

Time to rethink highway funding

April 21, 2004

(from the *Columns* section)

Funding for critical transportation projects, for both new construction and maintenance, is increasingly becoming an urgent conversation in Vermont. Despite sincere commitment and worthy efforts, our existing transportation infrastructure is increasingly falling into disrepair. There is no dispute about that.

A big reason for the predicament we are in is our attempt to fund critical large construction projects on a cash basis through annual federal and state appropriations. If we had always relied on such a strategy, many of our current roads and bridges, including Interstate 89, would never have been built. Think of this in everyday terms. Sure, it would be great if people and businesses could pay cash when building a new home or manufacturing facility, but that is usually not practical. Responsible borrowing through mortgages or bond issuances is not only reasonable - it can be smart, too. Building a new house one room at a time over several years doesn't make a lot of sense.

I fear that relying on a pay-cash-as-you-go strategy for long-lifespan highway construction projects will make it impossible to keep up with necessary maintenance of roads and bridges. Continuing delay of repairs and maintenance will certainly cost Vermont taxpayers dearly in the long run, due to the fact that prolonged degradation becomes more and more expensive to repair as time goes on. New construction projects already committed to will cost us more as well, due to inflation of construction costs over the many extra years waiting for funds to become available on a cash basis.

Of the options available to address this situation, I believe the best choice is a carefully crafted and conservative GARVEE (Grant Anticipation Revenue Vehicle) bonding program that would fund a number of the major outstanding projects, or at least serve as part of the solution for the situation we are now in. GARVEE bonds are not like the normal general obligation bonds Vermont utilizes, which obligate the state's full faith and credit (i.e., all of our taxing capacity and assets) to back up the bonds. GARVEES utilize a pledge of only a small portion of future federal transportation funds to pay the debt service for a bonding program today, in order to accelerate project delivery. This would allow us to finish up a number of critical construction projects in a more timely fashion and to reallocate existing funds for repair and maintenance of roads and bridges. This is not a strategy to promote some big new highway projects. It is a strategy to allow us actually to construct a handful of critical projects we have already committed millions of dollars to, without siphoning off the money we need for statewide maintenance of roads and bridges.

Naturally, there are many issues to be considered. For example, agreement on what high-priority projects would be funded through GARVEE bonds, and on a realistic construction schedule for when the projects would be ready to go, will be necessary to craft a specific proposal. Obviously,

it would not be prudent to borrow the money if the construction is not ready to go or if the money will be used for other than critical need projects.

As Vermont's state treasurer, I would not support the use of GARVEE bonds if I thought they would pose a threat to Vermont's favorable credit rating. I am confident that a carefully crafted transportation GARVEE program would not threaten our current favorable ratings, assuming we maintain a commitment in the areas the rating agencies really care about, such as budgetary discipline, funded stabilization reserves, a diversified economy, and conservative overall debt management. Yes, GARVEE debt will likely to be added to our total debt statement by the rating agencies, but, no, no state has ever been downgraded due to use of a GARVEE program.

I am very pleased that the Legislature and governor have decided to support the creation of a Transportation Infrastructure Funding Working Group to prepare a report for the next General Assembly that examines all funding alternatives including, but not limited to, GARVEE bonds for major highway and bridge construction projects in Vermont. Though the specifics of any proposal should be developed by the proposed working group, I suspect a multi-year, two-phase, GARVEE bonding program totaling \$75-100 million would be appropriate. We could service this debt using just a portion of the expected incremental increase in federal transportation appropriations from Washington. That would not disturb the current flow of funds at all.

My office has prepared a report that explains how GARVEE bonds work, including simulations of various scenarios for a \$100 million GARVEE program and highlights of the issues that need to be carefully considered before final adoption of a GARVEE program in Vermont. You can download a copy at www.vermonttreasurer.gov if you are interested.

The bottom line is that if we are to make headway on the need to improve and take care of our transportation infrastructure, something that is absolutely critical to our economic future, we need to be creative, careful, and cooperative. I stand ready to work with all parties on this very important task.

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