

The Future of Transportation Finance

The National Association of Regional Councils

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American Association of State Highway and Transportation Officials

February 6th. 2006

The National Association of Regional Councils

- The SAFETEA-LU act provides record level funding
- The act also makes new provisions for expanded financing options
- We are still fall short of meeting the nation's needs
- The next few years will define the future of surface transportation funding

The National Association of Regional Councils

➤ SAFETEA-LU FUNDING LEVELS

\$295B Contract Authority

\$286.5B Guarantee

\$241 billion highways

\$52.6B Authorized

Innovative Finance

Enhancements	Comments
Continue TIFIA with changes	✓ Threshold lowered to \$50M
	✓ Expands project eligibility to freight projects
Expand SIBs to all states	✓ Expands and allows for creation of multi-state SIBs
Tolling	✓ New express lanes demo program; value pricing; Interstate construction and reconstruction pilots
Private Activity Bonds	✓ \$15B authorized

Innovative Finance

➤ TIFIA

- Loans
- loan guarantees
- lines of credit

- Good for major projects with revenue streams
- Provides patient capital

Innovative Finance

- State Infrastructure Banks (SIBs)
- Purpose: Assist projects that have a source of revenue, but need:
 - Short-term financial assistance (e.g., a local government waiting for its own revenues to come in)
 - Long-term financing (e.g., a park-and-ride lot that will have parking revenues to pay off the loan)
- Repayments go back to state for use in future
- Source of repayments can be Federal or non-Federal

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Tolling provisions

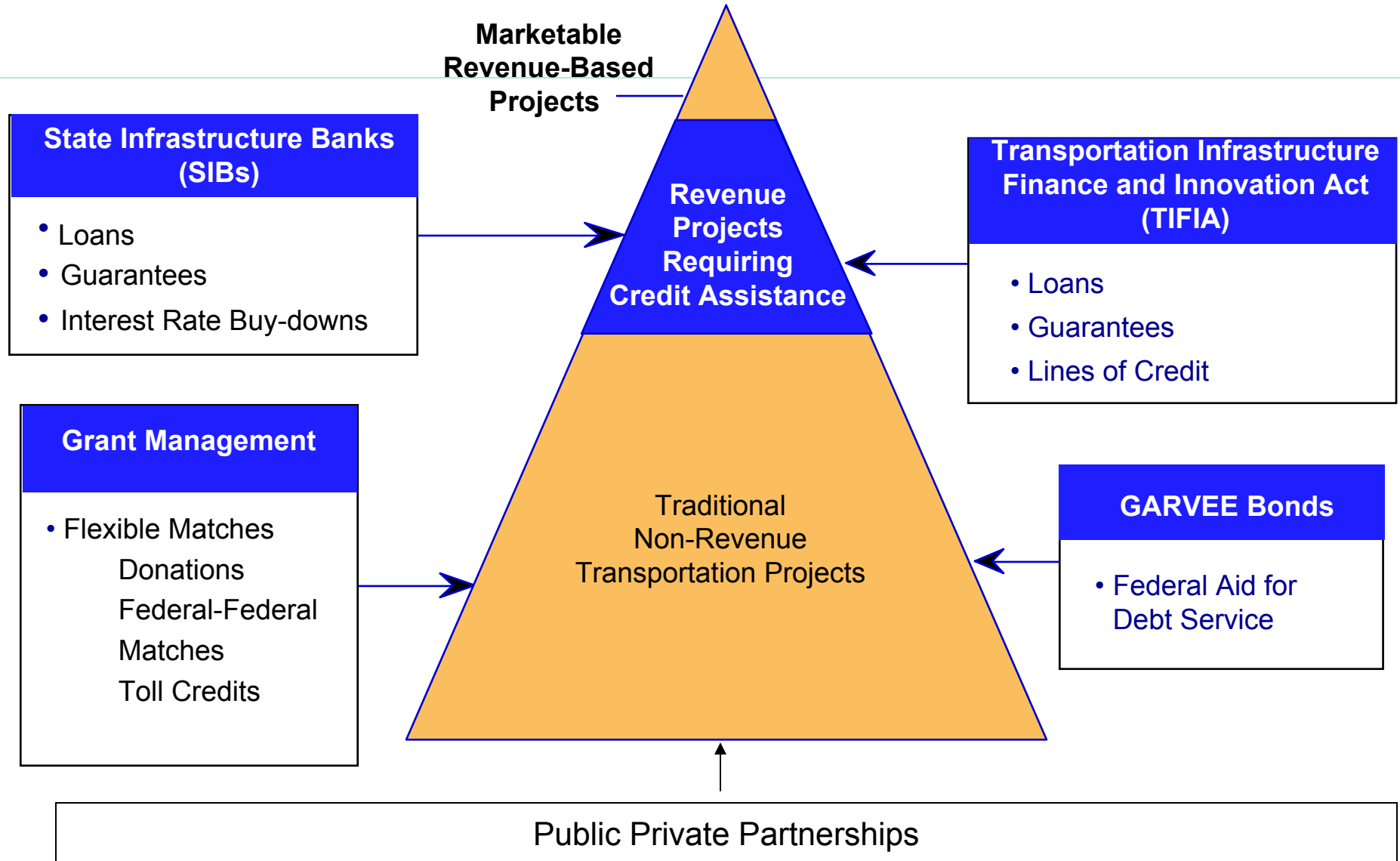
- Interstate Reconstruction
- Interstate System Construction
- Value Pricing Pilot
- Express Lane Demos

