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BRIEFLY

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Borrowing to Fund Transportation Investments is Prudent

Debt financing for transportation improvements is both expedient and good public policy. The ongoing debate between “pay as you go” advocates and those who support long-term bonding for transportation can be resolved: bonding makes sense.

Among the major challenges facing the legislature this session is transportation finance. About $550 million of the Motor Vehicle Excise Tax revenues lost with passage of I-695 would have flowed into various transportation accounts to fund programs of the state Department of Transportation (WSDOT).

The loss in WSDOT’s budget is greater than simply the immediate loss in tax revenue, however. The lost MVET funding was the foundation for the transportation investment plan approved by voters through Referendum 49 in November 1998. Under the terms of R-49, the state was to use MVET revenues to pay interest and principle on bonds issued to finance a six-year investment program. With the revenues eliminated, the bonds cannot be issued.

WSDOT’s approved budget for the 1999-2001 biennium sets expenditures at $3.3 billion. I-695 eliminates funding for $1.2 billion of this total, about one-third. R-49 bonds represent $686 million of the expenditure reduction.

With the loss in funding, the legislature will need to reprioritize spending from the existing revenue sources. New transportation construction will bear the greatest share of any cutbacks, since it is state policy to “emphasize infrastructure preservation and maintenance as the priority in funding transportation programs.”

During a short session and on such short notice, it is unrealistic to expect the legislature to craft a long-term solution to transportation funding. Since mid-1998, the Blue Ribbon Commission on Transportation has been working to develop long-term solutions to the state’s transportation problems. The commission is scheduled to deliver its recommendations to the governor and legislature in December of this year, setting the stage for comprehensive discussion of transportation funding during the 2001 session.

In the current session, the legislature should find ways to mitigate the near-term effects of the funding loss. There are substantial general fund reserves, which some legislators will want to tap, although the I-601 spending cap limits the amount that can be achieved in this way. (See: *Surplus Won’t Cover Shortfall* PB 99:24 - September 30, 1999.)

Finding a replacement revenue stream to back the R-49 bonds should be part of the mitigation package.

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In the debate over R-49, some opponents argued against debt funding of construction, saying that it would be imprudent, that for the most part transportation investments should be funded "pay-as-you-go." The voters, rightly, rejected this reasoning.

John Mikesell, a nationally known expert on public finance who teaches at Indiana University, has examined and rejected the argument against debt financing: "Debt commits resources for extended periods and can be misused by public officials, who seek to postpone imposing the costs of public actions. Potential for misuse, however, does not preclude debt financing. When properly handled, debt is an appropriate financing medium. In fact, strict 'pay-as-you-go' can be as unsound as careless use of debt."

As Mikesell notes, "Long-term borrowing is appropriately done for long-life capital facilities."

The problems that the state now faces in congestion on its highways are the consequence of economic growth, and congestion will continue to worsen because growth will continue. In a situation such as this, using debt to finance highway expansion is appropriate. The facilities built in the next several years will provide services well into the future. Population is mobile: many of those people who will benefit from current highway investments are not here today, while other people who are here today will be gone when the facilities are most needed.

Using bonds to finance capacity improvements promotes both equity and efficiency, because bonds make it more likely that those who benefit from the investments pay for them.

The legislature should not hesitate to borrow to continue the R-49 construction program.

An upcoming brief will examine the specific transportation funding proposals before the legislature.

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