, however, those points of order do not apply to transportation programs funded from the Highway Trust Fund. Depending on allocations made to committees by a budget resolution, a point of order could be raised against transportation legislation if the legislation would exceed a committee's allocation for contract authority.

Across-the-Board Spending Cuts. Most mandatory programs are subject to automatic reductions in budget authority through fiscal year 2024 as a result of provisions originally included in the Budget Control Act. However, programs with mandatory budget authority that are also subject to an obligation limitation are exempt from that sequestration mechanism. Automatic across-the-board reductions also would be made if the cumulative effect of legislation increased the deficit under the provisions of the Statutory Pay-As-You-Go Act.

Under provisions of the Budget Control Act, mandatory programs are subject to annual sequestration. The Office of Management and Budget (OMB) calculates the amount of sequestration as specified in that act, and the budget authority for all mandatory programs subject to those provisions is reduced by a certain percentage. However, because the Balanced Budget and Emergency Deficit Control Act (as amended) excludes programs with mandatory budget authority subject to an obligation limitation from the sequestration mechanism, only $739 million in highway funding (the portion of annual contract authority that is exempt from the obligation limitation) was subject to sequestration in 2014, resulting in a reduction of $54 million in funding for that year.

The Statutory Pay-As-You-Go Act was intended to prevent net changes in mandatory spending and revenues that would result in an increase in the deficit. The law

18. This split treatment is also used for certain programs administered by the Federal Aviation Administration. For more on the history of the origins of obligation limitations, see Jeff Davis, "The Origins of Obligation Limitations, Part I," *Transportation Weekly*, vol. 9, no. 14 (April 2, 2008), pp. 1, 5–15; Jeff Davis, "The Origins of Obligation Limitations, Part II," *Transportation Weekly*, vol. 9, no. 15 (April 9, 2008), pp. 1, 4–13; and Jeff Davis, "The History of Obligation Limitations, Part III," *Transportation Weekly*, vol. 9, no 16 (April 18, 2008), pp. 1, 4–14. In 1998, the Transportation Equity Act for the 21st Century (TEA-21; P.L. 105-178), amended the Budget Enforcement Act of 1990 (BEA-90; P.L. 101-508) and created two new categories—for highways and transit—within the discretionary budget. The categories contained in TEA-21 made it harder to reduce appropriations for transportation programs to amounts lower than those designated by the authorizing committees. Although the BEA-90 expired in 2003, there remained a point of order in the House of Representatives against appropriation bills that contained less than the specified obligation limitation until 2011.

19. The Budget Control Act and the Statutory Pay-As-You-Go Act amended the sequestration mechanism contained in the Balanced Budget and Emergency Deficit Control Act of 1985.

Table 2.

Budgetary Control Mechanisms

Budgetary Control Mechanism	What the Law Controls	When the Control Is Applied	Effects on Highway Trust Fund Programs
	Controls on Mandatory Spending		
Points of order under the Congressional Budget Act of 1974	Net increases in outlays from mandatory programs in a specific bill	If legislation is brought up for a floor vote and a Member of Congress raises a valid point of order, a majority (or sometimes a supermajority) vote is required to consider the legislation.	*Varies.* The effects depend on whether increases in net contract authority exceed allocations provided to committees by a budget resolution.
Across-the-board spending cuts resulting from the Budget Control Act of 2011	Total outlays from mandatory programs	If total caps on discretionary budget authority are exceeded, OMB enforces a cut.	*Limited.* From the $51 billion in contract authority, those programs had only $623 million in mandatory outlays in 2013.
Across-the-board spending cuts resulting from the Statutory Pay-As-You-Go Act of 2010	Net increases in outlays from mandatory programs in a year	If authorizing and tax legislation in any one year, taken together, results in a net increase in projected deficits, OMB enforces a cut.	*Limited.* From the $51 billion in contract authority, those programs had only $623 million in mandatory outlays in 2013.
	Controls on Discretionary Spending		
Points of order under the Congressional Budget Act of 1974	Discretionary budget authority amounts in total and for each appropriations subcommittee	If legislation is brought up for a floor vote and a Member of Congress raises a valid point of order, a majority (or sometimes a supermajority) vote is required to consider the legislation.	*None.* Because the obligation limitations in appropriation bills do not count against the committees' budget authority allocations, they cannot be the basis for a point of order.
Across-the-board spending cuts resulting from the Budget Control Act of 2011	Total discretionary budget authority	If total caps are exceeded, OMB enforces a cut.	*None.* Those programs have no discretionary budget authority.

