US transportation: The 11th hour fix

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Days away from allowing the US federal Highway Trust Fund to reach insolvency, Congress finally approved $10.8 billion in funding to the scheme. But the congressional bill is a short-term remedy, and the fund could be threatened again in May 2015.

The bill, which US President Barack Obama passed on 8 August, doesn't necessarily portend positive signs for some of the country's most vital infrastructure programmes. It instead raises larger questions around the lack of long-term commitment regarding US transport infrastructure funding.

The bill also extended, albeit temporarily, other Federal-Aid Highway Programs such as the Moving Ahead for Progress in the 21st Century Act (MAP-21) until 31 May. MAP-21, which came into effect in July 2012 to fund surface transportation programs between 2013 and 2014, was due to expire on 30 September. MAP-21 includes the Transportation Infrastructure Finance and Innovation Act (TIFIA) program which has been key for financing US surface transportation infrastructure.

The eventual passage of the bill may have postponed the debate about the future of US federal transportation funding until after the November 2014 Congressional elections. But the question mark over how the country's transportation infrastructure needs will be met after May 2015, continues to loom.

Profit-loss account

The Highway Trust Fund was established in 1956 to finance the US Interstate Highway System, other roads and bridges. It was expanded in 1982 to include mass transit projects. The trust fund gets its money from the $0.184 per gallon gas tax, which hasn't been increased in over 20 years. While the fund was in a surplus during the 1980s, eventually spending overtook reserves and brought the fund to its current state.

(Highway Trust Fund ticker, source - US Department of Transporation)

Funds from the Highway Trust Fund are used by states across the US to finance their roads, highway and transit transportation systems. This may also include PPP projects and especially those with availability payment based structures. The fund's insolvency would have meant an average 28% funding cut to various US states' transportation infrastructure projects beginning this summer.

The majority of the money for the $10.8 billion bill would come from a tactic called 'pension smoothing', which allows US companies to temporarily reduce pension contributions. The process allows raising revenue for the government because companies lose out on tax deductions associated with pension contributions. The move upset several senior Democrats who were opposed to the provision.

While the government had known for some time that the fund was soon to hit the red, it only addressed the problem in the 11th hour. This market observers said is not a "surprise" and has been the case with many previous bill expirations. MAP-21 took shape as a formal programme in 2012 only after being extended nine times previously.

Long-term solution

Increasing the gas tax might be a long-term solution to the Highway Trust Fund deficit. However gaining consensus for raising any form of taxes is always pain staking and will prove unpopular with the electorate. Especially since there is wider scepticism on how these funds are actually spent.

The other more pertinent resolution is congressional action on the $302 billion federal transportation bill. In April, US DOT submitted a draft of the bill to the Congress for consideration. The bill follows on from the reauthorisation plan outlined by President Obama in March and is expected to address the challenge of transport infrastructure financing in the next five years. Both the Highway Trust Fund and MAP-21 are part of this bill.

State governments, developers and investors are all in favour of gaining more visibility of how projects will be financed in the next few years. At present there is a steady and consistent pipeline of transport PPP projects seeking financing in the US. While PABs (private activity bonds) and TIFIA have been key sources of financing deals, both would need reauthorisation under the Transportation bill.

TIFIA has provided $7.9 billion in credit assistance for 22 projects since 1999 and continues to attract fresh applications every year. Meanwhile the PABs scheme has a current limit of $15 billion in bonds that can be issued under it, of which some $11 billion has been allocated already. Commercial bank debt is unlikely to become the prime source for long-term financing of PPP projects. Bank debt is only expected to cover the short-term construction phase of projects and is at present only being considered for a handful US PPPs.

The hope now is that Congress will turn its attention to the long-term transportation bill, with the Highway Trust Fund crisis averted until May. The bill will allow states and local governments to plan their transport infrastructure pipelines with greater certainty and avoid witnessing another 11th hour fix.