S. HRG. 111–1247

INNOVATIVE PROJECT FINANCE

HEARING

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

SEPTEMBER 28, 2010

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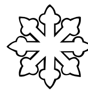

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ONE HUNDRED ELEVENTH CONGRESS
SECOND SESSION

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INNOVATIVE PROJECT FINANCE

TUESDAY, SEPTEMBER 28, 2010

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
Washington, DC.

The full Committee met, pursuant to notice, at 10 a.m. in room 406, Dirksen Senate Office Building, Hon. Barbara Boxer (Chairman of the full Committee) presiding.

Present: Senators Boxer, Alexander, Cardin, and Merkley.

OPENING STATEMENT OF HON. BARBARA BOXER, U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator BOXER. Good morning, everybody, and welcome to our hearing.

There is a growing consensus that smart investments in transportation are an important part of the solution to the serious economic challenges we are facing. We must make sure that our existing infrastructure is sound and plan for future investments that create jobs, maximize economic development, reduce our dangerous dependence on foreign oil, clean up our air, and strengthen our global competitiveness.

In these difficult economic times it is more important than ever to look for tools that can stretch the resources we have. We need to get the maximum benefit for every transportation dollar we spend.

Today's hearing is going to focus on potential changes to Federal surface transportation programs and funding that will encourage additional State, local, and private investments in transportation and accelerate the benefits of those investments.

The 30/10 Initiative in Los Angeles County is an example of how timely Federal assistance can leverage local investments in transportation. In 2008 the citizens of Los Angeles County approved a half a cent sales tax dedicated to transportation, a powerful statement that the people of L.A. County are willing to help pay for a transportation system they need now.

This measure, known as Measure R, will generate an estimated $40 billion over the next 30 years, including $13 billion for transit projects throughout the County. Mayor Villaraigosa, who is going to be joining us, has advocated the idea that with Federal assistance Los Angeles could speed up delivery of the transit projects expected to be funded with Measure R so they could be funded over 10 rather than 30 years.

I see the Mayor right behind Roy Kienitz. Welcome.

Accelerating these projects would create an estimated 160,000 jobs while easing congestion and reducing dangerous pollution. That means healthier families and a healthier economy in the L.A. region.

I believe the 30/10 Initiative can serve as a model that can be replicated in many cities and States and counties across this country. And as we develop the next comprehensive surface transportation law, we have this opportunity to make changes to programs that will leverage resources to create more jobs and build the highway and transit systems our communities need faster.

For example, I have been looking at changes to part of the existing transportation law called TIFIA, Transportation Infrastructure Finance and Innovation Act. TIFIA helps communities leverage their transportation resources by providing loans and loan guarantees. According to the Federal Highway Administration, every dollar made available through TIFIA can mobilize up to a total of $30 in transportation investments. So at a time when we are trying to make sure our deficit does not increase, we want to leverage investments. This is the word, leverage. Everybody comes out the winner here.

We need that kind of tool as we look at the next Reauthorization Bill. TIFIA has been a successful program. But improvements are needed if it is going to achieve the kind of transformative results we all want to see moving forward. Already, mayors from across the country are asking for greater opportunities for this kind of innovative partnership.

I would like to place into the record a resolution from the U.S. Conference of Mayors calling for expansion of TIFIA and bonding programs so communities can accelerate job creation and the other benefits of transportation improvements. So, without objection, we will put that mayors' letter into the record.

I want to thank Transportation Secretary LaHood for his commitment to this idea—this 30/10 Initiative—and for agreeing to work on expanding this model in the upcoming transportation bill. We could not ask for a better partner when it comes to forward thinking transportation issues.

So, I look forward to hearing from today's witnesses on the best ways we can reform our national transportation policy so we can better serve the needs of local communities across this country. We all know that the 21st century transportation system is absolutely essential to creating jobs and ensuring future economic prosperity. There is no leading nation on earth that could be a leading nation if they cannot move people, if they cannot move goods. Everything would come to a halt.

So, I am very happy that we have these two panels. We are going to need everybody's ideas and advice and everybody's engagement as we work across party lines to craft our new transportation authorization bill.

Senator Alexander.

[The referenced material follows:]

THE UNITED STATES CONFERENCE OF MAYORS

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IMPROVED TRANSIT FUNDING

WHEREAS, major surface transportation investment programs confer significant benefits on cities, including: building the infrastructure necessary to support economic growth and goods movement; creating high quality jobs designing, building, operating, and maintaining the infrastructure; and improving the sustainability and livability of our cities through improved mobility and reduced mobile source emissions; and

WHEREAS, the federal government can leverage its limited resources further if local jurisdictions invest in themselves and increase the amount of matching funds available for transportation projects; and

WHEREAS, local jurisdictions have approved increased sales tax measures to generate funding for regional transportation programs, demonstrating their financial commitment to improved regional transportation systems and reducing the federal share typically needed for federally assisted transportation projects; and

WHEREAS, the federal and state governments have previously partnered with localities to leverage local tax revenues through state infrastructure banks, TIFIA loan financing, and tax enhancements under such programs as Build America Bonds; and

WHEREAS, since 1997, Congress has enacted many separate programs authorizing state and local governments to issue tax-preferred debt at or near zero percent for purposes such as public education, disaster recovery, clean renewable energy, forestry conservation and energy conservation and the federal interest subsidies are designed to provide federal buy-downs of 70 to 100 percent of borrowers' interest expense; and

WHEREAS, transportation infrastructure is equally, if not more so, important to the economic future of our cities, states, and country; and

WHEREAS, major transportation projects should receive similar treatment given the demand for such projects at a time when early construction of these projects can be done at the lowest possible cost and have the most profound impact on creating sustainable jobs; and

WHEREAS, TIFIA provides critical, flexible funding for major transit projects but cannot obligate funds and lock in interest rates until each project is ready-to-go thereby preventing transit agencies from fully taking advantage of market conditions; and

WHEREAS, reauthorization of SAFETEA-LU offers an opportunity to expand the scope of the TIFIA program, allowing USDOT to make an upfront credit commitment for projects that satisfy national infrastructure goals,

NOW, THEREFORE, BE IT RESOVED that The U.S. Conference of Mayors urges Congress to expand existing and/or establish new federal tax preferred bond programs with very high subsidies that would allow state and local governments to issue tax-preferred debt at or near zero percent interest for transportation projects that meet national criteria, such as reduction of greenhouse gas, and already have significant non-federal sources committed; and

BE IT FURTHER RESOLVED that The U.S. Conference of Mayors urges Congress to modify the TIFIA loan program to enable USDOT to make an upfront credit commitment to a project sponsor at an earlier stage of development for projects that already have the majority of non-federal funding committed and that would reduce greenhouse gas emissions.

OPENING STATEMENT OF HON. LAMAR ALEXANDER, U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator ALEXANDER. Thanks, Madam Chairman.

This is a time when we need to be restraining growth on spending. But if you were in a private sector and all you could think of to do over a long period of time was to freeze spending you would be fired for not being willing to make hard decisions and not being a good manager.

So, while freezes may help us get off to the right track, over time we are going to have to remember that there are some things in which we need to invest and other places we need to cut. And one area where we must have a good, a good system to stay competitive in the world is in transportation.

So, I look forward to hearing the witnesses' ideas, and I thank the Chairman for calling the hearing.

Senator BOXER. Thank you so much, Senator.

Senator Cardin.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM THE STATE OF MARYLAND

Senator CARDIN. Thank you, Madam Chair.

I just really want to thank you for the series of hearings that you have had as we determine the next surface transportation reauthorization bill. I think we are well positioned to bring a bill out, thanks to your leadership. And thank you for this hearing because this is a critically important issue, how we are going to finance it, not just at the national level but with our partners at the States.

For a long time we relied primarily on the gasoline tax—not just at the national level, but our States—to finance our transportation programs. It may have worked in the past, but it will no longer work today or in the future because part of our energy policy must be to use less fossil fuels. We are investing a lot of money in conservation, a lot of money in alternative fuels. That is what we need to do. But on the other hand, if that is all we rely upon to finance our transportation programs, it is not going to work.

So, we need to look at new ways to do this. With our tremendous needs out there, I agree with Senator Alexander, we are going to have to make tough choices. But we know that for the sake of our economy, for the sake of our job growth and competitiveness, we need to invest in a stronger transportation infrastructure. And part of that includes investing much more aggressively in public transportation which will help us with our energy policy as well as with quality of life.

In my State of Maryland, Governor O'Malley has put together a Blue Ribbon Commission to take a look at transportation funding in our State. I know that is being done in many others, and I know you need to take a look at the proposals that come out of these State commissions. They are looking at private-public partnerships to advance transportation projects.

In Maryland we are looking at value capture as one of the ways of doing it, consistent with our Smart Growth Initiatives in our State where we think we can have win-win programs, that a partner with the private sector enable us more flexible financing in order to advance economic growth in Maryland and our Nation.

The bottom line is we have got to get this right. This is a matter of job growth. This is a matter of economic competitiveness. And we need to make sure that at the end of the day we have the financing necessary to keep America competitive.

And with that, Madam Chair, I will ask consent to put my entire statement in the record and look forward to our witnesses.

[The prepared statement of Senator Cardin follows:]

STATEMENT OF HON. BENJAMIN L. CARDIN,
U.S. SENATOR FROM THE STATE OF MARYLAND

Thank you, Madam Chairman, for holding this hearing today examining a critical issue we need to address as we work toward reauthorizing the surface transportation program for the country.

The Highway Trust Fund and its revenue sources—namely the gas tax—have been a reliable mechanism for financing highway and transit programs for five decades. This is no longer the case.

The combination of higher fuel prices, a growing number of fuel efficient vehicles on the road, and a stagnant gas tax rate has caused transportation expenses to outpace transportation revenues.

A critical part of U.S. energy policy will be in the area of increased energy conservation and energy efficiency. These are policies that will reduce our reliance on foreign oil, reduce carbon emissions, and during these trying economic times save consumers money.

To many this means driving less, purchasing fuel efficient vehicles, perhaps even buying electric cars like the new Nissan Leaf or plug-in hybrids like the Chevy Volt, or using public transportation to get around.

Unfortunately, funding for our surface transportation system suffers when people make these thoughtful and positive transportation decisions. This is because transportation funding is so reliant upon sustained—if not increased—fossil fuel consumption.

This divergence in policy and our cultural shift away from rampant fuel fossil consumption mean we need to rethink how we raise revenue to pay for future transit and road projects.

States have faced tremendous challenges to raise the funds needed to complete transportation projects. Many States are reevaluating the means in which they raise revenue and fund vital transportation projects.

This has certainly been the case in Maryland. As a result Maryland has assembled a Blue Ribbon Commission to help tackle the enormous task of finance assessment and revenue stream development.

The Commission is comprised of 28 different stakeholders from the various transportation sectors including freight rail, transit providers like WMATA, and highway builders. Transportation advocacy organizations like Triple-A and Smart Growth organizations as well as labor unions are all working together to help the State of Maryland tackle funding questions as it relates to:

- Funding sources and structure of the Maryland Transportation Trust Fund.
- Short- and long-term transit, highway, and pedestrian/bicycle construction and maintenance funding needs.
- Options for public-private partnerships, including partnerships with local governments.
- The structure of regional transportation authorities and the ability of those authorities to meet transportation needs.
- The impact of economic development and smart growth on transportation funding.
- Options for sustainable, long-term revenue sources for transportation.

This collaborative effort will bring about the next generation of financing mechanisms the State will use to advance its transportation goals for the future.

With growing fiscal constraints on the State, Maryland is also engaging in a number of private-public partnerships to advance transportation projects.

One of the more common methods being used to maximize the benefits of both public and private investment in a project is through a "value-capture" system.

Incorporating publicly funded infrastructure into private land values is helping finance public infrastructure across the State.

As residents and business owners continue to place greater value on mobility and access to multi-modal transportation options, value capture financing is helping advance Smart Growth initiatives throughout Maryland.

By increasing the value of land surrounding transit and other targeted transportation facilities, the State in partnership with municipalities can incentivize compact, accessible growth so developers can get the greatest amount of return on investments, particularly in transit corridors.

By capturing profits gleaned through public spending, value capture also provides greater funding opportunities for community reinvestment and job growth.

Tackling how we finance transportation infrastructure on a national scale is no small task.

There are certainly lessons we can learn from the States, but ultimately we need financing mechanisms that complement the national goals we set for the Nation's transportation infrastructure.

As we work to reduce congestion and fossil fuel consumption and improve transport efficiency and the safety of our Nation's transportation infrastructure we need financing mechanisms that work toward these goals as well.

Public investment in transportation infrastructure is incredibly important to getting America back to work, and it is imperative we develop sustainable and equitable means to pay for these investments.

I also look forward to working with colleagues on this Committee to develop this critical aspect to the next surface transportation authorization bill, which must be a priority for this Committee to complete.

President Obama's Labor Day speech calling for renewed investment in our Nation's transportation infrastructure is a welcome sign. Building roads, bridges, new high speed rail lines and developing efficient transit systems are all incredibly important initiatives to get thousands of Americans back to work on projects that will improve American competitiveness in the global economy and vastly improve our citizens' quality of life.

A notable omission from the President's discussion of infrastructure investment is a call for critical investment in our Nation's crumbling water infrastructure.

In addition to investments in transportation I would like to take this opportunity to point out that we need to make similar investments in water infrastructure.

Infrastructure investment in water systems has one of the highest job creation potentials when compared across other broad categories of public infrastructure investment. [1]

A recent report by the Clean Water Council demonstrates that investments in water infrastructure would have "immediate, substantial and far-reaching effects on the economy." [2]

In examining short-term economic impacts, a $1 billion investment in water infrastructure:

- Could result in an estimated 20,003 to 26,669 jobs across the Nation, with more than one-half of the jobs created in industries other than water and wastewater construction.
- Almost triples in size throughout the national economy based on its total demand for goods and services. [3]
- In California, would create 12,390 to 19,574 jobs, with about 7,000 of these jobs in the pipe construction sector where average earnings of $68,000 exceed the statewide median household income. [4]

Over the long-term, the U.S. Conference of Mayors recently found that:

- $1 of water and sewer infrastructure investment increases Gross Domestic Product (GDP) by $6.35.
- And every job in water and sewer infrastructure creates 3.68 jobs in the national economy to support that job. [5]

I recognize the subject of today's hearing is on transportation finance, but given our Committee's broader jurisdiction and the focus Mr. Kienitz's written testimony put on the President's Labor Day announcement, I wanted to raise this issue.

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[1] Political Economy Research Institute, How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth (January 2009), 26. http://www.peri.umass.edu/fileadmin/pdf/other__publication__types/green__economics/PERI__Infrastructure__Investments

[2] Clean Water Council, Sudden Impact: Assessment of Short-Term Economic Impacts of Water and Wastewater Projects in the United States (June 2009), 6. http://www.nuca.com/files/public/CWC__Sudden__Impact__Report__FINAL.pdf

[3] Id.

[4] Id. 12.

[5] The United States Conference of Mayors, Mayors Water Council, Local Government Investment in Municipal Water and Sewer Infrastructure: Adding Value to the National Economy (August 2008), i. http://usmayors.org/urbanwater/documents/LocalGovt%20InvtInMunicipalWaterandSewerInfrastructure.pdf

I want to remind the Administration and my colleagues that we must also make much needed investments in water infrastructure as well as investments in our transportation infrastructure.

Senator BOXER. Thank you so much.
Senator Merkley.

OPENING STATEMENT OF HON. JEFF MERKLEY, U.S. SENATOR FROM THE STATE OF OREGON

Senator MERKLEY. Thank you, Madam Chair.

In Oregon, we have had a process of looking for the choke points, if you will, the places where strategic investment would make a real difference. And we have had a series of programs called ConnectOregon, ConnectOregon I, ConnectOregon II and ConnectOregon III.

Certainly, as we wrestle with addressing key parts of our transportation system financing is a fundamental challenge. And I am interested to hear all of the creative ideas that we will be discussing today, and thank you for coming and sharing your thoughts.

Senator BOXER. Thank you.

So, with that, we are honored that we have been joined by Hon. Roy Kienitz, Under Secretary for Policy, U.S. Department of Transportation.

Will you not proceed, please?

STATEMENT OF ROY KIENITZ, UNDER SECRETARY FOR POLICY, U.S. DEPARTMENT OF TRANSPORTATION

Mr. KIENITZ. Thank you, Madam Chair. Thank you, Senators. Good morning.

On Labor Day, as I think everyone here knows, the President gave a speech in which he made the first major policy announcement about transportation to come from him since taking office. And the big news is that he is going to throw his support behind a 6-year reauthorization of the transportation program here, something that I think every member of this Committee has supported for a while. So, I hope we can add our voices to yours.

