



Summary: “Paving the Way for Funding and Financing Infrastructure Investments”

House Committee on Ways and Means

January 29, 2020

Witnesses:

- Joung Lee, Director of Policy and Government Relations, American Association of State Highway and Transportation Officials
- Dr. Philip Fischer, Founder, eBooleant Consulting LLC, and Former Head of Fixed Income and Municipal Bond Strategy, Global Banking & Markets, Bank of America Merrill Lynch
- Laura Canter, Executive Vice President and Division Director of the Finance Programs Division, Massachusetts Development Finance Agency
- Diane Gutierrez-Scaccetti, Commissioner, New Jersey Department of Transportation
- DJ Gribbin, Founder, Madrus LLC

Opening Statements

Chair Neal (D-MA) opened the hearing by discussing the importance of substantial investments in our nation’s infrastructure, noting his support of dynamic scoring for infrastructure projects. He said meaningful, sustained investments can produce jobs, revitalize local economies, and reduce the impacts of climate change. He recognized the need to fix our crumbling infrastructure, and looked forward to evaluating the most efficient strategies to accomplish this. He specifically highlighted the success of the Build America Bonds, explaining that the financing tool allowed communities to undertake bolder public projects and infrastructure initiatives. He advocated for a robust infrastructure package.

Ranking Member Brady (R-TX) agreed with Chair Neal on advocating for dynamic scoring with regard to infrastructure investments. He believes that America’s infrastructure needs are regionally focused and strategic prioritization will assist in project delivery. He also highlighted his support for permit streamlining measures such as the recent proposal by the Administration to update NEPA requirements. Noting infrastructure projects in the U.S. cost more than anywhere in the world, Ranking Member Brady disapproved of increasing taxes as a method to generate revenue. He recommended pursuing creative funding mechanisms, including public private partnerships and private activity bonds. Additionally, he suggested allowing ports to direct 50 percent of their user fees toward multimodal infrastructure investments.

Witness Panel

Mr. Joung Lee, Director of Policy and Government Relations, American Association of State Highway and Transportation Officials (AASHTO), spoke about the need for the federal government to increase state and local transportation investment as part of the next surface transportation reauthorization. Mr. Lee expressed that underinvestment will only lead to increased transportation costs in the long run. He noted that the nominal value of the federal gas tax has not increased since 1993, and by comparison, other cost increases such as average college tuition fees increased 379 percent between 1993 and 2015.



He recommended the federal government ensure states receive long-term, formula-based funding instead of short-term extensions.

Dr. Philip Fischer, Founder, eBooleant Consulting LLC, and Former Head of Fixed Income and Municipal Bond Strategy, Global Banking & Markets, Bank of America Merrill Lynch, discussed the short- and long-term needs of America's infrastructure capital, emphasizing improvements are a shared responsibility between the federal government, states, and local municipalities. He suggested several initiatives to re-energize infrastructure investment: reviving Build America Bonds, expanding private activity bonds, restoring tax-exempt advance refundings, and reducing regulation to lower borrowing costs.

Ms. Laura Canter, Executive Vice President and Division Director of the Finance Programs Division, Massachusetts Development Finance Agency, discussed the financial gaps in community development projects, offering New Markets Tax Credits, Low Income Housing Tax Credits, and Historic Tax Credits as solutions to bridge the funding gap.

Ms. Diane Gutierrez-Scaccetti, Commissioner, New Jersey Department of Transportation, stated a failed transportation network would compromise our nation's economy and defense. She said short-term extensions of existing programs are unpredictable forms of investment and lead to project backlog. She argued that Congress should not abandon the gas tax, suggesting it should be indexed to inflation instead.

Mr. DJ Gribbin, Founder, Madrus LLC, discussed the importance of public trust as the foundation of public policy solutions. To rebuild public trust in infrastructure, he offered three suggestions: 1) Consider how infrastructure needs have changed since the Highway Trust Fund's creation in 1956 by focusing on current and future transportation needs. 2) Realize that federal infrastructure funds are not distinct from state and local funds, as they are all generated by taxpayer revenue. He noted that the federal government cannot create funds, just reallocate them. Any net increase in a region's federal funding can only be achieved through an increase in federal revenues collected from other regions or a reduction in federal expenditures to other communities. 3) Explore why the cost of infrastructure in the U.S. is so high compared to other countries and focus on the most efficient strategies to utilize public funds.

Question & Answer

Chair Neal cited Dr. Fischer's testimony which referenced a pent-up demand for Build America Bonds. He asked whether it would be prudent to expand Build America Bonds for operation and maintenance costs in addition to capital expenditures. **Dr. Fischer** replied that increased flexibility allows for cost-efficiency and would lead to greater use.

