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Transportation's new payday: funding alternatives for the 21st century

Let's pick up where the sputtering gas tax has left us: broke. We entered 2011 with a Highway Trust Fund on life support (see "*Vaporizing the Gas Tax Myth*") and without a new federal transportation law to replace the Safe, Accountable, Flexible Transportation Equity Act: A Legacy for Users, which officially expired in September 2009.

We have spent enough time wringing our hands while we watch the gas tax evaporate. For a growing number of transportation agencies, it's time to act. Realizing they cannot wait for the federal government to decide when and how transportation will be funded, agencies are striking out on their own, proactively seeking new ways to fund projects.

One major trend is the use of multiple sources to fund a project. Think of it as transportation's cafeteria plan. North Carolina's Triangle Expressway is the perfect example. In 2009, the North Carolina Turnpike Authority closed on approximately $270 million in toll revenue bonds and $353 million in state appropriation bonds, and it secured a $387 million federal Transportation Infrastructure Finance and Innovation Act loan to complete a $1 billion financing package for the Triangle Expressway.

Tapping into a growing list of innovative financing measures, agencies such as the North Carolina Turnpike Authority are getting critical mobility projects off their backlog lists and into the ground on time and on budget. The following are some of the most popular options:

Build America Bonds. Build America Bonds, with lower net interest rates, have enabled transportation agencies to attract a wider network of investors to raise needed funds. The New Jersey Turnpike Authority was the nation's first agency to sell more than $1 billion in taxable bonds that come with a 35 percent reimbursement from the federal government under the American Recovery and Reinvestment Act. The bonds are seeding the Authority's 10-year, $7 billion widening program. While BABs expired at the end of 2010, U.S. House Transportation and Infrastructure Committee chair Rep. John Mica has said he'd like to bring them back.

Tolling. With tolling, essentially a user-fee, you pay for road use at the turnpike instead of the pump. And, you get a congestion-free ride. According to an HNTB America THINKS survey, 82 percent of respondents believe that tolling should be considered in special, project-by-project situations or as a primary source of transportation revenue. It's further proof of tolling's broadening support.

SAFETEA-LU significantly expanded states' authority to advance toll and value pricing projects. Consequently, tolling is playing a key role in helping states close the funding gap and deliver massive capacity-enhancing projects. Today, there are more than 10,000 miles of toll roads, bridges and tunnels in the United States.

All-electronic tolling. All-electronic tolling is making tolling more driver-friendly. Here, a motorist, driving at highway speed, passes under a gantry as the vehicle's windshield transponder debits his or her account electronically. No stopping. No fishing for change. No ticket hide-and-seek.

AET holds great potential for revenue and efficiency enhancements because it:

- Allows agencies to charge higher rates during peak travel periods.
- Eliminates the need for toll collectors, the costliest item on a tolling agency's balance sheet.
- Saves the cost of building and maintaining traditional toll plaza structures.

Several U.S. toll facilities have already implemented AET.

Congestion pricing. To improve traffic flow and safety, agencies are using congestion pricing to vary toll rates according to the time of day or by traffic congestion. During select periods, operators impose or increase tolls to encourage travel at off-peak hours or discourage vehicular travel in favor of other modes at peak hours. At super-peak periods, eastbound motorists on California's 91 Express Lanes pay as much as $9.90 to drive the congestion-free, 10-mile facility.

High-occupancy toll lanes/managed lanes. Free to carpools, vanpools, transit and emergency vehicles, HOT lanes charge a fee for single-occupant vehicles to use the facility. Toll rates are determined according to market economics, the value of driver time as perceived by the individual user.

This regulates the number of single-occupancy vehicles in the lane, thereby maintaining a high level of traffic flow, even when regular lanes are congested. SAFETEA-LU permitted HOT lane construction for this specific purpose. It also allows existing high-occupancy vehicle lanes to be converted into HOT lanes.

Public-private partnerships. Known as P3s, these strategic alliances — typically between states and private sector developers — are accelerating new construction and maintaining existing infrastructure. P3s are contractual agreements between the public and private sector that allow the private sector to finance, design, build, lease, manage and/or operate transportation facilities.

These arrangements also can include concession fees or up-front payments the private entity must make upon award of the franchise. Twenty-three U.S. states and one U.S. territory now have legislation in place to authorize use of various P3 approaches. Related private activity bonds allow private entities to sell tax-exempt debt to fund such work.

State infrastructure banks. State infrastructure banks allow states to increase the efficiency of their transportation investment and significantly leverage federal resources by attracting non-federal public and private investment. Seeded with federal or state money, these banks offer state and local government agencies a range of loans and credit enhancements to finance transportation projects.

Cordon (area) pricing. Cordon pricing charges motorists a fee to drive within a congested area, usually a city center. In 2003, London's congestion became so bad Mayor Ken Livingstone instituted cordon pricing into and out of a 16-square mile section of downtown. Initially, congestion decreased by 21 percent in the tolled zone. A number of U.S. cities now are exploring cordon pricing.

Grant Anticipation Revenue Vehicles. GARVEEs allow states to issue bonds secured with the promise of future federal aid funds.

Transportation Infrastructure Finance and Innovation Act loans. TIFIA loans offer states credit assistance to help them pay for large, partially funded projects and the repayment can be subordinate to the senior toll revenue debt.

It's a new day

One solution will no longer build nor maintain the transportation system our nation needs to remain competitive in the global marketplace and preserve our quality of life.

Funding infrastructure in the 21st century will require transportation agencies to break away from just the gas tax, use more innovative technology and be willing to adopt new approaches. Together, they will move us toward fixing today's system and creating one to meet tomorrow's needs.

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