

CONGESTION PRICING: LEVERAGING



DOT believes that using innovative financing strategies to leverage limited public transportation revenue is integral to the long-term re-thinking of how the United States provides highway and transit infrastructure. While motor fuel taxes and vehicle fees do little or nothing to address the underlying problems that contribute to State and local transportation funding shortfalls, such as congestion and misallocation of resources, innovative financing strategies encourage State and local authorities to leverage traditional sources of transportation revenue to attract private capital and reduce State and local reliance on Federal grants and gas taxes.

- In December 2007, the Virginia DOT reached commercial and financial close on the Capital Beltways HOT Lanes Project, a dynamic solution to traffic on one of the most congested corridors in the country. For this project, approximately \$409 million from Federal-aid and State sources is being leveraged to attract approximately \$1.3 billion of additional capital, including a \$588 million loan from DOT's TIFIA program, DOT authorization for the issuance of up to \$800 million in private activity bonds to be repaid by the private sector concessionaire, and private equity contributions totaling \$350 million from the members of the concessionaire.
- Private equity firms have raised billions of dollars for investment in transportation projects, primarily in stable western countries like the United States. CalPERS, the largest public pension fund in the United States, recently approved a \$2.5 billion pilot infrastructure investment program. *The Financial Times* reported on December 30, 2007, that "estimates of equity already raised for infrastructure investment but not yet invested range from \$50 billion to \$150 billion." Leveraging traditional sources of transportation revenue to attract private capital and financing provides access to vast amounts of capital for investment in transportation projects.
- State and local authorities are enthusiastic about innovative financing strategies, including public-private partnerships (PPPs), tolling and pricing. These strategies can reduce costs, accelerate project delivery, transfer project risks to the private sector (including design, construction, financing, operation, and maintenance risks) and provide innovative and high-quality projects. These strategies also enable the public sector to manage congestion and generate revenue. Projects that can't be done using traditional approaches to funding may be viable using innovative strategies because their projected revenue streams are financeable.
- Congress and DOT have undertaken a number of initiatives to encourage State and local jurisdictions to leverage scarce public resources for highway and transit projects. These initiatives include the Private Activity Bonds program which allows private developers to utilize tax-exempt debt to finance transportation projects, and the TIFIA program (which was updated in 2005), which provides flexible, subordinate credit assistance to facilitate the financing of transportation projects. Interstate Tolling programs, the SEP-15 program, and FTA's Public-Private Partnership Pilot Program also encourage greater use of financing.
- Before increasing gas taxes or other traditional sources of transportation revenue, States and local jurisdictions should consider the benefits of using innovative financing strategies to leverage limited public transportation revenue and attract private capital.