

The Road Ahead: Small Businesses and the Need for a Long-Term Surface
Transportation Reauthorization

Hearing

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Committee on Small Business

U.S. House of Representatives

Statement of Dr. Jonathan L. Gifford¹

Professor and Director, Center for Transportation Public-Private Partnership Policy

School of Policy, Government, and International Affairs

George Mason University

3351 Fairfax Drive, MS3B1, Arlington, Virginia

Chairman Chabot, Ranking Member Velázquez, and distinguished members of the committee, thank you for the opportunity to speak to you today about the reauthorization of the nation's surface transportation legislation.

I am a professor at George Mason University, where I direct the Center for Transportation Public-Private Partnership Policy in Arlington, Virginia. The Center's objectives are to provide objective analysis of transportation public-private partnerships (P3s) through research, education, and outreach in order to facilitate their application in the most effective situations. The Center's program focuses on building the evidence base to evaluate P3s, advancing the capacity of public entities to assess and utilize the approach, educating researchers and professionals, and reaching out to business, government and the community at large to improve their understanding of the P3 approach to infrastructure development. We believe that a better understanding of P3s will lead to their most appropriate utilization.

I would like to make three points about the subject of today's hearing on small business and the need for a long-term surface transportation reauthorization.

¹ jgifford@gmu.edu; 703-993-2275; p3policy.gmu.edu; @p3policy

My first point is that public-private partnerships (P3s) for transportation projects offer significant opportunities to small businesses. P3s generally involve design, construction and long-term operation and maintenance of a transportation project. P3 contracts usually have a term of 35 or more years, in some cases 75 years.

These long-term agreements create a favorable environment for the small businesses in the communities surrounding the projects. Business needs include engineering, materials, construction, public affairs, community relations, architects, attorneys, security, and appraisers. Many of these business needs last not just for the duration of the construction but for the life of the concession agreement – many decades. Such long-term agreements foster the creation and sustenance of local businesses.

Moreover, such opportunities are more than discretionary on the part of the concessionaire. States participating in P3s typically establish goals for participation by small, woman-owned and minority-owned businesses and disadvantaged business enterprises (SWaM/DBE). For example, Virginia’s goals for three of its major projects total more than \$1 billion for the design and construction phase alone.² The recently completed 495 and 95 Express Lanes P3 projects in Virginia supported more than 28,000 jobs during construction, and employed hundreds of DBE/SWaM firms, 184 firms for the 95 Express Lanes and 250 firms for the 495 Express Lanes.³

A long-term surface transportation reauthorization can support small business by removing barriers in federal law regarding P3s, and by continuing and possibly increasing federal support for P3s. Without long-term reauthorization, agencies are experiencing difficulty in letting and continuing meaningful projects because they do not have the requisite budget authority. Large firms may be able to absorb this uncertainty, but small businesses are not well-equipped to deal with the off/on nature of the current federal process.

A major barrier for P3s in many states is the federal prohibition against charging tolls on reconstructed Interstates. Congress may wish to reconsider that prohibition since so much of the Interstate system will require reconstruction in coming decades. Significantly, relaxing or removing this prohibition can be done at no cost to the federal budget. And it would allow states to decide whether and how much to explore tolls as a means of renewing and expanding their highway systems.

Congress may also wish to extend or expand current programs that support P3s, notably TIFIA and PABs. The TIFIA program (for Transportation Infrastructure Finance and Innovation Act) provides loans and credit support to most P3 projects.

² Virginia Office of Public-Private Partnerships, “PPTA DBE/SWaM Programs: Achieving Historic Results,” n.d., http://www.p3virginia.org/wp-content/uploads/2014/07/FACT-SHEET_PPTA-DBESWaM.pdf.

³ Transurban, personal communication, June 2, 2015.

PABs, or private activity bonds, level the playing field between bonds for P3 projects and municipal bonds by exempting PABs from most federal income taxes.

President Obama's proposed QPIBs (Qualified Public Investment Bonds) would expand the dollar amount available for P3s by eliminating the current \$15 billion cap on PABs.

My second point relates to the federal gas tax. The federal gas tax and the Highway Trust Fund have played important roles since their establishment in 1956 in the construction of the Interstate Highway System and supporting the Federal-Aid Highway Program. The current gas tax rate is not sufficient to support the ongoing expenditures of the existing surface transportation program. Congress has filled the gap in recent years with contributions from the general fund.

Continued reliance on the gas tax as the primary source of funds to support the federal surface transportation program is problematic. As cars get more fuel efficient and the number of hybrids and electric vehicles increase, a flat per-gallon tax on gasoline generates less and less for each mile driven on our highway system.

In the long term, Congress must decide how much financial support it wishes to provide the surface transportation program, and how to pay for it. An increase in the gas tax could support an ongoing program at current spending levels. However, in the longer term, other sources of state, local and federal revenue such as tolls may provide a more suitable financial foundation for addressing the nation's transportation needs and opportunities.

There appears to be significant appetite for infrastructure investment in the global capital markets. Investment in the U.S., however, is limited due in part to a lack of bankable projects. Removing barriers to tolling could enable more private capital investment.

My third point relates to the future of the University Transportation Centers program. This program has supported a number of universities, including my own, in conducting research on our nation's transportation system and educating generations of students who go on to design, construct, operate, finance and maintain that system.

As an active participant in the UTC program for most of my career, I would like to assure the Committee that the program has generated considerable value in research, education and professional development.

Our nation appears to be on the cusp of major changes in its transportation systems. Important innovations include autonomous vehicles, GPS, mobile devices, advanced materials, shared use of cars and bicycles, transportation network companies like Uber and Lyft, and public-private partnerships. These innovations have the potential to transform the movement of people and freight. They also have the potential to disrupt the industries and institutions that make up our transportation system.

Continued support of the University Transportation Centers program will allow research and education to continue to contribute to expanding development of such innovations and understanding their implications for society.

That concludes my formal statement. I would be happy to answer your questions.

Thank you.