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Statement for the Record of

The American Society of Civil Engineers

On

"Unlocking the Private Sector: State Innovations in Financing Transportation Infrastructure"

United States Senate

Committee on Finance

June 25, 2015

Introduction

The American Society of Civil Engineers (ASCE)[1] appreciates the opportunity to submit our views on private investment in transportation infrastructure to the U.S. Senate Finance Committee. There is an urgent and timely discussion taking place about the future of federal transportation funding and the need to secure long-term, sustainable funding to support the federal Highway Trust Fund (HTF). Given yesterday's positive action by the U.S. Senate Environment and Public Works (EPW) Committee, there exists now heightened urgency on the Finance Committee to accommodate funding levels that can provide six years of growth for the federal highway and transit program.

Private sector financing of transportation projects does not help address the current HTF funding challenge. However, coupled with a strong federal, state and local funding program, innovative financing mechanisms can help fill transportation infrastructure gaps by leveraging tax revenues and user fees. Funding cannot be separated from the financing discussion because the availability of private sector capital, or ability of governments to repay transportation-related debts, is tied to public acceptance to pay more in tolls fees or taxes.

Bridging the Gap: A Public and Private Sector Challenge

ASCE's *2013 Report Card for America's Infrastructure*[2] graded the nation's infrastructure a "D+" based on 16 categories and found that the nation needs to invest approximately $3.6 trillion by 2020 to maintain the national infrastructure in good condition. The $3.6 trillion figure is the total needs funding amount across all infrastructure sectors, with federal, state and local transportation shortfall being $1.7 trillion. The following are the grades and the investment needs by 2020 for the surface transportation area:

- Bridges received a grade of C+;
- Transit received a D; and
- Roads received a grade of D.

The current spending of $91 billion per year, from all levels of government, for highway capital improvements is well below the estimated $170 billion needed annually to improve conditions. The Federal Transit Administration (FTA) estimates a maintenance backlog of nearly $78 billion needed to bring all transit systems up to a state of good repair.

To meet these transportation needs, it will take:

- Increased leadership in infrastructure renewal;
- Strategic plans to guide investment towards increased system performance; and
- A robust program of both public and private sector investment.

The Nexus Between Funding and Financing

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[1] ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 146,000 civil engineers individually in private practice, government, industry, and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a non-profit educational and professional society organized under Part 1.501(c) (3) of the Internal Revenue Code. www.asce.org

[2] www.infrastructurereportcard.org

ASCE encourages the full utilization and expansion of innovative financing methods like revenue bonds, tax exempt financing, federal credit assistance programs, public-private partnerships (P3s), and state infrastructure banks, among other tools. Innovative financing tools can greatly accelerate infrastructure development and can have a powerful economic stimulus effect compared to conventional methods. However, innovative financing tools should not be viewed as an alternative to funding, but rather financing is often dependent upon securing public support for increased revenues.

A full menu of financing options should be available to federal, state and local policymakers and asset owners as they seek to identify the best way forward to build and modernize America's surface transportation infrastructure. However, it should be noted that while infrastructure investors such as private-equity firms, sovereign wealth funds, and public pensions have indicated a renewed interest in investing more in U.S. infrastructure, the investment that they make should not be mistaken as a charity donation: Investors are looking for a rate of return on that capital which will require some sort of general public or transportation user payment.

There exists a clear yet underappreciated connection between our nation's ability to generate significant funding for transportation improvements and an investors' interest in financing transportation projects. Repayment options on debt for surface transportation projects often include general taxes, gasoline taxes, sales taxes, transportation fees, toll receipts, and federal grant funding to name a few. The following chart [3]from a 2009 Transportation Research Board (TRB) National Cooperative Highway Research Program (NCHRP) report on debt financing provides a ranking of the most utilized sources of state revenue for debt repayment when it comes to surface transportation:

