Financial Environment: Purchasing Power of the Federal Gas Tax

Figure 1: Purchasing Power of the Gas Tax Has Dropped 28 Percent Since 1997

Decline is Due Mostly to Construction Cost Inflation

Source: ITEP analysis of data from the Federal Highway Administration (FHWA)
Highway Account Receipts, Outlays and Balances (1998-2022) billions of nominal dollars

Notes:
Assumptions are based on CBO's February 2013 baseline projections, updated for MAP-21 enactment.
CBO's baseline is calculated by increasing the obligation limits set for current year by a measure of projected inflation and by assuming extension of the current tax on fuels and on heavy vehicles.
The Highway Trust Fund cannot incur negative balances. Negative balances are illustrative of the cumulative deficit that would be incurred by the Highway Account under CBO's baseline scenario.
Point/Counter Point: Sales Tax on Gas

A sales tax on gas is less visible than a per gallon tax and it is bad that most people have no idea what they pay for highways.

The overall price of gas is the user cost message, not just the tax.

A sales tax is vulnerable to decreases in oil prices and would therefore be a less reliable funding source for transportation.

Gas supply and demand will keep pace with inflation, per gallon approaches do not. Global demand for oil will outstrip supplies in the post-petroleum era.

A sales tax at the wholesale level would be seen as even less of a user fee than current fuel taxes.

The overall price of gas is the user cost message. Closing a $20 B annual shortfall in the Highway Trust Fund preserves roads and funds transit improvements.
Build Infrastructure and Create Jobs

**Bond Investors**
- Investors purchase bonds (based on $100 million issuance)

**STATE/LOCAL Bond Issuer**
- Distributes bond $s

**STATE/LOCAL Transportation Agency**
- Funds transportation projects

**Trustee**
- Invests $ until bonds come due
- Repays bond principal at maturity ($100 million)

**Private Sector Jobs**
- AFF Transportation Bond projects will create thousands of new jobs every year.

The U.S. Treasury provides annual tax credits to bond investors in lieu of transportation agency cash interest payments ($5 million/yr).
Leveraging Available Cash Flow through Tax Credit Bonds vs. Tax-Exempt Bonds

Over 35 years, a $10/year revenue stream set aside for debt service could support over 2.5 times the capital investment using 100% interest subsidy tax credit bonds vs. using tax-exempt bonds.

Note: A tax credit bond with only a 28% interest subsidy would have approximately the same cash flow leverage factor as a tax-exempt bond.

Tax-Exempt Bond at 3.25%
(level debt service/35 yrs.)

Tax Credit Bond at 0%
(2.5% reinvestment rate/35 yrs.)
[Maximum Permitted Sinking Fund Rate for May 2013 = 2.84%]
<table>
<thead>
<tr>
<th>Program</th>
<th>Volume Authorized</th>
<th>Amount Issued</th>
<th>Average Issue Size</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified Zone Academy Bonds (QZABs)</td>
<td>$ 4,000*</td>
<td>$ 1,292</td>
<td>$9.5</td>
<td>Unissued volume expires one year after year of authorized issuance.</td>
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<td>Latest Authorization: American Taxpayer Relief Act (“Fiscal Cliff” Bill) (Jan., 2013)</td>
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<tr>
<td>Qualified School Construction Bonds (QSCBs)</td>
<td>$ 22,000</td>
<td>$ 15,582</td>
<td>$44.3</td>
<td>Volume remains available for issuance.</td>
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<td>Latest Authorization: ARRA (Feb., 2009)</td>
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<tr>
<td>Clean Renewable Energy Bonds (CREBs)</td>
<td>$ 3,600</td>
<td>$ 415**</td>
<td>$18.0</td>
<td>Issuance data available through 2011 only.</td>
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<td>Latest Authorization: ARRA (Feb., 2009)</td>
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<tr>
<td>Qualified Energy Conservation Bonds (QECBs)</td>
<td>$ 3,200</td>
<td>$ 458**</td>
<td>$6.9</td>
<td>Issuance data available through 2011 only.</td>
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<td>Latest Authorization: ARRA (Feb., 2009)</td>
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<tr>
<td>Qualified Forestry Conservation Bonds (QFCBs)</td>
<td>$ 500</td>
<td>?</td>
<td>n.a.</td>
<td>No data available.</td>
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<td>Latest Authorization: Farm Bill (May, 2008)</td>
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</table>

**TOTAL VOLUME:**  
$ 33,000*  
$17,747

* Volume authorized does not include $4.4 billion of QZABs authorized pre-2009.  
** Amount issued for CREBs and QECBs only through 2011, not 2012.  
Sources: Congressional Research Service; Securities Data Corporation
Add a 6th class of QTCBs to the Tax Code: America Fast Forward Transportation Bonds

$45 billion 10-year National Volume Cap ($4.5 billion per year)
  
  65% Discretionary for Major Projects / Programs:
    • Capital costs of $500 million and up with identified revenue sources
    • Not more than 50% of project costs funded with federal grants
  
  35% by Formula to States for projects with:
    • Volume Cap to states based on state’s percent of national population
    • Individual projects selected by states

Maximum bond maturity of 35 years, allowing up to 80% effective overall federal subsidy
(similar to grant programs) – justified by large spillover benefits and long-lived nature of transportation investment

The estimated federal budget score cost of ~$10 billion in tax expenditures (20-25 percent of the face value of bonds) over the 10-year budget window

Federal requirements apply (Davis-Bacon, NEPA, etc.)
TIFIA Funding Increased under MAP-21

<table>
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<tr>
<th></th>
<th>SAFETEA-LU</th>
<th>MAP-21</th>
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</thead>
<tbody>
<tr>
<td>FY10</td>
<td>$122</td>
<td>$122</td>
</tr>
<tr>
<td>FY11</td>
<td>$1,200</td>
<td>$1,200</td>
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<tr>
<td>FY12</td>
<td>$750</td>
<td>$7,500</td>
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<tr>
<td>FY13</td>
<td>$0</td>
<td>$10,000</td>
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- **Credit Subsidy/Loss Reserve**
- **Loan Capacity**

$ in millions
TIFIA Participation Increased under MAP-21

Under SAFTEA-LU

- TIFIA, 33%
- Non-TIFIA, 67%

Under MAP-21

- TIFIA, 49%
- Non-TIFIA, 51%

Springing Lien Waiver Limit (33%)
TIFIA Allows Full Subordination of Loan

- Revenues remaining after payment of debt obligations are released to LACMTA.

Springing Lien Requirements:
- 33% participation
  - At Master Credit Agreement or Project level?
- “A” Rated, maximum 10% credit subsidy
- Non-project related revenue only
  - No tolls