



T2 Explainer: How should we finance transportation?

The Transportation Transformation Group is an unprecedented alliance of state government, finance, academic and private industry leaders who aspire to transform American transportation policy into a goal-based arrangement that maximizes flexibility to enhance the roles of the state and local public sectors and their private partners to solve the growing problems of congestion and mobility.

T2 publishes explainers to help policy makers and the public understand concepts essential to transportation transformation.

If the imbalance between the current surface transportation program (\$42 billion) and the current revenue sources for the Highway Trust Fund (\$32 billion) is in dire need of reform to continue to support U.S. economic activity, how should Congress approach reform? The Transportation Transformation Group suggests that the problem must be approached in two steps: a first step to deal with the immediate problem and another that focuses on solving the problem long-term.

We believe it is obvious that the current method of financing the Federal surface transportation program primarily through federal motor fuel taxes is not sustainable and will not address current and future transportation needs. We support a long-term transition from fuel tax-based funding system to a fee-based system, such as vehicle miles traveled pricing. We support the continuation of the existing federal motor fuel tax, provided significant program reforms and innovative financing methods are made fully available to states.

Simply providing additional revenue, such as from a gasoline tax increase, without making financing flexibility and programs reforms, would disserve the public and the economy.

Transformation of our transportation program should recast relationships among users and modes into a true transportation system and redefine the roles of the federal, state and local governments. The American Recovery and Reinvestment Act of 2009 included features that could provide a foundation for a transformed relationship, including:

- Providing the bulk of funding to states by formula;
- Giving states the flexibility to deliver;
- Measuring the results for all to see; and,
- Prohibiting earmarks.

Building on this start, transportation transformation should encourage and enable States to employ business strategies and innovative finance techniques that help meet transportation goals. These may include tolling, congestion pricing, HOT lanes, vehicle miles traveled pricing

JUNE 8, 2009

and the full range of other public private partnerships mechanisms to bring additional resources to solving transportation issues.

We support shifting the focus away from states' individual returns on the federal program in exchange for achieving the broader goals of significant program reform and full availability of alternative financing methods.

Transformation to a new, flexible transportation system requires funding that:

- Is available for use on any mode or combination of modes;
- Is available for use in combination with other public or private funds; and,
- Prohibits all earmarks of transportation dollars

All forms of project delivery and financial options must be made available, including:

- Concession-based comprehensive project delivery and operation;
- Private sector capital (PPPs) as states and regions see fit;
- Uncapped use of Private Activity Bonds;
- An expanded TIFIA program allowing eligible projects to proceed and the development of additional Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) projects in the near term;
- Strategic sourcing procurement techniques for materials such as steel; and,
- Loosened federal tolling restrictions at state/local discretion and increase the number of exemption options under current programs.

We support financing provisions that level the playing field between private investment and public sector investment and improve the public sector investment market. These include:

- Modified accelerated depreciation;
- Investment Tax Credit;
- A Transportation Investment Bank; and
- Tax Exempt Bonds.

In order to focus on reform and innovation, states need assurance that they will have financial stability under any significantly reformed new program. Assuming that federal motor fuel taxes continue to exist at current levels, we support grandfathering current funding levels for state programs.

T2 is happy to exchange ideas about this or any other matter related to the next surface transportation bill. Contact Billy Moore at (202) 288-0892 to set up a discussion. You can also get additional information at our website www.trans2group.com