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THE LONG-TERM VALUE TO U.S. TAXPAYERS OF LOW-COST FEDERAL INFRASTRUCTURE LOANS

HEARING

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

JULY 11, 2018

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COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

ONE HUNDRED FIFTEENTH CONGRESS
SECOND SESSION

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C O N T E N T S

THE LONG-TERM VALUE TO U.S. TAXPAYERS OF LOW-COST FEDERAL INFRASTRUCTURE LOANS

WEDNESDAY, JULY 11, 2018

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

The Committee met, pursuant to notice, at 10:07 a.m. in room 406, Dirksen Senate Office Building, Hon. John Barrasso (Chairman of the Committee) presiding.

Present: Senators Barrasso, Carper, Inhofe, Boozman, Wicker, Fischer, Rounds, Ernst, Sullivan, Cardin, Gillibrand, Booker, Markey, Duckworth, and Van Hollen.

OPENING STATEMENT OF HON. JOHN BARRASSO, U.S. SENATOR FROM THE STATE OF WYOMING

Senator BARRASSO. Good morning. I call this hearing to order.

Today the Committee will examine the benefits of Federal infrastructure leveraging programs to American taxpayer dollars.

This is the seventh hearing our Committee has held this year on improving our Nation's highways, bridges, and water projects. These hearings have shown infrastructure is critical to our Nation's prosperity.

As America's population and economy have grown, our infrastructure has not kept pace. Maintenance shortfalls and project backlogs have left many key elements of our infrastructure in transportation in need of major repair and replacement in transportation, as well as water. As a result, major infrastructure improvements are needed across the country to build, to maintain, and to replace these vital systems.

Timely decisions and timely construction are keys to success. The sooner a project is built, the sooner it can have a positive impact on the lives of the people in those communities and those affected.

Loan and loan guaranty programs often allow expensive projects to be delivered in a timely fashion and at a reduced cost. These programs are the Transportation Infrastructure Finance and Innovation Act, referred to as TIFIA; the Water Infrastructure Finance and Innovation Act, called WIFIA; and the new Securing Required Funding for Water Infrastructure Now Act, the SRF WIN Act.

TIFIA loans have been used very successfully for the construction of critical transportation infrastructure, and we expect to see similar success through WIFIA and SRF WIN. These programs enable State and local project sponsors to borrow money at lower long-term cost and to complete construction years sooner than if funding were secured through other means.

As we have heard in past hearings, leveraging Federal funding to maximize investment is a tool that the Trump administration strongly supports. Two of these leveraging programs are key components of America's Water Infrastructure Act, the bipartisan legislation that we passed unanimously through this Committee last month.

Based on our water infrastructure bill, the Congressional Budget Office, or the CBO, has estimated that the WIFIA program and the SRF WIN program would receive appropriations of $400 million over 2 years. That expenditure would then be leveraged by State borrowing to generate $12 billion in new water infrastructure spending.

Converting $400 million in Federal resources into $12 billion in new infrastructure spending is exactly the kind of leveraging that President Trump has been calling for.

This is particularly true for the SRF WIN program, which is designed to help rural States. Such leveraging seems good for Federal taxpayers as well as States, alike. Congressional rules dictate that all bills be scored by the CBO to assess the amount of taxpayer dollars that are going to be spent, but also by the Joint Committee on Taxation—the JCT—to judge if any Federal revenue will be lost.

When States use tax-free bonds for infrastructure projects, JCT assumes that the Federal Treasury will lose tax revenue when States borrow, so under their theory the $12 billion in increased State infrastructure spending is presumed to cost the Federal Treasury $2.6 billion.

The Committee has addressed this scoring issue by cutting back the size of the SRF WIN program. These changes will be reflected in the version of the American Water Infrastructure Act that will soon be brought to the Senate floor.

Now, I believe that leveraging programs such as WIFIA and TIFIA and SRF WIN are good for Federal taxpayers since they enable States to address more of their infrastructure backlog. If States aren't able to finance their infrastructure needs, then Federal taxpayers will inevitably be on the hook to directly fund more projects in the future.