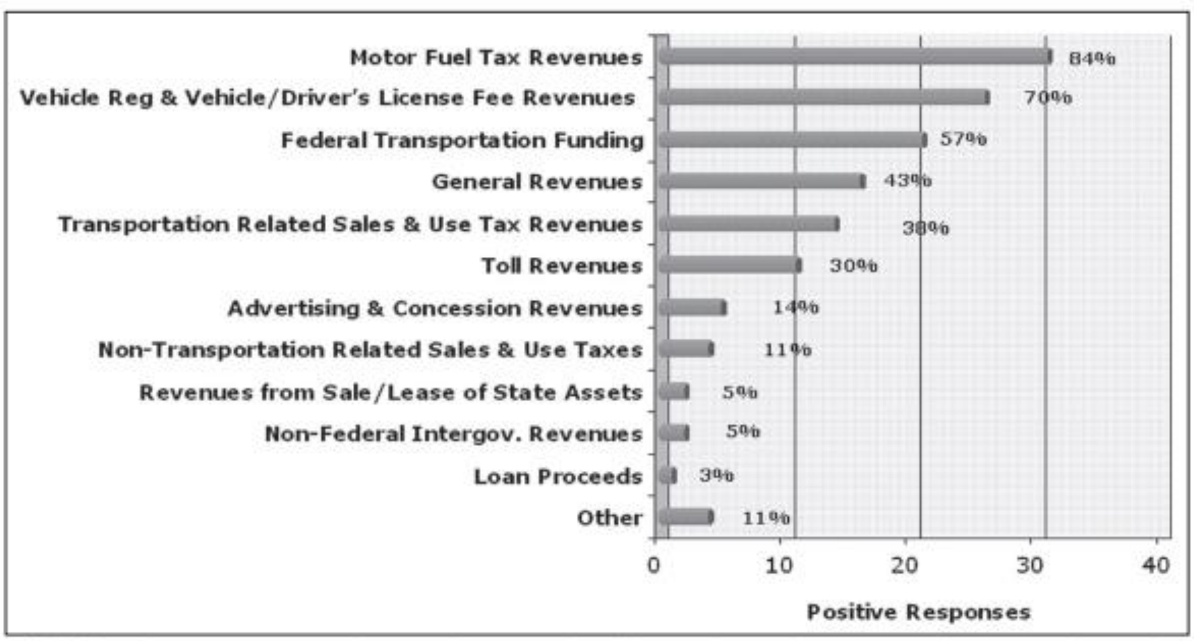

FIGURE 19 Repayment sources for currently outstanding debt, number and percentage of states reporting each source ($n = 37$).

[3] http://onlinepubs.trb.org/onlinepubs/nchrp/nchrp_syn_395.pdf

In addition to repayment on debt, P3s often utilize transportation user fees as their primary payment mechanism to provide investors a guaranteed rate-of-return. There are differing payment models that have been developed for P3s as it relates to collecting toll revenue, and some are more risky to the private investor than others. But regardless of the method of collection, absent a strong appetite by both policymakers to secure these revenues and the public to pay any tolls, taxes or fees, the P3 model in the U.S. will remain severely constrained.

The attractiveness, availability and experience of state and local governments when it comes to utilizing low-interest, tax-exempt municipal bonds certainly has some effect on depressing the domestic P3 market, but as Fitch [4]noted in 2014, "Identifying and allocating revenue for repayment of project debt is the biggest obstacle to the renewal of aging infrastructure in many developed economies." Fitch studied developed economies outside of the U.S. and consistent throughout was not the lack of attractive financing options available, but rather the lack of political will to raise revenues to build and maintain existing infrastructure. "The problem requires an often-difficult political decision on who should pay for facilities that only a fraction of the population will use and that will also be used by future generations," stated Fitch in their report summary.

In order to help increase private investment, the federal government should make every effort to assist public asset owners to engage in P3s and also facilitate engagement with private investors who are oftentimes in search of clear, accurate asset and project data to help inform their infrastructure investment strategies. Programs like Transportation Infrastructure Finance and Innovation Act (TIFIA), bonds, and other innovative solutions like President Obama's proposed Qualified Public Infrastructure Bonds (QPIBS) are attractive instruments to both the public and private sector that can help fill the nation's infrastructure investment gap.