Source: Congressional Budget Office.

Note: OMB = Office of Management and Budget.

provides for certain exemptions. If, taken together, legislation in any one year results in a net increase in projected deficits from changes in direct spending and revenues, OMB is required to apply across-the-board spending cuts to most mandatory programs. Because the Statutory Pay-As-You-Go Act applies only to programs with mandatory outlays (with some limited exceptions), it does not apply to most transportation programs.

Discretionary Spending. The Congress typically controls discretionary spending by imposing caps on total discretionary budget authority and allocating that budget authority to appropriations subcommittees. As with budgetary control mechanisms for mandatory programs, controls on discretionary spending are enforced using either points of order or the prospect of across-the-board spending cuts, but those enforcement mechanisms apply to budget authority rather than to outlays. The obligation limitation for transportation programs, however, does not count against the budget authority allocation of the appropriations committees because obligation limitations are not considered to be new budget authority. The budget authority for those programs, in the form of contract

Table 3.

Options to Change the Scorekeeping Process for Highway Trust Fund Programs

Option	Potential Budgetary Effects
Treat budget authority and outlays as mandatory	Makes budgetary treatment more parallel
	Subjects transportation programs to sequestration and controls in the Statutory Pay-As-You-Go Act
Treat budget authority and outlays as discretionary	Makes budgetary treatment more parallel
	Subjects transportation programs to appropriated budget authority and annual caps on discretionary spending
Count general fund transfers as new budget authority	Reflects the fact that transfers facilitate additional spending
	Creates an exception to standard budgetary principles
	Counts budget authority and outlays twice in the scorekeeping process

Source: Congressional Budget Office.

authority, has already been provided by a previously enacted authorization act.

Points of Order. As the Congressional budget process is designed to work, the budget resolution allocates a total amount of discretionary budget authority to the appropriations committees, and those committees make further allocations to their subcommittees. Under the Congressional Budget Act, points of order can be raised against legislation providing discretionary budget authority exceeding the allocated amounts. But because the obligation limitation adopted by the appropriations committees does not count against their budget authority allocation, the Congressional Budget Act's constraints do not apply to surface transportation programs funded from the Highway Trust Fund.[20]

Across-the-Board Spending Cuts. Under provisions of the Budget Control Act, most discretionary programs are subject to annual overall caps on new budget authority. Exceeding those caps would trigger across-the-board spending cuts to most discretionary programs. However, because only the outlays for surface transportation programs are considered to be discretionary, surface transportation programs are not controlled by those caps on discretionary budget authority.

Furthermore, current procedures allow contract authority that is rendered unusable in a particular year because it exceeds the obligation limitation to be rescinded in an appropriation act and used to offset increases in the budget authority for other discretionary programs. Such a rescission may create room within the committees' allocation and under the discretionary caps to increase discretionary budget authority for other programs, in which case, the resulting outlays add to the deficit even though there has been no net change in total budget authority for that year.

Options for Changing How Budget Enforcement Rules Apply to Surface Transportation Programs

In this report, CBO examines three options that the Congress could implement to provide more effective budgetary control of surface transportation programs (see Table 3):

- Treat both budget authority and outlays as mandatory;
- Treat both budget authority and outlays as discretionary; or
- Keep the split classification of mandatory budget authority and discretionary outlays, but count transfers from the general fund to the Highway Trust Fund as new budget authority and outlays.

20. Because outlays—but not budget authority—for most surface transportation programs are considered discretionary and are allocated to the appropriations subcommittees, allocations to those subcommittees under the budget resolution include total outlays that are noticeably greater than total budget authority.

The first two options—assigning both budget authority and outlays to either the mandatory or the discretionary side of the budget—would subject surface transportation programs either to the rules governing mandatory spending contained in the Statutory Pay-As-You-Go Act and the Budget Control Act or to the caps on discretionary spending contained in the Budget Control Act, thus subjecting spending for transportation programs to the budgetary control mechanisms that lawmakers have adopted for spending on most other programs. Either of those approaches would make the budgetary treatment of transportation programs consistent with that of most other federal programs. The third option would seek to control spending for surface transportation programs by focusing on the difference between revenues and spending in the Highway Trust Fund.

Treat the Budget Authority and Outlays as Mandatory

One option is to classify the budget authority and outlays for surface transportation programs as mandatory and to remove the programs from the jurisdiction of the appropriations committees. That treatment is consistent with that of other federal programs whose budget authority is governed by authorizing legislation, attributing outlays to the legislative action that provides the authority to spend. Under this option, surface transportation programs would be subject to control under the provisions of the Statutory Pay-As-You-Go Act and to the sequestration that applies to mandatory programs.

