THE BOND BUYER

Bill would shift transportation funding role to states

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WASHINGTON — Three Republican senators have introduced a bill that would sharply reduce federal spending on transportation and slash fuels taxes over five years, shifting much of the authority to states and away from the ailing Highway Trust Fund. The bill would eliminate the HTF's mass transit account.

The Transportation Empowerment Act (S. 3190), which was offered by Sens. Mike Lee from Utah, Marco Rubio from Florida and Ted Cruz from Texas on Tuesday, would have a very limited role in funding transportation and no role in funding mass transit.

States would have to raise their own fuels taxes for revenues to fund transportation projects. This shift would run counter to the stance of most transportation groups, the Chamber of Commerce, and state and local governments, which want the gas tax raised and the HTF fixed.

Meanwhile Senate Environment and Public Works Committee Chairman John Barrasso, R-Wyo., was not trying to criticize tax-exempt bond financing of infrastructure projects at a hearing on Wednesday, an aide said on Thursday.

The hearing focused on the benefits of federal transportation and water programs that provide low-cost loans and other assistance to state and local governments for infrastructure projects. In his opening statement Barrasso seemed to compare the benefits of the loan programs with the concerns about federal revenue losses from tax-exempt financing.

But the aide noted that Barrasso got one witness to say that the benefits of bond-financed infrastructure projects outweigh the associated revenue losses estimated by the Joint Committee on Taxation.

The legislation offered by Lee and the other senators on Wednesday, states its goal is “to provide a new policy blueprint to govern the federal role in transportation once existing and prior financial obligations are met.”

“The federal government’s [HTF] is broke, and another year of band aid funding is not going to fix it,” Lee said in a release.

The fuels tax revenues that are put into the HTF are not sufficient to meet the fund’s needs. The HTF provides grants to states for highway and mass transit projects. For years, Congress has transferred general funds into the HTF to make up for shortfalls, but a permanent solution to fix the HTF has not been found. Several groups have called for federal fuels taxes to be increased to provide more revenue for the HTF. The gas tax of 18.4 cents per gallon hasn’t been raised since 1993.

The bill would begin cutting federal transportation spending in fiscal 2019.

It would preserve federal responsibility for the Dwight D. Eisenhower National System of Interstate and Defense Highways, which is virtually complete, and Transportation Department responsibility for transportation projects on federal land, national transportation programs, and emergency assistance to states in response to natural disasters. States would be responsible for most other projects.

The bill would immediately kill the HTF's mass transit account. It would also slash fuels taxes over a five-year period from fiscal 2021 to fiscal 2025. The federal gasoline tax would be reduced to 3.7 cents per gallon from the 18.3 cents per gallon that goes into the HTF. Diesel fuel taxes would be cut to 5 cents per gallon from the 24.3 cents per gallon that goes into the HTF. This would mean only $13 billion to $14 billion of fuels tax revenues would go into the HTF, compared to about $40 billion now, sources said.

“Different states have different values and needs. State and local governments are perfectly capable of reflecting those values and meeting those needs with unique, customized transportation policies without the interference of politicians, bureaucrats, and special interests in Washington,” Lee said in the release on the bill. “The Interstate Highway System was completed decades ago, drivers are buying less gas, and the federal government has wasted far too much money on non-highway projects. It is just an outdated system that is long overdue for reform.”

“The Transportation Empowerment Act is a critical step in returning authority to the states,” Sen. Cruz said in the release. “The strength and growth of American infrastructure is necessary to our economic future, and they are best achieved when we allow communities to assign resources according to their own needs, not far-off bureaucrats in Washington.”

The legislation is similar to a bill with the same name that Lee introduced in June 2015 (S. 1541) with the same three senators and two others, including Sen. Mike Crapo, R-Idaho. That bill was referred to the Senate Finance Committee but failed to gain any traction. Similar legislation was also offered in 2013, but failed to move forward.

The hearing on Wednesday focused on the benefits of the Transportation Infrastructure Finance and Innovation Act (TIFIA), the Water Infrastructure Finance and Innovation Act (WIFIA) and the new Securing Required Funding for Water Infrastructure Now Act (SRF-WIN). These programs provide low-cost loans and other assistance to state and local governments for infrastructure projects.

During the hearing, Barrasso said these low cost loan programs help state and local governments leverage money. He cited as an example $400 million of appropriations over two years to be provided for the WIFIA and SRF-WIN programs, which he said could be leveraged by states to generate $12 billion of new water infrastructure spending.

“Converting $400 million in federal resources into $12 billion in new infrastructure spending is exactly the kind of leveraging that President Trump has called for,” Barrasso said during the hearing. “This is particularly true for the SRF-WIN program, which is designed to help rural states.”

However, he said, according to the Joint Committee on Taxation, the federal treasury loses tax revenue whenever state and local governments borrow on a tax-exempt basis.

“Under this theory, the $12 billion in increased state infrastructure spending is presumed to cost the federal treasury $2.6 billion,” Barrasso said.

He later asked Douglas Holtz-Eakin, president of American Action Forum and former director of the Congressional Budget Office who testified, if the benefits of bond-financed infrastructure projects would outweigh the $2.6 billion federal revenue loss.

Holtz-Eakin said yes, the benefits would outweigh the revenue losses. Holtz-Eakin pointed out that the JCT only looks at federal budget impacts, not such things as productivity and the many benefits to the public and taxpayers from infrastructure projects.

Other committee members and witnesses at the hearing said all kinds of financing are important, including tax-exempt bonds.

“Loan programs are not a replacement for public funding, nor should they be,” said Sen. Tom Carper from Delaware, the ranking Democrat on the committee. “The TIFIA program has now been authorized for 20 years, during which time just 67 loans have been made.”

“We have always maintained that WIFIA is a tool in the proverbial toolbox,” Vicente Sarmiento, director of the board of directors of the Orange County Water District, told committee members.

Brian Motyl, transportation trust fund administrator for the Delaware Department of Transportation, testified at the hearing that $212.5 million of toll revenue bonds as well as a 2015 TIFIA loan of $211.35 million were critical in helping to finance a $635 million project in the works for 40 years to expand and improve Route 301, which had become a bottleneck in the regional highway network.

Motyl said the TIFIA application process was very time-consuming and could be streamlined. He said the reimbursement process could also be improved. But he added that “the benefits of the TIFIA loan far outweighed” these administrative issues.

During the hearing, several committee members said these low-cost loan programs should be made more available to rural regions, which don’t have a lot of revenue sources or streams.

One advocate of more help for rural areas was Sen. Tammy Duckworth, R-Ill. She announced that she plans to introduce a bill soon that would expand TIFIA so that it can be used for major airport infrastructure projects.

Sen. Ed Markey, D-Mass., criticized Trump’s infrastructure plan, which would provide $200 billion in federal funds over 10 years to leverage $1.3 to $1.5 trillion of infrastructure investments from state and local governments, private parties and others. Markey said state and local governments are strapped for cash, Trump's numbers are unrealistic and more federal funding for infrastructure is needed. He urged the committee to develop its own infrastructure plan with more practical numbers.

Markey asked Holtz-Eakin about the president's infrastructure plan and its reliance on leveraging other investments and he responded, "I think it was extremely optimistic."