There are a couple of features of that announcement that I wanted to highlight, the first of which is that we believe funding levels need to be higher above the current baseline. And so we want to work with folks on that going forward, to figure out how to do that in a way that is paid for. The second of which is, given the economic situation right now, it seems appropriate to frontload a significant share of that money and we have suggested the first $50 billion to be made available as soon as possible.

So, that is how we start this week. That program could have some very tangible accomplishments. That is hopefully enough resources to allow us to build or rebuild 150,000 miles of roadway, construct or maintain 4,000 miles of rail, and in the first year we are hoping to have an aviation component, too, which is enough to do at least 150 miles of runway projects. But obviously over 6 years there is a huge amount that we can do.

In that reauthorization there are a lot of opportunities. One of them that I want to talk about today is the idea of supporting programs like the Los Angeles 30/10 Program. I think for us that

starts with the first thing you have do, which is to name your goals if you want to make sure you are pursuing them. So, the Secretary has worked on a strategic plan which has been released in draft form and hopefully will be released in final form soon.

And our strategic goals are pretty simple: economic competitiveness, safety, state of good repair of the existing system; environmental sustainability;, and community livability. The way to get toward those things starts to get a little bit more complicated. I testified before this Committee in March about the benefits of programs like the Los Angeles 30/10 Program, and we continue to believe that the Federal Government needs more and better tools to be able to support programs like that.

The tools that we have right now, as I have testified before, are very focused on individual projects, what are the merits of this project, goes from where to where, what are the costs and benefits of a particular project. What they are proposing to do is a program of projects which, when pieced together, creates a network. And I think that is what we all agree is the future. We need to get away from segment by segment thinking and get toward network thinking.

And that is the experience in Oregon and Maryland and other places where they look at the system as a whole. Some places we propose a transit investment, and some places we have to rebuild the bridge that already exist but configure it differently, whether it is for bicycles, pedestrians or cars or transit, and other places we need to invest in highway capacity. But that should be case by case.

The problem with programs that we have now is that on the formula side they tend to be very divided by mode. A highway dollar is only a highway dollar, and a transit dollar is only a transit dollar. You cannot do this type of place by place thinking. And the second of which is, on the loan programs, the amounts are small, and the rules are very constrained. This created the problem for the Los Angeles Program in that they are proposing to do something that is 10 times bigger and much more flexible than what are current programs allow.

These programs, the TIFIA program that the Chair mentioned, were imagined in an era when ideas like this were just little germs starting out, and so the size was small, and the ambitions were modest, and we have now reached an era where we have succeeded beyond our wildest dreams, but it means we need new tools.

I will say the TIFIA program also currently has gone from a state 5 or 6 years ago of not having enough people to give the money away to now being horribly oversubscribed. And in fact, we have probably, I think, about $110 million in subsidy that we can provide to these projects, and we have had people who have asked for $13 billion in subsidy. I do not even know what the ratio is there, but it is 40 to 1 or something like that.

So to remedy these flaws, in our surface reauthorization proposal that we are actively working on under the President and previewed, we are looking to come up with a method to address all of these problems, the first of which is to mix grants and loans in a flexible way, to do it without dependence on what mode of trans-

portation is involved; it can be highway, transit, rail, ports, freight, passenger, whatever that is.

Third, that the investment decisions are driven by sound analytics, whether that is ridership forecasting or benefit cost analysis. And fourth, that there is some kind of an organization, certainly inside DOT and perhaps involving others, whose job it is to do those multi-modal investments.

The proposal that we have made to do that is this concept of an infrastructure bank. That has been somewhat poorly defined up until now, and perhaps that is our responsibility as much as anyone else's. And the good news is the supporters read into it everything that they hope it can be, and the skeptics read into it everything they fear it might be. So, we hope that as time goes forward we can put together a proposal that clarifies a lot of those issues and that hope to put some fears to rest about what it might be.

But our basic goal is to be able to do the things I listed, mix grants and loans, pick projects based on merit, and do the analysis about what to fund without regard to what mode of transportation it comes from.

There are obviously other ways to achieve those goals, and this Committee can consider our proposal and many other ideas. But I think we are firm in believing that some decent portion of the Federal program needs to transition from being pure formula into a discretionary program which is designed to pick out the best possible investments on a nationwide level that help us advance toward our goals.

So, I think our goal is to work with this Committee going forward and the other Committees of jurisdiction, hopefully as soon as possible, to put together a robust proposal. And perhaps one of the tests of it will be, does it meet the needs of the people who are on the cutting edge trying to do this stuff; they are leading, and are we able to follow. And we hope we will.

So, thank you very much.

[The prepared statement of Mr. Kienitz follows:]

STATEMENT OF
ROY KIENITZ
UNDER SECRETARY FOR POLICY
U.S. DEPARTMENT OF TRANSPORTATION

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE

Innovative Project Finance

SEPTEMBER 28, 2010

Chairman Boxer, Ranking Member Inhofe, and Members of the Committee:

Thank you for inviting me to appear before you today to discuss innovative approaches to project finance and modifications to surface transportation programs to encourage additional state, local and private investment in surface transportation infrastructure. This hearing is particularly timely given President Obama's Labor Day address in Milwaukee which called for more – and more innovative – investment in surface transportation infrastructure.

The President's Infrastructure Investment Proposal

On Labor Day, President Obama outlined a bold vision for expanding and improving our transportation infrastructure investments. The President believes that it is time to authorize a new six-year program for investing in transportation infrastructure. The program will need a robust level of funding, higher than our current baseline, and, with the current state of the economy in mind, the Administration proposes that $50 billion – a significant share of the new investments – be frontloaded in the first year.

Some of the tangible accomplishments of the President's plan over the next six years will include repairing or reconstructing 150,000 miles of roads; constructing and maintaining 4,000 miles of rail; and rehabilitating or reconstructing 150 miles of runway.

More generally, our new surface transportation program needs to be part of a long-term framework that reforms the infrastructure investment process and expands our levels of investment. We need to streamline, modernize, and prioritize our transportation investments, consolidate our dozens of programs into a coherent program structure that reflects national needs, and foster a culture of competition and performance to drive investments that will produce better transportation outcomes and more livable communities for the American people.

This program must have a number of key elements. We need to continue the commitment by the President and the Congress to expand our high-speed rail program. As the Secretary has traveled around the country meeting with people in outreach sessions on our surface transportation

program, a recurring theme is that people want high-speed rail. They don't want to have to wait in crowded airports or drive for hours on congested highways to get where they want to go. They want another choice. They want high-speed passenger rail.

We need to make achieving a state of good repair in our transportation infrastructure a national priority. Our highways, our bridges, our transit systems, our waterways, our ports, and our railroads have in some cases been allowed to deteriorate to the point that they are not safe, are not reliable, and don't provide an adequate level of performance for the American people. As we repair and rehabilitate our infrastructure, we can build in new safety features and new technology that will improve our transportation system's performance, so that in every mode we have a truly 21st Century transportation system.

We need to make livable communities a central part of our transportation program. That means we need to invest in better transit – in both urban and rural communities – to give people the transportation choices they want. We need to give people the option of walking or bicycling on short trips without putting their lives at risk. We need to give people more fuel-efficient options to get where they want to go, and allow people easier access to jobs and housing. Giving people more of these choices will also help reduce our dependence on foreign oil.

We need to take advantage of the technological breakthroughs of the past 20 years in Intelligent Transportation Systems or ITS. Advanced technology can multiply the effectiveness of our investments, so that we get more safety, more congestion relief, and more performance from each dollar of our investments than we could with conventional technology. Our nation has invested billions of dollars to develop new transportation technologies; now we need to speed up deployment to reap the returns on our research and development investments.

We also need more opportunities to reap the benefits of competitive grant and credit assistance programs that allow the federal government to direct funds toward projects that can have the best regional and national impacts on our economy, our environment, and our other critical national goals. For too long, these critical national needs have been falling through the cracks of our stovepiped transportation programs. Competitive programs are a proven vehicle for focusing state and local attention on national goals and objectives, and they consistently produce outsized results catalyzing institutional reforms and fostering upward spirals of creativity.

Moreover, competitive programs can promote an environment where projects competing with one another for support are forced to demonstrate how they can be more effective in advancing our performance measures and strategic goals. As projects that are most cost-effective, most innovative, and based on the best analysis show that they can win additional financial support, the entire culture of transportation infrastructure investment is pushed toward a more data-driven, outcome-oriented framework.

The Secretary has proposed five national transportation goals as part of the Department's Strategic Plan – Economic Competitiveness, Safety, State of Good Repair, Livability, and

Environmental Sustainability. If we want to achieve these goals, we need to be able to direct our transportation funds toward whichever mode of transportation – or combination of modes – can most effectively achieve them. So we need to step away from the traditional stovepiped approach to transportation funding.

The surface transportation program also needs to take advantage of all the funding and financing options available to us. Some parts of the transportation system can generate a revenue stream that can pay for projects in whole or in part, without tax revenues, and some state and local governments earn the support of their residents to tax themselves to help provide for new and better transportation infrastructure. In such cases, federal credit assistance may offer an efficient means to spur investment, where loans can be repaid by such dedicated revenue streams.

So we need an approach that can provide a range of funding and financing options and achieve a variety of outcomes. We need an approach that can provide grants for projects that by their nature cannot generate revenue or provide sufficient revenue to finance all project costs, and can help drive institutional reform that can't be achieved through regulation alone. We also need to provide loans and loan guarantees for projects that can pay for their construction costs, in whole or in part, out of a revenue stream.

Innovative Project Finance

Over the last decade the federal government has made substantial progress advancing transportation projects using project financing programs like the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA), but these programs cannot meet all of the national transportation goals I have described.

I testified before this Committee in March (at a hearing with Mayor Villaraigosa from Los Angeles) about the substantial benefits of programs like Los Angeles' "30/10" program, an ambitious multi-billion dollar initiative to accelerate 12 major transit projects so they can be built in ten years instead of 30. As stated then, I continue to believe that the Federal government needs more – and better – tools to support these types of programs.

Currently, the Federal Government evaluates each of the projects in a program like 30/10 for creditworthiness, alignment with important policies, costs and benefits, and environmental impacts. The Department currently funds or finances these types of projects through programs like TIFIA, the Federal Transit Administration's New Starts program, and the Department's multimodal competitive grant program, which we have been calling "TIGER". However, the real benefit of accelerating a program of projects – not just individual components – is that the full package creates a valuable multi-modal transportation network. Neither Los Angeles nor the nation will get the full benefits of any one project from the 30/10 program without completing the network. That's why the Federal government can get more value for each dollar it invests through an approach that allows us to accelerate regional plans rather than investing in stand-

alone projects. (On a traditional pay-as-you-go schedule it could be decades before the network benefits of these types of plans will be realized, if ever).

It is critical for the Federal government to evaluate regional plans in totality before investing in particular parts. Regional plans, like the plan for the 30/10 investments, can provide blueprints for much smarter investment decision-making. When the Federal government fronts substantial money for a program of projects, it should require metropolitan areas or regions to demonstrate the value of the networks that the various projects would create, in addition to addressing the current project-level Federal requirements. Competition for these types of funds could drive creativity, innovation and rigorous analytics, raising the bar for regional planning efforts and capital programs all around the country.

Accelerating the investment of creditworthy future revenue streams, like the Measure R revenues pledged by Los Angeles voters to pay for the 30/10 program, clearly also has substantial short-term stimulus effects, potentially generating a huge number of jobs and business activity over the next several years. By playing the role of the patient, flexible lender, the Federal government is in a position to facilitate robust public and private sector co-investment of debt and equity. There are costs for a program like this, but these may be offset by benefits that come from project acceleration and innovations in project funding and delivery.

Encouraging broad public and private involvement in regional efforts to build tomorrow's transportation networks could be a big win for the country, especially if these networks provide new transportation choices for travelers; the key is ensuring that these networks are merit-based, providing innovative, multi-modal solutions for the movement of people and goods. From our preliminary understanding, Los Angeles' 30/10 program is the kind of forward-thinking program that could really benefit from a new approach that focuses investment on major regional networks that are supported by substantial co-investment from a variety of sources.

Reauthorization

Perhaps the key message from President Obama's Labor Day address is that he fully supports a long-term, robust reauthorization of our surface transportation programs. This reauthorization would be significantly more than what has been included in the Department's most recent budget proposals. It would also propose reforms to encourage and facilitate major programs of infrastructure investment like the 30/10 program, which are based on solid planning and extensive coordination and backed by strong revenues supported by local tax-payers. An important part of the President's message is a focus on new and innovative ways to achieve national transportation objectives.

As you are aware, the TIFIA program provides credit assistance for up to one-third of the eligible costs of qualified surface transportation projects of regional and national significance. Eligibility is open to large-scale, surface transportation projects—highway, transit, railroad,

intermodal freight, and port access—with eligible costs exceeding $50 million. TIFIA credit assistance is available for State and local governments, transit agencies, railroad companies, special authorities, special districts, and private entities.

The primary goal of the TIFIA program is to use Federal funds in a way that promotes new and innovative project finance models for large transportation projects; catalyzes regional or national planning efforts; and attracts substantial private and other non-federal co-investment for critical improvements to the nation's surface transportation system. The program achieves this goal by providing a number of flexible and favorable financing terms to help fill market gaps in financing plans. Because TIFIA is a Federal credit program and because it requires other sources for at least two-thirds of project costs, TIFIA is also able to drive total investments that are a multiple of the actual Federal budget resources the program requires.

TIFIA has proven to be an extremely useful tool for financing toll roads and other user-backed transportation projects, and can also be used for capital investment programs in other modes that are traditionally less reliant on user fees, such as transit. For transit projects, sales taxes and/or other revenue streams related to transit-oriented development can be leveraged to repay project financing sources.

For example, TIFIA recently provided a $171 million loan for the Transbay Transit Center, a major passenger transportation hub connecting San Francisco with other Bay Area communities and the rest of California. This is the first transit center of its kind, a "Grand Central" terminal connecting local, regional and national travel options, to be financed with a direct TIFIA loan. It represents a milestone in the program's development. The TIFIA loan for the Transbay Terminal Center reflects the variety of ways the Department can use innovative programs to demonstrate efficient transportation infrastructure finance and execution around the country.

Furthermore, the TIFIA program is not structured to support programs of related projects as much as it is structured to support individual projects. This limits the program's ability to support innovative and new regional transportation programs like 30/10. As we move toward reauthorization, we look forward to working with this Committee to ensure that these types of programs can be financed with Federal funds.

The Infrastructure Bank proposed by President Obama and the National Infrastructure Innovation and Finance Fund previously proposed in the President's FY 2011 budget can address many of the challenges I have described. It can avoid the excessive stovepiping of funds into narrow categorical programs. It can be focused on directing its investments toward achieving strategic national goals. It can focus its attention on meeting national and regional transportation needs while improving the livability of our communities. It can have a broad modal scope, so that it can invest funds in whichever mode of transportation is most suited to achieving our strategic goals. It can apply analytic tools to select projects that can be demonstrated to have the greatest possible impact on those goals. It can foster an environment of competition and

innovation that will encourage the best projects to be funded. And it can offer the combination of funding and financing options – grants, loans, and loan guarantees – that will allow it to leverage public funds and get the best results from our limited budgetary resources.

We recognize that the President's proposals represent a major change in how we have envisioned our transportation program in the past. But major changes are required to rebuild and modernize America's roads, rails, and runways for the long term. We all want America to have the best infrastructure in the world. We used to have it. We can have it again. We look forward to working with the Congress to design this program and to figure out the best way to pay for it.

Thank you for this opportunity to appear before you. I would be happy to respond to any questions that you have.

Environment and Public Works Committee
September 28, 2010 Hearing
Innovative Project Finance

Follow-Up Questions for
Roy Kienitz, Under Secretary for Policy
U.S. Department of Transportation

Senator Barbara Boxer

QUESTION 1: 1. Do you believe that Los Angeles' *30/10* Initiative is a model that should be supported at the federal level and replicated in other areas across the country?

ANSWER:

- Yes. We believe that focusing on system-wide programs of transportation infrastructure improvements using innovating financing to accelerate implementation is a good model that other areas should consider and are considering.
- We support this approach at the Federal level as evidenced by our recent $20 million TIGER II grant to pay for the subsidy cost of a $546 million TIFIA loan for the Crenshaw/LAX Light Rail Project, a high-priority piece of the 30/10 Initiative.
- Denver is taking a similar approach with their FasTracks program of transit improvements, and the Department has supported the Fastracks program by providing a $145 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and a $155 million Railroad Rehabilitation and Improvement Financing (RRIF) loan for the Denver Union Station Project and $398 million in private activity bonds for the Eagle P3 project. We have also invited Denver RTD to submit an TIFIA loan application for the Eagle P3 project.
- In general, we support the use of DOT credit assistance programs for such efforts, and see the support of such initiatives as a major purpose of our proposed Infrastructure Bank.

