Federal Surface Transportation Reauthorization: The Road Ahead

With the expiry looming of the current federal authorization for US surface transportation funding, the Obama Administration recently submitted a bill to Congress (the “Grow America” Act) proposing a four-year reauthorization and containing several programmatic modifications. The Senate is currently working on a proposed bill (expected to be introduced this week) and a House bill is expected to follow. We summarize below the key elements of Grow America, congressional activity to date relating to a new bill, and specific surface transportation financing options that are likely to be discussed among stakeholders.

The most recent reauthorization of federal funding for US surface transportation, the Moving Ahead for Progress in the 21st Century Act (“MAP-21”), which was signed into law by President Obama in July 2012, will expire on September 30th of this year. In addition, the Highway Trust Fund (the “HTF”), the source of most federal funding to the states for highway improvements, is projected by the US Department of Transportation (“US DOT”) to be insolvent by the end of August of this year unless congressional action is taken to avert it.

The Obama Administration and Congress are taking steps to avoid such an expiration and insolvency. On April 29th, US DOT, on behalf of the Obama Administration, submitted a draft $302 billion bill to Congress in order to jump start the legislative process. Called the Generating Renewal, Opportunity, and Work with Accelerated Mobility, Efficiency, and Rebuilding of Infrastructure and Communities throughout America Act (hereunder “Grow America”), the proposed bill is generally consistent with the reauthorization plan the President presented this March in connection with his FY 2015 budget request. The Senate’s Environmental and Public Works Committee is set to release a draft reauthorization bill as early as today, and a House bill is expected to follow. Given that this is an election year and MAP-21 only passed after nine extensions to the then-existing program, it will be...
challenging to pass a new reauthorization bill before the elections. In the absence of a formal reauthorization, Congress would nevertheless need to act promptly to extend MAP-21 and provide additional funding to the HTF.

Below we outline the key elements of Grow America, congressional activity to date relating to a new bill, and some of the financing options that are likely to be discussed among stakeholders in the coming months in connection with the reauthorization to meet the states’ highway improvement needs.

**Key Elements of Grow America**

Grow America includes a four-year reauthorization that would increase funding for highways, bridges, transit and rail systems. The proposed bill seeks to regularize funding across multiple modes of transportation by changing the HTF to a Transportation Trust Fund, which would fund highways, transit and intercity rail as well as the Transportation Investment Generating Economic Recovery (“TIGER”) grant program. As in the President’s budget proposal, Grow America provides for about half of the cost of the bill to be covered by using $150 billion in transition revenue from corporate tax reform.

Grow America would permit (i) existing, toll-free lanes of Interstate highways to be tolled for purposes of reconstruction and (ii) toll-free highways, including Interstates, bridges and tunnels to be tolled as “managed lanes” for the purpose of mitigating congestion. These developments would constitute a significant expansion of the states’ authority to raise revenue through tolling to fund needed improvements. To date, tolling of existing toll-free Interstates has been prohibited except pursuant to a pilot program that permits up to three Interstates to be tolled for reconstruction purposes and pursuant to MAP-21, which permits tolling of new lanes (on Interstates and other highways) if the number of non-tolled lanes is not reduced. Under Grow America, US DOT would be required to approve any such new tolling.

The proposed bill also would expand the permitted uses of toll revenues by states to include, in addition to highway uses, improvements in public transit services that either operate within the corridor of the tolled facility or contribute to the improved operation of the toll facility. Toll revenues could also be used to mitigate the adverse effects of tolling that are identified in the environmental review process, as well as for certain other purposes subject to the relevant public authority certifying that the tolled facility is being adequately maintained.