An argument in favor of this option is that it would enable grantees to continue to use the availability of mandatory budget authority (which is specified in authorization acts for several years) to make plans for future capital spending on highway and transit assets. An argument against this option is that these transportation programs are much more like discretionary programs—that is, their funding for each year is set explicitly in law rather than resulting from a combination of benefit formulas and eligibility criteria, as is the case for most mandatory programs.

If no obligation limitation was imposed, DOT would be allowed to obligate all unobligated contract authority in a relatively short period of time. Typically, there are significant unobligated balances that have built up over time. For example, at the end of 2013, about $28 billion in unobligated contract authority was in the highway account and about $9 billion was in the transit account. If obligations were not limited, outlays from the trust fund could spike in the short term, which would boost the budget deficit and rapidly deplete any balances in the fund. To address that possibility, lawmakers could continue to impose obligation limitations on some or all of the contract authority, or they could rescind or reduce the availability of contract authority.[21]

Treat the Budget Authority and Outlays as Discretionary

Under an option that would put both budget authority and outlays on the same side of the budget, surface transportation programs would be classified as entirely discretionary. The budget authority for those programs would be set in the annual appropriation acts, and the authorizing committees would continue to set most policy for transportation programs. For example, MAP-21 included a number of policy changes to the highway program, including changes to environmental reviews and the activities for which federal funds are available. As is the case with other authorizing committees that have discretionary programs under their jurisdiction, legislation originating from the authorizing committees would not directly set the funding levels for the programs under this option. Instead, such legislation would set the goals and parameters for operating the programs and could authorize appropriations of specific amounts. However, the appropriation act would set the amount of authority to spend, and that amount could be higher or lower than the amount set in the authorizing legislation. A number of other trust funds have dedicated revenues and outlays subject to appropriation actions.[22]

Under this option, discretionary spending caps would apply to surface transportation programs, and those programs would be subject to the same trade-offs that affect all other discretionary priorities. Lawmakers might choose to modify the current caps on discretionary

21. If lawmakers continued to impose an obligation limitation on some of the surface transportation programs, and if they wanted the sequestration mechanism in the Balanced Budget and Emergency Deficit Control Act to apply to all of the funding for those programs, they would need to amend that law.

22. Other trust funds with dedicated revenues but with spending subject to appropriation action include those for harbor maintenance, inland waterways, nuclear waste, oil spill liability, and leaking underground storage tanks. Competing priorities for allocation of discretionary funding can cause outlays to be lower than revenues in trust funds, resulting in an accumulation of balances. That has occurred recently in the Harbor Maintenance Trust Fund.

appropriations to make room for the additional budget authority, or they might choose to make reductions to other programs.

Because total funding amounts would be reset annually, this option could reduce the ability of states to plan for future capital expenditures. It would also significantly alter the way DOT carries out its programs. Under current law, future contract authority is one of the factors grantees take into account when developing transportation plans that must be approved by DOT before funds can be obligated.

Treat General Fund Transfers as New Spending

Unlike the previous two options, this option would not change the current treatment of budget authority and outlays for surface transportation programs but would apply an additional rule to legislation that transfers resources out of general funds to the Highway Trust Fund. For the purposes of enforcing Congressional budget procedures, such a rule would require that any general fund transfers to the Highway Trust Fund be treated as new mandatory budget authority and new mandatory outlays. Unless such transfers were provided for in the budget resolution, they would be subject to a point of order. A rule about transferring resources out of general funds has been in effect in the House of Representatives in both the 112th and 113th Congresses and was continued in section 113 of the Bipartisan Budget Act of 2013 (P.L. 113-67, Division A; 127 Stat. 1165, 7) for fiscal year 2014.

Attributing new budget authority and outlays to legislation that would transfer general funds to the Highway Trust Fund would show that the transfer, although it is an intragovernmental transaction, facilitates additional spending from the trust fund. The option would explicitly aim to offset spending from the trust fund by necessitating an increase in revenues or a reduction in mandatory spending in another part of the budget, so that legislation transferring general funds to the Highway Trust Fund would comply with Congressional budgetary rules and would not be subject to a point of order or violate caps on spending.

