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Election may stimulate transportation funding solutions

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DALLAS — With Democrats in control of the U.S. House of Representatives next year, transportation specialists and public finance officials see a glimmer of hope for a more sustainable bipartisan transportation funding measure.

“Hopefully, the stars will align and we’ll see some real progress from Congress on this important sector,” Lynette Kelly, chief executive of the Municipal Securities Rulemaking Board, told The Bond Buyer’s Transportation Finance/P3 Conference Thursday in Dallas.

“Now that the Democrats have taken over the House, there’s more talk of a bipartisan solution,” said Michael Lexton, managing director and head of transportation for UBS Financial Services Inc. “But the partisan divide will be difficult to overcome.”

Proposals range from raising the federal fuel tax for the first time since 1993 to eliminating it altogether, Lexton said. There is talk about tolling interstate highways beyond the current pilot projects in three states.

“Tolling would be a huge revenue source,” Lexton said. “There’s definitely push and pull between Congress and the administration over what the federal role in transportation should be.”

Duane Callender, director of the credit program for the U.S. Department of Transportation’s Build America Bureau, outlined his agency’s approach to changing funding needs.

“We are looking toward making P3s (public-private partnerships) more efficient,” Callender said.

In April, the U.S. DOT published a notice of funding opportunity to apply for $1.5 billion in discretionary grant funding through the Better Utilizing Investments to Leverage Development (BUILD) Transportation Discretionary Grants program.

BUILD Transportation grants replaced Transportation Investment Generating Economic Recovery (TIGER) grant program. BUILD grants are for investments in surface transportation infrastructure and are to be awarded on a competitive basis for projects that will have a significant local or regional impact. BUILD funding can support roads, bridges, transit, rail, ports or intermodal transportation.

Lexton told the conference that “we have a clear rural-urban divide over how federal resources for transportation are allocated.”

DOT intends to award a greater share of BUILD Transportation grant funding to projects in rural areas that align well with the selection criteria than to such projects in urban areas, the agency said.

The Consolidated Appropriations Act of 2018 made available $1.5 billion for National Infrastructure Investments, otherwise known as BUILD Transportation Discretionary grants, through September 30, 2020. For this round of BUILD Transportation grants, the maximum grant award is $25 million, and no more than $150 million can be awarded to a single state. At least 30% of funds must be awarded to projects located in rural areas.

While regulatory changes over the past 40 years have improved the integrity and transparency of the municipal bond market, investors may not see the same level of disclosure in P3s, Kelly noted.

“We do worry that P3s don’t have the same protections, but we have no jurisdiction over P3s,” Kelly said. “But it is something we’re talking about.”

“The hope is that the states will step into the void,” she said, mentioning Virginia as one state that has taken a proactive approach to monitoring P3 activity. “We’ve seen that in some other states as well.”

Three Republican senators earlier this year introduced a bill that would sharply reduce federal spending on transportation and slash fuel 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, would have a very limited role in funding transportation and no role in funding mass transit.

States would have to raise their own fuel 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.

In the November election, states showed varying degrees of support for higher fuel taxes. California voters turned back a proposal to repeal recently enacted fuel-tax increases, while voters in Utah rejected a fuel-tax increase in a non-binding referendum.

In Clark County, Nevada, voters have supported indexing fuel taxes to support public transportation, said Stephanie Haddock, director of finance for the Regional Transportation Commission.

Initially, the tax was indexed to the Consumer Price Index, but with voter support the index shifted to the Producer Price Index.

The indexing proposal came out of the 2007-09 recession, as the needs of transportation infrastructure were put on hold due to lack of funding. To cover a growing gap in funding, in 2013 Nevada passed legislation, signed into law by Gov. Brian Sandoval, creating a funding program to tie motor vehicle fuel tax to inflation for a three-year period. The Clark County Board of Commissioners followed with an ordinance to put that funding program in place from January 2014 through December 2016. Fuel Revenue Indexing was designed to keep pace with material and labor costs, generate funds for critically needed transportation projects and create jobs.

During the November 2016 election, ballot Question 5 asked Clark County voters if they wanted to continue to tie fuel tax to the rate of inflation for an additional 10 years. Approved by a majority of voters, the program was extended through 2026.

“It has become an amazing revenue source for us,” Haddock said. “We’re still seeing an increase in revenue of 6% to 8% per year.”

Maryland Secretary of Transportation Pete Rahn said that without public-private partnerships, the state could not afford the massive transportation projects needed to relieve congestion. Those include $7.6 billion for more than 70 lane miles on freeways, $5.6 billion for the Purple Line rail project scheduled to open in 2022, and improvements to the Port of Baltimore, all of which fall under the Maryland Department of Transportation's jurisdiction.

"The problem has been known for decades," Rahn said. "But every time it has been studied there is money. P3s have allowed us to do this."