So, today, former CBO Director and American Action Forum President Doug Holtz-Eakin is going to share his observations on how leveraging programs can generate economic growth and demonstrate benefits to the taxpayer far beyond any loss of Federal revenue. We will also hear about successful projects using these programs in Delaware and in Santa Ana, California.

Before we introduce our witnesses today, I would like to turn to Ranking Member Carper for his remarks.

OPENING STATEMENT OF HON. THOMAS R. CARPER, U.S. SENATOR FROM THE STATE OF DELAWARE

Senator CARPER. Thanks, Mr. Chairman.

Great to be with all of our colleagues and to see some familiar faces, and to actually see a couple of new ones, too. Thank you all for coming, for joining us today.

Mr. Chairman, thanks for the holding the hearing. We are here, as you said, to discuss several innovative low-cost Federal loan programs and the value that they provide for the development of our transportation infrastructure, as well as for the people who use that infrastructure and for the American people.

Congress created the Transportation Infrastructure Finance and Innovation Act, known as TIFIA, back in 1998. I was a Governor then, and I recall the National Governors Association working with the Administration on this initiative. But we did it in order to fill a gap in our infrastructure investments.

Public funding is critical for the majority of transportation projects; however, at times, lack of sufficient funding makes it difficult for agencies to build high cost projects, despite the many benefits that these projects might yield.

In 1998 Congress found that "a Federal credit program for projects of national significance can complement existing funding resources by filling market gaps." That is what we were thinking about 20 years ago.

There is a project underway in Maryland, transportation project, that flows right of Delaware. Some of you know there is a road called Route 301 that flows off of—if you take 50 East out of here and pick up on the other side of the Chesapeake Bay, pick up 301. It is really a beautiful drive.

Senator CARDIN. What State is that in?

Senator CARPER. That is in your State, in the State of Maryland, which is well represented here today. And when you get to Delaware, a beautiful four-lane highway becomes a two-lane road, you slow down, and it goes through a more developed area. For years, for decades, we wanted to do something about it, but what we do, we pick up 301, we turned it into a four-lane limited access highway.

And the 301 project in Delaware I think is a really good example of a project where traditional funding mechanisms just were not sufficient. The improvement to Route 301 in my State had been needed for a long time, but the project cost was more than 3 times higher than the total Federal funding Delaware receives in a single year, so building it with public funding alone just was not feasible.

The TIFIA loan that we have obtained enabled the US 301 project to move forward, improving safety and regional mobility, and providing the State with a convenient alternative to the commercial traffic bottleneck on I–95. Actually, it is a bottleneck that goes through Middletown and a bunch of other areas, Odessa, before you get to I–95. But the project is expected to generate about 15,000 jobs, and it will contribute to the long-term economic vitality of our region, and I think it will be good for our neighboring State, Maryland.

Building on the success of the TIFIA program for transportation in 2014, Congress made low-cost financing available for a lot of infrastructure as well, by authorizing the Water Infrastructure Finance Innovation Act, or WIFIA. Through WIFIA the Environmental Protection Agency can now provide credit assistance in the form of secured or direct loans, or loan guarantees, for a wide range of drinking water or wastewater projects.

EPA is now reviewing letters of interest for WIFIA loans and has begun providing loans to help complete water infrastructure projects. These projects have the potential to increase the availability of drinkable water, to replenish groundwater, improve water quality, reduce pollutants, and improve the resilience of water facilities.

The U.S. Army Corps of Engineers was also authorized to provide similar assistance for water resource projects, such as flood control or hurricane and storm damage reduction; however, Congress has not yet appropriated funds, nor has the Trump administration requested funds, for the Army Corps to use this authority.

Innovative finance programs such as WIFIA and TIFIA offer loan terms that make them a good value for borrowers, such as low fixed interest rate, longer payment schedule, and an option to defer payment. Of course, the loan programs are not a replacement for public funding, nor should they be. The TIFIA program has now been authorized for 20 years, during which time just 67 loans have been made.

The 301 project I have been talking about in Delaware was our State's very first TIFIA loan. Many projects are not well suited for loans because they lack a revenue stream to enable the repayment of that loan.

As we consider calls to expand these innovative finance programs, we should keep in mind that in 2015 we reduced the size of the TIFIA program because it was not being used. There is still significant unused credit assistance available in the TIFIA program. As a result, expanding the program will not necessarily increase the level of infrastructure investments.

