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Experts Eye Transportation Funding's Future

The Bond Buyer

By Audrey Dutton

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Transportation projects may become increasingly funded by federal loans, a new crop of fees, and taxes, while private-sector financing may also need to become more inventive, analysts and officials said at a conference here yesterday.

Speakers from both the public and private sectors at The Bond Buyer's Ninth Annual Transportation Finance/P3 Conference said the federal government will have to begin tapping new sources of funding in order to pay for highway, bridge, transit, rail, and aviation programs as Congress devises its next transportation authorization bill. The current law, which relies primarily on gasoline and diesel fuel taxes, expires Sept. 30, 2009.

"I think we need to change the rules," said William D. Ankner, secretary of the Louisiana Department of Transportation and Development.

Ankner also said a second economic stimulus bill containing $18 billion to $20 billion of general funds to buttress the federal transportation program raised the question of whether the one-time injection of cash would impede states' contracting authority or ability to leverage the funds for purposes such as Garvee bond issuances, or grant anticipation revenue vehicles, which are repaid by federal grants.

Regarding federal stimulus plans, contrary to the opinions of many officials and lawmakers, Ankner said he had concerns about giving "ready-to-go" projects preference for funding in the near term. The American Association of State Highway and Transportation Officials estimates there are 3,000 such projects requiring $17.9 billion to get started.

"There's more than simply financing why these projects haven't gone forward," Ankner said. He added that lack of interest is one reason projects may be "on the shelf" and that funding them as part of a stimulus would be "instant gratification" but perhaps not the best way to spend federal stimulus dollars.

Ankner said the federal government should get rid of fuel taxes and move instead to a "broad-based tax that is modal neutral," such as sales taxes or increased income taxes, "by a factor that would produce sufficient funds for the transportation system."

Just one new source, fees based on the annual vehicle miles traveled by cars, would generate about $105.7 billion over the course of the next six-year highway bill, said Joung Lee, AASHTO's senior analyst for transportation finance and business development.

Lee's group is pushing for Congress to provide $375 billion in highway funding, $93 billion for transit, $42 billion for freight, and $35 billion for intercity passenger rail in its next transportation bill. The $545 billion would fund a multimodal program from 2010 through 2015.

Steve Simmons, deputy executive director of the Texas Department of Transportation who spoke as a representative of the Transportation Transformation Group, said public-private partnerships, tolling, congestion pricing, and VMT pricing are the future of transportation funding.

New financing products will be guided by capital markets, said Kimberley Paparello Vaccari, head of the transportation group for Banc of America Securities LLC.

"You're going to see new products evolve" that combine different financing structures, she said. Tax credit bonds, a tire tax, container fees, carbon tax, freight fees, and a heavy vehicle tax could be among new financing tools and "most all of them involve a capital markets implementation," she said. "Even if you move to fee-based, it's going to be leveraged."

Panelists who talked about the impact of the credit crunch on transportation financing painted a relatively gloomy picture of the current environment.

The bank lending market is frozen, said Michael Uhouse, managing director for Scotia Capital, an infrastructure lender and adviser.

"In the coming 12 to 18 months as balance sheets deleverage, as financial markets find their feet, there's going to be significant dislocation for infrastructure dollars," he said.

However, he said, banks are "all optimistic" that the incoming presidential administration will be focused on infrastructure.

As a result of frozen lending, governments and agencies are turning increasingly to TIFIA loans through the U.S. Department of Transportation. The Transportation Infrastructure Finance and Innovation Act program that provides low-interest loans - at 4.21% yesterday - as well as loan guarantees and standby lines of credit was established in 1998 as a "sub-debt lender," said Cheryl Jones, project finance adviser for the TIFIA joint program.

The program is now seen as a "no-drama baseline lender of choice," Jones said, and helped to finance the Capital Beltway HOT lanes project together with private activity bonds.

Demand for TIFIA financing is "at an all-time high" in the current credit environment, Jones said. The department is reviewing seven active applications and has six letters of interest, she said, suggesting that federal lawmakers may need to ramp up its funding in the next highway authorization bill to meet the demand.

The 2008 appropriations bill rescinded $257 million of budget authority for TIFIA, reducing its ability to make loans, and now the U.S. DOT is considering restricting its funding to individual projects in order to "spread the wealth," among a larger number of projects she said.

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