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Answers to Questions for the Record Following a Hearing on New Routes for Funding and Financing Highways and Transit Conducted by the Senate Committee on Finance

On May 6, 2014, the Senate Committee on Finance convened a hearing at which Joseph Kile, Assistant Director for Microeconomic Studies of the Congressional Budget Office, testified about CBO's analysis of the status of the Highway Trust Fund and some options for financing highway spending (www.cbo.gov/publication/45315). Some Members of the Committee submitted further questions for the record, and this document provides CBO's answers.

Ranking Member Orrin Hatch

Question: How much experience has there been at the federal level with highway projects involving public-private partnerships, and do you think that most or all transportation projects would fit into public-private models?

Answer: Only a small number of highway projects in the United States have involved public-private partnerships with private financing. Such partnerships have accounted for about one-half of one percent of all spending on highways during the past 25 years. Partnerships that involve financing ultimately require a source of revenue—taxes or fees collected either from users of the highway or other infrastructure project or from taxpayers. Consequently, projects for which tolls or fees can be charged are probably the best candidates for public-private partnerships that involve private financing. Currently, the potential for providing financing through such partnerships is limited because most surface transportation projects do not involve toll collections or another mechanism for collecting funds from users.

Question: Have there been public-private partnerships involving highway projects that went belly up or failed to perform as expected and where taxpayers were forced to eat losses? How could these projects have been carried out to better protect taxpayers?

Answer: Public-private partnerships that involve direct or guaranteed loans place the federal government at risk of incurring financial losses. Most such partnerships for projects that are now under way are funded in part by federal loans made under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA), and the federal government faces the possibility that those loans will not be repaid. One project, the South Bay Expressway in California, illustrates the risk to taxpayers as ultimate equity holders. In March 2010, the privately owned toll road operator and TIFIA borrower filed for Chapter 11 bankruptcy, finally emerging in May 2011. The new financing and ownership structure required by the bankruptcy court imposed a loss of 42 percent on the federal government, replacing the original TIFIA investment with a package of debt and equity worth only 58 percent of the original investment. Subsequent developments suggest that the federal government might ultimately recover a larger share of that investment, but whether that happens depends on toll collections from users of that expressway. The financial risk faced by the federal government in such cases would be reduced if those projects relied more heavily on financing that did not involve the government.

Senator Michael Bennet

Question: Could the panel speak a bit about the effect that this looming threat of insolvency has on a local government or private business's ability to plan for the future? And can you assess the economic benefits we could expect from a dedicated revenue stream sufficient to keep the trust fund solvent over the long-term?

Answer: The gap between the amounts the Highway Trust Fund is projected to receive in revenues and the amounts of spending from the fund—if both continue at about the current rate—would be substantial. Over the 2015–2024 period, the Congressional Budget Office estimates, reducing spending to match revenues would necessitate a decrease of more than 30 percent in the authority to obligate funds from the highway account and a decrease of about 65 percent in the authority to obligate funds from the transit account, compared with CBO's baseline projections. The possibility of such reductions—and even larger ones in some years—creates uncertainty that makes program planning difficult for state and local governments and for private contractors, and it adds to the risk that some planned projects will not be started and that work on some ongoing projects might be delayed.

If policymakers were to address projected shortfalls in the trust fund by limiting federal spending for highways and mass transit to the amounts of revenue generated by users, the reduction in spending would probably have significant negative consequences for the condition and performance of the nation's highway and mass transit infrastructure. All other things being equal, over the long term, the reduced amount of infrastructure would impose a drag on economic performance because smaller or lower-quality highway and transit systems would result in smaller profits for private businesses and lower wages for their workers as well as reducing other benefits that accrue to users of those systems but that are not captured in profits or wages. In addition, unless some other federal spending was increased or federal taxes were lowered, the reduction in federal spending would slow economic growth and employment during the next few years relative to what it would otherwise be. Over the longer term, by contrast, the smaller amount of federal debt stemming from the lower amount of spending would provide an economic boost.

Senator Michael Enzi

Question: Besides the direct cost of more than $50 billion that we have transferred from the General Fund to prop up the Highway Trust Fund, what would you identify as some of the tangible consequences to state governments, the construction industry, and the bottom lines of individual businesses that result from not providing long-term stability for the Highway Trust Fund?

Answer: The current mismatch between spending from the Highway Trust Fund and revenues credited to that fund creates uncertainty for state and local governments and for private contractors that build and maintain highways. Sudden shifts in the amount of annual spending authority would probably make program administration and planning difficult for the Department of Transportation as well as for state and local grant recipients. If, for example, policymakers were to address projected shortfalls in the trust fund by limiting federal spending for highways and mass transit to the amount of revenue currently generated by users, over the 2015–2024 period, the highway account would see a decrease of more than 30 percent in the authority to obligate funds, and the transit account's authority would decrease by about 65 percent, compared with the baseline budget projections of the Congressional Budget Office. The trust fund would be unable to support any new obligations in 2015, delaying investment in infrastructure and halting numerous transportation projects across the country. Such delays or cancellations would adversely affect the construction industry and its employees; over time, they would also affect businesses that rely on the nation's highway and mass transit infrastructure.

In addition, unless some other federal spending was increased or federal taxes were lowered, the reduction in federal spending would slow economic growth and employment during the next few years relative to what it would otherwise be. Over the longer term, the smaller amount of infrastructure would impose a drag on economic performance, but the smaller amount of federal debt stemming from the lower amount of spending would provide an economic boost.

The consequences of such reductions in federal spending could be ameliorated, at least in part, if state and local governments responded to the reduction in federal funds by increasing their own spending through some combination of raising additional revenues, shifting spending from other purposes, and borrowing. Individual states would differ in the ways they responded to such reductions, but the evidence generally suggests that if federal spending decreased, state spending would increase to offset some but not all of the reduction in federal funding. For example, the Government Accountability Office has reported that states reduced their own funding to offset roughly half of the increase in federal highway grants provided during the 1990s.[1]

1. See Government Accountability Office, *Federal-Aid Highways: Trends, Effect on State Spending, and Options for Future Program Design*, GAO-04-802 (August 2004), www.gao.gov/products/GAO-04-802.