Last week the Federal Transit Administration changed their policy to consider USDOT loans such as TIFIA as Federal funding rather than as the local match. However, the TIFIA statute is quite clear that these loans count toward the non-Federal share of a project when they are repaid with local funds. This policy change could lead to many prospective projects not applying for TIFIA programs at all, which could exacerbate the problem of unused loan authority.

Congress and the Administration should be working together to make it easier for State and local agencies to access these loans and invest in our infrastructure, not more difficult. Our goal should be to provide a portfolio of options for infrastructure investment, including direct Federal grants and loans, so that State and local project sponsors may identify the best techniques to improve their community's water, their mobility, and their quality of life.

We look forward to hearing from our witnesses today to figure out how we can best achieve that goal and again we thank you all for joining us.

Mr. Chairman, thank you for holding this hearing.

Senator BARRASSO. Thank you very much, Senator Carper.

We will now hear from our witnesses. We have Doug Holtz-Eakin, who is the President of the American Action Forum; we have Vicente Sarmiento, the Executive Director of the Riverside County Transportation Commission; and Brian Motyl, who is the Assistant Director of Finance at Delaware Department of Transportation.

I would like to remind the witnesses that your full testimony will be made part of the official hearing today, so please keep your statements to 5 minutes so that we may have time for questions. I look forward to hearing the testimony of each of you, beginning with Mr. Holtz-Eakin.

STATEMENT OF DOUG HOLTZ-EAKIN, PRESIDENT, AMERICAN ACTION FORUM

Mr. HOLTZ-EAKIN. Thank you, Chairman Barrasso, Ranking Member Carper, and members of the Committee, for the privilege of being here today. I will be brief, and I look forward to answering your questions.

The design of infrastructure finance programs centers on their unique feature, which is that infrastructure, once it is provided to one individual, is available to all, and this collective benefit aspect of it is an important thing to think about when designing the financing of infrastructure projects.

Those benefits can take a variety of forms; they can take the form of better productivity. So, if we have a better road network, we can see improved business productivity, higher wages, increased standard of living. They can also take the form of non-marketed benefits. If we have a better road network, I can get from home to work faster, so I can leave later and see my family more; I can get home more quickly after doing the same amount of work in my office, so my measure of productivity is the same, but my life is better. So those kinds of benefits figure into the returns of infrastructure projects.

They also typically do not accrue to just one jurisdiction; there are spillovers and benefits. As you just mentioned, between Delaware and Maryland, in wastewater, streams flow across different jurisdictions so there is a natural Federal role in making sure that adequate infrastructure is provided that recognizes the benefits to all, including the spillovers to other jurisdictions.

So the programs we are discussing today, WIFIA and SRF WIN, have exactly those characteristics, and I think that is important to be noted. They rely heavily on project selection by the State and local authorities who are most familiar with the benefits that will accrue to their affected stakeholders, and that project selection is an important part of thinking about the economics of infrastructure. Is the return to money in the public sector in an infrastructure project the same or greater than using that capital in a private investment and getting a market rate of return? That is the core economic question. They are best positioned to answer that through a variety of means.

Second thing they do is because stakeholders have money invested in these projects, it ensures not just good project selection, but efficient project operation. There is no interest in wasting their own money, and thus, the Federal taxpayers' money is well protected as well.

And then the third is the fact that the Federal Government does actually have a stake in this that enhances the scale and the scope of these projects, and it does provide the leveraging aspect that the Chairman mentioned, that a large amount of infrastructure can be supported through a relatively modest Federal investment.

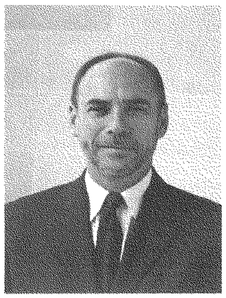
The thing I would note about all of that is that that very framework for thinking about good infrastructure projects and good infrastructure finance bears essentially zero relation to the CBO score that you will get on your bill, or any other bill. CBO scores are costs. They do not in fact attempt to measure benefits; they do not reflect the productivity that infrastructure can provide; they don't reflect the non-marketed benefits that the population enjoys; they reflect only the costs, and indeed, they reflect only the Federal budget costs.