QUESTION 2: I understand that there were applications for almost $13 billion in TIFIA credit assistance for fiscal year 2010, yet the current funding level only allows for approximately $1 billion in TIFIA credit assistance. How much additional funding would be needed to provide assistance to the qualified projects that have applied? Based on such high demand for TIFIA assistance, is this a program this committee should consider expanding as part of the surface transportation authorization?

ANSWER:

- In response to the March 1st deadline for the TIFIA Notice of Funding Availability, 39 letters of interest were received seeking approximately $12.5 billion in credit assistance for projects totaling more than $40 billion in transportation investments. The DOT estimates that $110 million in budget authority can support roughly $1.1 billion in credit

assistance, meaning that the letters of interest submitted for FY 2010 represent demand that is 12 times larger than the FY 2010 funding level.

- The demand for TIFIA credit assistance, as shown by the FY 2010 letters of interest, demonstrates great State and local interest in project financings with TIFIA credit assistance, with a preference for direct loans, to deliver transportation infrastructure.

- The Administration's FY 2011 Budget proposal requests $4 billion for the National Infrastructure Innovation and Finance Fund also known as the National Infrastructure Bank, which would provide Federal credit assistance as well as grants for meritorious projects of regional and national significance.

Senator Benjamin L. Cardin

QUESTION 1 Aside from the Los Angeles 30/10 plan, what role should DOT play in supporting innovative finance for transit and other projects that don't necessarily have built-in sources of revenue?

ANSWER:

- The Department can support such projects with TIFIA loans, RRIF loans, and tax-exempt private activity bonds.

- The proposed National Infrastructure Bank could also support such projects with grants and loans.

- Projects that do not have user fees s can repay federal credit assistance with other dedicated sources of revenue from various state and local funding sources.

- For example, the Denver Union Station project will repay its TIFIA and RRIF loans with sales tax and real estate tax increment revenues.

QUESTION 2: How would a National Infrastructure Bank, enhanced TIFIA program, or other such financing mechanism address the $77.7 billion maintenance backlog that the Federal Transit Administration estimates is needed to bring rail and bus transit systems into a state of good repair?

ANSWER:

- The National Infrastructure Bank could provide an array of loans and grants to support important projects of regional and national significance.

- An enhanced TIFIA program could provide loans, loan guarantees, or lines of credit for such projects.

- As noted above, rail and bus transit systems that do not have sufficient user charges can repay credit assistance with other dedicated sources of revenue from various state and local funding sources.

QUESTION 3: What recommendations does USDOT have to removing the financing barriers that exist to creating a more efficient and diverse transportation system?

ANSWER:

- On Labor Day, the President proposed an up-front investment of $50 billion to expand America's roads, railways, and runways.
- This proposal includes an Infrastructure Bank as well as consolidating more than 100 different programs and focusing on using performance measures and "race-to-the-top" style competitive pressures to drive investment toward better policy outcomes.
- The proposed Infrastructure Bank could select transportation infrastructure projects with demonstrable merit from any transportation mode, supporting them with grants, loans or a combination of such assistance – to best fit a project's need.
- The Infrastructure Bank could also expand on current practices that encourage co-investment by non-Federal stakeholders, including States, municipalities, and private partners.
- The President's proposal would also encourage investments in areas like safety, environmental sustainability, economic competitiveness, and livability.

QUESTION 4: Recognizing the difficulties in implementing an effective user fee that riders could afford that at the same time entirely pays for the construction, maintenance and operation of a transit system, how do we better capture the value transit systems play in an overall transportation network, particularly transits benefits to motorists, so as to make sure transit systems are adequately funded to best serve the communities they are located in?

ANSWER:

- We believe that State and local governments should have broad flexibility to use a variety of revenue sources to pay for transit services, and that State and local governments need not look solely to user fees, whether collected at the State or Federal level, to pay for transit services.

- State and local governments have used mechanisms such as sales tax revenues and tax increment districts to capture the value of transit investments and provide necessary funds for the construction, operation and maintenance of a transit system.

- We encourage state and local governments to use economic analysis to make explicit estimates of the benefits of transit improvements when making transportation investment decisions. We use such analyses at the Federal level, for example in making decisions on TIGER grants.

Senator James M. Inhofe

QUESTION 1: According to DOT, the maintenance backlog is over $600 billion and growing and the trust fund is bordering on insolvency. Given these overwhelming needs and limited resources, what role, if any, does private capital have in addressing our infrastructure crisis?

ANSWER:

- Private capital is playing an increasingly important role in financing infrastructure improvements.

- The majority of major transportation infrastructure projects are being advanced as public-private partnerships.

- Private capital is an important part of projects financed with TIFIA assistance and Private Activity Bonds.

- The proposed National Infrastructure Bank would encourage co-investment by non-Federal stakeholders, including private partners.

- Where projects do not generate a large enough revenue stream to repay private financing, tax revenues play a critical role in transportation infrastructure funding, either as direct grant funding, or as a dedicated public source of revenue to support public and/or private financing.

QUESTION 2: In March of this year you told this Committee that we would receive principles for reauthorization before the end of the summer. The summer is over and we have not received anything. The President's speech on Labor Day made a vague mention of a desire to move forward with a 6 year highway bill. No specifics have been provided on this proposal either. The Administration's leadership is critical to this process, but has been absent to date. When can we expect to receive the Administration's reauthorization proposal and specific details on the President's Labor Day proposal.

ANSWER:

- The Secretary has proposed five national transportation goals as part of the President's Strategic Plan:
    1. Economic Competitiveness
    2. Safety
    3. State of Good Repair
    4. Livability, and
    5. Environmental Sustainability

- These goals will guide our reauthorization proposal.

- On Labor Day, the President proposed an up-front investment of $50 billion to expand America's roads, railways, and runways.

- We are conducting outreach on various aspects of this proposal and hope to include a specific reauthorization proposal with the President's FY 12 budget.

Senator BOXER. Thank you very much.

The infrastructure bank has some support in Congress. Other people oppose it. So the reason I focus on TIFIA is because it is part of our—it is already there. So, I think the Administration, I hope, will recognize that if something is already in law, it may be easier to go to that model.

I am not saying give up on infrastructure bank. That would probably have to be done over in the Finance Committee, as I understand it. Is that correct? It would not be this Committee. But TIFIA is there.

So, what I want to get at is this. The beauty—and you have been—the Department has been so supportive of the L.A. idea, and I just want to press you on the point. Here you have a situation where voters in a local area have voted to say this is so important to us, having our roads fixed and our transportation systems moving, that we are willing to tax ourselves a half a cent for 30 years. And we would hope—I would hope—that we can help those local communities that take that step. L.A. is not the only one. I mean, when I was in Marin County they always passed sales tax measures, and other counties and cities all over the country do it.

So, what I am thinking as we go forward and we look at TIFIA, one way to expand the program beyond what it is now is to say if there is an area that does vote for a steady stream of revenue, that the Federal taxpayers know is coming, that if we can come in and accelerate those programs, because it will help with jobs, it will get people the results much quicker. I mean, some people have voted for this they will not be around in 30 years to see the final project completed.

If this can be speeded up without risk to the taxpayers because the steady stream of revenue is coming, is that—are you open to working with us, assuming we have support from Senator Inhofe on the other side of the aisle? And we are not taking this up until after this election is over. It is not going to get caught up in election year politics.

If we can reach some sort of agreement, would you work with us to reform TIFIA in such a way that it rewards those counties, cities, States that are willing to take that step so that we, the Federal Government, is not taking a risk? But what we are doing is accelerating the funding at the front end, kind of what your idea is for the 6-year bill, to accelerate the funding, do not take a risk with it, know you have the steady stream, and get it going over 10 years, in this case.

Mr. KIENITZ. In a word, yes, we are absolutely willing to do that. What I would say is two points, the first of which is the thinking that you are describing is very much in line with what we are looking at for the future of credit assistance going forward.

The second point that I would make is that what we are discussing internally about how this infrastructure bank might actually work actually sounds a lot like what you exactly described.

So, I am hoping by virtue of the policy process we have going forward we can end up with something that is, frankly, an iteration of the tools of TIFIA but larger, more flexible and more integrated with DOT's discretionary grant programs. Because in some cases you have a self-help or local option sales tax community coming in

and saying I have 100 percent of the money I need, I just have it at the wrong time.

Senator BOXER. Right.

Mr. KIENITZ. Another case is you have a poor community, as Senator Kerry at our Banking Committee hearing the other day that Senator Merkley chaired, came in and spoke about Fall River, Massachusetts, which is willing to tax itself to pay for the projects that they need, but the community does not have the wealth necessary to pay 100 percent of the cost. In that case, you might want to do a part grant, part loan. And what we are looking to do is set up some kind of entity that can judge those things and make those decisions so that enough resources are able to help.

Senator BOXER. And would it run as a—the Bank would put money back in as the funds came in to repay the Federal Government? Would it just be rolling back into the Bank?

Mr. KIENITZ. We have not finally determined it, but my guess is no. Everywhere I go everyone says well you are not going to create another Fannie Mae, are you? And I think, frankly, that model is substantially out of favor at this moment.

We are working on the Federal Credit Scoring Act, which is exactly how TIFIA works. You assess the risk of the loan up front, a subsidy amount is set aside, and then that is put back into the Treasury——

Senator BOXER. So the funds would go back into the Treasury? They would not go back into the infrastructure bank?

Mr. KIENITZ. Right. And so the——

Senator BOXER. So how does the infrastructure bank get the funding?

Mr. KIENITZ. It would get it through appropriations from Congress. You end up having that cycle because if Congress appropriates the funds, the funds go back to the Treasury, then Congress can appropriate them again. What it means is that the cycling of the dollars flows through here rather than flowing internally within the Bank. And I think that provides, to some degree, I do not know if a check on the process is the right way but a check in with authorizers to make sure people feel it is being used properly.

Senator BOXER. Well, I think we ought to discuss that because my experience is when the funds go back to the general Treasury, then they do not specifically get used for transportation. That is why I like the Highway Trust Fund.

I do not know where Fannie Mae and Freddie Mac come into this at all. It has nothing to do with it. Nothing. What I am talking about is like the Land and Water Conservation Fund, where the funds go there. What I am talking about is like the Highway Trust Fund, where the funds go there. So, I do not, I would never support an independent infrastructure bank.

I am just telling you now—this is really important—you may not have the support for an infrastructure bank in other Committees. I do not even know about in this Committee. But in other Committees you may not have it. And so you need to be open to using your other tools, such as TIFIA, and making it function more like an infrastructure bank. It is a question of having to start off with a whole new idea and get the support for it as opposed to taking

something that is already in the law and changing it to meet the need.

I am open to all the solutions. But this Committee, I think if I could just speak, I think, for most of the members, I think we are very interested in leveraging the dollars and not adding to the deficit. I mean, that is basically what the perfect world is. And so I hope you will work with us because I do not know whether the infrastructure bank has the support, and we do not control that here in this Committee.

I am just trying to be realistic here. My goal—I do not care what we call it because I do not care about those things, but what I do care about is that the Federal Government is able to leverage State and local funding in a way that does not put our taxpayers at risk and accelerates projects and creates jobs and does it soon. With all that in mind, we have to be flexible on how we approach it.

So, I hope the Administration will be flexible with us. Regardless of what we call it, if we are able to do those things, and if it goes through another Committee I am thrilled with it, it does not matter. But I just want to make sure that we do not lose this opportunity, the great idea that came out of Los Angeles that I think is going to benefit the whole country. Let us not lose it because we are tied to one particular way to, you know, accelerate the funding or generate the funding.

Senator Alexander.

Senator ALEXANDER. Thanks, Madam Chairman.

Mr. Under Secretary, thank you for coming. When the Department makes its 6-year proposal, I think it would be a constructive idea to say this is how much money we have over the next 6 years based upon our revenue sources, and this is what we can pay for. In other words, say we have this much money, and we have this many requests, but to begin with we are going to recommend as the top priority for Federal funding the following proposals. And then, that is Section One. And Section Two would be, here are other areas where we think there is a Federal interest, and in these areas we need X more money.

Would that not be a reality check on the Congress and the American people so we could see just what that much money will produce for us?

Mr. KIENITZ. Yes, sir. That seems like a reasonable approach. I am trying to figure out how we would put that together. We have not made any internal decisions yet on total size of what the Administration is going to propose so we are not quite at a point to do that yet——

Senator ALEXANDER. Well, I know, which is why I am saying, in other words, I mean how much money are we going to have a year for the next 6 years based upon the current projections?

Mr. KIENITZ. I think the current revenue allows us $290 billion over the next 6 years. I think that is something that is about right.

Senator ALEXANDER. OK. Well, let us just say Congress says to you, all right, that is all you are going to get. What can you buy with that? And you say, well, let us all look at the country's future, and for $290 billion a year this is what we can afford to do. And then you say after that, but we think there are some other things that need to be done, and they are going to cost Y, and before we

start talking about how to pay for them, let us talk about whether we need them.

The reason I mention that is I was driving the other day in Tennessee along what we call I–840, which is a four-lane interstate quality highway that we built when I was Governor in 1985 primarily to—we built 100 miles of interstate highway, 100 percent paid for by the State government rather than 90 percent Federal and 10 percent State. That required our third gas tax increase in 6 years. But nobody minded because it was for the purpose of bringing in the auto industry which is now one-third of our manufacturing jobs.

There is always a discussion about what States should do, and what cities should do, and what the Federal Government should do. There is nothing to keep Tennessee from deciding that it wants the best highway system in the State and that it wants other transportation advantages and then finding a way to pay for it. And if we have poor communities within the State, and this happens every time we raised the gasoline tax which is the way we did it then, many of the rural areas benefited from the State-wide tax increase because they had, they are relying on property tax.

So, I wonder if we should not get back to the idea of—and there is the further argument that States are able to build roads sometimes more rapidly and at less of a cost than the Federal Government because of Federal rules and regulations and the inability of Members of Congress to have a regular appropriations process from year to year.

So, I am wondering whether this is not the time for a good discussion about saying, OK, we have got about $290 billion a year for about 6 years, these are our priority projects, and they are paid for. Now, if you want anything else, you are going to have to build them in the States. And there may be a few other things that the Federal Government ought to do, and then we could focus our new money on that.

Mr. KIENITZ. Yes, Senator, I think that makes an enormous amount of sense. What the data has actually shown is in fact the Federal contribution to the whole system that has not grown in pace with costs. And what you have seen over the last 10 to 15 years is a gradual but inexorable increase in the share of the total system costs that is paid by State——

Senator ALEXANDER. Well, what is wrong with that? I mean, a cent on the gas tax in Tennessee is a cent on the gas tax in Tennessee whether the Federal Government raises it or whether the State government raises it. And we used to think—it may not still be true—that we could build a road faster and cheaper than the Federal Government could by the time we got through all the rules.

Mr. KIENITZ. There is nothing necessarily wrong with it. My point is that it is already happening. The exact thing that you stated is already happening. I mean, when I worked in State government in Pennsylvania we spent huge amounts of energy trying to raise revenues locally or at the State level because we knew that, at least in those years, we were unlikely to get X amount——

Senator ALEXANDER. Well, to make a last point, and I look forward to discussing this with you because I think this is very important, there is a wide bipartisan attitude on this Committee toward

these issues. We do not want to just give the impression to cities and counties and States around the country there is big grab bag of money here for any project that you can compete for.

I would rather us say, we have some very important Federal priorities, and we have enough money to pay for those. Now after that, States are going to have to do it, and the Federal Government is going to have to consider a discrete number of high priority projects that have national significance or regional significance, and we will find additional ways to pay for those.

We might have to raise some money, we might have to do something like the Chairman is suggesting or expand something, but that would help us get away from the idea that there is just sort of an unlimited amount of money that everybody should go rush to compete for, and in this day and time, that might be welcome.

Thank you, Madam Chairman.

Senator BOXER. Thank you very much.

Senator Cardin.

Senator CARDIN. Thank you, Madam Chair.

Mr. Under Secretary, thank you for your testimony. I am going to try to cover a couple of points, if I might, during the time that I have.

I want to start first with my concern on the financing of public transit. My, I guess, major concern is that as you look at the historical way that we have financed transportation programs using a gasoline tax, the advocates for highways and roads say, well, that is our money, it goes for highways and roads.

In Maryland our roads are in terrible condition as far as volume is concerned; the second most congested area in the Nation is right here in the Nation's Capital. You try to get from the Capital out to Rockville at 5 p.m. and you have got yourself a long drive. It is much better if we had better public transportation. We do have transit, but when you try to get across county from Prince Georges County to Montgomery County, there is a purple line being suggested for public transit. Now, that is going to cost a lot of money. And I support that. That is going to help us on our highways because it is going to take cars off the highways.

We do not get credit for those dollars. So, tell me your thoughts, or the Administration's thoughts, on how we are going to capture the transportation revenues to fairly reflect the value of the transportation infrastructure so that public transit is in a fair position moving forward on surface transportation.

