



December 6, 2012

## The Effect of Tighter CAFE Standards on the Highway Trust Fund

National Conference of State Legislatures Fall Forum  
December 5–7, 2012

Terry Dinan and David Austin  
Microeconomic Studies Division

This presentation contains information published in *How Would Proposed Fuel Economy Standards Affect the Highway Trust Fund?* (May 2012), available at [www.cbo.gov/publication/43198](http://www.cbo.gov/publication/43198).

# Overview

---

- Background on CBO
- Overview of the Highway Trust Fund (HTF)
  - Where does the revenue come from?
  - How are the funds spent?
  - What have cash flows looked like over time?
- CBO's estimates of how new CAFE standards might affect the HTF
  - What is the magnitude of the effects?
  - How rapidly will the effects occur?

# Background on CBO

---

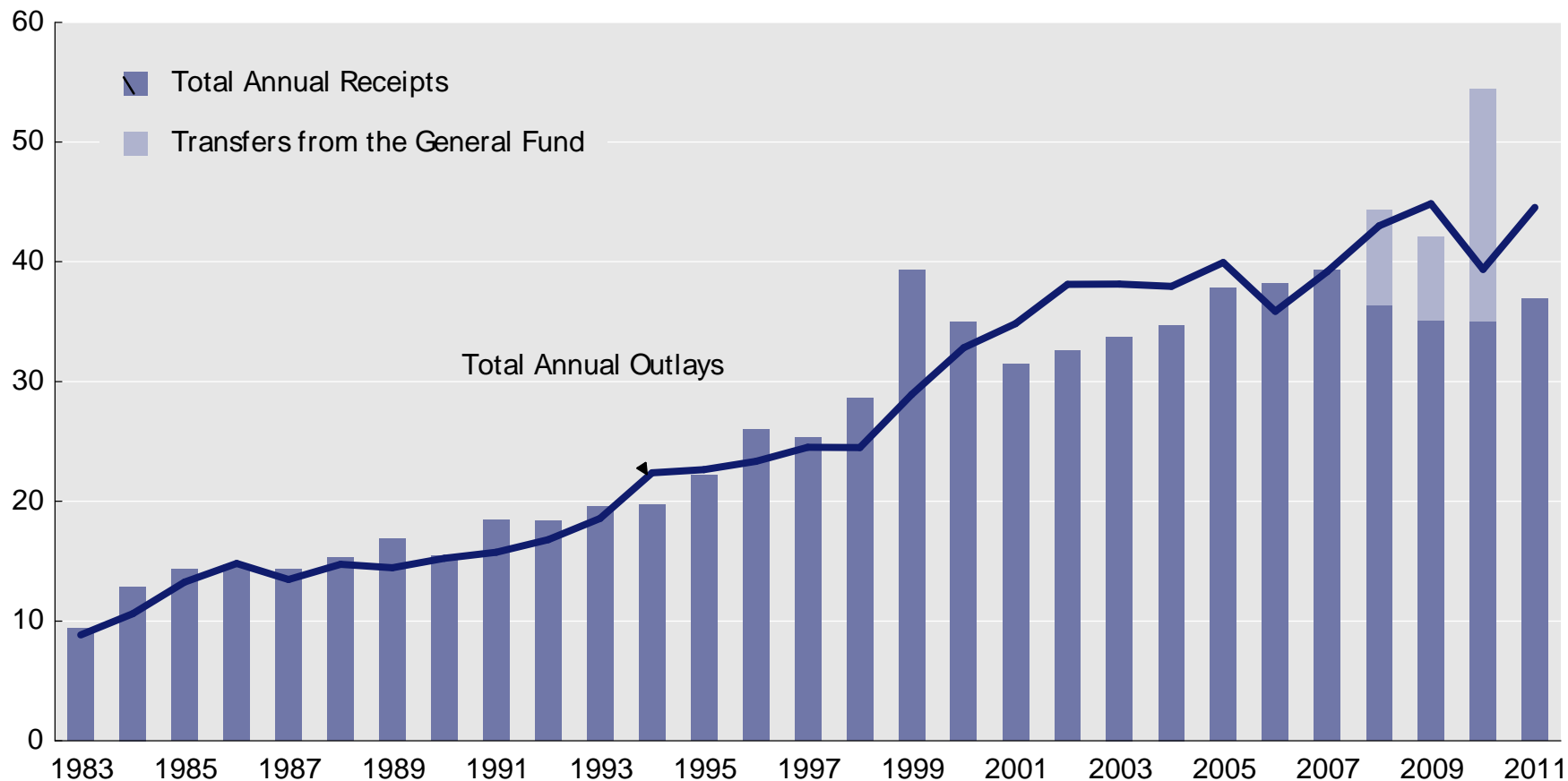
- Created in 1974
- Provides objective, nonpartisan, and timely analysis to facilitate the economic and budgetary decisions of the Congress
- Provides information and estimates required for the Congressional budget process
- Makes no policy recommendations

