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Securities Industry and Financial Markets Association

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Securities Industry and Financial Markets Association

Statement Submitted for the Record

House Committee on Transportation and Infrastructure Subcommittee on Highways and Transit

Hearing on:
Public-Private Partnerships: Financing and Protecting the Public Interest

The membership of the Securities Industry and Financial Markets Association[1] appreciates the opportunity to submit this statement for the record for the House Committee on Transportation and Infrastructure's Subcommittee on Highways and Transit hearing: Public-Private Partnerships: Financing and Protecting the Public Interest. The dramatic need for an increase in infrastructure investment in the United States makes this an important area of inquiry for the Subcommittee. The growing interest among various state and local governments in public-private partnerships as a way to generate much-needed infrastructure investment is borne of the real fiscal pressure these governments face. Any assessment of possible policy solutions to the U.S. investment gap in transportation infrastructure needs to include a thorough look at public-private partnerships and how they can be made to work best for our economy.

SIFMA Members' Role in Infrastructure Finance

SIFMA's membership includes municipal bond underwriters and dealers who for centuries have facilitated the relationships of state and local governments with the capital markets mainly through the issuance of tax-exempt bonds. Municipal bond issuance by American cities dates back to the 1700s. In 1812, New York City issued the first publicly recorded municipal bond to finance the construction of a canal. Recorded issuance grew in the years that followed. In 1843, U.S. cities had issued a total of $25 million to finance mainly transportation infrastructure.

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[1] The Securities Industry and Financial Markets Association brings together the shared interests of more that 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services, and create efficiencies for member firms, while preserving the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has office in New York, Washington, D.C. and London, and its associated firm, the Asia Securities Industry Association, is based in Hong Kong.

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Today, the municipal division is one of the most active within SIFMA and its members underwrite 95 percent of the tax-exempt municipal bonds issued by state and local governments to fund important public infrastructure such as roads, schools and hospitals. It is important to note, however, that SIFMA members play an intermediary role in the approximately $2 trillion municipal market.

Bond dealers and underwriters are generally neither significant long-term investors in, nor end users of, municipal financing. Because of their broad and disparate nature—more than 50,000 governments at the state, local and district levels—and volume of projects to be financed, municipal bond-issuing governments have over time developed deep and binding relationships with municipal bond dealers. SIFMA members are in a unique position to understand both the peculiar financing and physical infrastructure needs of these governments. As such, they have played a significant role in the development of U.S. infrastructure privatization, a role they are poised to continue.

Infrastructure Investment in the U.S.

U.S. infrastructure investment currently lags far behind what is necessary to maintain a robust and efficient economy. In the past years and months, several studies have quantified the cost of growing surface traffic congestion to the economy in terms of lost productivity and higher delivery costs. The numbers speak for themselves. In the past quarter century, the U.S. population has grown about 20 percent and vehicle miles traveled 72 percent. Road capacity, however, has only grown about five percent over the same period. As a result, the cost to the economy in terms of lost productivity and wasted motor fuel is upwards of $68 billion annually.[2]

Just to maintain our current surface transportation system would require a current investment of $235 billion with another $304 billion in 2015 and $472 billion in 2030. The revenue streams currently available to support such investment—mainly the gas tax—will fall a full $500 billion short through 2015. To bridge the investment gap and bolster the U.S. transportation infrastructure to meet expected needs, new transportation spending across all levels of government would need to be $288 billion today, followed by $368 billion in 2015 and $561 billion by 2030. Current revenue streams will fall $1.1 trillion short of the mark through 2015.[3]

Beyond a simple funding shortfall, the investment gap is complicated by the intricacies of the surface transportation systems. A number of projects critical to more that one municipality or region will cost billions of dollars each to complete and cannot be managed in any existing capital program.

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[222] See http://www.ntweek.org/publications/ARTBA_Congestion.pdf and http://tti.tamu.edu/documents/mobility_report_2005.pdf

[3] See *Future Highway and Public Transportation Financing* National Chamber Foundation 2005

Need for a New Financing Framework

As noted above, the municipal bond market has historically played a major role in providing the required capital for the type of an expansion the U.S. surface transportation system would require. The major sources of financing for highways have of course included federal loans and grants funded by the federal gas tax.

Today, local tax bases are not sufficient to back the level of bond financing that would be required to close the transportation investment gap. The federal gas tax has not been adjusted since 1993 and its value in real terms has declined considerably since its inception. The rising price of gasoline combined with the general resistance in Congress to tax increases of any type have helped fuel the adoption of public-private partnerships as a policy solution as have several other developments within the past 12 months.

The leasing of both the Chicago Skyway and the Indiana Turnpike, by the City of Chicago and the State of Indiana respectively, has prompted considerable attention and the interest of this Subcommittee. The governors of other states, notably New Jersey and Pennsylvania have, in the wake of those deals, both announced reviews of state transportation assets for possible public-private partnership arrangements. The leasing of existing toll roads has proved so far to be an efficient way for the City of Chicago and the State of Indiana to establish private-equity investment in a transportation asset. The deals have produced sizeable up-front payments to those governments while simultaneously removing the liabilities associated with operating toll roads, such as maintenance, from the state's balance sheet.

The Federal Role

When considering the need to bridge the transportation investment gap, it is clear public-private partnerships do not, in and of themselves, represent a total solution to the problem. There are many instances—such as the foregoing—where privatization makes sense. It follows that this approach is most easily transferred to certain projects better than others, high-volume corridors and urban connectors for example. It is in this context where federal policy can be the most helpful as a guide.

In the most recent reauthorization of the highway trust fund, SAFETA-LU, this subcommittee helped craft provisions that increase the ways in which tolling can be used on federal highways. These include the Express Lane Demonstration Program, the Interstate System Construction Toll Pilot Program and the Value Pricing Pilot Program. These programs offer the potential for public-private partnerships to make important inroads. Another program, the authorization of $15 billion in private-activity bonds for highway and rail-truck transfer facilities should similarly encourage private investment in transportation infrastructure. This sort of leadership at the federal level is invaluable.

Another positive example of federal leadership comes in the form of the model state enabling legislation recently produced by the Department of Transportation's Federal Highway Administration. At present, only 21 states have legislation to enable some form of public-private partnership on the books. California has been a leader in this area, though only on a project-specific basis. Virginia was the first state to enact a broad enabling statute, which became law in 1995. While several states have followed suit, there remains a need to streamline existing statutes and provide a blueprint for legislatures so they may produce the most useful legislation possible.

Conclusion

We applaud your leadership and consideration of this issue. The need to close the investment gap in transportation infrastructure is well recognized today as is the useful role of public-private partnerships in this effort. SIFMA members, who for centuries have linked state and local governments with the capital markets, encourage Congress to boost those policies that spur further use of public-private partnerships to facilitate new investment in transportation infrastructure.