Need for Robust, Long-Term Funding

A key challenge before the Committee is to ensure future HTF solvency. Since the creation of the Interstate Highway System in 1956, the HTF has been supported by revenue collected from road users. This "pay-as-you-go" system has served the nation well over the past half a century, allowing states to plan, construct, and improve the surface transportation network. Additionally, the reliable stream of user-supplied revenue has been critical to the legislative process, because it has enabled Congress to guarantee the availability of multi-year funding to states.

The federal gas tax was last changed over twenty years ago in 1993, and since that time a revenue shortfall has developed in the HTF that increases each year. Currently, the HTF is allocating more than the revenues it receives, with the trust fund allocating $15 billion more than raised in 2014 alone. The Congressional Budget Office recently projected that the six-year cumulative gap in the HTF will grow to approximately $90 billion by 2020.

Despite this freeze in use fee revenue rates, every year demands on the system grow and the purchasing power of those 1993-dollars degrades further. As a result, current levels of highway and transit investment cannot be maintained solely with HTF resources. Over the last six years, Congress has had to dedicate approximately $60 billion from general fund revenues to shore-up the HTF. When the choices are either to cut funding, raid the general fund, or raise additional

[4] https://www.fitchratings.com/gws/en/fitchwire/fitchwirearticle/Revenue,-not-Financing,?pr_id=939115

revenue, there exist no more easy options. It's time for Congress to lead the way on a solution to fix the HTF.

ASCE supports a reliable, long-term, sustained user fee approach to building, maintaining and improving the nation's highways and transit systems and believes that all funding options should be considered by Congress. We recently endorsed House legislation that would raise the federal fuels tax by 15 cents per gallon over the course of a three year period. In recent years the Simpson-Bowles Commission [5]and the National Surface Transportation Infrastructure Financing Commission[6], among others, have come to the conclusion that additional user-based revenue is needed, with each suggesting an increase in the federal motor fuels tax rate. While the motor fuels tax remains the best long-term solution to solving the HTF shortfall in a fiscally responsible, deficit neutral way, a full range of options must be considered within the context of reauthorization, either within or outside of any broader tax reform package.

Of utmost importance is the need to maintain the current fuels tax rate's purchasing strength as it is not currently indexed to economic indicators such as the Consumer Price Index (CPI). An indexing of this sort is applied to many other government revenues and would allow the gas tax to remain strong despite the rising costs of steel, other building materials and labor rates. If adjusted to the projected CPI over the next ten years, the current fuels tax would raise [7]an additional $27.5 billion, which is enough to plug the HTF shortfall for about two years. ASCE recommends raising the motor fuels tax by 25 cents per gallon and indexing for inflation to help meet our nation's near-term surface transportation needs.

Conclusion

Innovative financing does not produce revenue and should not be viewed as an alternative to increasing user fees, taxes or other revenue. While recognizing that innovative financing is not a replacement for new funding, ASCE fully supports innovative financing programs and urges incentives and federal policies to make these programs available and utilized in all states. Additionally, the federal government should make every effort to develop new programs. These types of programs could include QPIBS, lifting the cap on Private Activity Bonds (PABs), reintroducing Build America Bonds, creating Transportation and Regional Infrastructure Project bonds, establishing a National Infrastructure Bank, expanding Transportation Infrastructure Finance and Innovation Act, (TIFIA), and further supporting State Infrastructure Banks, among other instruments.

Surface transportation infrastructure is the critical engine supporting the nation's economy, national security, and public safety. To compete in the global economy, improve our quality of life and raise our standard of living, we must successfully rebuild America's surface transportation infrastructure for the 21st century utilizing both public and private sector resources. To achieve that goal, Congress must approve a long-term, sustainable HTF revenue solution before the law expires on July 31, 2015, and federal, state and local governments must continue do more to attract and properly leverage private sector infrastructure investment.

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[5] http://momentoftruthproject.org/report/recommendations
[6] http://financecommission.dot.gov/
[7] http://renacci.house.gov/index.cfm/2015/4/bipartisan-group-of-lawmakers-introduce-long-term-solution-to-address-highway-trust-fund