Innovative Finance

Private Activity Bonds

- Provides tax exempt debt for surface projects that are public/private partnerships
- Projects must be eligible for Title 23 (highways) activities
- Up to \$15 billion in bond activity is authorized
- The bonds don't count against the State Volume Cap

Federal Project Finance Tools for Surface Transportation Infrastructure



THE FUTURE OF TRANSPORTATION FINANCE

- The economy has become international
- Mega trends include high fuel prices
soaring freight traffic and population and
travel growth
- We have seen these mega trends
become reality particularly in fuel costs

THE FUTURE OF TRANSPORTATION FINANCE

- The premises:
- Transportation is critical to the health of our national economy and our quality of life
- We have clearly moved from a national and regional economy to an international economy
- We must have an integrated transportation system that can meet our needs
- The future looks cloudy at this time

THE FUTURE OF TRANSPORTATION FINANCE

- We are at the same point as 1955
- All transportation needs will dramatically expand over the next twenty years
- Some examples:
 - Freight doubles over the next fifteen years
 - VMT continues to grow
 - Surface transportation networks become more aged
 - The Interstate System turns fifty this year
 - Our population is aging presenting new transportation challenges

THE FUTURE OF TRANSPORTATION FINANCE

The Goal: The need to grow and modernize the transport system

What are the barriers?

1. The need for a clear vision of transportation for the future
2. National/Federal Funding Gap
3. Highway Trust Fund Faces Deficit
4. Short-Term Revenue Solutions Needed
5. Mid-Term Transition Solutions Needed
6. Enhanced Long-Term Revenue Solutions Needed

THE FUTURE OF TRANSPORTATION FINANCE

The revenue issues

- Current transportation revenues at all levels of government – Federal, State, and local – are not sufficient to “maintain” or “improve” the nation’s highway and transit systems
 - Average annual gap to “maintain” highways and transit systems through 2015 is \$50 billion*
 - Average annual gap to “improve” highways and transit systems through 2015 is \$107 billion*

* Cost to “maintain” and “improve” represent updates of AASHTO Bottom Line Capital Needs to 2006 with addition of annual state and local costs of administration, maintenance, and operations (O&M).

