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MEMO TO FUTURE POTUS FROM THOMAS PAINE*

"COMMON SENSE TRANSPORTATION POLICY INITIATIVES"

Party platforms by their nature are statements of ideology. They may reflect a new Administration's desires, but generally cannot dictate federal policy since most major initiatives require legislative approval by Congress. Assuming that neither party will "run the table" electorally in November, there still will be a need for political compromise. On that basis, we offer a few middle of the road, non-ideological suggestions for the next Administration to address major transportation infrastructure needs and support economic growth, in a fiscally-responsible manner.

To: **The Next President of the United States (POTUS)**

From: **Thomas Paine**

Re: **Common Sense Transportation Policy Initiatives**

August 2016

1. Funding Interstate Reconstruction. While there is ongoing debate about the federal role in funding our national transportation infrastructure, there is widespread concurrence across party lines on the continuing federal interest in a well-functioning Interstate Highway System. Vast segments of that system are at or nearing the end of their life-cycle and need to be rebuilt. Both red- and blue-state elected officials (23 states since 2012) have shown a willingness to raise state-level fees and taxes to address major needs. They have succeeded by demonstrating to voters a direct connection between the increased imposts and the resultant benefits.

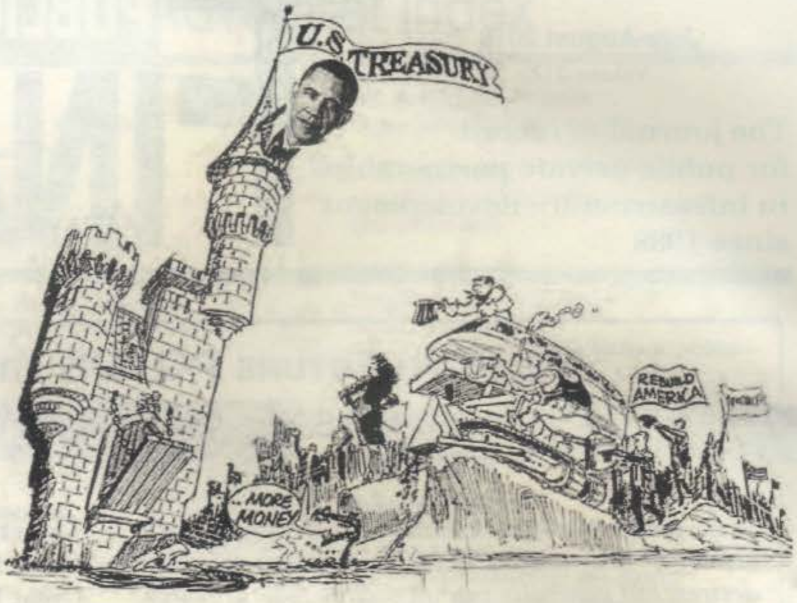
The next President should urge Congress to authorize a formula-distributed supplement to the federal fuels tax with the proceeds specifically dedicated to Interstate System reconstruction. We note that the bipartisan National Surface Transportation Infrastructure Financing Commission back in 2009 (during the height of the Great Recession) had recommended a 10-cent per gallon increase, when retail gasoline prices were 25 cents per gallon higher than they are today. That dime increase would generate about $17 billion more each year for Interstate System capital renewal—not nearly enough to fully address this huge need, but a meaningful start as we await the elusive transition to a more "sustainable" (mileage-based?) funding approach.

2. Assisting Other High-Impact Projects. As federal policy makers sidestep the awkward question of increasing fees and taxes to fund necessary capital renewal and capacity expansion, they instead exhort sponsors to maximize use of federal finance tools. From a budget perspective, these tools are easier to afford, but often they provide only a marginal benefit in stimulating additional investment. Instead, we recommend taking a closer look at tax incentives. Not all tax expenditures are bad, nor are they all equally effective. The tax code is an appropriate policy tool for nationally significant investments (like transportation) with high "spillover" benefits to the general public.

In this economic and political climate, carefully targeted tax incentives offer the following advantages:

- They represent a lighter touch in that they do not involve "growing the government" through direct federal spending or expanded staffing;
- They necessarily require private co-investment of debt or equity capital, providing a third-party litmus test for financial feasibility; and
- Their budgetary cost (tax expenditures) is scored

against the federal mandatory budget (10-year horizon with pay-go balancing) rather than the much more constrained annual discretionary budget.



While proposals for expanded private activity bonds (including the current Administration's proposed qualified public infrastructure bonds) are helpful in leveling the playing field between public-private partnership and governmental borrowing costs, these are not particularly deep subsidies. In contrast, tax credits—whether attached to debt (LA Metro's America Fast Forward bonds) or equity (Sen. Wyden's Move America Act credits)—can provide a much deeper subsidy to help advance targeted projects at only a fraction of the scored cost of grant funding. Tax credits also arguably "lower taxpayers' burden," which has political appeal in certain quarters. And unlike the Build America Bonds program, these tax-credit based proposals are volume-capped, which reduces uncertainty over the fiscal impact.

3. Building Upon the "Build America Bureau." Title IX of the FAST Act established the National Surface Transportation and Innovative Finance Bureau (which USDOT has branded the "Build America Bureau") to consolidate and improve the administration of certain federal financing and funding programs. This is a sound step forward. But at the end of the day, the Bureau is still a unit within a federal cabinet department, with all the attendant limitations.

Both presidential campaigns advocate greater investment in public infrastructure (although one calls for establishing a "fund" and the other a "bank"). They are coming from different directions, but share two fundamental features:

(1) no matter how artfully the legislation is drafted, the new entities almost certainly would be deemed "federal" by the Congressional Budget Office and scored accordingly; and

(2) they appear to be redundant to the existing federal credit programs such as TIFIA and RRIF, as well as credit programs in other sectors.

Therefore, the policy rationale for establishing a new fund or bank rests on the potential efficiency gains of consolidating the management of credit programs, and applying best practices in allocat-

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ing resources for targeted projects.

What a new fund or bank offers that the current structure lacks is an outside board of industry professionals, autonomous staff, and a separate organizational status—perhaps operating as a government corporation.

"The harder the conflict, the more glorious the triumph."

We recognize that for some policy makers the idea of creating a new federal entity like a national infrastructure "bank" is anathema. But the same result could be achieved by repurposing an existing entity. For example, the Federal Financing Bank (FFB) has been around for decades and currently plays a perfunctory role in administering a handful of credit programs. By modifying the FFB to include expert independent board members and adding industry-seasoned project finance staff, it could serve as a multi-sector credit agency (transportation, environment, energy, etc.) but remain within the existing federal footprint.

The benefit: access to the highly favorable on-budget federal credit support while maintaining appropriate public oversight.

If this is deemed "a bridge too far," then, at a minimum, a Federal Credit Advisory Board should be established, consisting of industry representatives and state/local project sponsors, to help inform the operations of the targeted programs.

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These recommendations, Madame/Mister President, may require considerable effort on your part to implement. Thomas Paine observed over two centuries ago in *The American Crisis* that "These are the times that try men's souls." But he went on to add: "The harder the conflict, the more glorious the triumph."

His words could serve us well in steeling our resolve to meaningfully address America's ongoing infrastructure investment crisis.

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* *The opinions expressed in this article by Thomas Paine do not necessarily contradict the views of Mercator Advisors, LLC, a Philadelphia-based financial advisory and policy consulting firm.*