



November 29, 2017

The Honorable Paul D. Ryan
Speaker of the House of Representatives
H-232, United States Capitol
Washington, D.C. 20515

The Honorable Mitch McConnell
Senate Majority Leader
317 Russell Senate Office Building
Washington, D.C. 20510

RE: Transportation-Related Concerns with Tax Reform Proposals

Dear Mr. Speaker and Leader McConnell:

On behalf of the undersigned transportation agencies in Southern California, we are writing to express our significant concerns with both the House and Senate tax reform proposals, as they relate to transportation. Each version of the bill, unless offset by additional future revenues, could greatly increase the deficit, which could threaten a potential infrastructure package as well as funding levels in future surface transportation legislation. In addition, neither proposal includes a long-term fix for the Highway Trust Fund's structural revenue deficit despite bipartisan support for its inclusion in a tax reform bill. We respectfully urge you and your colleagues to consider the negative ways in which this bill may affect the transportation industry, including the specific provisions discussed in detail below.

Private Activity Bonds:

Private Activity Bonds (PABs) are debt instruments that raise capital for revenue-generating highway and freight transfer projects. PABs allow a private project sponsor to benefit from the lower financing costs of tax-exempt municipal bonds. The House proposal would repeal the tax incentive for PABs, reducing access to tax-exempt financing for facilities such as airports, sea ports, qualified highway or surface freight transfer facilities, and other eligible activities defined as private activity. The Senate version currently retains this important tax incentive.

PABs are considered a critical tool for many of the region's planned infrastructure investments. For example, planned investments at the Port of Los Angeles would be negatively impacted as tax-exempt financing plays a critical role in its Capital Improvement Plan, including \$450 million in projects that could be funded by bond proceeds. Based on current rates, if the Port of Los Angeles issued \$450 million of new PABs on a taxable basis, there would be an approximately \$1 million additional cost per year over the life of the bonds.

Tax-Exempt Advance Refunding Bonds:

The House and Senate bills both call for the elimination of the tax incentive for the advance refunding of bonds. Advance refunding bonds are debt instruments that allow an issuer to pay off another outstanding bond, often at a lower interest rate and with more favorable bond terms. Taxing the interest earned on advance refunding bonds limits the ability of transportation agencies to utilize this unique financial tool, which makes infrastructure projects in Southern California more dependent on federal funding.

Over the past five fiscal years, Los Angeles County Metropolitan Transportation Authority has advance refunded \$313.8 million of bonds for a \$40.3 million of interest savings. Riverside County Transportation Commission plans to execute an advance refunding on \$410 million in bonds, which the agency anticipates would save \$39 million.

The proposed changes to advance refunding bonds would make it more difficult, and likely more expensive, for our agencies to refinance bonds. We would be forced to either wait for years to see if interest rates remain low or refinance the outstanding bonds on a more expensive taxable basis. Should the current versions of the tax reform proposals be adopted into law, transportation agencies would face additional barriers to taking advantage of interest rates that could lower funding for actual transportation improvements.

Commuter Tax Benefit:

Current law treats the cost of commuting to work on public transportation as a tax-free fringe benefit that can be provided by an employer or utilized as a pre-tax payroll deduction. The current tax reform proposals remove the employer deduction for transportation fringe benefits, a key incentive for employers to offer transit benefits to employees.

In Southern California, over 340 companies utilize the employee commuter tax benefit exclusion and employer deduction to offer tickets and passes to their employees as a transit benefit. These tickets connect thousands of Southern Californians with access to our transit and bus systems, many of which may not have access without these benefits. Specifically, for Metrolink, participation in this program represents almost 20% of the system's revenues. Supporting an employee's commute to work provides substantial savings to both the employer and the employee. As such, we ask for your support for this tax benefit, which is vital to Southern California's public transportation network.

Alternative Fuel Benefits:

Unfortunately, the House and Senate tax overhauls do not extend the alternative fuels and related infrastructure tax credits that expired on December 31, 2016. A permanent extension would support the long-term energy security of our nation and provide certainty for our nation's transit agencies fueling their fleet with compressed (CNG) or liquefied (LNG) natural gas. Failure to renew these credits will discourage future investment in CNG and LNG vehicles and the associated infrastructure. We also support the inclusion of electric and hybrid-electric vehicles within eligible uses, and urge you to advocate for their inclusion within the extension of these important tax credits.

Conclusion:

Thank you for taking into consideration our concerns relating to private activity bonds, tax-exempt advance refunding bonds, the commuter tax benefit, and alternative fuel benefits. We urge the Congress to use this opportunity to reform the tax code to encourage greater investment in our nation's infrastructure, not to discourage it.

Sincerely,



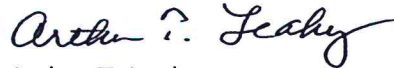
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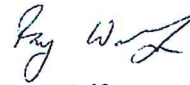
Darrell Johnson
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Kim Kawada
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Darren M. Kettle
Executive Director
Ventura County Transportation Commission

cc: Hon. Dianne Feinstein, United States Senator
Hon. Kamala Harris, United States Senator
Hon. Kevin McCarthy, House Majority Leader