

It is a great honor to be here and thank you, Madam Chair, for inviting me and the Southern Legislative Conference (SLC) to testify before the Louisiana Transportation Funding Task Force. As some of y'all know, the SLC is the Southern Office of The Council of State Governments (CSG). CSG, established in 1933, is a regionally-based, non-partisan, non-profit organization that serves all three branches of state government by fostering the exchange of insights and ideas. CSG is headquartered in Lexington, Kentucky with regional offices in California, Georgia, Illinois, New York and Washington, D.C. The SLC, located in Atlanta, serves 15 Southern states and we greatly appreciate the active participation of a number of Louisiana legislators in the SLC, such as Representatives St. Germain, Fannin, Anders, Barrow and Senators Alario, Adley, Broome and Long. I am also honored to be on the program with Secretary LeBas. The Secretary was a presenter at the SLC annual meeting in Little Rock, Arkansas a little over a month ago and we greatly appreciated her participation and presentation at that meeting.

My presentation this morning will cover four broad areas. Part I provides a quick snapshot of the condition of our nation's transportation and infrastructure network while Part II outlines some of the reasons for

their dismal condition. Part III enumerates the typical revenue sources and other financing tools deployed by states to fund transportation and finally, Part IV details some recent actions in the states, both proposed and enacted, related to funding transportation.

### Part 1: State of the Nation's Infrastructure and Transportation Network

Our nation's infrastructure and transportation network is crumbling and in dire shape. The entire network is in urgent need of major rehabilitation, renovation and restoration. The poor condition of the network hinders our competitiveness vis-à-vis our global challengers, adds to congestion in our travel to work, negatively affects our quality of life, reduces our disposable income and the nation's gross domestic product and alarmingly, poses threats in terms of life and limb to all Americans. The sooner we address the backlog of projects and deferred maintenance in every corner of the country, the sooner our nation's wellbeing on every front will be advanced.

The American Society of Civil Engineers, the ASCE, carries out a highly-respected survey of our nation's infrastructure every four years and in the most recent report card, 2013, America's infrastructure received an overall

grade of D+ across 16 categories. While this was a slight improvement from the D received in 2009, the ASCE concludes that the latest grading is still not acceptable. Some of the categories that were graded were bridges (C+), roads (D), wastewater (D), drinking water (D) and levees (the near failing grade of D-). The ASCE estimates that our nation needs to invest \$3.6 trillion in all aspects of infrastructure by 2020 to ensure that our existing infrastructure is upgraded and plans initiated to create a modern, 21<sup>st</sup> century infrastructure network. U.S. spending for transportation and other infrastructure accounts for about 2.4 percent of the economy; in contrast, Europe spends about 5 percent and China spends about 12 percent of their economies. At the state level, there have been various assessments of transportation and infrastructure needs too: Georgia is looking at a \$74 billion gap for transportation funding statewide over the next 20 years; Mississippi has an estimated \$30 billion in highway and bridge needs between 2008 and 2035.

## Part II: Reasons for our Faltering Transportation and Infrastructure System

The federal government's surface transportation programs are financed mostly through the Highway Trust Fund, an accounting mechanism in the

federal budget that comprises two separate accounts, one for highways and one for mass transit. The federal gas tax, which was last raised in 1993 and currently stands at 18.4 cents per gallon, is the major source of funding for the Highway Trust Fund. The average state gets about 52 percent of its highway and bridge capital outlays from the federal government, through the Highway Trust Fund, though there are wide variations among the states with a low of 35 percent in New Jersey to a high of 100 percent in Rhode Island.

Over the past 10 years, outlays from the Highway Trust Fund have exceeded revenues by more than \$52 billion, and outlays will exceed revenues by an estimated \$167 billion between 2015 and 2024, if obligations from the fund continue at the 2014 rate. Since 2008, the U.S. Congress has addressed these shortfalls by transferring \$54 billion, mostly from the General Fund of the Treasury, to the Highway Trust Fund. In fact, most recently, on July 31, 2014, Congress approved a 10-month “patch” to the Highway Trust Fund by transferring \$10.8 billion to ensure that state transportation programs were funded through May 2015. Even though transportation experts have been clamoring for a long-term solution and a

long-term funding deal to finance our nation's transportation and infrastructure system since fiscal year 2008, there have only been short term fixes, i.e., transfers from the general fund, to support this vital sector. Even though transportation stakeholders were advocating for a six-year, \$330 billion plan with stable, long-term funding sources, once again, Congress only delivered a short-term solution. Transportation and infrastructure funding, a spending category that garnered so much bipartisan support for decades, is now a casualty of the absolute gridlock and intransigence that has stymied Washington, D.C. on so many other fronts in recent years.