# Sources and Uses of Highway Trust Funds

- Receipts from several transportation-related excise taxes are credited to the HTF
  - 60% come from gasoline tax (18.4 cents/gallon)
  - 30% from tax on diesel (mostly consumed by heavy trucks)
  - 10% from miscellaneous taxes, including taxes on tires and heavy trucks
- The HTF has received transfers from the General Fund in some years
- HTF is the primary source of funding for the government's surface transportation programs
  - About 85% of funds go to the highway account
  - 15% of funds go to the mass transit account (some mass transit projects receive direct appropriations from Treasury)
- Fund must maintain a positive balance
  - Annual receipts need not equal annual outlays
  - Spending is controlled by annual appropriations

# The Highway Trust Fund's Outlays, Receipts, and Transfers

(Billions of dollars)



- Annual outlays typically exceeded receipts over the past decade
- Transfers from the General Fund totaled \$35 billion between 2008 and 2010

# New CAFE Standards Would Gradually Decrease HTF Receipts, Ultimately Lowering Them by 21 Percent

- Effects would be gradual for two reasons:
  - Newly finalized standards will take effect over time: the average fuel economy of new vehicles will increase from 34.1 mpg in 2016 to 49.6 mpg in 2025
  - Vehicle stock turns over slowly (roughly every 15 years)
- Full effects of the new standards on gasoline consumption and on HTF receipts won't be felt until 2040
- Once effects of the new standards are fully realized, gasoline tax receipts will decrease by 21 percent
  - This estimate accounts for the effect of the renewable fuel standard, mandating 36 billion gallons of renewable fuel use in 2040

# Projected Cash Flows of the Highway Trust Fund for Fiscal Years 2012 to 2022: Baseline and if Gasoline Tax Revenues Fell by 21 Percent

(Billions of dollars)

	Baseline	If Gasoline Tax Revenues Fell by 21 Percent Starting in 2012	Change
<i>Total Trust Fund</i>			
Receipts	442	385	-57
Outlays	589	589	0
Difference	<u>-147</u>	<u>-204</u>	<u>-57</u>
<i>Highway Account</i>			
Receipts	386	339	-48
Outlays	480	480	0
Difference	<u>-93</u>	<u>-141</u>	<u>-48</u>
<i>Mass Transit Account</i>			
Receipts	56	47	-9
Outlays	109	109	0
Difference	<u>-54</u>	<u>-62</u>	<u>-9</u>

# Conclusions

---

- Annual outlays from the HTF typically exceeded excise tax receipts credits over the past decade
- Tighter CAFE standards will increase the gap between outlays and receipts
- Effects will be gradual: full effects won't be realized until 2040
- Tighter CAFE standards could ultimately reduce gasoline receipts by 21 percent; total HTF receipts would fall by 13 percent
- The largest decline will occur in the highway account