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The Future of Financing Infrastructure.

With the ways for funding transportation infrastructure changing, what options do Congress and the states have left?

Bridges need replacing. Transit systems await expansion. Roads are in want of repair — a long-delayed problem made worse by the potholes left in the wake of this winter's storms. But the traditional system for financing transportation infrastructure — money from the Highway Trust Fund and from Congressional legislation (Moving Ahead for Progress in the 21st Century or MAP-21) — has diminished or is not being reauthorized. In a recent newsletter on transportation infrastructure, transportation expert Kenneth Orski, editor and publisher of Innovation News Briefs, heralded this information with an interesting storyline: "States are taking matters into their own hands."

Given the turmoil and pressure on state budgets in the past five years, I wondered how Orski saw the states taking over. In a recent interview, I talked to him about that. The interview has been edited for clarity and length.

What do you see happening with MAP-21? Will it be reauthorized and will there be money in it for state projects?

Funding will dominate the agenda for reauthorization. Where does Congress find the money to finance the bill? A rise in the gas taxes is unlikely. It's a dead issue in this Congress and probably in the next one as well.

Is that an opening for the states to raise their gas taxes?

Four states enacted gas tax increases in 2013. This year there are three or four states where the issue is very much alive. I expect that states will regard a gas tax increase more favorably than Congress will.

What other funding might Congress look at?

A federal mileage tax (a VMT or vehicle miles traveled) has been a favorite of academics and policymakers for some time. The trouble is, when you look at what is happening across the country, only a few states are seriously viewing VMT fees as an alternative or supplement to other revenues. So far, the feeling on VMT is that, if it comes about at all, it is a long-term prospect. It's not ready for prime time — not in this or the next reauthorization.

General funds are responsible for injecting money into the Highway Trust Fund. But the prospect of using general funds has been basically ruled out by the budget agreement that was passed a few months ago. It requires general fund transfers to be fully offset during the year in which the transfer occurs. That device had been used before [in earlier iterations of MAP-21] but those offsets were to be spread out over a period of up to 10 yrs. This time around the offset is during the same year. So I would rule this out as possibility.

There's one more perennial proposal: tolling. Tolling does have a place in the spectrum of

supplements to the gas tax but only in certain states. Some states, especially on the eastern seaboard, are receptive to tolling because there's a long tradition of tolling. But in Midwest and Far West states, tolling is viewed very skeptically. So it could be a partial solution in certain states for state-based revenue but not in others.

What about President Obama's suggestion that savings from closing corporate loopholes could be used to finance transportation projects in the states?

He mentioned this in his State of the Union but he was not very specific as to exactly what those tax loopholes are. That proposal met with skepticism. Transportation lobbyists consider it highly speculative.

Where do you see states finding revenue to finance big-ticket items? You mention bonds in your newsletter, but states have debt limits.

Through public private partnerships [P3s] states can borrow quite a bit. There are public financing instruments, notably private activity bonds. We are told there are many billions of dollars available in private credit. So you can combine the public credit assistance through TIFIA [Transportation Infrastructure Finance and Innovation Act, a credit assistance program] with the private equity and use P3s to finance these major projects—such as bridge replacements, large reconstruction programs, hot lanes. It's not just roads and bridges. Maryland's Governor Martin O'Malley recently announced that the Purple Line, a \$2.2 billion, 16-mile light rail line connecting two suburban counties in the Washington metro area, will be built, financed and operated through a public-private partnership — the first of its kind, but almost certainly not the last.

You also talk about availability payments. How does that work?

That's basically a technique of financing used for large infrastructure projects that cannot generate sufficient revenue to pay for themselves. The sponsoring agency uses sources of income (tolls or dedicated sales taxes) and makes up the shortfall with its own money. In this way it is able to pay private partners for participating in large construction projects. Some 12 major highway and bridge projects are being financed this way. So that's another way states can approach this lack of help from the federal side.

Potholes are a politically volatile issue. Where will states find the money to fill those car-devouring holes?

State and local governments generally set aside funds for snow removal every year. What has happened this year, we've had an unusually severe winter that nobody anticipated. So there's a mini-crisis in state funding for snow removal. Some states are drawing on reserves. In many states those reserves are exhausted. To some extent states are drawing on disaster relief that was made available during the big storm. I don't know whether some state DOTs [Departments of Transportation] may request supplementary help from state legislatures. Others will just muddle through.

We've all been reading about smart cars—cars that can drive themselves, for instance. When these smart cars come on line, won't they need smart roads? How will governments pay for that?

When it comes to the latter part of 21st century (and that's what we're talking about) it's hard to speculate about what kind of investment will be necessary to implement that kind of system nationwide. What I see happening is small-scale experiments at the state level to deploy the technology before states try any large scale implementation. Clearly a nationwide effort would require huge sums of money — hundreds of billions of dollars. I don't know where we will find that

money.

Unlike most issues the states are dealing with today, transportation funding seems to be less volatile.

States can no longer count on an endless stream of federal dollars for their transportation needs. They are experimenting with ways to become more self sufficient. This experimentation is taking place in both Red and Blue states. Both political parties are equally anxious to find ways of increasing transportation independence. State legislators and governors are pragmatists. They take an approach that's largely devoid of partisan politics.

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