There are three major factors driving the looming funding gap in the Highway Trust Fund: One, the fact that the federal gas tax has not been increased since 1993, it is not indexed for inflation and it has lost considerable purchasing power in the past 20+ years. By 2013, the federal gas tax had lost 38 percent of its purchasing power and it is estimated that by 2024, that number would climb to 52 percent. Another way to look at this would be comparing the cost of several basic expenditures in the early 1990s and more recently. For instance, the average college tuition in 1993

was \$3,517 while it had risen to \$9,136 in 2010, an increase of 160 percent. Similarly, the median price of a home in 1993 was \$126,500 while in 2010, it had increased to \$221,800, a jump of 75 percent. A loaf of bread in 1993 was \$1.08 while in 2010 it had spurred to \$1.76, an increase of 62 percent. In contrast, during these two time periods, not only did the federal gas tax remained unchanged at 18.4 cents, it lost considerable purchasing power too. Two, the growing number of hybrid, electric and alternative fuel vehicles in the U.S. that rely less on gasoline; in 1995, there were about 250,000 such alternative vehicles in the U.S. but by 2012, the number had escalated to nearly 1.25 million. Three, the reduction in the number of miles that Americans drive now in their vehicles given the vast improvements in vehicle fuel efficiency, deciding to live closer to their workplaces, keeping driving to a minimum and even foregoing owning a vehicle in certain parts of the country. In 1996, the average fuel economy of a new car was 28.5 miles per gallon; by 2013, the average fuel economy of a new car was 36 miles per gallon, a substantial improvement. These three factors acting in concert have caused the Highway Trust Fund to be perilously close to being broke and forcing the Congress to make transfers from the General Fund.

While some transportation experts contend that the most efficient and practical way to generate adequate revenue for transportation would be to increase the federal gas tax, raising taxes continues to be politically radioactive in both Washington, D.C. and numerous state capitols. However, in recent months, several powerful interest groups, the U.S. Chamber of Commerce, the AFL-CIO have come out in favor of increasing the federal gas tax. Even the American Petroleum Institute, while it does not explicitly support higher gas taxes, is not dead-set against the idea either. Interestingly, there is also a bi-partisan effort in the U.S. Senate (Senator Corker of Tennessee, Senator Murphy of Connecticut and Senator Carper of Delaware) who have come out in favor of boosting the gas tax by 12 cents per gallon. Senator Enzi of Wyoming also supports indexing the gas tax to inflation, which would allow it to rise. Yet, these efforts still remain proposals and there have been no concrete plans towards enactment.

Experts note that the average household pays \$46 in federal and state gas taxes every month, an amount that is less than the cost of other monthly

utility expenditures such as electricity, gas, cell phone and cable/Internet access. They also contend that an increase of 10 cents in the federal gas tax would amount to an additional cost of \$1.15 for the average driver per week, a change that would significantly boost the financial position of the Highway Trust Fund.

### Part III: Typical Revenue Sources and Other Financing Tools

Alongside the list of the typical revenue sources deployed by states to generate revenue for transportation and infrastructure projects, such as state gas taxes, taxes on distributors/suppliers, tolls, vehicle registration fees, states have also implemented an array of financing mechanisms to borrow against or leverage state revenues for these transportation and infrastructure projects. States are borrowing front-end capital and repaying it over long periods of time with dedicated sources of revenue. Some of these measures include GO bonds, GARVEE bonds, Private Activity bonds and State Infrastructure Banks.

