



Transportation borrowing plan moving quickly through legislature

Dan Way

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Despite repeated stern warnings from state Treasurer Dale Folwell, legislation adding \$3 billion in state debt for unspecified transportation projects flew through House and Senate committees with bipartisan support.

Sen. Bill Rabon, R-Brunswick, led Senate Bill 758 through the Senate Finance Committee Tuesday, June 5. The Senate Transportation Committee takes it up at 10 a.m. Wednesday. Rep. John Torbett, R-Gaston, ushered identically worded House Bill 1010 through the House Transportation Committee. It was sent to the House Appropriations Committee.

Titled the Build NC Bond Act of 2018, the borrowing in fact would be special indebtedness, not a bond. That sparked controversy.

Highway projects typically are funded with general obligation bonds secured with the full faith and credit of the state. They have lower interest rates. The bonds must be approved in a statewide public vote. Folwell favors that approach. Critics and even some backers of the plan also note that rising commodity prices, fueled in part by President Trump's trade policies, could force taxpayers to pay more for the projects.

Special indebtedness is not backed by the state's General Fund, so interest rates and costs are higher. The Build NC Bond Act pledges payback from future Highway Trust Fund revenues generated from fuel and car sales taxes along with state Department of Motor Vehicle driver license fees.

Rabon insisted the measure had plenty of safeguards to ensure it was fiscally responsible. He called it "a very prudent conservative tool" to accelerate road building.

Torbett said it would cost the state less to borrow \$3 billion than to pay for projects from the Highway Trust Fund because inflation would escalate prices in future years.

"We're borrowing money from ourselves. Folks this is not obligating taxpayers for a dime," claimed Senate Finance Committee Co-Chairman Jerry Tillman, R-Randolph.

“It’s not risky debt when you have all of the assets we’ve got in cash,” Tillman said. The state has \$1.8 billion in the Highway Trust Fund, and billions more in various savings accounts, he said.

No more than \$300 million a year could be issued over 10 years. NC Build would fund only regional and division level projects, not statewide activity. They would be prioritized according to a ranking formula in current law.

“I want to know that nobody’s going to go in there and tamper with it ... that we’re going to begin to play favoritism,” said Sen. Floyd McKissick, D-Durham.

Transportation Secretary James Trogdon testified before both committees. He said division and regional transportation officials use the same criteria to determine data-driven priorities, but each district can weigh them differently to account for geographic differences.

“There’s transparency there, I just can’t tell you what projects will be on that list” because priorities change over time, Torbett said.

Rabon said approving the debt would assure roadbuilders “we will keep everyone busy. We will continue to build roads and highways.”

“It’s critical for our industry for this to be passed,” Berry Jenkins, a lobbyist for N.C. Associated General Contractors, a construction trade association, told the Senate committee. Otherwise the N.C. Department of Transportation might scale back its projects, forcing contractors to consider layoffs, Jenkins said.

“This is a responsible way of going about this,” said Senate Minority Leader Dan Blue, D-Wake, while acknowledging the state has larger transportation needs.

Sen. Dan Bishop, R-Mecklenburg, had doubts. He said it was troubling the Highway Trust Fund would pay for projects already scheduled for construction, while piling on future debt.

Sen. Ralph Hise, R-Mitchell, said borrowing \$3 billion does not fix a transportation funding problem. Gas tax proceeds are falling as gas mileage improves on traditional and hybrid vehicles,, electric and driverless cars are on the horizon, and aging infrastructure needs to be replaced.

“We need to be having a conversation about General Fund revenue going to the Highway Trust Fund,” possibly through sales taxes, Hise said. “We’re going to have to make hard decisions.”

“Of course the option, always, to increase revenue is that dirty word — tolling,” said Sen. Tommy Tucker, R-Union, Finance Committee co-chairman. Toll roads and bridges could avert the need to dip into General Fund revenues.

Folwell said during his monthly Ask Me Anything teleconference with reporters Tuesday morning the legislation contradicts Republican principles.

“The Build NC proposal that’s currently on the table, if my calculations are correct, has the potential of increasing the state’s debt by over 50 percent without the approval of the voters,”

Folwell said. Bond rating agencies are reviewing the state's AAA credit rating this summer. They might frown on new special indebtedness.

"I've always been in favor of voter-approved debt when I was a legislator, and when I was on the school board, and I'm even more in favor of it now as state treasurer," Folwell said.

Some people run for office on a similar platform, "and then when they get the job they actually do things differently," Folwell said when asked why Republicans are ignoring his admonition not to take on this debt.

Folwell said DOT's own modeling shows it has enough Highway Trust Fund money for years before it needs to borrow for highway projects.

"There shouldn't be a fund set up that people can just access to build road projects that go outside of the [normal appropriations] process," Folwell said. He scoffed at the notion that issuing the debt now would save money.

"Taking advantage of [today's] lower interest rates is a zero consideration here," Folwell said. Projects won't be ready while the borrowing will take place over years. He cited the \$2 billion Connect NC bond approved two years ago. Only 10 percent of authorized borrowing has been issued, with another 20 percent scheduled this year.

Transportation projects are complex, often tangled up in environmental disputes, and can be delayed for years as interest rates and inflation continue to rise, Folwell said.

Trogdon said DOT should have no problem paying back \$300 million a year — the cap on Build NC annual borrowing. But he cautioned that worldwide commodity inflation could be a concern, especially if prices continue rising on Portland cement, asphalt, and fuel.

International trade attorney and Cato Institute adjunct scholar Scott Lincicome told *Carolina Journal* there are other concerns about the transportation borrowing. Some are linked to President Trump's trade policies.

"Tariffs have caused steel prices to skyrocket. They're up 40 percent this year. Aluminum is a little bit different, but [prices have] definitely gone up as well. Generally, interest rates are expected to head up so it's kind of a double-edged sword there," Lincicome said.

"Taxpayers will get hosed. The projects are going to cost more," Lincicome said. Trade protectionists also want contractors to buy from American vendors, even if they don't offer the best deal to the public, he added.