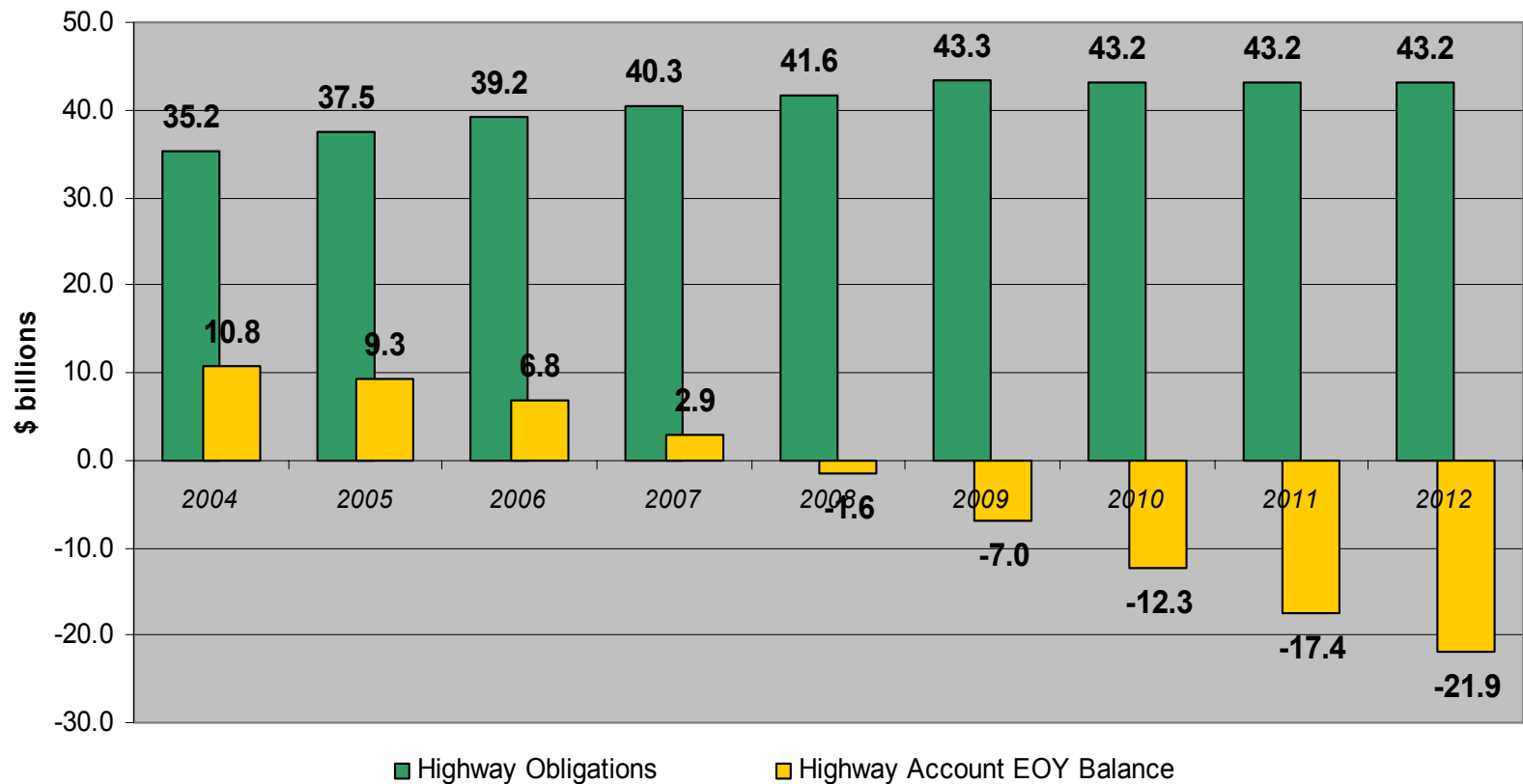
OUTLOOK FOR THE FEDERAL PROGRAM

- HIGHWAY TRUST FUND DEFICIT BY AS EARLY AS 2009
- THE DEFICIT COULD LEAD TO THE NEED TO REDUCE THE PROGRAM LEVEL EVEN BEFORE THE END OF SAFETEA-LU
- CREATES SERIOUS CONCERNS FOR THE PROGRAM'S ABILITY TO ADDRESS NEEDS

