**Lawmakers Tackle Highway Funding Challenges**
**Bond Buyer 1/31/12 By Kyle Glazier & Lynn Hume**

WASHINGTON - In the wake of a Congressional Budget Office projection that the primary funding source for America's roads may become insolvent next year, House Republicans rolled out a proposal for a five-year surface transportation funding bill and a bipartisan group of lawmakers made a push to solve the crisis with tax-credit bonds.

The Republican bill, dubbed the American Energy and Infrastructure Jobs Act, was unveiled by House Transportation Committee chairman John Mica, R-Fla. The legislation, one of two proposals aimed at becoming the first long-term transit bill since the previous one expired more than two years ago, would keep highway funding at current levels through fiscal 2016 by spending $260 billion during that time.

The measure would draw mainly from the beleaguered highway trust fund, which is supported by federal gas tax revenues that have failed to keep pace with transportation needs.

Republicans are also looking to come up with additional funding through expanded domestic oil drilling, both offshore of the two coasts and in a certain area of the Alaska National Wildlife Refuge. The proposal is more than $50 billion short of highway trust fund revenues, and finding those revenues will fall to the House Energy Committee, chaired by Rep. Fred Upton, R-Mich.

House Speaker John Boehner, R-Ohio, said Sunday that Republicans would attach the controversial Keystone XL pipeline to the transportation bill if pipeline legislation isn't otherwise passed by the time the transportation bill comes to a vote.

Mica's bill also looks to shift funding power from the U.S. Department of Transportation into state infrastructure banks. The state banks, which were authorized by the previous long-term transit bill, allow states to back bonds and attract private investment in transportation projects.

The bill does not create a federal infrastructure bank, an idea supported by the White House and many transportation industry lobbyists that has failed to catch fire with Republican lawmakers in either chamber.

In fact, the bill dramatically slashes the size of the federal government's transportation-responsible entities, consolidating or eliminating dozens of programs within various DOT agencies.

The bill also would grant $1 billion per year for the Transportation Infrastructure Finance and Innovation Act program. TIFIA provides loans that can be used to back munis and promote private investment, and has often been cited as a reason that a national infrastructure bank is unnecessary.

"What do I need one for?" Mica said, when asked about the national bank. "I've got TIFIA!"

Mica's bill contrasts to a competing proposal in the Senate, where Environment and Public Works Committee chair Sen. Barbara Boxer, D-Calif., steered a two-year, $109 billion bipartisan bill through committee by a unanimous vote. Sen. James Inhofe, R-Okla., the ranking minority member of that committee, is a co-sponsor. Besides the large difference in the timetables of the two bills, Boxer has said that offshore drilling would be a non-starter in the Democratic-majority Senate. The gulf between the two proposals led Transportation Secretary Ray LaHood to express doubt last week that either bill would pass this year, but he backed off a day later following a phone call with Boxer.

Initial reaction from transportation advocates emphasized the need for action sooner, rather than later.

"It is essential that the House advance its multi-year bill," said American Road and Transportation Builders Association president and chief executive Pete Ruane. "After more than two years of can-kicking, it's time to get the job done. The transportation construction industry needs a bill, the American people need a bill, and the U.S. economy needs a bill."

Mica emphasized that the bill is likely to change. The full House Transportation Committee will vote on the bill up Thursday morning, and Mica said he hopes to bring it to the floor before the end of February. The current temporary surface transportation funding extension ends March 31.

"The bill isn't final," Mica said. "But this is a major start, folks."

Meanwhile, Sen. Ron Wyden, D-Ore., said on Tuesday that he plans to "pull out all the stops" to gain support for bipartisan, bicameral legislation that would authorize state infrastructure banks to issue up to $50 billion of tax-credit bonds over six years to finance transportation infrastructure projects.

Speaking to reporters at a press conference, Wyden said these Transportation Regional Infrastructure Project bonds are needed now more than ever in the wake of the Congressional Budget Office's budget and economic outlook for 2012-2022 that shows a growing deficit in the federal highway trust fund, which historically has been used to fund transportation projects.

The CBO report warned the highway trust fund will be unable to meet its obligations in a timely manner at some point next year. It pointed out that the fund received a total of $35 billion of transfers from the Treasury's general fund between 2008 and 2010 to avoid running out of money.

Wyden said he had wanted to propose legislation authorizing direct-pay bonds, like Build America Bonds, for transportation, but had to turn to tax-credit bonds after it became clear a number of lawyers were opposed to BABS.

But he said the TRIP bonds he has proposed would be strippable - that is, they could be stripped from the principal of the bonds and sold separately to a bigger pool of investors. He said they also would cost the federal government only $12 billion in lost revenue over 10 years, far less than tax-exempt bonds.

Wyden and Sen. John Hoeven, R-N.D., have a TRIP bond bill pending in the Senate.

Last month, Reps. Ed Whitfield, R-Ky., and Leonard Boswell, D-Iowa, introduced an identical bill in the House.

Former CBO director Douglas Holtz-Eakin said he supports the bills because they "allow you to target the subsidy."

Jack Basso, chief operating officer for the American Association of State Highway and Transportation Officials, also applauded the legislation, warning that the infrastructure deficit in the United States "is beginning to rival the national debt."

Basso said the nation is running $100 billion to $125 billion per year behind in its infrastructure investments.

But muni market participants say tax-credit bonds have never taken off in the muni market. "Tax-credit bonds have been around for a long time," said Bill Daly, senior vice president for governmental relations for Bond Dealers of America. "They've never been accepted by the market. Investors don't particularly like them."

He pointed out that during the two years the BAB program was in effect, issuers, who were given a choice of issuing tax-credit or direct-pay bonds, only issued direct-pay bonds, where the federal government pays a subsidy to an issuer.

Given the failure of that "perfect little experiment" in tax-credit bonds, he is skeptical that a large-scale push for them will make a difference. "It's hard for me to believe that this proposal is any silver bullet for transportation," he said.