Mr. KIENITZ. Thank you, Senator. We are focused on that question, and as we are putting together a financial structure for our proposal, which we will hopefully be able to unveil, we are looking precisely at that matter. It goes to whatever revenue source you have, how do you allocate them, but also goes to what kind of revenue source do you use to support a program. I am not in a position to say anything about it other than we hear you, and we hope to have a good answer to your concern.

Senator CARDIN. Well, and I am just going to underscore the point that the transportation funding proposals in the past have enjoyed broader support because it is called a user fee. And all I am suggesting is that we need to have a better justification in our infrastructure financing to recognize the value of public transit. It

helps the motorist. And we need to be able to articulate that, and it starts with the Administration.

Mr. KIENITZ. Yes, sir.

Senator CARDIN. The second point I want to bring up is really Senator Alexander's point on how we finance this. I am somewhat concerned. I am for creative financing, for leveraging the best that we can particularly as it relates to the private sector. And in Maryland we have used some creative financing in order to advance transportation programs. I think our Governors have done that with the public interest in mind and have done it in a prudent way.

However, when you suggest that we are going to frontload which, I think most of us agree, or you have this new mechanism of this infrastructure bank, I think some of us get concerned as to whether we are delaying fiscal reality as far as making sure the revenues are there to finance a 6-year program, perhaps frontloading the first couple of years expecting Congress to come back, or the next Administration to finance the last few years, but or running additional deficits and not paying for the programs the way that we should.

Can you give me any sense of comfort from this Administration's views on this as to whether in fact we are going to have an adequately financed transportation program for 6 years—you said you favor 6 years, but that we will be able to have the type of investments not only the first 2 years but for all 6 years?

Mr. KIENITZ. What I can say is that the President's statements have been, I hope, pretty clear on this matter which is obviously we want a 6-year bill, as you said. Second, we want it to be paid for. And third, we want a funding level that is robust, above what is currently affordable, and enough to support a long-term program.

The one difference, perhaps, is the pattern in the past has always been year 1 of the 5 or 6 years is the smallest and year 5 or 6 is the largest, and our economic team looked at that and compared that against national economic trends where year 1 is where the economy is soft, and hopefully by years 4, 5, and 6 the economy will be roaring again. We felt that the balancing time of those dollars should perhaps be reversed just for purely macroeconomic reasons.

Senator CARDIN. I understand the need to invest now, but I can tell you 5 years from now you are not going to be able to buy as much with the same dollars as today. So, if you do not build in the natural progression, including maintenance of infrastructure, then you are going to shortchange the out years.

Thank you, Madam Chair.

Senator BOXER. Thank you.

Senator Merkley.

Senator MERKLEY. Thank you very much, Madam Chair. A couple of questions.

We have the program in Oregon of working with TIFIA, and one of the comments that our State transportation team gave to us is that they largely have not utilized it because they can get a lower rate on their own bonding than they can. And I was a little surprised about that as to why that would be the case. I wanted to ask a question about that.

They also said because it is limited to one-third of a project, their recommendation is to have that one-third boundary expanded. So, maybe if you could comment on that as well, it would be helpful.

Mr. KIENITZ. Yes, sir. On the matter of one-third, that is a comment we have heard from basically everybody who has commented on the TIFIA Program. I think the original idea was the Federal Government was very inexperienced at doing the credit rating on these projects, and so TIFIA would be safer if we were making sure that there were enough of other people's money in the project, that they were doing the due diligence and the credit rating, too, and so we were not sort of exposed by ourselves.

So, I think that was the origin of that idea. We since have heard from everybody, particularly in the last 2 years as the private financing sources for infrastructure have not dried up but become significantly more difficult to get your hands on, that the demand for TIFIA to cover 50 percent or two-thirds of a project is a lot higher. So, we have heard that from everybody and are going to see how far we are able to go on that front.

On the question of interest rates, it is certainly true, one of the reasons that the program was undersubscribed 4 or 5 years ago is for exactly that reason. The rates that were available in the private market were just too competitive, and you did not have to go through the Federal process. And so people went elsewhere.

What we are finding now is that what we offer now is not so much the lowest rate, although the rates are very low, what we offer is 25-, 30- or 35-year credit with no repayment of principle until your project actually opens the doors and is collecting revenue, which could be 5 years, and even deferral of principle payments beyond that. Those are terms that the private market just is not offering right now.

Now, in another year or 2 or 3, maybe the private market will come back and start offering that. But that is what our applicants have told us, it is the patience of the capital that the Federal Government can bring to it, and it is the thing that the market is not offering right now.

Senator MERKLEY. It is helpful. Another comment that they put forward was that generally, the structure is more amenable to very large projects, and is it feasible to run loans through a State bank and therefore break it into smaller pieces and make it available to smaller communities often which may have more difficulty with bonding?

Mr. KIENITZ. Yes, sir. That is something that when I was in Pennsylvania we actually did. We had one of these State infrastructure banks in which we could advance dollars to fund a local project, and the locals could pay us back over time with other grant dollars or formula dollars that they had gotten. The repayment period there, though, is typically 3, 4, 5 years, so if once you are talking about a 25- or a 30-years process, much more due diligence is required there. But I take your point that TIFIA has tended to give loans in the $100 million, $200 million, and $300 million range. If you have got a community with a $15 million project, that is tougher.

The State infrastructure banks have filled that niche to some degree. But since they are getting repaid with formula dollars and

the formula dollars are only authorized a couple of years out, that has generally been the limitation.

Senator MERKLEY. And finally, the Oregon State Transportation looked very closely at three potential public-private partnerships and found, after a number of years of studying them, found really two challenges. One is that doing the projects required not just tolling upon the project but tolling upon parallel roads that had always been toll-free, huge public reaction to that. And second, when they ran the numbers they consistently found that it was cheaper for the State to be the entity than it was the private partner.

And they looked at a lot of places, a lot of projects done elsewhere around the country and around the world, and found that often these public-private partnerships were far more expensive to the public in the long term than when the public put up their own cash. And so they studied those three projects and eventually set them aside. But any thoughts or insights related to that?

Mr. KIENITZ. Yes, sir. In my experience both at DOT and before coming to DOT we found many of the same things, that with the private infrastructure investors, their great advantage is that they are willing to be creative, go out and hunt for capital, and they will set it up however you want to set it up. As for the Government, we have a little bit more of a regimented structure. But we are not looking to make money. We are just looking to get our money back. They are looking to make money, and so the return on their investment that they are hoping for is going to be significantly higher.

The question has always been, if you can get pure public financing for a project, the financial picture is better than if you are going through purely private. The issue has been that the Government's ability to do that has always been severely constrained.

I think what the Chairman is talking about is a program that would offer a significantly larger share. The TIFIA Program has been very safe up until now. Its financial performance has been strong. And so I think we all have the confidence to expand that model quite a lot and that it would still be safe. But that has always been the issue. Governments have been afraid, wary about getting into the business in a way that the private sector, at least up until a couple of years ago, was less wary.

Senator MERKLEY. Thank you.

Mr. KIENITZ. Yes, sir.

Senator BOXER. Well, thank you so much. Can you just tell your boss that we appreciate all the work he is doing to help us with the 30/10 Initiative?

Mr. KIENITZ. I will. Thank you.

Senator BOXER. We appreciate it.

And now we will ask our Panel II, Hon. Antonio Villaraigosa, Mayor, city of Los Angeles, great leader in transportation, we are so pleased that you are here; and Hon. Stephanie Kopelousos, Secretary, Florida Department of Transportation, welcome Secretary; and Mr. David Seltzer, Principal at Mercator, am I saying it right?

Mr. SELTZER. Close.

Senator BOXER. Say it.

Mr. SELTZER. Mercator.

Senator BOXER. Mercator, yes? Advisors.

We are so pleased you are here. We have a vote at 11:30. That gives us plenty of time because we have a 15 minute window. So, we have a good hour to listen and to ask questions.

So Mayor, we will start with you.

STATEMENT OF ANTONIO R. VILLARAIGOSA, MAYOR, CITY OF LOS ANGELES, CALIFORNIA

Mr. VILLARAIGOSA. Thank you, Senator Boxer, Senator Merkley, members of the Committee. Thank you for the opportunity to address you today.

I want to say, on behalf of the people of Los Angeles, and thank Chairman Boxer for her leadership, her support. Her interest in transportation infrastructure is critical not just to our county and our State, but I think to the Nation. Your focus on innovative project finance has helped move this issue forward at a very, very critical time. Your ability to spearhead a unique coalition of labor, business, and environmental leaders in support of L.A.'s 30/10 Initiative has been invaluable.

And I would also like to thank Secretary LaHood and the Obama administration for their infrastructure proposal.

I do not have to tell you all, you know better than anyone that the American Society of Civil Engineers gave the U.S. infrastructure an overall grade of a D. They estimate that the need in the next 5 years for infrastructure is $2.2 trillion. The Administration's infrastructure plan is an important one. Our roadways, transit, rail systems, and airports ensure the vitality of our economy. Jobs are created and the economy grows when people and goods move efficiently from place to place.

We are investing less than other countries as a percentage of our GDP. We are investing about 2 percent of our GDP. Europe is investing roughly 5 percent. And I do not have to tell you that China is investing 9 percent and growing.

And according to the report of the Congress of the National Surface Transportation Infrastructure Financing Commission, the total combined highway and transit spending as a share of GDP has fallen 25 percent since the beginning of the Federal Highway Trust Fund. According to data from the Congressional Budget Office, this expenditure has averaged 1.9 percent of GDP from 1956 until 1970, but only 1.4 percent from 1990 to 2004.

I think we all agree that America deserves a first class transportation infrastructure network, and innovative financing tools such as the national infrastructure bank would help build it.

But as you said, Madam Chair, there are financing mechanisms now that we could use to accelerate that. And I want to focus on the need for the Federal Government to approve a national program of innovative financing tools so that local and State government can put people back to work.

As I have said to this Committee before, but I do not believe that Senator Merkley was in the Committee when I made those remarks last time, was as Speaker of the California State Assembly, I remember in the 1990s when people would come to the legislature asking for the State to invest in this or that initiative, and I would always say, if it such a good idea, how much of your money are you

putting up? The beauty of what we are proposing here is that we are putting our money up.

I do not have to also tell you that the national unemployment rate is still 9.6 percent in the most recent statistics. Simultaneously, the U.S. deficit is estimated at $1.5 trillion. We must spend tax dollars more wisely and leverage the available funding in a smarter way.

We cannot expect the Federal Government to bear the entire cost of our infrastructure needs. I think Senator Alexander was speaking to that a few minutes ago. Cities and States cannot pay to build the systems entirely on their own, either. New partnerships, new financing mechanisms, and innovation are essential to building infrastructure in many regions.

We need incentives to increase local funding for transportation infrastructure. Cities and regions that are coming to the table with more local money in hand should be rewarded and incentivized. We need tools that let local government build infrastructure faster, and to bring projects to the shovel-ready stage we need to have certainty that financing will be available over time.

I am suggesting two new tools to encourage investment in infrastructure and to help create jobs. These tools will be a catalyst for major transit initiatives across the country. They will help us put people back to work, and they will help improve our air quality. First, the TIFIA Program should be expanded and modified. Second, we should establish a new category of infrastructure bonds with a high interest rate subsidy.

As you know, TIFIA, the Transportation Infrastructure Finance and Innovation Act, is a Federal direct loan program. This program can and should be expanded. Congress needs to increase the pool of money so that it can support more major projects across the country.

And we need to give TIFIA greater flexibility. We need to move beyond project by project loans to think about funding transit systems and networks. Finally, we need an up front commitment that loans will be available in the future at an interest rate lock to increase funding certainty.

Now, infrastructure takes years to develop and build. We need a robust TIFIA Program that can support significant public works investments in multiple cities and States. The second proposal would create a new category of qualified tax preferred bonds to fund major transit projects.

In the American Recovery and Reinvestment Act of 2009 Congress created a program for school construction. The program provided tax preferred bonds with very high subsidies. We need a similar program to help fund major transportation infrastructure investment. These bonds would allow issuers to finance more than twice the dollar value of capital improvements than is possible with traditional tax-exempt bonds for any given annual revenue stream. They would not only stimulate greater investment, but also take pressure off the conventional Federal grant programs.

These tools will create jobs; they will help cities realize the environmental health and mobility benefits associated with their transportation projects. These tools should be created now or should be

incorporated in the next Surface Transportation Reauthorization Bill.

With high unemployment and great needs for infrastructure, I am hopeful these tools may be created sooner rather than later. That is why, as you said, while the infrastructure bank may be a good idea, these programs currently exist; they can be expanded in a way to move projects now.

We would take advantage of these financing tools for our 30/10 Initiative in L.A. We may be the car capital of the world, but we are building a sustainable transit system of the future. In 2008, 68 percent of our voters approved Measure R, a 30-year, $40 billion, half-penny transportation sales tax. At least 65 percent of the funds will be spent on transit improvement and systems. 30/10 is our proposal to build 12 Measure R transit projects in a decade instead of a planned 30 years.

The 12 transit projects will create 166,000 jobs. Now, we talked about the national unemployment rate of 9.9 percent. In L.A. it is 14.3 percent. And I can tell you, this would be an important shot in the arm for our region. According to the L.A. Economic Development Corporation these jobs will have economic impact of more than $22 billion.

I do not have to tell you that L.A. is an economic engine for the Nation. L.A. and Long Beach ports move 44 percent of the seaborne goods. We have a gross domestic product of $718 billion. Only California, Texas, New York, and Florida have economies larger than L.A. County. We represent 5.5 percent of the U.S. economy and 38 percent of the California economy.

Notwithstanding that, we are struggling. And so a project like this could not only reinvigorate us, it could help other cities like Houston, Salt Lake City, Atlanta, and Chicago who have told us they would benefit from the tools that we are proposing.

Together we can jumpstart regional and national economic recovery using our local investments in infrastructure. This model will enable the Federal Government to leverage its resources strategically based on local community needs and their willingness to be bold.

Again, Madam Chair, I want to thank you for your leadership in this effort.

The one thing that has become crystal clear at a time when we are looking at historic deficits and debt is that we need creative financing mechanisms to incentivize localities. Senator Alexander talked about the State building its highway system. This city, this county, is willing to do the yeoman's work in doubling the size of our rail system, reducing carbon emissions by 500,000 tons, saving 10 million gallons of gas a year, increased transit boardings by 77 million. This can be replicated around the country with creative financing mechanisms of the kind that I have mentioned.

Thanks very much.

[The prepared statement of Mr. Villaraigosa follows:]

Testimony of
Antonio R. Villaraigosa
Mayor
City of Los Angeles, CA

Innovative Project Finance

Environment and Public Works Committee
United States Senate

Honorable Barbara Boxer, Chairman
Honorable James M. Inhofe, Ranking Member
September 28, 2010

ANTONIO R. VILLARAIGOSA
MAYOR

United States Senate Committee on Environment and Public Works

Written Testimony of Los Angeles Mayor Antonio R. Villaraigosa

September 28, 2010

Thank you Chairman Boxer, Ranking Member Inhofe, and members of the committee for the opportunity to address your committee at the "Innovative Project Finance" hearing. Your continuing focus on leveraging federal investment and encouraging non-federal investment in transportation and other infrastructure projects is appreciated and could not be more important.

Introduction

On September 6, 2010, President Barack Obama announced a $50 billion up-front investment to upgrade the nation's roads, rails, and runways. His exciting proposal includes the creation of a much-discussed infrastructure bank, an idea I have championed and support.

The work of this committee, the President's recent announcement, and the growing support in Washington, DC and across the U.S. for more federal investment in infrastructure is critical to the economic competitiveness of our great country, an exceptional quality of life for our communities, and creating jobs.

With today's testimony I will focus on the need for the federal government to approve a national program of innovative financing tools so that local and state government can put people back to work and build the necessary infrastructure to support America's future. While the tools I will discuss focus on transit construction, we believe that they are applicable to all categories of infrastructure.

National Context

As you know, the American Society of Civil Engineers ("2009 Report Card for America's Infrastructure") gave the U.S. infrastructure an overall grade of "D". ASCE estimates that the need in *the next five years alone* is $2.2 trillion.

The challenges facing the nation's workers continue, with families struggling to make ends meet and men and women pondering how they can become part of or stay in the middle class. The national unemployment rate is still 9.6% (Bureau of Labor Statistics, August 2010 data, released September 3, 2010).

Because we have great infrastructure needs and high unemployment there is an urgent need to invest, but the U.S. deficit is estimated at $1.5 trillion. This increases the pressure to spend tax dollars more wisely and leverage the available funding smartly. We believe that new and expanded innovative finance tools can meet these goals.

Importance of Los Angeles to the U.S. Economy

As I have testified before, the Los Angeles and Long Beach ports account for 40% of the sea-borne containers entering the U.S. carrying goods destined for the 50 states. But the contribution of Los Angeles County to the U.S. economy goes beyond this.