Chair Neal asked for examples of inefficiencies caused by the current funding cycle. **Ms. Gutierrez-Scaccetti** replied that the inability for proper planning is a major concern. The absence of funding predictability and stability make project prioritization difficult. It can also lead to increased costs when projects that have already invested in planning and design expenditures are delayed or canceled. **Chair Neal** asked why P3s are suited for certain projects and not others. **Ms. Gutierrez-Scaccetti** replied that toll-free highway projects often do not provide new project-based revenue streams. In these cases, payments to private entities must be taken from the State Transportation Trust Fund, limiting its ability to provide funding to other necessary projects.

Ranking Member Brady noted that several states with high tax rates still rank low on infrastructure performance and condition. He asked if there is a way to restructure financing to reduce the burden on taxpayers. **Mr. Gribbin** replied that the federal government should not be considered the major player when it comes to infrastructure funding as the vast majority of infrastructure is owned by state and local governments. He recommended private activity bonds, TIFIA loans, liberalized tolling regulations, and expedited permitting as ways the federal government can enhance entrepreneurial opportunities for infrastructure improvements. He also suggested adopting performance measures to ensure infrastructure projects deliver sufficient return on investment.

Congressman Doggett (D-TX) discussed the importance of considering climate change and rebuilding our crumbling infrastructure with resiliency in mind. He also supported transportation electrification systems, calling for additional charging infrastructure.

Recognizing that every state has different needs, **Congressman Buchanan (R-FL)** asked how funding should be balanced between current infrastructure needs and future assets. **Mr. Lee** emphasized the necessity of federal formula funding, noting continued flexibility will allow states to direct funds toward their unique needs. **Mr. Gribbin** said that when discussing infrastructure investment, it is important to distinguish between funding and financing mechanisms. He added that new revenue streams, such as a gas tax increase or public-private partnerships, are needed but argued that a national infrastructure bank would not significantly increase opportunities beyond those currently available through existing discretionary grant programs, TIFIA, and private activity bonds.

Congressman Thompson (D-CA) asked about the benefits of revitalizing Build America Bonds. **Dr. Fischer** replied the bonds provided a large influx of capital into the municipal bond market in a short amount of time for infrastructure investments.

Congressman Smith (R-NE) cited concern with the statistics presented during Mr. Lee's testimony demonstrating a large increase in college tuition while the gas tax has remained stagnant. He asked how long the approval process for infrastructure projects generally takes and how to make the process more efficient. **Mr. Gribbin** said the average delivery time is four years for major projects and seven years for major highway projects, and that the timeframe for environmental approval does not always equate to the quality of its analysis. He noted the Trump Administration's goal is to simplify and streamline this process through the One Federal Decision Executive Order and recent proposal to overhaul NEPA requirements.

Congressman Larson (D-CT) expressed concern with our nation's significantly lower GDP investments in infrastructure compared to other countries such as China. He asked for recommendations on innovative methods to resolve underinvestment. **Mr. Lee** replied a user-based framework, such as the gas tax, should be the primary mechanism to address the Highway Trust Fund's insolvency. **Mr. Gribbin** agreed that more stable funding sources are needed, but not necessarily federal funding. He noted that states and local entities have raised their own funds and that these efforts shouldn't be neglected. **Ms. Gutierrez-Scaccetti** said states and local governments cannot shoulder the burden without a federal partnership. Her recommendation was to raise the federal gas tax or at least index it to inflation.

Congressman Blumenauer (D-OR) argued the increase in infrastructure costs is remediation for the mistakes made in the 50s and 60s, such as neglecting community and environmental impacts. He noted the federal government has not fulfilled its obligation in partnering with states to complete critical projects. He criticized the tax cut legislation which he believed failed to deliver tangible results, noting a fraction of that cost could have been used toward rebuilding and repairing infrastructure. He cited BUILD grants as an example in which federal funding was used to leverage local investment and private partners. He stated his support for a strategic federal partnership, adding he looked forward to working with T&I Chairman DeFazio to develop bipartisan transportation policy.

Congressman Reed (R-NY) noted there is bipartisan agreement to fix our country's infrastructure, but expressed concern about the "dying" gas tax as transportation options continue to evolve. **Mr. Lee** said 39 states have raised their own transportation revenues (mostly through fuel tax increases), but added that infrastructure investments need a collaborative approach between the federal, state, and local governments.

Congressman Kelly (R-PA) expressed concern regarding the Harbor Maintenance Trust Fund, as the collected revenue is not used for its intended purpose. He added that ports currently need an estimated \$15.8 billion in investments and urged they be allowed to fully utilize the HMTF balance and future revenue.

Congressman Holding (R-NC) asked if there would be an impact on overall transportation investment if significantly more private investment were available and if these resources would drive the cost of projects down. **Mr. Gribbin** replied private activity bonds and TIFIA are critical in ensuring private capital can compete against government capital. He added that comprehensive cost-benefit analyses should be incorporated when developing projects.