The following funding programs are included in Grow America:

- $199 billion for highway system and road safety improvements.
- $72 billion in transit expansion and maintenance, including $2 billion to support bus rapid transit and other multi-modal solutions for fast growing communities.
- $19 billion for rail programs, including $5 billion for high performance and passenger rail.
- $10 billion for a new multimodal freight grant program to enhance the efficiency and reliability of freight networks and enhance trade.
- $9 billion for competitive grant programs, including $5 billion for the TIGER program to fund projects of national and regional significance and $4 billion for a new Fixing and Accelerating Surface Transportation (FAST) program to incentivize the adoption of innovative strategies and best practices that would have long-term impacts across transportation programs.
- $4 billion for the Transportation Infrastructure Finance and Innovation Act (“TIFIA”) program.
An increase from $15 billion to $19 billion of the allocation of tax-exempt private activity bonds (“PABs”) for transportation projects.

Grow America also prioritizes “fix-it-first” initiatives, which are investments in infrastructure most urgently requiring repair and in improvements to the safety of highways, bridges, subways and bus services.

Congressional Activity Related to New Bill

Congressional responsibility for surface transportation matters is divided among several committees, and hearings related to the reauthorization are likely within each of these forums. The key committees responsible for the funding of surface transportation are the House Committee on Ways and Means and the Senate Finance Committee. The House Committee on Transportation and Infrastructure (the “T&I Committee”) is responsible for the programmatic content of any reauthorization bill and, in the Senate, depending on the relevant program, any one of three committees may have jurisdiction: the Senate Environment and Public Works Committee (the “EPW Committee”) (highway programs); the Banking, Housing, and Urban Affairs Committee (public transportation programs); and the Commerce, Science, and Transportation Committee (highway safety, truck safety, railroad, and freight provisions).

The most activity to date has occurred in the EPW Committee. On April 10, 2014, a bipartisan group from that committee held a press conference in which they announced that they had reached an agreement in principle on a new transportation bill and that committee staff members were in the process of preparing a draft, which is expected this week. The relevant members of the group are Senators Barbara Boxer (D-Calif.) and David Vitter (R-La.), who were two of the sponsors of the bill that ultimately became MAP-21, and Tom Carper (D-Del.) and John Barrasso (R-Wyo.), who are the chairman and ranking member on the EPW Committee’s Transportation and Infrastructure Subcommittee, respectively. Both Senator Boxer and Senator Vitter have expressed a desire for a long-term bill (their proposal would be for six years rather than the existing 2-year bill). Any such bill would be referred to the Senate Finance Committee in order to determine how to fund the relevant appropriations. Unlike Grow America, which would permit an increase in federal funding of surface transportation above currently authorized levels, the EPW Committee’s proposed bill would fix highway funding at current cost levels plus inflation, leaving the Senate Finance Committee to determine how to provide for an additional $18 billion per year for the HTF.

The T&I Committee held an initial hearing on the reauthorization bill in mid-January and the chairman of that committee, Representative Bill Shuster (R-Pa.) stated his goal was for the new bill to be on the floor of the House by August. Representative Shuster’s predecessor, John L. Mica (R-Fla.), was the principal sponsor of The American Energy & Infrastructure Jobs Act (the “AEIJA”), a 5-year bill proposed in 2012 as an alternative to MAP-21. Subsequently, a bipartisan roundtable meeting was held by the committee in mid-March to discuss the perspective of state and local government agencies and their policy priorities for the next reauthorization bill.

Committee debates will be supplemented by discussions in related congressional forums, in particular those focused on public private partnerships (“P3s”). Earlier this year, for instance, the T&I Committee formed a bipartisan special panel to examine the use of and opportunities for P3s across all modes of transportation, economic development, public buildings, water, and maritime infrastructure and equipment, including how to balance the needs of the public and private sectors when considering, developing, and implementing P3 projects. The findings of the panel, which met for the first time in March, will support the committee’s work this year on the reauthorization bill.