Los Angeles County has a gross domestic product of $718 billion. This GDP exceeds the economies of all but four states (CA $1.8 trillion, TX $1.2 trillion, NY $1.1 trillion, FL $744 billion). It represents 5.5% of the U.S. economy and 38.9% of the California economy. If Los Angeles County was a nation, it would rank 16th, falling between Australia and the Netherlands.

Unemployment also continues to drag down the economy in Los Angeles, exceeding national figures. Unemployment for the Los Angeles metropolitan area is 12.5% (Bureau of Labor Statistics, August 2010). State data shows unemployment in Los Angeles County at 13.0%, 14.3% in the City of Los Angeles, and up to 25.2% in the hardest hit part of our county (California Employment Development Department, August 2010).

When Los Angeles County suffers economically, the national economy can feel the impact. Reinvigorating Los Angeles County by getting Angelenos back to work and investing in transportation infrastructure will have a positive ripple effect on our national and state economies.

About Local Infrastructure Development

Later in my testimony I will talk about the need to have multi-year commitments and availability of federal financing tools. This section explains why and uses the transit development process to illustrate the point.

It takes a minimum of ten years to develop a new transit project. It takes 4-5 years to complete planning studies, environmental review under federal and California law, and architecture and engineering (design). It typically takes another 5-6 years to actually build a project.

Each step in the pre-construction phase is exponentially more expensive. Planning studies can usually be completed for about $1 million. Environmental studies can cost $5 million for large projects. Design costs for multi-billion dollar projects can be

hundreds of millions of dollars. Typically, jurisdictions will not have major infrastructure projects on the shelf and "shovel-ready" (i.e. designs completed). We may invest in developing projects through the planning and environmental stages without construction funding fully identified, but we cannot and do not complete design until we are confident that project funding is available.

To help local and state governments develop their infrastructure and create jobs, we need to know that federal financing tools will be available over the course of a decade or longer. We need certainty. Infrastructure requires a long view and corresponding policy commitment. We continue to believe that the near-term stimulus efforts by Congress are vital, but we want to work with you to make sure that long-term, job-creating, catalytic infrastructure projects also are supported.

Why Transit?

As U.S. cities become more and more congested, automobile-based solutions (i.e. freeways and streets) become less and less effective, or practically infeasible. Even cities like Los Angeles – traditionally thought of as "low density" – are becoming more and more constrained by their physical geography and built form. In our city, virtually every piece of land is already developed. There is no room to widen streets or freeways at a systemwide level (though we are strategically closing gaps in our carpool lane network where possible).

However, we are managing our infrastructure better, with arguably the most advanced signal synchronization system in the world. In addition, we are implementing high occupancy toll (HOT) lanes on two major freeways in partnership with USDOT. HOT lanes let solo drivers use under-utilized carpool lanes by paying a voluntary fee. These types of initiatives are helping us squeeze more capacity and throughput out of our highways. These are smart investments, but there is a limit to their effectiveness.

As population continues to grow, there will be increasing pressure on our local transportation system. We will need to find more efficient ways of moving large numbers of people. As other cities fill-in like Los Angeles, they too will turn to transit and the more strategic ones will begin making these investments sooner rather than later.

To illustrate the advantages of transit investments, let me share with you recent data from our Westside Subway environmental impact statement/report (EIS/EIR). Our proposed heavy rail subway extension will add about 9 miles of service along a route with the second heaviest concentration of jobs in Southern California (after downtown Los Angeles). It will serve the heaviest traveled bus corridor in Los Angeles and connect to major employment, cultural, educational, and tourist centers like the Los Angeles County Museum of Art, Rodeo Drive in Beverly Hills, Century City, and the

University of California, Los Angeles (UCLA) in Westwood. By 2035, this 9-mile trip is projected to take over 40 minutes to drive and up to 86 minutes by local bus. In contrast, the new subway extension will take just 24 minutes. An efficient transit system will be the hallmark of an economically competitive and environmentally sustainable city in the 21st century.

Finally, I want to bring the discussion of transit back to jobs. As you know, our 12-project transit construction program is projected to create 166,000 jobs in Southern California. We want to put people back to work over the next decade, not 30 years in our current plan. A national transit construction program supported and enabled by innovative finance tools would create thousands of more jobs.

Building transit projects is not just about creating jobs, it is a smarter and more efficient use of taxpayer dollars. A recent report analyzing ARRA concluded that public transportation projects created about twice as many jobs per dollar spent compared to highway construction ("What we learned from the stimulus", Smart Growth America; Public Transportation: 19,299 jobs per $1 billion spent; Highway: 10,493 jobs per $1 billion spent).

Why We Need Federal Financing Assistance

In Los Angeles, like other parts of the country, we can and have issued government bonds against our sales tax revenue in order to accelerate project delivery. The downside is that interest costs reduce the total program size that we can afford. In the case of Measure R, our 2008 half-cent transportation sales tax, the voters approved a specific set of projects, so we cannot downsize our program and keep faith with the voter mandate.

The "chicken and egg" problem for local and state government is that we cannot bid construction projects unless funding is identified. While the public works construction market is soft and we are optimistic that bids will come in lower than budgeted, we cannot count on these savings to demonstrate that projects are fully funded.

In essence, we are trying to "pre-qualify" for financing then see if we can get low enough prices (bids) on our projects to fit our available funding.

Lowering the cost of capital through federal subsidies will enable jurisdictions with multi-year capital programs to deliver projects sooner and reap the associated benefits sooner as well. In the current economic climate, putting quality jobs on the street could not be more urgent.

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Existing & Proposed Federal Programs

A number of existing and proposed federal programs hold the promise of lowering the cost of capital.

TIFIA

The Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) program provides the framework for innovative financing. We believe that this committee can make this current program more effective in four ways.

First, fund the program at a higher level. Nationally, only $7.9 billion in lending/credit has been awarded for 22 projects (as of 07/29/10). The highest direct loan was made in 2001 for the Central Texas Turnpike in an amount of $900 million. Fiscal year 2011 direct loan funding for the entire U.S. was only $1.1 billion.

Second, Los Angeles and other metropolitan areas could build transit systems if funding were available for multiple lines, not just project by project.

Third, lower interests would reduce the cost of capital further.

Finally, we need an up-front commitment that loans will be available if we meet federally imposed criteria and a rate lock so that we have greater certainty to do multi-year financial planning and programming.

Build America Bonds

The Build America Bond program approved by Congress as part of the American Recovery and Reinvestment Act of 2009 stimulus bill provides a 35% interest rate subsidy, paid in the form of cash to the bond issuer. However, this program is slated to expire on December 31, 2010.

The Build America Bond or similar program should be continued and be available for at least the next decade. We also believe that the interest rate subsidy for transit construction projects should be increased significantly, as discussed below further.

National Infrastructure Bank

A national infrastructure bank is a viable model that we have supported and continue to think is a good idea. Our only concern is that even after it is approved by Congress, it may take years to actually get up and running. We believe that more immediate innovative financing tools should be made available while a bank is being set up.

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<u>Proposed National Model for Innovative Infrastructure Financing</u>

We believe that there is a compelling need and opportunity for the federal government to encourage and reward local jurisdictions to raise infrastructure funds, leverage federal investment, and reduce near-term cash flow impacts on the federal government. We think that a new national model of innovative infrastructure finance can be created to meet these important goals.

For jurisdictions with a sustainable, reliable revenue stream, the federal government should make available innovative finance tools. For transit and road projects, we already discussed changes to TIFIA that will increase that program's effectiveness and utilization.

The second major component of a national model is a new category of qualified tax-preferred bonds to fund major transit projects. In ARRA, Congress approved qualified <u>school</u> construction bonds with a 100% interest rate subsidy. We believe there is an equally compelling case to be made for public transit and propose the creation of a qualified transportation improvement bond (QTIB) program with the same subsidy level.

Finally, the federal government should formalize their financing assistance through a master cooperative agreement or similar instrument. Such a document would describe the capital program, the level and terms of financing assistance, and the requirements and obligations of the recipient. This would increase funding certainty much in the same way full funding grant agreements (FFGA) do today for New Starts projects.

<u>Emerging National Support</u>

Since I testified before this committee last March, national support for innovative infrastructure financing is growing. In June, the U.S. Conference of Mayors (USCM) endorsed the bond interest rate subsidy and TIFIA proposals we describe above. For the record, we have included the relevant text of the USCM's actions below:

10. NOW, THEREFORE, BE IT RESOVED that The U.S. Conference of Mayors urge Congress to expand existing and/or establish new federal tax preferred bond programs with very high subsidies that would allow state and local governments to issue tax-preferred debt at or near zero percent interest for transportation projects that meet national criteria, such as reduction of greenhouse gas, and already have significant non-federal sources committed; and

11. BE IT FURTHER RESOLVED that The U.S. Conference of Mayors urges Congress to modify the TIFIA loan program to enable USDOT to make an upfront credit commitment to a project sponsor at an earlier stage of development for projects that already have the majority of non-federal funding committed and that would reduce greenhouse gas

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Conclusion

As Congress continues to discuss reauthorizing the surface transportation bill, we believe that serious consideration should be given to expanding the federal government's financing assistance for transportation projects. Congress should consider passing legislation as soon as possible to enact the innovative finance proposals I have outlined here today, especially if reauthorization is not eminent.

Please do not hesitate to contact me directly or Deputy Mayor Jaime de la Vega at (213) 978-2360 or jaime.delavega@lacity.org before or after the hearing if you have any questions.

Finally, I want to thank you, Chairman Boxer. I look forward to continuing our collaboration on innovative financing tools for infrastructure development. Today's hearing is an important forum to discuss the future of America, the role of infrastructure, and ways for partnerships that will leverage federal funding smartly and help create quality jobs and clean up the environment.

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Appendix: Background

Measure R

Measure R is a 30-year, $40 billion half-cent transportation sales tax approved by 68% of the voters in Los Angeles County in 2008. At least 65% of the funds are dedicated to public transit improvements. The largest category (35% of funding) is committed to transit capital and the construction of 12 new heavy rail, light rail, and busway lines.

Measure R is the third transportation sales tax approved in Los Angeles. The three sales taxes together generate about $1.8 billion annually (fiscal year 2011).

Los Angeles 30/10 Initiative

The "30/10" initiative is the branding for our goal of accelerating construction of the 12 Measure R transit projects. Our current plans calls for these projects to be built over the next 30 years; we want to build them in the next decade. (Our unanimously adopted 2009 Long Range Transportation Plan also programs other local, state, and federal funds for transit construction.)

By speeding up construction, we will reduce the construction costs from $18.3 billion to $14.8 billion through avoided cost escalation (figures updated per the Los Angeles County Metropolitan Transportation Authority). Construction bids for major public works projects in Los Angeles have been 15-30% lower than expected and we are optimistic that construction costs may come in even lower than $14.8 billion.

The major benefits of 30/10 include:

- 166,000 jobs in Southern California
- $22 billion in economic output
- 208 million miles less driving/year
- 568,458 pounds less pollution/year and a healthier environment
- 10.3 million gallons of gasoline saved and reduced dependence on foreign oil
- 77 million boardings/year more on public transit

Senator BOXER. Thank you so much for your very important leadership. You know, as we get ready to mark up a bill, we are making the record here on this important issue.

Before I call on the Secretary, I wanted to put into the record the opening statement from Senator Inhofe who is at an Armed Services Committee hearing. And I think it is important for me to read to you what he says because we—although everyone knows we have had our difference on the environment, when it comes to public works we tend to see things alike. So, let me read what he says about the TIFIA Program.

He says, another way to leverage non-Federal funds is a loan program contained in the current highway program called TIFIA. Although it took time to get going, TIFIA now is very popular and recently received applications for 10 times the amount it can lend. It is used in many situations including as a component of the PPP financing or by States to supplement more traditional financing. Clearly, this is a successful program that must be dramatically expanded.

He goes on to talk about the infrastructure bank and raises, I would say, some important issues where he feels it would actually be a substitute for other mechanisms and not really add much to what we have.

So, I think it is important as we go forward, and the reason I think it was so important to have this hearing and others before we actually sit down to write the bill, we need to find the areas where there is agreement across the aisle. If we find that agreement, we will get a bill done. If we do not find that agreement, we will not.

And so I am very pleased with the support for TIFIA here, and I think we, you know, definitely have a place here where we can join in partnership.

So, with that, I will put that in the record, if there is no objection, and call on Hon. Stephanie C. Kopelousos, Secretary, Florida Department of Transportation.

Madam Secretary, welcome.

[The prepared statement of Senator Inhofe follows:]

STATEMENT OF HON. JAMES M. INHOFE,
U.S. SENATOR FROM THE STATE OF OKLAHOMA

As I've said here before, I believe in Federal infrastructure spending and see it as one of the primary purposes of Government. Given our enormous infrastructure needs it is difficult to imagine that the next highway bill could ever meet all of these needs—especially since the Highway Trust Fund is in dire condition. Not only do we need to get the most for our Federal highway dollar, but we also need to encourage State and local governments and the private sector to invest as much as possible in roads and bridges.

This hearing is on innovative financing, which really accomplishes both: getting the most out of each Federal dollar and leveraging non-Federal funds. The two forms of innovative financing I'm most excited about are public-private partnerships and the TIFIA program.

One of the most frequently discussed ways to leverage non-Federal investment is through public-private partnerships, or PPPs. With PPPs, State or local governments enter into an agreement to raise private capital and transfer risks to the private sector, making challenging and unaffordable projects possible. This is a way to unleash an enormous amount of private investments in public infrastructure. This financing source is as important to helping us address our infrastructure crisis as a robust Federal highway bill.

Another way to leverage non-Federal funds is a loan program contained in the current highway program called TIFIA. Although it took some time to really get going, TIFIA now is very popular and recently received applications for 10 times the amount it can lend. It is used in many situations, including as a component of PPP financing or by States to supplement more traditional financing. Clearly, this is a successful program that must be dramatically expanded.

I will end on a final note about infrastructure banks, which is a very hot topic these days. First of all, we have government infrastructure banks for transportation: at the Federal level we have TIFIA, and at the State level we have State infrastructure banks which are capitalized by the Federal Government. What most proponents of a new infrastructure bank want is a mechanism to give out more grants. Banks don't give out grants; they give out loans. There is also currently a mechanism for giving out Federal transportation grants—it is called the highway bill. I don't believe an infrastructure bank will increase total transportation investment—it will only take money away from what would otherwise go through the existing highway and transit programs. The only thing you are going to do is move decisionmaking from States to US DOT officials in Washington—an outcome I do not support.

I look forward to the testimony from our witnesses. Thank you.

STATEMENT OF STEPHANIE C. KOPELOUSOS, SECRETARY OF TRANSPORTATION, FLORIDA DEPARTMENT OF TRANSPORTATION

Ms. KOPELOUSOS. Madam Chairwoman, Senator Merkley, I appreciate it. It is a real honor and a privilege to be here today to talk about innovative financing for projects. Florida has been a real leader, and I want to touch on three today, our experience with public-private partnerships, the TIFIA Program, as well as tolling.

When you look at public-private partnerships, we have had a real expansion of our program under some legislation that Governor Crist did as soon as he got into office that enhanced our capabilities. And I will tell you, we have 10 current public-private partnerships under contract today, and I will give you several of the benefits that we have experienced in Florida.

One is leveraging the financial assistance, clearly important. Two has been the innovation that we have gotten from the private sector that has helped us move some of these important projects forward, also advancing these priority projects where they have been sitting on hold because we just truly did not have the financing. And probably one of the most important things that we have been able to leverage is sharing of the risk, sharing the risk with the private sector that allows the State to get the best value.

I want to focus on just a couple of the projects that we have experienced and some of the good ideas that we have had. We have been able to—a project in southwest Florida that we did under a design-build-finance, which was I–75, we added an additional lane, now six lanes for 30 miles along that highway. We delivered that project 5 years ahead of when we would be able to do it by just using the normal funding. So, the community is excited about it, we delivered it right before Christmas last year, and I will tell you, a great present for them.

Another concept that we have able to use with two of our projects is the availability payment that we have used through our public-private partnership legislation in the State. We have been able to do two significant projects. The Port of Miami Tunnel fixed a real congestion problem out of port as well as in the downtown area.

But probably the one that we are the most excited about is our 595 Project in Broward County, truly one of our most congested areas in the State. We are adding three reversible lanes to a tune

of about $1.2 billion. We are able to do this 15 years before we would normally get this program in our current system. So, we have seen true success on those.

I really want to touch on what the Mayor said about the TIFIA Program. We have used it. We were the first in the country to utilize a TIFIA Program and just applaud USDOT for continuing to make it stronger and better. But we do believe that there need to be some enhancements, true enhancements.

Two of the projects that I mentioned, 595 and the Port of Miami Tunnel, we truly would not have been able to do those projects, get those projects across the goal line, without the little help with the TIFIA Program, and that has been successful. But to add on to what the Mayor said, we are looking for some of the same flexibilities, true increases to the moneys that we have going to the program, and look at increasing the eligibility amount per project. Right now, it is capped at 33 percent. It may need to be a little more on some projects; it could be a little less. So, take a look at that.