However, surface transportation programs would continue to be subject to the current unique budgetary treatment, and this option would add an additional complication to the scoring of transportation legislation. Because transfers from the general fund do not create any new authority for grantees to incur obligations, treating general fund transfers as new spending would, for the purpose of enforcing Congressional budget rules, count some of the budget authority and spending for surface transportation programs twice—once when the contract authority was provided (in the case of budget authority) or when the obligation limitation was enacted (in the case of outlays), and once when the transfer to the trust fund was made.

Glossary

This glossary defines selected terms. More details are provided in the Congressional Budget Office's (CBO's) glossary of common budgetary and economic terms, available at www.cbo.gov/publication/42904.

baseline: A benchmark against which the budgetary effects of proposed changes in federal revenues or spending are measured. As defined in the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline is the projection of new budget authority, outlays, revenues, and the deficit or surplus into the budget year and succeeding years on the basis of current laws and policies, calculated following the rules set forth in section 257 of that law (2 U.S.C. §907 (2012)).

budget authority: Authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds. Budget authority may be provided in an appropriation act or authorization act and may take the form of a direct appropriation of funds from the Treasury, borrowing authority, contract authority, entitlement authority, or authority to obligate and expend offsetting collections or receipts. Offsetting collections and receipts are classified as negative budget authority.

Budget Control Act of 2011 (Public Law 112-25): Among other changes, this law reinstated many of the provisions of the Deficit Control Act, set caps on discretionary budget authority through 2021, established procedures for raising the debt limit, created the Joint Select Committee on Deficit Reduction to propose budgetary changes that would reduce deficits by at least $1.5 trillion over 10 years, and established automatic procedures to cut spending by as much as $1.2 trillion if legislation originating with the committee did not achieve the required deficit reduction.

Congressional Budget Act of 1974 (P.L. 93-344)**:** The short name for titles I–IX of the Congressional Budget and Impoundment Control Act of 1974, as amended (2 U.S.C. §§601–661f (2012)). This law established a process through which the Congress could systematically consider the total spending policy of the U.S. government and determine priorities for allocating budgetary resources. The process called for procedures to coordinate Congressional revenue and spending decisions made in separate tax, appropriation, and legislative measures. It established the House and Senate Budget Committees, the Congressional Budget Office, the requirements for adopting concurrent resolutions on the budget, and the reconciliation process.

contract authority: Authority provided by law to enter into contracts or to incur other obligations in advance of, or in excess of, funds available for that purpose. Although contract authority is a form of budget authority, it does not provide the funds to make payments. Those funds must be provided later, usually in a subsequent appropriation act (called a liquidating appropriation). Contract authority differs from a federal agency's inherent authority to enter into contracts, which may be exercised only within the limits of available appropriations.

discretionary caps: Statutory ceilings imposed on the amount of budget authority or outlays provided in appropriation acts in a fiscal year. The current limits, which cover fiscal years 2012 to 2021, were established by the Budget Control Act of 2011 and apply only to budget authority. If the estimated budget authority provided in all appropriation acts for a fiscal year exceeded the spending limits for that year, a sequestration—a cancellation of budget authority provided for programs funded by appropriation acts—would be triggered.

discretionary spending: The budget authority that is provided and controlled by appropriation acts, and the outlays that result from that budget authority.

general fund: A category of federal funds in the government's accounting structure. The general fund records all revenues and offsetting receipts not earmarked by law for a specific purpose and all spending financed by those revenues and receipts.

mandatory spending: Synonymous with direct spending, mandatory spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority.

obligation limitation: A provision of a law or legislation that restricts or reduces the availability of budget authority that would have become available under another law. Typically, an obligation limitation is included in an appropriation act. For surface transportation programs funded from the Highway Trust Fund, when an appropriation act routinely places an obligation limitation on direct spending, the associated outlays are treated as discretionary spending.

outlays: Spending to pay a federal obligation. Outlays may pay for obligations incurred in a prior fiscal year or in the current year; hence, they flow partly from unexpended balances of prior-year budget authority and partly from budget authority provided for the current year.

revenues: Funds collected from the public that arise from the government's exercise of its sovereign or governmental powers.

Statutory Pay-As-You-Go Act of 2010 (Public Law 111-139, title I): This law established requirements generally intended to ensure that laws affecting revenues or direct spending do not worsen federal budget deficits.

trust fund: In the federal accounting structure, an account designated by law as a trust fund (regardless of any other meaning of that term). A trust fund records the revenues, offsetting receipts, or offsetting collections earmarked for the purpose of the fund, as well as outlays of the fund that are financed by those revenues or receipts.

About This Document

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Douglas W. Elmendorf
Director

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