Similarly, the Congressional Public Private Partnerships Caucus was organized last July by Representatives Mike Rogers (R-Ala.) and Gerry Connolly (D-Va.) in order to raise awareness of members on the growing use of P3s and to collect,
exchange, and disseminate information through the legislative process on P3 issues. The caucus, which involves both public and private sector stakeholders, has so far held meetings in November 2013 and April 2014.16

Highway Improvements Financing Options

The HTF is funded principally with federal gasoline taxes. Among the reasons the HTF does not have sufficient cash to support its annual outlays are (i) the gasoline tax has not been increased since 1993 and (ii) a significant decline in motor vehicle traffic in recent years.17 If the taxes remain at current levels, traffic continues to decline and, as expected, there is a decrease in fuel consumption as a result of the increase in federal fuel economy standards, then the HTF is likely to remain underfunded.18 Relying on self-funding by HTF under existing programs to meet the states’ surface transportation funding needs is, therefore, likely to be unsustainable over the long term.

While the federal government could continue to support the HTF with transfers from the General Fund (MAP-21, for instance, provided for General Fund transfers of $6.2 billion and $12.6 billion in FY 2013 and FY 2014, respectively19), any such transfers currently are required to be offset by decreases in other federal expenditures, which limits the flexibility to allocate such funds.20 Accordingly, either an increase in existing funding sources or the introduction of new sources would appear necessary (assuming that cuts to the scope of the programs funded by the HTF are not politically viable). The following are some of the legislative alternatives that have been mentioned as ways to fill this gap:21

- **Increase Funding to HTF.** According to the Congressional Research Service, the following potential sources of funding for the HTF (other than the General Fund) have received the most attention:

  - Increase current gasoline taxes and index future rates to inflation. In a hearing before the Senate Finance Committee on May 6th, the CBO suggested the relevant increase would need to be 10 to 15 cents per gallon.22 A variation of this alternative is an increase that takes effect only when the price of gasoline falls below a certain level.

  - Replace the gasoline tax with a national sales tax on gasoline or oil at the refinery level, such that revenues would fluctuate based on price changes.

  - Replace (or supplement) the gasoline tax with an annual charge based on vehicle miles traveled (“VMT”), which would level the playing field among vehicles with different levels of fuel efficiency or fuel type. This alternative, which is essentially a virtual toll, could be used together with congestion pricing by providing for different charges based on the relevant road and the time of travel. Potential issues with a VMT system are technological complexity, costs of collection, the possibility of fraud given the anticipated number of collection points and the threats to privacy posed by the collection of data necessary to implement these charges (e.g., through GPS tracking).

  - Increasing the ability of the states to toll, which MAP-21 did by permitting tolled lanes to be built on Interstates and other highways when the number of non-tolled lanes remains the same, and which Grow America proposes to do by allowing Interstates to be converted to toll roads for reconstruction purposes. This alternative also may provide sufficient cash flow to attract private capital through P3s or other structures.

  - Imposition of other federal taxes relating to surface transportation such as a freight container tax, a sales tax on automobiles or a federal vehicle registration fee.

  - Directing to the HTF revenues from leases of federal land for certain energy projects and onshore and offshore drilling leases, an option which was suggested in the AEIJA.
• Directing to the HTF other federal revenues resulting from reforms to the tax code, which, as noted above, is reflected in Grow America.

• TIFIA Program Changes. MAP-21 expanded TIFIA’s budget authority on an annual basis from $122 million to $750 million for 2013 and $1 billion for 2014. According to TIFIA, each $1 in budget authority can leverage on average $10 in credit assistance. Based on current allocations, TIFIA investments under MAP-21 could result in up to $50 billion in federal, state, local and private sector investment in critical infrastructure.23 The TIFIA loan program has been considered a success by members of the public and private sectors. During its two fiscal years (FY 2013 and FY 2014) since the effectiveness of MAP-21, TIFIA, an office within US DOT, has received letters of interest from more than 35 state and local agencies with estimated project costs in the aggregate of approximately $50 billion.24 The issuance by TIFIA of loan commitments with respect to each of such projects would be sufficient to exhaust its budget authority for FY 2013 and FY 2014.25 During the same period, TIFIA has issued loan commitments in an aggregate amount of more than $5 billion for 12 projects with project costs estimated to be approximately $16.5 billion.26 Since its enactment in 1998, TIFIA has provided assistance of approximately $15.8 billion to 44 projects with project costs estimated to be approximately $59.6 billion.27 Transaction structures range from traditional design-build structures with public borrowers to innovative, multi-tranche, P3 structures with private sector borrowers. As noted above, in Grow America, President Obama has proposed maintaining TIFIA budget authority at a level of $1 billion per year. Given the strong demand for TIFIA loans and the positive results to date, Congress may consider expanding TIFIA’s mandate by further increasing its funding authority.