One of the other issues we found in our project on 595 was really to look at possibly a 30-day window prior to our financial close on the project to lock down what the interest rate would be on the loan. It provided some instability and some concerns with the private sector, and I think if we could get that changed that would really help us in moving some of these larger projects forward.

And in tolling, to address some of Senator Merkley's issues about public-private partnerships, we in Florida have a turnpike enterprise that has been truly successful. We have been able to add about 595 lane miles with the enterprise and really expand our tolling throughout the State, and I think that is where the mix of using public-private partnerships as well as our turnpike that we have been able to get the best value out of our State resources as well as the innovative tools that we are using.

In closing, if we could just encourage you in the next Federal bill to look at enhancing our financial tool box, I think to continue to enhance that is important, help facilitate public-private partnerships where they are needed and where they best serve the States, as well as continue the strong role of State DOTs through the formula-based programs that are equitable, importantly streamlined and that really meet the national goal that we are all looking for in this next Federal bill.

Senator, we are here to help. We appreciate the availability of your staff and Senator Inhofe's staff. As Florida, we do not have a Senator on this Committee, and your staffs have been extremely available to us, and we appreciate having that input.

Thank you.

[The prepared statement of Ms. Kopelousos follows:]

STATEMENT OF
STEPHANIE KOPELOUSOS
SECRETARY OF TRANSPORTATION
FLORIDA DEPARTMENT OF TRANSPORTATION

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
U.S. SENATE

HEARING ON

INNOVATIVE PROJECT FINANCE

SEPTEMBER 28, 2010

Chairwoman Boxer, Ranking Member Inhofe, and Members of the Committee:

Thank you, for the opportunity to discuss the important issues associated with accelerating transportation investments. Our mission at the Florida Department of Transportation (FDOT) is to provide a safe transportation system that ensures the mobility of people and goods, enhances economic prosperity and preserves the quality of our environment and communities. We know how important federal, state, local and private sector partnerships are in combining scarce resources to achieve our mission.

Our studies have shown that there are significant economic benefits including jobs impacts that result from transportation infrastructure investments both long-term and short-term. In the long run, every dollar we invest in transportation yields a $5 return in user and economic benefits. Additionally, the current economic crisis has highlighted the short term jobs and income generated by these investments. Clearly, anything we can do to advance needed projects will accelerate the delivery of these benefits.

Florida has a long history in many forms of partnerships with the federal government, local governments and the private sector. This testimony highlights our approach and experience, including:

- State legislation authorizing multiple types of infrastructure partnerships and funding tools.
- An understanding that each project is unique which requires tailoring the financial approach to the characteristics of the project.
- Our experience with public private partnership projects, the Transportation Infrastructure Finance and Innovation Act, state infrastructure banks, and tolling; and
- Recommendations for the next surface transportation authorization.

In an era of economic difficulties and lack of consensus regarding transportation funding, we believe there are several areas where improvements in federal policy can accelerate transportation benefits through partnerships. They are:

- Clarify federal, state, local and private sector roles
- Provide greater flexibility for states and local governments to eliminate overly prescriptive federal funding categories, set asides and mode specific funding.
- Ensure an equitable return to each state by creating funding formulas and program structures that reward, not penalize, good management in asset preservation and provide flexibility to meet capacity needs.
- Encourage a wide range of flexible finance tools, and allow state and local governments the flexibility to tailor financing to the unique circumstances of each project.
- Limit the scope of the federal government in project selection and oversight.
- Provide technical assistance and information sharing without excessive federal project oversight.

Florida Overview

Florida is home to nearly 19 million people (more than 6% of the U.S. population) and we welcome 84 million visitors to our great state each year. Our transportation assets are necessary to sustain a competitive economy, livable communities, and a sustainable environment. Florida's transportation system is composed of:

- 121,446 centerline miles of public roads
- 12,088 centerline miles of State Highway System
- 42,634 lane miles of State Highway System
- 643 centerline miles of toll facilities
- 2,819 lane miles of toll facilities
- 649 miles of designated bike lanes on state roads
- 11,309 bridges - 6,222 maintained by the state
- 28 fixed route transit agencies
- 446 transportation disadvantaged operators
- 14 seaports - 7 with cruises
- 787 airports - 128 public use, 659 private use
  - 27 military
  - 19 commercial
- 15 railroads
  - 2,786 miles of rail lines
  - 3,947 public at-grade crossings
  - 2 Amtrak routes - 18 stations

Strategic Intermodal System – We've identified a Strategic Intermodal System (SIS) that is a statewide network of high-priority transportation facilities, including the state's largest and most significant commercial service airports, spaceport, deepwater seaports, freight rail terminals, passenger rail and intercity bus terminals, rail corridors, waterways and highways. These facilities are the workhorses of Florida's transportation system, carrying more than 99 percent of all commercial air passengers, virtually all waterborne freight tonnage, almost all rail freight, and more than 68 percent of all truck traffic and 54 percent of total traffic on the State Highway System.

We own and operate the State Highway System, but the rest of the SIS is owned by local governments, authorities, or the private sector. The SIS is our highest priority for the limited funds we have for investment in new capacity. In the five years following creation of the SIS in 2003, we tripled our investment in non-highway SIS facilities when compared to the preceding five years.

The SIS is an excellent example in partnerships to facilitate transportation projects with our modal partners. For SIS non-roadway connectors, a twenty-five percent match is required and a fifty 50 percent match is required for hub capacity improvements. Because of this partnership arrangement we are facilitating projects like the Southwest Florida International Airport Terminal Apron and Runway project with $14.3 million in state funds combined with a local match of $14.3 million. Similarly, a Port of Tampa Container Transfer Yard is currently planned for 2012 with a SIS investment of $5.8 million and a local match of $6.8 million.

Florida Partnerships

We know how important partnerships are to the achievement of the long-range goals and objectives of our 2025 Florida Transportation Plan. Florida has 67 Counties, over 400 cities, 26 Metropolitan Planning Organizations (more than any state), 10 transportation and expressway authorities,[1] and nearly 70 statewide partners. We place high importance on partnering at all levels.

Of course, a key partner in providing the framework within which we operate is our State Legislature. Florida statutes for public private partnerships (P3s) are found in Section 334.30, F.S. They enable the department to have a creditworthy program that allows for an active P3 pipeline. The statute authorizes the department to pursue multiple types of P3s and outlines procurement requirements. Key elements are:

- In 2009, Florida legislation exempted the department's public-private partnerships from property taxes.

[1] These authorities are under the oversight of the Florida Transportation Commission.

- Florida's P3 statute authorizes the department to solicit proposals as well as receive unsolicited proposals.
- The department monitors its financial capacity when considering additional P3s. By statute, no more than 15 percent of total federal and state funding in any year shall be obligated for P3 projects.

Florida P3 Projects

Florida has a long history of partnering with the private sector to develop innovative project solutions. The department began utilizing public private partnerships (P3s) in 2007 as a procurement method for advancing projects. We currently have 10 P3s under contract, most of which are on the Strategic Intermodal System. P3s allow us to leverage financial assistance and innovation from the private sector, advancing priority projects that would otherwise be on hold due to funding constraints. P3s help us transfer risks such as construction delays or cost overruns, thereby delivering the best value to the department. The private partner carries project costs and is reimbursed, either by department funds or user-generated revenues, over a period of time extending beyond the completion of construction.

Our experience has shown that flexibility is a key requirement because each project is unique and the financial approach must be tailored to the characteristics of the project. FDOT has used several types of public private partnerships as highlighted below:

Design-Build-Finance (DBF) and Build-Finance (BF) – The private sector helps provide the funding to advance projects that are programmed in the outer years of the Department's 5-Year Work Program. The contractor receives reimbursement according to a Cash Availability Schedule provided by the department during procurement. Once construction is complete, the department assumes operations and maintenance responsibilities. Six DBF P3s and two BF P3 are under contract in four districts. Success stories for these types of agreements are:

- The **I-75 Widening DBF** (www.irox75.com) in Lee/Collier Counties expands 30 miles of I-75 (from Golden Gate Parkway to Colonial Boulevard (SR 884)) to six lanes and includes numerous bridge enhancements. The P3 approach advanced this project by about 5 years. Results of the partnership have exceeded expectations. The new lanes opened December 23, 2009, one year ahead of schedule.The estimated cost is $469 million with final payment scheduled in fiscal year 2012.

- The **I-95 Express Lanes DBF** (www.95express.com**)** are High Occupancy Toll (HOT) lanes with variable congestion pricing to maintain a minimum speed targeted at 45 mph. Registered vanpools, carpools of 3+, registered hybrid vehicles and motorcycles can use the lanes toll-free. I-95 travelers in both the express and general purpose lanes have benefited from the improvements in Miami-Dade County. Previously, the general purpose lanes and the High Occupancy Vehicle (HOV) lanes

were operating at below 20 mph during the peak period in the peak direction. With the opening of Phase 1A in December 2008, users have seen their travel times reduced and operating speeds for all users dramatically improved to more than 40 mph in the general purpose lanes and 55 mph in the new express lanes. Electronic tolling on the new Phase 1B lanes began in January 2010. The DBF contract for Phase 1 was awarded in January 2008 for $121.5 million.

Availability Payment Concession Agreements – Availability Payment Concession Agreements allow complex projects to be designed, built, financed, operated and maintained (DBFOM) by a private concessionaire. Following completion of construction, the department pays the concessionaire an annual "availability payment" that is only made to the extent the facility is open to traffic and meets contractual performance specifications for operations and maintenance. The term of the DBFOM Concession Agreement spans several decades of operations and maintenance by the private partner. Initial milestone payments may be made at key points during construction or at the completion of construction. Success stories for this type agreement are:

- The $1.2 billion **I-595 Corridor Improvements** (www.i-595.com) and the $607 million **Port of Miami Tunnel** (www.portofmiamitunnel.com) concession agreements, both executed during challenging economic conditions in 2009, are the first two transportation availability payment projects in the United States. These projects have been nationally recognized as innovative solutions to funding restrictions that most states now face. The I-595 project will be completed about 15 years sooner than originally programmed. The Port of Miami Tunnel would not have been financially feasible without the P3 approach.

Concession Agreements with Demand Risk Transfer – FDOT is evaluating another P3 solution that awards a long-term concession agreement for the private sector to develop segments of new assets. The private sector commits to design, build, finance, operate, and maintain the asset over several decades. The private sector is dependent on the projected user revenue stream (tolls, farebox, etc.) outweighing the project capital and/or operations costs. An example of this type of P3 currently under consideration is the **First Coast Outer Beltway** in Duval, Clay and St. Johns counties in northeast Florida (www.fdotfirstcoastouterbeltway.com). The department is also considering a P3 solution for High Speed Rail from Tampa to Orlando in which the private concessionaire would assume the risk of the farebox revenues covering operations and maintenance costs.

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Florida leverages Federal funds by attracting substantial private and other non-Federal investments in critical improvements to Florida's transportation system. The Miami Intermodal Center (MIC) is a transportation hub that will link Tri-Rail, Amtrak, Greyhound, Miami-Dade (County) Transit's bus system and future connections to Miami-Dade Transit's rail system. An

initial $269 million TIFIA loan was repaid in 2006. Repayment of a current $270 million TIFIA loan for the MIC Rental Car Facility will come from rental car user fees and contingent rent, if necessary, to be paid by participating rental car companies.

Two recent public-private partnerships have utilized TIFIA loans. They are the I-595 Corridor Improvements and the Port of Miami Tunnel with loans of $603 million and $341 million, respectively. These loans were made to the private entities responsible for designing, building, financing, operating, and maintaining these facilities.

Strengthening of the TIFIA program would help additional projects of national and regional significance to move forward. Suggestions include:

- Additional funding for the TIFIA program, an increase in the eligible loan amount of project costs (currently at 33%), and a decrease in loan subsidy costs.
- Providing a 30-day window prior to financial close to "lock into" the final TIFIA interest rate to reduce uncertainty and volatility.

State Infrastructure Bank (SIB)

Florida's SIB is an innovative financing tool used by the department to advance transportation projects, often in conjunction with other project financing tools. SIB funds may be loaned to public or private entities, and may be used for several forms of financial assistance such as subordinated loans, interest subsidies, letters of credit, capital reserves for bond financing, and construction loans. Below market rate loans and assistance helps accelerate the development of transportation projects, or completes the financing of projects that might not be built otherwise.

Florida's SIB has a federally-funded SIB account for projects meeting federal requirements and guidelines. There is also a state-funded SIB account for projects either on the State Highway System, providing increased mobility on the state's transportation system, or providing intermodal connectivity with airports, seaports, rail facilities, transportation terminals, and other intermodal options for moving people or freight. Florida has approved more than 60 applications for $1.1 billion in SIB assistance, leveraging more than $8.2 billion in total project investments.

Tolling

Tolling allows customers that choose to pay the toll a direct benefit of convenience (reduced travel time) and higher level of service. Tolling can finance the construction, maintenance and operations of entirely new facilities or can be used on select lanes on the Interstate to manage congestion with projects such as the I-95 Express lanes discussed previously.

Recognizing that conventional transportation funding is not keeping pace with demand, Florida has invested over $10 billion in toll-finance facilities. In fact, since the completion of the

interstate in 1993, 91% of new corridors are toll facilities. More specifically, Florida's Turnpike System (part of FDOT) has added 595 lane miles of new, tolled expansion projects.

The Florida Turnpike System has the statutory authority to issue up to $10 billion in revenue bonds. The Turnpike System maintains a strong "double-A" bond rating which allows the System to leverage its revenue stream at a low cost of borrowing. Because of the low cost of borrowing, the Turnpike System has the ability to reinvest toll revenues collected in excess of operations and maintenance costs and debt service payments to fund needed transportation improvements within the State of Florida. Without Turnpike System toll revenues to leverage needed transportation projects, gas taxes would need to be increased 8 cents/gallon to provide the same benefit.

Finally, toll projects can be built more quickly than tax-supported roads because complete funding is usually available at the start. As a result, capital costs of toll projects are usually lower. With the development and implementation of electronic tolling technology, tolling continues to be a viable means to finance transportation improvements.

Benefits of Funding Partnerships

There are significant benefits to funding partnerships including:

- Leverages funds from multiple partners to implement projects much sooner than by traditional pay-as-you-go funding methods, if at all
- Deferring construction payments over an extended period of time
- Utilizing private innovation and efficiencies for large and complex programs
- Tapping into private equity and the private sector's ability to access global capital markets and the widest range of financial resources
- Leveraging the TIFIA federal credit program which seeks to attract private investment
- Utilizing private sector innovation, expertise and technology to provide specialized management for large and complex programs
- Delivering "market approaches" and expertise from a competitive bid process
- Optimizing risk to the department by sharing it with the private sector
- Establishing long-term partnerships to contain costs, stabilize prices and create incentives for efficiency

Florida Recommendations

While the focus of this hearing is innovative project finance, we believe the key to improvement is clarifying the roles of federal, state and local partners; overhauling the current federal program structure, and providing a financial toolbox that enables government and private sector resources to be combined in a responsible manner. More specific recommendations in each of these areas follow.

Clarification of Roles – Federal, state, and local roles must be clarified if we are to make the most effective and efficient use of limited funding resources.

> The ***Federal Role*** should be to set national goals for transportation in the context of policies in the areas of defense, interstate and international commerce, and economic, energy, environment and other concerns common to the states. This includes refining a multimodal transportation network of national interest that reflects established goals and taking the lead in assuring the development and funding of interstate and defense transportation networks.
>
> The ***State Role*** should be to link the state's transportation planning and investment decisions to statewide policies and designate an interconnected transportation system critical to the state's economic prosperity and its ability to compete in the domestic and global economies. States should continue to be responsible for the statewide planning and construction of major transportation facilities.
>
> The ***Local Role*** should be to develop visions and action plans integrating transportation, land use, economic, community, and environmental systems to guide transportation decision making and investments. Multimodal transportation systems should be developed to support regional and community visions and ensure that the transportation system is accessible to all users.

State and local governments should continue to implement the federal transportation program through streamlined, equitable formula programs aimed to achieve national objectives.

Flexibility and Streamlined Program Structure - The time to eliminate overly prescriptive funding categories, set asides and mode specific funding is now. National policy goals and program accountability can be achieved in a far more efficient manner to produce transportation improvements for the public.

The majority of the current federal program is implemented through formula grants to the states. This has proven to be a highly successful model that can be greatly improved by streamlining the current program structure combined with maximum flexibility in use of federal funds. Each state has varying needs and conditions, and a rigid federal program structure can never fully address the unique challenges facing each state. The objective of the next surface transportation authorization should be to create a system where states can achieve certain national objectives while having the flexibility to fulfill their specific transportation strategies.