Congressman Rice (R-SC) stated the government should play a major role in our economic competitiveness, and intelligent investments in infrastructure must be made. He agreed dynamic scoring should be incorporated. He voiced opposition to the current 80 percent Highway/ 20 percent transit split in the Highway Trust Fund and also suggested offsetting gas tax increases by lowering income taxes.

Congresswoman Chu (D-CA) asked about the need to maintain and improve freight rail corridors, especially near major ports and if a freight trust fund should be established. **Mr. Lee** said there is a need for an efficient freight system that supports multiple modes of transportation, adding that AASHTO preferred increased eligibility under current programs rather than establishing a new trust fund.

Congresswoman Sanchez (D-CA) asked for suggestions on how the federal government can build upon the substantial state and local investments in transportation and what the return on investment is when federal dollars are spent. **Mr. Lee** replied states are finding inventive ways to fund major projects, but at the same time the federal portion is fundamental in this process. He said that infrastructure investments, including freight projects, provide benefits beyond where the projects are located and should serve to promote national goals.

Congresswoman Moore (D-WI) discussed her interest in technology that enables vehicles to exchange information with infrastructure. She asked if this will be helpful in climate change initiatives as well as increasing economic opportunities. **Mr. Lee** mentioned the Federal Communications Commission's

proposal to reallocate portions of the 5.9 GHz spectrum away from transportation connectivity purposes. He said it is critical the full spectrum be maintained solely for transportation safety use.

Congresswoman Walorski (R-IN) asked about the possibility of a freight VMT fee. **Mr. Lee** replied AASHTO endorsed four revenue options: 1) a motor fuel tax increase and indexing 2) an upstream version of that fee (per oil barrel), 3) a freight user fee, and 4) a long-term transition to a mileage-based user fee (VMT). He said a freight VMT fee requires further research and investigation but would address options three and four.

Congressman LaHood (R-IL) views indexing the gas tax to inflation and state increases as short-term fixes for the HTF. He asked how Congress can assure the public their taxes will go towards infrastructure. **Mr. Gribbin** replied the public is skeptical of benefits derived from paying federal gas taxes. He suggested the federal role be more related to incentivizing investments from state and local agencies. **Congressman LaHood** asked how to fairly assess electric vehicle users and their contributions to infrastructure investments. **Mr. Gribbin** replied several states have established registration fees. He added that moving towards user fees (such as tolling or VMT) would ensure that fees are balanced regardless of the type of vehicle. He added that technologies were improving to mitigate privacy concerns.

Congressman Wenstrup (R-OH) said the federal gas tax poses a challenge because it is unclear to the public where the revenue goes, adding that local tax increases are generally more palatable to constituents as they can see the direct benefits. He asked about current restrictions on states to toll interstate highways. **Mr. Gribbin** said the existing law is confusing and burdensome and that the government should encourage states to use tolling as an option to fund infrastructure programs.

Congressman Panetta (D-CA) said infrastructure investments should not be made by deficit financing alone. He inquired about state user fee pilot programs. **Ms. Gutierrez-Scaccetti** said New Jersey is still reviewing the technology and data of a VMT fee and have not drawn any conclusions yet on its effectiveness. She cited concerns with both collecting miles and disbursing the fee. **Mr. Lee** stated the technology exists but its perception needs to be worked on. He added that Oregon implemented a very accurate VMT pilot program.

Congressman Arrington (R-TX) said the government has a responsibility to support interstate commerce and economic sustainability. He asked what defines a federally appropriate nationally significant program. **Mr. Gibbin** said these decisions are difficult as each region believes their projects to be nationally significant. He added that it is important to clarify to taxpayers where their funds are used.

Congressman Suozzi (D-NY) discussed the advanced age of much of New York's infrastructure. He asked witnesses to raise their hands if they support increasing the gas tax. **All witnesses** raised their hand in support.

Congressman Gomez (D-CA) discussed the challenge in weighing the importance of each state's infrastructure instead of evaluating projects on a national level. He asked how private partnerships for these projects can be enhanced. **Mr. Lee** said projects must demonstrate revenue streams and return on investment, but unfortunately many important public projects do not have these features so they may not be suited for public-private partnerships.



Congressman Estes (R-KS) emphasized that economic development is built around reliable infrastructure. The HTF revenues should be used for investment, but additional funding will be needed to address critical needs. He asked whether the 20 percent of HTF revenues reallocated to transit should be reversed and limited to highway projects only. **Mr. Gribbin** said the HTF was established to build the interstate system, but there was no roadmap for the future. He stated this allowed those revenues to be used for other projects. He recommended increased flexibility for states as they may require investments in non-highway projects and should be able to direct funding toward their most critical needs.

Congressman Smith (R-MO) suggested Congress could raise additional revenue by eliminating the electric vehicle tax credit. He also criticized the current NEPA review process, citing delays in project delivery.