States have begun to take a keener interest in public-private partnerships or P3s to pay for infrastructure with an increasing number of states

enacting enabling legislation. In this connection, I want to highlight two recent developments with regard to P3s. One, the 2006 lease for 75 years by the state of Indiana of a 157 mile stretch of state highway to the Macquarie Infrastructure Group, an Australian firm, for an upfront payment of \$3.85 billion. However, for a variety of reasons, the Indiana Toll Road has not been as lucrative as projected by the Macquarie Group when they entered into this long-term lease. According to a Macquarie official, the traffic numbers on the Indiana toll road “are below the projections that were used for the original transaction” but he stressed that “[N]one of that downside reverts to the public sector. That [loss] goes to equity in the first instance and then to the lenders.” This is significant because the deal that was clinched back in 2006 ensured that the public sector would not bear the costs of the reduced revenues flowing to the Macquarie Group.

The second example I wish to highlight relates to the state of Nevada. A few weeks ago, the Nevada Department of Transportation scrapped plans to use private financing to pay for major overhauls to Interstate 15 around Las Vegas over concerns about affordability. The P3 would have used private equity to design, build, operate and maintain a stretch of I-15 for 35

years with the state making payments to the private company, similar to a home mortgage. However, after further scrutiny, the department instead opted to go with a more traditional financing plan using government-issued bonds to pay for the project. The additional scrutiny revealed that the estimated cost of the project as a P3 had skyrocketed from \$602 million to \$740 million over the last year as a result of higher interest rates being charged, an expanded project scope and increased maintenance costs. Nevada state officials determined that switching back to financing through bonds would be more affordable and offer greater flexibility to the state for completing the project. This shift is a significant development since about a year ago, the state had enthusiastically endorsed the P3 approach to implement this important infrastructure project.

Notwithstanding these developments P3s will continue to be an important component of future transportation and infrastructure projects. However, a careful assessment of the pros and cons of the specific project remains critical for the public good to be served. Some of the pros associated with a P3 project include the fact that it generates an upfront infusion of cash to the state's coffers; involves tolls not taxes; comprises private equity and

not public debt; usually results in an expedited completion time and improved system performance; substitutes private resources and personnel for limited public resources, among other advantages.

On the con side, states do lose control and/or access to a key public infrastructure asset; P3 toll facilities may be insufficiently regulated to protect the public from unreasonably high toll rates or excessive profits; since P3 agreements usually involve multiple decades, it will bind future generations to the agreement's requirements. States also have to be cautious about ensuring that they do have in-house expertise to negotiate the complexities of the P3; the presence of non-compete clauses; and the fact that solicited (or unsolicited) P3 projects might result in adverse fiscal outcomes for states. Several SLC states, Virginia and Texas, for example, have extensive experience dealing with P3s and reviewing their approaches will be an useful exercise. Virginia, in particular, has a great deal of expertise grappling with P3s for nearly 2 decades and has an Office of Transportation Public-Private Partnerships that is responsible for developing and implementing a statewide program for project delivery.

## Part IV: Recent Actions by States (Proposed and Enacted) to Fund

### Transportation

Notwithstanding the inaction and lack of leadership at the federal level, many states have carved their own paths to generate additional revenue to fund transportation and infrastructure projects. Just in the past two years, some 30 states, including several SLC states, have unveiled transportation-related fiscal initiatives. I will highlight a few of these examples.

Arkansas: Like almost every other state, Arkansas faced challenges related to adequately funding its transportation system. Unlike many other states, Arkansas was able to beat the odds and pass a sale tax increase to raise additional revenue for transportation projects. Interestingly, Arkansas is the only state in the country where voters have recently passed two statewide highway funding programs: The Interstate Rehabilitation Program (IRP) in 2011 and the Connecting Arkansas Program (CAP) in 2012. While the IRP passed with 81 percent in favor, the CAP passed with 58 percent in favor. Even though the IRP did not have a tax increase related to it, the CAP did: a one-half cent sales tax increase. The IRP essentially authorized the state to re-issue GARVEE bonds for interstate

improvements. In terms of securing voter approval for the CAP, proponents followed a carefully honed strategy. One, reiterating the importance of a sound transportation system to ensure economic growth; two, emphasizing and re-emphasizing that all road-user revenues would be dedicated to roads and transportation improvements; three, publicizing the fact that the tax increase would expire in 10 years and that it would not apply to groceries, medicines or fuel; four, describing the specific projects in counties and cities that would be funded with the additional revenue; and, finally, forecasting and publicizing that the revenue generated would result in an additional 40,000 jobs over the 10 years.