We expect the next surface transportation act will place a heightened attention on asset preservation. The effort to address the preservation of our Nation's transportation infrastructure is a worthy national objective. The traditional approach to this issue would be to create a large new program limiting the use of funds to address system preservation. This typical top-down federal approach will inevitably punish those states which have prioritized preservation and maintenance and can demonstrate they have maintained roads and bridges in a state of good repair. Any federal program geared towards asset preservation should reward not punish good behavior. This can be achieved by tying funding formulas and flexibility in the use funds to a state's demonstrated commitment to preserving the existing system.

- We believe the most effective approach to a federal transportation act is to limit, not expand the scope of the federal government in project decision making. No less than 90% of the total federal funds should be allocated by formula to the states and local governments to support implementation of their long-range planning. Three basic programs can accomplish the distribution of federal funding to state and local partners:
  - A Strategic National Transportation System with all funding distributed to the states by formula.
  - A Metropolitan Mobility Program with funding distributed to metropolitan areas by formula.
  - A Discretionary Program to address other national transportation priorities with funds distributed on a discretionary basis including project earmarks.
  - No more than 7.5% of total available funding should be used for the Discretionary Program and no more than 2.5% should be used for administration and research.

Financial Toolbox – The next authorization should encourage a wide range of flexible transportation finance tools and allow state and local governments the flexibility to tailor financing to the unique circumstances of each project. Current value pricing, express lanes and tolling pilot programs that have demonstrated success should become permanent federal policy nationwide. The types of tools include:

- Tolling
- Public-private partnerships
- Prudent use of short-term and long-term debt (infrastructure banks, bonding, TIFIA/GARVEE – type programs, etc.)
- Tools for programming flexibility, such as advance construction and soft match

This flexibility should include national technical assistance and information sharing unconstrained by federal project oversight or approvals beyond those in place today.

Closing

In closing, we applaud this Committee for holding this hearing and exploring innovative project finance.

As you consider the next federal transportation act, we encourage you to enhance the innovative financing toolbox, help facilitate public private parternships, and continue the strong role of state DOTs through formula-based federal programs that are equitable, streamlined and geared towards meeting national objectives.

On behalf of my Team at the Florida Department of Transportation, we stand ready to work with you as you develop new legislation that provides a road map to the future.

Thank you for your leadership.

Senator BOXER. Well, thank you so much. That means a lot, and I will tell Senator Inhofe what you said. We appreciate it.

Mr. Seltzer.

STATEMENT OF DAVID SELTZER, PRINCIPAL, MERCATOR ADVISORS LLC

Mr. SELTZER. Chairman Boxer, thank you for inviting me to testify this morning.

My name is David Seltzer, and I am a principal at Mercator Advisors. We are a consulting firm that advises policymakers and project sponsors on how best to finance major infrastructure projects and programs. I would like to briefly share with you our firm's views on innovative project finance tools that could stimulate more investment in this fiscally constrained environment.

Credit assistance and tax incentives are powerful Federal policy tools today because A, they maximize the financial capacity of State, local, and project revenue streams by lowering interest costs, and B, they have a much smaller budgetary impact than traditional grants.

USDOT's primary credit program for surface transportation is, of course, TIFIA. And from a budgetary viewpoint Federal credit is more cost effective than grants since the fiscal charge is based not on the face amount of the loan but on its expected losses from default.

The average budget score on TIFIA loans has been only 10 cents on the dollar. And as Under Secretary Kienitz said, earlier this year DOT announced that it had received 39 letters of interest from project sponsors seeking $12.5 billion in new TIFIA loans for projects totaling nearly $41 billion. However, available funding can support less than 10 percent of that expressed credit demand.

So, the three recommendations that we would offer for the TIFIA Program are first, increase the TIFIA funding. Based on the tangible demand, the funding level should be at least tripled to about $375 million per year over the next 6 years. That would support $20 billion-plus of new loans, leveraging over $60 billion in total investment.

Second, incentivize applicants to identify those new funding streams. The primary reason for the Nation's infrastructure gap is insufficient revenue streams to support the new investment. If TIFIA prioritized applications where a vast majority of project funding, say at least two-thirds, came from sources other than Federal grants, it would reward State and local governments like Los Angeles County who make the difficult decision to impose the taxes, fees, or user charges necessary to support new programs.

And third, allow up front credit commitments for transformational programs. TIFIA was originally conceived as a project finance tool oriented toward individual projects. And as a result, the Federal credit commitments were tied to project-specific milestones such as environmental approvals. Today, however, transportation agencies are recognizing that a portfolio of large interrelated projects can produce systemic regional benefits in terms of mobility, air quality, and economic development.

It would aid these plans, like the 30/10 Proposal or Initiative, if the TIFIA financing commitments were more predictable over the

multi-project delivery period. And this could be achieved by authorizing DOT to make up front, programmatic, conditional commitments provided that no underlying loan would be funded until the applicable environment and other public approvals were met.

Now in addition to credit assistance, we believe tax incentives should be a central component of any comprehensive Federal strategy. Like credit, tax incentives encourage greater investment through reducing financing costs, and they, too, are scored at just a fraction of the cost of grants. And while Tax Code changes are not under this Committee's jurisdiction, we recommend Congress consider expanding two existing tax incentive programs.

First, the Qualified Tax Credit Bonds. Last year, Congress authorized various tax subsidies to reduce State and local borrowing costs, including the $22 billion School Bond Program with a 100 percent Federal interest subsidy. A similar program targeted to major transportation projects could more than double the level of investment compared to tax-exempt bonds. Congress could specify an annual volume cap to control the fiscal impact, which could be allocated by the Transportation Secretary to those projects conferring the highest economic and social return.

Second, Build America Bonds. It appears that Congress may extend the expiring Build America Bonds, or BABs Program, for at least another year. BABs, which subsidize 35 percent of interest, currently are limited to projects without private sector involvement.

In recent years, however, the private sector has played a larger role in developing, managing, and financing projects and taking risk. We think a strong policy argument could be made to extend BABs eligibility to projects with private participation that are available to and benefit the general public, such as highway transit and other transportation facilities.

Thank you for the opportunity to appear before you.

[The prepared statement of Mr. Seltzer follows:]

Written Statement by David Seltzer, Principal
Mercator Advisors LLC

before the
Senate Committee on Environment and Public Works

Hearing on "Innovative Project Finance"

September 28, 2010

1629 Locust Street Philadelphia, Pennsylvania 19103

Written Statement by David Seltzer, Principal
Mercator Advisors LLC
before the
Senate Committee on Environment and Public Works

"Innovative Project Finance" Hearing

September 28, 2010

Chairman Boxer and Ranking Member Inhofe, thank you for inviting me to testify this morning on "Innovative Project Finance." My name is David Seltzer, and I am a Principal at Mercator Advisors, a Philadelphia-based financial advisory firm that works with public, private and nonprofit entities seeking to finance major infrastructure projects and programs. We also advise federal agencies and transportation sector associations on federal policy initiatives that could stimulate infrastructure investment.

My personal background includes over twenty years of experience working in public finance investment banking, followed by several years working at the US Department of Transportation to help develop and implement innovative finance programs, such as TIFIA, GARVEE Bonds and State Infrastructure Banks. Aside from my current "day job" as a financial advisor, I also serve as chairman of the Philadelphia Gas Works—the nation's largest municipally-owned gas utility and, at 175 years, perhaps its oldest—so I am acutely aware of the reinvestment challenges confronting America's public works.

You have heard compelling testimony today from the Mayor of the City of Los Angeles and the Secretary of the Florida DOT concerning their major investment needs and how they are seeking to address them. I would like to briefly share with you how our firm considers what types of federal policy initiatives could be most effective in helping America's state and local governments accelerate and expand their transportation investment programs.

"Innovative Project Finance" in Context

The federal government has essentially four types of broad policy tools it can use to stimulate infrastructure investment: grants, regulatory streamlining, credit assistance and tax code incentives. Grant funding has been the traditional federal tool for surface transportation, but as you are well aware, the magnitude of the nation's transportation investment needs far

exceeds available resources. Regulatory reforms generally have little if any adverse fiscal impact, and can be helpful in streamlining project delivery. However, they may not provide a deep enough subsidy to stimulate major capital investment in and of themselves.

I would like to direct my comments to the last two federal policy categories—credit assistance and tax code incentives—as innovative project finance tools deserving further attention because:

(a) they can be highly effective in stimulating investment through leveraging pledged state and local revenue streams or user charges; and

(b) , they have a much smaller budgetary cost than traditional grant funding.

Larger projects with major public benefits often have capital requirements exceeding currently-available resources. The most effective way to accelerate the capital investment is through external financing repayable with future expected revenues. Credit and tax code incentives can help drive down the cost of borrowing below conventional levels, thereby maximizing the amount of investment that can be supported by any given revenue stream. Issuing bonds allows raising the capital today to take advantage of current favorable construction prices, generating immediate jobs and bringing the improvements into service much sooner, along with the associated economic and social benefits. At the same time, long-term financing equitably spreads the cost between current and future beneficiaries, through annual lease or debt service payments.

In order to be successful, any federal project financing proposal must address the requirements of three principal stakeholder groups. First, from the perspective of the project sponsor (which could be a State, City, public authority or public-private partnership), the new tool has to represent a *cost-effective source of capital,* compared to other existing approaches. Second, from the perspective of the investors (which could be public entities, like state infrastructure banks and public pension funds, or private entities, such as individual investors and financial institutions), the financing tool must offer a *competitive risk-adjusted rate of return*. And finally, from the perspective of the federal government, the tool has to be both *fiscally affordable and consistent with public policy objectives*. These three classes of stakeholders can be likened to a three-legged stool; if the policy proposal lacks support from any one of them, it is unlikely to be effective.

Summarized below are several suggested modifications to the TIFIA credit program and the federal tax code that we believe could stimulate transportation investment while satisfying the varied requirements of these three key stakeholder groups.

Credit Assistance through TIFIA

One of the existing federal credit programs that I helped develop while working at USDOT is the TIFIA program. TIFIA—the Transportation Infrastructure Finance and Innovation Act—was designed to provide supplemental and subordinate capital to surface transportation projects. The program funds up to one-third of project costs in the form of direct loans, loan guarantees and lines of credit.

The TIFIA program has proven quite successful—nearly $8 billion of credit assistance has been extended to 23 major projects, leveraging $29 billion of new capital investment. Of the federal loans made, 20 percent--$1.6 billion --have already been repaid in their entirety.

From a budgetary viewpoint, federal credit is much more cost-effective than outright grants. The fiscal charge for federal loans or guarantees is based on the "subsidy cost"—the present value of estimated losses from loan defaults and any interest rate subsidies below the government's own cost of funds. Under the TIFIA program, loans can be extended at a very modest scored budgetary cost—about ten cents on the dollar, on average. That means a $1 billion federal loan or loan guarantee may be provided at a scored cost of only $100 million. That kind of financial leverage is very compelling in the current environment, where infrastructure investment needs are great but federal budgetary resources are severely constrained.

Under federal credit reform rules, the budgetary charge for a direct loan from the government is basically the same as that for a federal guarantee on a loan funded by a third party. Yet of the 23 TIFIA credit agreements, 22 have taken the form of direct loans; only one has been in the form of a loan guarantee. The reason project sponsors prefer direct federal loans is because they typically offer more advantageous terms. As of last week, the direct federal lending rate was very favorable—about 3.75%. A lender on a federally-guaranteed loan generally would require a return that is ½% higher or more, to compensate it for liquidity concerns, transaction costs and other factors. In addition, direct federal loans give borrowers much greater prepayment flexibility than guaranteed loans from other parties.

Earlier this year, USDOT announced that it had received 39 letters of interest from major project sponsors seeking $12.5 billion in TIFIA loans for investments totaling nearly $41 billion. However, program funding is currently available to support only about $1 billion of new lending capacity – that's less than 10 percent of the expressed credit demand. To assist these and other potential project sponsors in accessing the TIFIA program and making better use of its credit support, the Committee may wish to consider certain enhancements, involving both funding levels and programmatic terms:

1. Increase TIFIA Program Funding. In recent years, the TIFIA program funding authorization has been $122 million per year, which is enough to support approximately $1 billion of annual credit assistance, or$5 billion over a five-year authorization. Based on tangible demand, increasing the amount of budget authority for this credit program is absolutely necessary. A five-year authorization of $1.5 to $2 billion to fund the subsidy costs of perhaps $15 to $20 billion of new loans could support potential total project investment in excess of $50 billion. This increased funding level certainly appears to be justified, and is consistent with the recommendation of the National Surface Transportation Infrastructure Financing Commission in its report to Congress last year. Growing the TIFIA program to accommodate the largest projects also will help remove pressure on the traditional federal-aid and new start grant programs, freeing up their capacity for other, smaller projects.

2. Incentivize Proposals that identify New Funding Streams. There has been much discussion in policy circles about the nation's infrastructure investment gap, and how best to address it. A key impediment has been insufficient project revenue streams to attract needed investment. The Committee may wish to consider prioritizing applications for assistance to major projects where the vast majority of funding—say, at least two-thirds—is coming from sources *other than* federal grants. This will reward state and local project sponsors who make the difficult commitment to generate the revenues necessary to support new investment.

3. Encourage Investments with Systemic Benefits, by giving Upfront Credit Commitments. TIFIA was originally conceived as a "project finance" tool, oriented towards individual projects. As a result, federal commitments to extend credit were tied to project-specific milestones, such as feasibility forecasts for project-generated revenues, final cost estimates, and environmental and other public approvals. However, transportation agencies increasingly are recognizing that a *portfolio of large, related projects* can produce transformational benefits in terms of regional mobility, air quality and economic development. These multiple projects often are backed by a single dedicated tax or other revenue stream under a common plan of finance, not reliant on any project's individual financial performance. For major, comprehensive programs, such as those in excess of $1 billion, the project sponsors would benefit from greater predictability of TIFIA funding over the programmatic delivery schedule. This could be achieved by authorizing USDOT to enter into "master credit commitments" covering a multi-year period, with assistance applicable to any of the underlying projects. An upfront credit commitment would allow USDOT to conditionally set aside funds, providing much-needed dependability for the project sponsor. No actual loans could be made for a particular project until detailed cost estimates and final environmental approvals had been received. But given the long lead-time on projects, an upfront credit commitment would provide important predictability in executing these transformational investment programs.

While there are some other, more technical modifications that also would enhance the TIFIA program, the three issues described above—tripling the funding level, incentivizing sponsors who rely on new, local revenue streams, and allowing upfront conditional commitments for multi-project programs—would greatly enhance the effectiveness of the TIFIA program.

Institutional Platform

Thus far, TIFIA loan administration has been managed through a joint program office within the Federal Highway Administration. This has functioned reasonably well, but if the program scale is to be expanded substantially, it would be worthwhile exploring whether other institutional approaches might be advantageous for quickly and responsibly selecting recipients of credit assistance and negotiating the financing agreements.

There has been much discussion in recent weeks about the potential advantages of establishing a new special-purpose entity, such as a national infrastructure bank, including a proposal announced earlier this month by the President and hearings held just last week by the Senate Banking, Housing & Urban Affairs Committee. The bank would be oriented to larger infrastructure projects, and would provide credit assistance, among other services.

Establishing a new government corporation requires answering important policy questions concerning the organization's scope, governance, accountability and programmatic effectiveness. While those issues are beyond the scope of this testimony, to the extent Congress *does* decide to create a new entity, we believe its lending authority should be arranged as a TIFIA-style federal credit program, rather than a loan revolving fund capitalized through public borrowing. That is, the bank should obtain lendable funds directly from the Treasury, rather than issuing its own public debt securities. This would result in much lower-rate loans, and offer much greater flexibility for borrowers than creating a new financial institution to borrow funds in the credit market to relend to project sponsors. Some observers have cited the multi-lateral European Investment Bank (EIB) as a potential model for the U.S. The EIB has some valuable features, especially in terms of its commercial orientation and highly-skilled staff. But using the EIB template for a national infrastructure bank's capital structure would, in our view, be less efficient, and its capital markets activities could raise federal policy concerns that are avoided under a TIFIA-style approach. In fact, the bank could become the entity responsible for managing both the existing TIFIA program and any future expansion of it.

Tax Incentives

While TIFIA can play a valuable role in facilitating financing for projects and programs, we also believe that tax incentives are a critical element of any comprehensive federal strategy to stimulate transportation investment. Tax code changes also have a much smaller scored

budgetary cost than the same volume of assistance provided in the form of outright grants. Recognizing that tax code changes are not under the jurisdiction of your Committee, we believe Congress should consider a surface transportation version of the highly-effective "qualified tax credit bond" programs.