• Increase PABs Volume Cap. A number of the P3 projects in the United States that have reached financial close since the effectiveness of MAP-21 have been funded with both TIFIA loans and PABs, allocations for which are provided by US DOT. Some sources estimate that the current PABs volume cap for highway and surface freight transfer facilities, which is $15 billion, will be reached in the first quarter of 2015.28 Given the reliance on PABs by P3 sponsors, their absence as a funding option (as with TIFIA loans) could have a chilling effect on the financing of these projects. Grow America proposes an increase in this cap to $19 billion. The possibility of such an increase is likely to be discussed in the upcoming congressional debates.

• National Infrastructure Bank. President Obama and certain members of Congress have proposed the creation of a national infrastructure bank or similar organization (“NIB”), the President doing so most recently in his FY 2015 budget proposal.29 The NIB and the AFF Bonds discussed below are part of the President’s proposed Rebuild America Partnership which is intended to encourage partnerships between the private sector and the federal, state and local governments to enhance the role of private capital in US infrastructure.30 The basic mandate of the NIB is generally consistent across proposals. Such entity would be either a federal agency or a wholly-owned government corporation that would provide low-cost, long-term loans on flexible terms. Credit would be extended to state and local governments or not-for-profit infrastructure providers and, under certain proposals, to private, for-profit entities. However, the NIB also could have authority to finance projects in sectors other than transportation, such as energy, water, education or telecommunications, and to provide equity as well as debt capital. Also, the bank would be independent of any existing agency (TIFIA, as noted above, sits within US DOT) and the board would be comprised in part with members from the private sector. Proposals for an NIB have yet to be brought to a vote in Congress and, accordingly, seem unlikely to assume center stage in the reauthorization discussions. However, such a bank may be among the options that are discussed by legislators, particularly following reauthorization, as they continue to consider viable funding alternatives for their respective states.
State Infrastructure Banks ("SIBs"). SIBs provide long-term, below market interest rate loans to transportation projects at the state and local levels. More than 30 states have established SIBs. One of the principal issues to expanding their level of assistance is their limited capitalization. The AEIJA contained two proposals intended to increase such capitalization, but neither was ultimately included in MAP-21: (i) an increase in the percentage of federal highway dollars a state can dedicate to a SIB from 10 to 15 percent; and (ii) an additional apportionment of funds (the AEIJA proposed $750,000 per year) to states that can solely be used to fund such banks. Recent initiatives have extended the first proposal to include transit and rail funds.

America Fast Forward ("AFF") Bonds. The President has proposed the creation of an additional type of tax credit bond issued by state and local governments to facilitate infrastructure investment. Such AFF bonds, which were included in the President’s FY 2015 budget as part of the Rebuild America Partnership initiative, would offer a tax credit to such issuers equal to a certain percentage of interest on the bonds. This program would be similar to the expired Build America Bonds, which helped to support more than $180 billion in public infrastructure investment with a tax credit subsidy of 35%. The AFF Bonds would have a tax credit of 28%, which according to the White House is approximately revenue-neutral compared to traditional tax-exempt bonds.

Federal P3 Office. Certain commentators have raised the possibility of creating a federal office to support P3 initiatives through the provision of technical advice and consulting.

Environmental Authorization Streamlining

Large infrastructure projects frequently involve complex approval processes, in particular at the federal level, which can add years to the time needed for successful delivery. The environmental review process required under the National Environmental Policy Act of 1969 ("NEPA") has been of particular concern among stakeholders. In MAP-21, Congress declared that "it is in the national interest to expedite the delivery of surface transportation projects by substantially reducing the average length of the environmental review process," and the act includes several provisions intended to accomplish this, including permitting certain pre-construction development activities prior to completion of the review process and the establishment of procedures for accelerated decision-making by participating agencies, including permitting multiple agencies to review projects concurrently and coordinate on timelines for completion of review.