Georgia and Missouri: In 2012 and 2014, there were statewide initiatives in both these states to increase the sales tax and allocate the additional revenue towards transportation and infrastructure enhancements. Both measures failed. In the wake of these setbacks, transportation officials and lawmakers in both states are actively pursuing a range of different strategies to adequately fund transportation and infrastructure in the future.

South Carolina: Another trend gathering momentum is the use of State Infrastructure Banks to fund transportation and infrastructure. South Carolina has been proactive on this front and in 2014, the state assigned \$50 million from its general fund to the state Transportation Infrastructure Bank; these funds will be leveraged to borrow up to \$600 million to fund transportation.

Texas and West Virginia: Both these states have seen a boom in revenues related to oil and gas and have proposed transferring a portion of these revenues to fund transportation. Importantly, in Texas, the revenue-strapped Department of Transportation moved forward to curb “diversions” of highway funds to other state agencies. TxDOT has promoted legislative changes to prevent lawmakers from diverting money from the highway fund to other agencies, including the Department of Public Safety and Department of Motor Vehicles. State officials estimate that more than \$618 million in gas taxes and drivers’ license fees that could go to TxDOT are sent to other agencies each year. Texas House Speaker Joe Straus has expressed support for this legislative change against diversions.

Virginia: In May 2013, the state replaced its 17.5 cents per gallon gas tax with a new 3.5 percent wholesale gas tax, raised the state sales tax by 0.3 percent and increased the dedication toward roads gradually from 0.5 percent currently to 0.675 percent by 2018. These measures are cumulatively expected to boost the state's commitment to better fund infrastructure and transportation in one of the most congested areas of the country.

Outside the SLC region, there was action by states too, including five states that raised their gas taxes (California, Maryland, Massachusetts, Vermont, Wyoming). Another important development outside the region occurred in Oregon with the formal introduction of the state's vehicle-miles traveled or VMT program. In 2001, the Oregon State Legislature authorized the creation of the Road User Fee Task Force to examine various revenue raising alternatives. In 2007, the Oregon Department of Transportation began testing a road user fee, or "per mile charge," in a pilot project in Portland. In 2012, the department continued its exploration of the VMT program by further testing a refined version of the pilot project. Consequently, the 2013 Oregon Legislatures passed Senate Bill 810, the

first legislation in the United States to establish a road usage charge system for transportation funding. SB 810 authorizes the Oregon Department of Transportation to set up a mileage collection system for 5,000 volunteer motorists beginning July 1, 2015. ODOT may assess a charge of 1.5 cents per mile for these 5,000 volunteer cars and light commercial vehicles and issue a gas tax refund to those participants. This will not be another pilot program but rather, the start of an alternate method of generating fuel tax from specific vehicles to pay for Oregon highways. As a result of this Oregon initiative, a number of states, including two SLC states (Florida and West Virginia), have begun efforts to study the feasibility of a VMT program in their own jurisdictions.

### Conclusion

In closing, it is increasingly apparent that the current federal system for funding our transportation and infrastructure network, so critical for the economic competitiveness of the United States, is outmoded and broken. The political paralysis in Washington has not helped the cause of fundamental reform in this arena and the response of the federal government has been to enact a series of short-term fixes and continuously

kick the can down the road. Will there be true reform in May 2015 when the current transportation authorization runs out? It is left to be seen whether a long-term, 21<sup>st</sup> century solution will emerge at the federal level.

Fortunately, states have not been standing idly by and have moved expeditiously on multiple fronts to innovatively generate additional sources of revenue to fund transportation and infrastructure. States realize that investing in infrastructure is a critical component in laying the foundation for sustained economic growth. However, reforms at the federal level remain imperative for further action and these reforms have to involve solidifying the authority and decision-making power of state and local governments in their bid to effectively enhance their transportation and infrastructure networks. Thank you for your attention.