Last year in the Recovery bill, Congress authorized a variety of tax subsidies to reduce state and local borrowing costs. Several of these programs provide federal subsidies in the form of annual tax credits offsetting up to 100% of the interest cost associated with bond financing. For example, Congress authorized $22 billion of qualified school construction bonds with a 100% interest subsidy, to stimulate school investment and job creation. A similar program targeted to major surface transportation investments could more than double the level of investment supportable by a state or local revenue stream, compared to traditional tax-exempt municipal bonds. Congress could specify an annual volume cap in order to control the fiscal impact of the associated tax expenditures. The volume could be allocated by the Secretary to those projects conferring the highest economic and social returns.

Another suggested tax code modification relates to the increasing role that the private sector is playing in delivering, managing and financing major transportation projects. It appears that Congress may extend the existing Build America Bonds (BABs) program, which expires at year-end, for at least another year. The BABs program allows state and local issuers to offer their bonds at a higher taxable rate, but receive a federal interest subsidy in the form of a refundable tax credit (currently set at 35 percent of interest cost). The taxable yield on BABs has attracted major new types of investors to purchase U.S. infrastructure bonds, such as pension funds and life insurance companies, whose tax position makes investing in tax-exempt municipal bonds unattractive. In fact, this is a perfect example of the "three-legged stool" metaphor referenced above—a new financial product that is attractive both to issuers and investors, within federal budgetary tolerances and policy parameters.

Under current law, BABs are limited to those projects that are eligible for "governmental purpose" tax-exempt bond financing. This requirement precludes projects that are deemed "private activity," due to private sector involvement in ongoing management or through equity investment. We think a strong policy argument could be made for extending eligibility for issuing BABs to general infrastructure projects with private participation *that are available to and benefit the general public*, such as highway, transit and other transportation facilities. Perhaps this sub-category could be differentiated from other private activity bonds by designating them as "Public Benefit Bonds," eligible to utilize whatever form of BABs Congress ultimately extends.

Conclusion

In an era of constrained budgetary resources, "innovative project finance" tools that draw upon a combination of credit and tax incentives can play an important role in advancing major transportation investments. The current TIFIA program has been very successful, but should be tripled in size in order to accommodate demand. The additional financing capacity might be prioritized towards the largest projects and programs conferring systemic benefits, and those backed by a major local commitment increasing the resources pledged for repayment. Authorizing USDOT to make upfront credit commitments available for multiple projects backed by a common plan of finance would provide much-needed predictability to project sponsors.

On the tax side, Congress should consider establishing a new class of zero-interest qualified tax credit bonds for major surface transportation projects, and extending the eligibility to issue Build America Bonds to transportation projects with private participation that are available to the general public.

Collectively, these enhancements would stimulate major new transportation investments with a relatively small federal budgetary impact. At the same time, these new tools could remove pressure from existing federal grant programs, which would continue to be focused on traditional uses.

Thank you for the opportunity to appear before you. I would be happy to respond to any specific questions you may have.

Question for David Seltzer from Senator Inhofe regarding the TIFIA Program
(follow-up from Senate Environment and Public Works hearing of September 28, 2010)

Question: In your testimony, you called for a large increase in the Transportation Infrastructure Finance and Innovation Act (TIFIA) subsidy funding, but still well below the approximately $1 billion in subsidy Budget Authority required to fund all of the loan applications received this fiscal year. Obviously, not all of these loans would be funded and there is additional demand for TIFIA associated with the current economic turmoil. What do you see as a new normal level of TIFIA applications over the next five years? Is it close to the $400 million figure you called for in TIFIA funding?

Response: The necessary level of TIFIA budget authority over the next five years will be a function of total demand for federal credit assistance (assumed to take the form of direct loans at the long-term US Treasury rate) and the scored cost of the credit assistance provided.

In terms of the general level of demand for TIFIA, this program has been attractive to state and local transportation project sponsors for a variety of reasons: USDOT's ability to lend on a functionally subordinate basis; its willingness to provide more flexible financial covenants and prepayment provisions than available in the capital markets; and, not least importantly, its lending rate, which is lower than other sources of investment capital. As you note, much of the demand for TIFIA in recent months is attributable to the roiled conditions in the credit markets—specifically, the unusually low yield on US Treasury obligations compared to traditional tax-exempt bonds (and, more recently, Build America Bonds). The market has been particularly inhospitable to lower-rated (below Single A) borrowers.

In recent months, we have seen tax-exempt yields for state and local borrowers narrow relative to the Treasury lending rate; in fact, for some higher-rated issuers, tax-exempt yields are at or below today's Treasury rate of about 4.0 percent. As the municipal bond market restabilizes, it may return to its historic yield relationship of being close to the Treasury yield, which would tend to control some of the potential demand for TIFIA assistance. On the other hand, a substantial reason for that market stabilization can be attributed to the presence of the Build America Bonds (BABs) program, which entails state and local borrowers issuing bonds at taxable (not tax-exempt) rates but receiving a 35% interest subsidy. The BABs program expires at year-end, and legislation has been introduced to extend it, although at a lower subsidy rate. A lower BABs subsidy rate will diminish the program's utilization by issuers, thereby reducing the "safety net" effect it provides and potentially increasing TIFIA demand.

Of the 39 letters of interest for TIFIA that were submitted to USDOT last March, only four were authorized to proceed to the formal application phase last month, representing $1.3 billion of the $12.5 billion in loan requests (about 10 percent). Looking at the list of projects, most of them appear to be revenue-backed projects likely to be lower-rated and continuing to find TIFIA attractive. This list obviously does not represent all the major projects likely to seek TIFIA assistance over a five-year authorization period, just those closer to seeking financing today.

The other element affecting the budgetary resources needed to support an extended and expanded TIFIA program is the risk-scoring of the loans. The average, as I noted in my testimony, has been about 10 cents on the dollar; although I would like to point out that USDOT in its announcement of a TIGER II award to LA Metro to fund a TIFIA loan for the Crenshaw light rail project estimated a subsidy score of just under four percent.

A $400 million per year funding level for TIFIA likely would support at least $4 billion per year of nominal federal credit assistance, or at least $20 billion over a five-year authorization. This amount of TIFIA activity in turn would support at least $60 billion of capital investment, based on a 33 percent maximum TIFIA share of total project funding sources. This level of federal budgetary support for the TIFIA credit program certainly seems justifiable based on our understanding of current and likely future market conditions and the potential pipeline of major projects.

Senator BOXER. Well, thank you all.

I wanted to start with you, Mr. Seltzer. When we talk about dramatically increasing TIFIA, which I support, the point you make is very key. That you dramatically expand it, but it is leveraged so the Federal Government is not spending that much more, but the dollars go much further. What is the multiplier effect, do you think, approximately, for every dollar we put in there?

Mr. SELTZER. Well, based on the historic TIFIA performance, the average budgetary cost of each loan has been say 10 cents on the dollars. So, there is a 10 to 1 leverage in terms of budgetary cost effectiveness. And then the TIFIA share is limited to not more than one-third, and oftentimes less than that, so there is at a least a threefold multiple on that. So, it is in excess of 30 to 1 multiplier for the budgetary scored cost of the program.

Senator BOXER. Thank you. I think that is very key, and I think that is why you see support for expanding this program from Senator Inhofe, and I think we have it across party lines. And that is why I am harping on TIFIA so much because I see people coming together around it, rather than getting off in an argument about some new program which may be very good but could slow us down. And I think it is key.

Mayor, I wanted to ask you about the support for this program from the Mayors. We do have a letter from them. Could you describe the level of interest in this as you speak to your colleagues?

Mr. VILLARAIGOSA. The U.S. Conference of Mayors unanimously, on consent, approved the 30/10 Initiative as a model for the kind of innovative financing cities need across the country. In addition to that, I mentioned a number of cities that have specifically indicated interest. And, in addition to that, Secretary LaHood was last week here in DC at the Conference of Mayors where he mentioned the 30/10 Initiative as a model. So has Governor Rendell, who has talked about this as a template for infrastructure investment across the country.

Senator BOXER. Well, I want to pursue this because, in a time when everybody talks about partisanship, I was so impressed with the group that you brought back here when we had that press conference. And as I remember it, correct me if I am wrong, you had business leaders, you had labor leaders, you had——

Mr. VILLARAIGOSA. Public health and environmental leaders——

Senator BOXER. All right. So, you describe——

Mr. VILLARAIGOSA. We had a broad cross section of——

Senator BOXER. Just describe to us the support for this concept.

Mr. VILLARAIGOSA. Well, bankers, small business people, the Chamber of Commerce, some of the ethnic business organizations, the public health advocates were there, environmental organizations, labor, the leader of the AFL-CIO, Mr. Trumka, was with you and I at a rally in Los Angeles where he said that this is a template for what we need to do, that we need to replicate 30/10 across the country.

Senator BOXER. Well, let me just close my question to the Secretary.

To me, you know, I am sitting here, and I am thinking of the beauty of this proposal, and three words come to my mind, leveraging, accelerating, and partnership. And you are blending all

of these ideas together. And to me, and I think to others on this Committee, those are three things we really need to do. So, Madam Secretary, how would you respond to this 30/10 idea?

Ms. KOPELOUSOS. Senator, I think the issues are clear. There is much need around this country for infrastructure, from all aspects of it, and I think the more we can leverage at every level—not just State or local but at the Federal level as well—the better off we are going to be in delivering the infrastructure that we need. We need to determine, are we going to have a world class infrastructure around our country——

Senator BOXER. No question.

Ms. KOPELOUSOS. And what level we want, and then how are we going to get there.

Senator BOXER. And do you think if we were to include this notion, an expansion of TIFIA with a commitment to leverage local funds, to accelerate funding so we get it done quicker because right now, as the Mayor has told me, bids are coming in 25 and 30 percent less. Is that true in Florida?

Ms. KOPELOUSOS. Yes, absolutely. We are seeing 20, 27 percent.

Senator BOXER. My goodness. So, you could actually save so much money you could even do more at the end of the day. So, the answer here is, if we were to do this, and encourage local action, do you think it would send a signal to the cities and counties and States that they will have funds, the possibility of having their funds leveraged and accelerated, do you think that would help local communities step up to the plate?

Ms. KOPELOUSOS. Chairwoman, I think it would. I think, too, in high growth States like you and I live in, we have had to address those issues numerous ways, and I think any enhancement of the tools with TIFIA, we have been able to use it in Florida, it has been through some tweaks, and I applaud Chris Bertram and the team at USDOT for what they have done with the TIFIA Program now, but any enhancement of that would truly benefit, I think, at least those in Florida.

Senator BOXER. Excellent. Mayor, anyone who wants to add, we have a little time.

Mr. VILLARAIGOSA. I just wanted to mention, and thank you for your testimony, Mr. Seltzer, that 30 to 10 multiplier effect with TIFIA, that is with the expansion of TIFIA, well, that is with the TIFIA Program and obviously if it was expanded threefold, all the more. But with the creation of Qualified Transit Improvement Bonds, you would be adding another multiplier effect here because you are creating a new category of bonds for transportation infrastructure much as you have for forestry conservation, renewable energy projects, energy conservation, and new schools.

Senator BOXER. You mean the Build America Bonds that Mr. Seltzer spoke about. Is that correct?

Mr. SELTZER. Senator, there are actually two different classes of bonds, expanding Build America Bonds to allow the public-private partnerships and expanding the existing Qualified Tax Credit Bonds to allow major surface transportation projects to take advantage of that same tool.

And while I recognize it is not—it has to go to the tax writing committees, many good ideas for Tax Code measures in the past

have come out of this Committee, such as the Private Activity Bonds for highway and intermodal facilities.

Senator BOXER. Anything else that anyone on the panel would like to add? If not, I would ask the three panelists if they could meet me in this room so I can thank you so much for coming today. So, see you there shortly.

I want to thank Senator Inhofe's staff for giving us his opening statement so I could read part of it into the record.

And we stand adjourned, and our hope is to get a bill done, to at least start the bill writing process before the end of this year.

Thank you very much.

[Whereupon, at 11:15 a.m., the Committee was adjourned.]

[Additional material submitted for the record follows:]

Testimony Submitted to the Senate Committee on Environment & Public Works
By the Riverside County Transportation Commission (RCTC)
"Innovative Project Finance"
September 27, 2010

The Riverside County Transportation Commission (RCTC) applauds the Committee for holding a hearing on this important matter. Through this testimony, RCTC hopes to provide recommendations and concrete examples that will help spur infrastructure investment into innovative projects using alternative methods.

TIFIA is a needed tool for self-help counties and projects that generate revenue

RCTC is a "self-help" regional transportation agency in Southern California that is primarily funded through the half-cent voter-approved sales tax, Measure A. Riverside County's two million residents have twice voted by more than two-thirds to tax themselves to pay for regional highway, transit, and local road improvements. This dedicated revenue stream is spent on specific projects included in the voter-approved expenditure plan. RCTC's board of directors consisting of 31 locally elected officials is accountable to the voters for delivering those projects. Measure A has made RCTC the majority partner in funding infrastructure projects on the state and federal-aid system in Riverside County. Despite this decades-long local funding commitment, existing and projected congestion is far beyond the ability of RCTC to remedy to meet the needs of the working families and businesses that keep Southern California's economy moving.

TIFIA is the ideal program to enable self-help agencies such as RCTC to continue moving forward with their large shelf of projects and create jobs in the near term. Expanding the TIFIA program now and making small reforms can incentivize and leverage greater investment in infrastructure while Congress prepares a comprehensive long-term authorization. Voter-approved sales taxes devoted to specific infrastructure projects provide a reliable revenue stream that can repay TIFIA loans. Furthermore, tolling projects and other projects that create revenue are ideal TIFIA projects. RCTC is beginning procurement of a $1.3 billion project supported by both voter-approved sales taxes and tolling. This project will require a TIFIA loan before it goes to construction and creates 18,000 jobs. Specifically RCTC advocates:

- Expanding the capacity of the TIFIA program now;
- Raising the cap on TIFIA investment from 33% of the project cost to at least 50%;
- Prioritizing projects sponsored by "self-help" agencies with voter-approved revenue streams;
- Ensuring the expeditious processing of TIFIA applications.

These steps would provide needed financing for long-term infrastructure projects and enable them to create near-term construction jobs and congestion relief. These reforms would also save millions of dollars in financing costs due to TIFIA's more favorable terms. This is a win-win for sponsors and the federal government, as the federal subsidy for a TIFIA loan can leverage up to ten-times the federal investment, meaning both parties get the greatest "bang" for the least amount of "buck."

The 91 Project in Riverside County is an innovative example of how TIFIA can create jobs in the near term and invest in projects that will have long-term benefit

In 2006, RCTC initiated an innovative project on one of Southern California's most notoriously congested freeways, State Route 91 (SR-91). The SR-91 Corridor Improvement Project (hereafter referred to as the "91 Project") will cost $1.3 billion and go above and beyond what was promised to the voters in Measure A over the next 30 years. Rather than just build one general-purpose lane in each direction on SR-91, which would likely experience low Level of Service immediately, the 91 Project provides options to commuters by adding two additional express tolled lanes, extending the successful *91 Express Lanes* in Orange County by another ten miles, reconstructing six interchanges in urban areas and relieving the severe bottleneck at the SR-91/I-15 interchange. By adding a toll component to the project, RCTC has created a way to nearly triple the infrastructure investment in the corridor while providing a congestion management tool that has been highly successful -- and accepted by the public -- on the same highway. Revenue generated by tolls are reinvested in maintenance and operation of the corridor, per state law, and managed by an advisory committee of local elected officials from Riverside and Orange Counties. Through the year 2065, the state and federal government will incur no costs to maintain or operate this extraordinarily congested highway. When regional agencies "step up" to the plate in this innovative manner to create new investment and provide mobility choices – and jobs – we firmly believe that the federal government should be ready and willing to provide partnership. The 91 Project is an example.

All of this innovative work requires one final piece: a TIFIA loan. Nearly five years of effort have gone into securing state and federal tolling authority, design-build authority, cooperative agreements with multiple agencies, as well as hundreds of millions of dollars for the environmental document and construction management services. All of this has been done at-risk, without the assurance of a TIFIA loan to complete the financing package, accounting for approximately one-third of construction costs. The construction and finance industry has given tremendous attention to following this project. The 91 Project will create 18,000 jobs in a region that has been the epicenter of the foreclosure crisis, construction industry downturn, and has experienced a persistent unemployment rate exceeding 14%.

If the U.S. DOT and Congress wish to see more projects of this magnitude and innovation, an expanded TIFIA program with the aforementioned reforms is necessary. Innovation always entails risk; however, the federal government can mitigate some of that risk and encourage more innovation by providing more low-cost financing assistance to projects like the 91 Project that generate revenue and are backed by voters. When locals make up-front commitments like this, we believe they should be rewarded. TIFIA is a significant first step.

Thank you for considering this testimony as the Committee develops policy proposals to create jobs and invest in long-term infrastructure for our nation. RCTC is deeply appreciative of your leadership. Please feel free to contact Executive Director Anne Mayer or Government Relations Manager Aaron Hake at (951) 787-7141 or ahake@rctc.org for any follow-up questions you may have.

Sincerely,

Bob Buster
Chair