In addition, in 2012 the President signed an Executive Order that launched a government-wide initiative to cut review and permit decision-making timelines. The initiative included the development of the Federal Infrastructure Project Permitting Dashboard (the “Dashboard”), which makes it possible for agencies, interested stakeholders and other members of the public to track permitting processes online, which facilitates interagency coordination and improves transparency and accountability. This effort has expedited the review and permitting of at least 50 projects. For example, the Tappan Zee Bridge project, which involves the rebuilding of the bridge at an estimated cost of approximately $5 billion and will be financed in part with a $1.6 billion TIFIA loan (the largest to date), received all NEPA approvals within 15 months. According to former Transportation Secretary Ray LaHood, this expedited permitting shaved up to three years off the project’s completion timeline.

Grow America includes a proposal to further modernize and improve the federal permitting process for major infrastructure projects through, inter alia, the development by US DOT of a “coordinated and concurrent environmental review and permitting process for transportation projects initiating an Environmental Impact Statement under NEPA” and the establishment of an Infrastructure Permitting Improvement Center to support the President’s goal of reducing the timelines for project delivery. In addition, a new initiative to establish a White House Infrastructure Center and add
more projects to the Dashboard is reported to be in the development stages. These initiatives will likely be discussed in connection with the upcoming reauthorization, and further streamlining measures could be included in a new bill.

**Conclusion**

Given the impending expiry of MAP-21 and the HTF’s dire fiscal situation, Congress is expected to be busy for the remainder of the year on transportation infrastructure matters. We will be monitoring congressional action in the coming weeks and months, including progress on reauthorization bills that are introduced in the Senate and House and additional hearings related to the reauthorization, and intend to provide updates to this publication to reflect significant developments.

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6 The total amount of appropriations described below is greater than $302 billion as some programs are outside the surface transportation authorization.


9 See Sanchez, supra note 7; Boxer Statement, supra note 8.

10 See Grow America Fact Sheet, supra note 3.


CRS Report R43420, supra note 7, at 2.

The Congressional Budget Office (the “CBO”) projects that HTF revenues will be insufficient to cover its outlays by an average of approximately $16 billion per year, or $95 billion over the six-year period between 2014 and 2020. CRS Report R43420, supra note 7, at 2. This period corresponds to the period during which a new reauthorization bill would be effective under the EPW Committee’s proposal.

CRS Report R42877, supra note 5, at 2.

CRS Report R43420, supra note 7, at 1, 4 (citing H.R. Con.Res. 25, 113th Cong. (2014), http://thomas.loc.gov/cgi-bin/cpquery/?&sid=cp113iKSsr&r_n=hr017.113&dbname=cp113&sel=TOC_108314&).

See CRS Report R43420, supra note 7, at 4, 12-13; see generally CRS Report R42877, supra note 5.

Ashley Halsey III, Congress faces harsh choices for transportation funding this election year, WASH. POST (May 6, 2014), http://www.washingtonpost.com/local/trafficandcommuting/congress-faces-harsh-choices-for-transportation-funding-this-election-year/2014/05/06/05709be0-d544-11e3-8a78-8fe50322a72c_story.html.


CRS Report R43420, supra note 7, at 12 (citing relevant testimony of Secretary of Transportation Anthony Foxx).


Id.

See CRS Report R43420, supra note 7, at 13.


FY 2015 Budget Overview, supra note 3.

35 RAP Press Release, supra note 30.

36 CRS Report R43420, supra note 7, at 13.

37 MAP-21, supra note 1, § 1301(c).

38 See generally MAP-21, supra note 1, Subtitle C §§ 1301-1323.


42 Grow America, supra note 3, Title I, Subtitle A (Increasing Efficiency in Project Delivery).

43 White House to Put NEPA Streamlining in New Infrastructure Center, supra note 40, at 16.