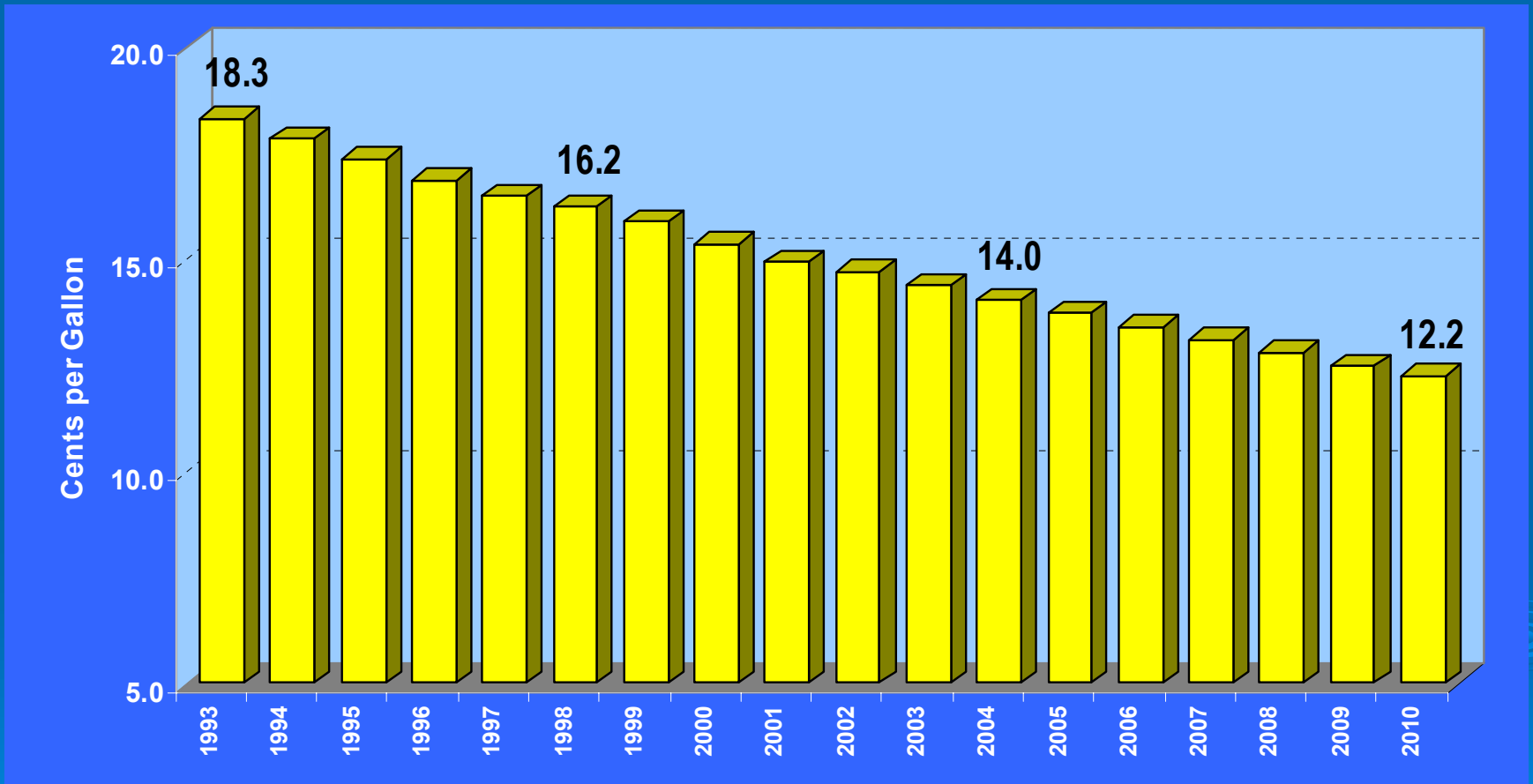
OUTLOOK FOR THE FEDERAL PROGRAM

PROGRAM

Highway Obligations and Account Balances



Gas Tax Purchasing Power Erosion



*Courtesy of William R. Buechner
Vice President, Economics and Research
American Road & Transportation Builders Association*

OUTLOOK FOR THE FEDERAL PROGRAM

- The Federal government needs to take action soon to narrow the revenue gap and prevent the HTF from going into deficit

Some ideas:

- Indexing the Federal motor fuel taxes would have the most immediate and substantial impact to keep the HTF solvent
- Other revenue measures, innovative financing tools, and private participation would have more modest but important additional impacts on reducing the annual national gap and speeding investment

Menu Of Funding Options

- Draw Down Trust Fund Reserves
- Increase Gas Tax
- Capture Interest on Highway Trust Fund Reserves
- Selling tax credit bonds or other financial instruments
- Indexing federal fuel taxes
- Increasing General Fund support for transit
- Leverage a New Source of Revenue Through a Transportation Finance Corporation
- Provide for Private Activity Bonds
- New ideas

OUTLOOK FOR THE FEDERAL PROGRAM

- **WHAT ARE THE KEY ISSUES BEYOND MONEY**
 - Defining the program for the future
 - Strengthening the Federal/State partnership
 - Moving forward with strength to the next reauthorization

Future Funding Potential

- What is the bedrock?
 - The fuel tax will remain the base for the foreseeable future.
 - New technology will provide for new methods of collection.
 - Tolls will fill niches for funding.
 - Innovative financing one key to the future.

Future Funding Potential

- Key long-term issue for the future is how to fill the gap in Trust Fund income
 - Growth rate of gas tax is slowing
 - Over time, gas tax will decline as a revenue source
- Other proposals are in the offing
 - Commission to study future of revenue sources to the Highway Trust Fund
 - State-by-state experiments underway
 - We need to recognize the need for change and embrace it

The future`

- The short-term will rely on current methods
- The political will is not there currently for substantial additional funding
- There is a critical need for a commission
- New technology will make possible new revenue collections
- State and locals will play an ever increasing role in revenue growth

NATIONAL ASSOCIATION OF REGIONAL COUNCILS

➤ Questions