So the right way to think about the score on a WIFIA or SRF WIN program is it is a good measure of the budgetary resources that will not be available for other priorities from the Senate or the House because of the funding of WIFIA or SRF WIN. That includes the subsidy costs that you have to cover and the Joint Committee's estimate of taxes not collected as a result of the program.

So there is nothing wrong with the scoring; it just answers a very narrow question: What budgetary resources does this program make unavailable to other priorities? It doesn't answer the core question: Is this a good idea? And that is something that the Congress and the Committee must consider when going forward with these projects.

So, I am delighted to be here today, and I look forward to answering your questions.

[The prepared statement of Mr. Holtz-Eakin follows:]



Douglas Holtz-Eakin
President of the American Action Forum
Washington, D.C.

Doug Holtz-Eakin has a distinguished record as an academic, policy adviser, and strategist. Currently he is the President of the American Action Forum.

Since 2001, he has served in a variety of important policy positions. During 2001-2002, he was the Chief Economist of the President's Council of Economic Advisers (CEA) (where he had also served during 1989-1990 as a Senior Staff Economist). At CEA he helped to formulate policies addressing the 2000-2001 recession and the aftermath of the terrorist attacks of September 11, 2001. From 2003-2005 he was the 6th Director of the non-partisan Congressional Budget Office (CBO), which provides budgetary and policy analysis to the U.S. Congress. During his tenure, CBO assisted Congress as they addressed numerous policies -- notably the 2003 tax cuts (JGTRRA), the Medicare prescription drug bill (MMA), and Social Security reform.

During 2007 and 2008 he was Director of Domestic and Economic Policy for the John McCain presidential campaign. Since then he has been a Commissioner on the Congressionally-chartered Financial Crisis Inquiry Commission.

Dr. Holtz-Eakin built an international reputation as a scholar doing research in areas of applied economic policy, econometric methods, and entrepreneurship. He began his career at Columbia University in 1985 and moved to Syracuse University from 1990 to 2001. At Syracuse, he became Trustee Professor of Economics at the Maxwell School, Chairman of the Department of Economics and Associate Director of the Center for Policy Research.

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The Economic and Budgetary Effects of WIFIA and SRF-WIN

Douglas Holtz-Eakin
President, American Action Forum*

July 11, 2018

*The views expressed here are mine alone and do not represent the position of the American Action Forum. I thank Gordon Gray for his assistance.

Chairman Barrasso, Ranking Member Carper and members of the committee. Thank you for the privilege of appearing today to discuss the economic and budgetary impacts of the Water Infrastructure Finance and Innovation Act (WIFIA) and Securing Required Funding for Water Infrastructure Now Act (SRF-WIN) programs. In what follows, I hope to make three basic points:

- The WIFIA and SRF-WIN programs allow relatively few federal dollars to support a very large base of water infrastructure investments.
- The economics of infrastructure investment are conceptually straightforward and are a natural function of the public sector.
- The federal budgetary treatment of these programs correctly identifies the budgetary resources made unavailable for other purposes, but sheds no light on the basic investment decisions supported by the programs.

Let me take these in turn.

Overview of WIFIA[1]

The Water Infrastructure and Finance and Innovation Act (WIFIA) is a federal credit program administered by the Environmental Protection Agency (EPA) for eligible water and wastewater infrastructure projects. The WIFIA program works separately from, but in coordination with, the State Revolving Fund (SRF) programs to provide subsidized financing for water infrastructure for projects. The program was established by the Water Resources Reform and Development Act of 2014 (WRRDA) and authorizes the EPA to provide federal credit assistance – in the form of capital loans – to a range of drinking water and wastewater projects. The WIFIA program can provide up to 49 percent of the anticipated eligible project costs, however, total federal assistance may not exceed 80 percent of a project's eligible costs.

Eligible borrowers of WIFIA loans include local, state, and federal government entities, partnerships and joint ventures, corporations and trusts, and Clean Water and Drinking State Revolving Fund programs. The WIFIA program funds for development and implementation activities – pre-construction activities, construction, reconstruction, rehabilitation, and replacement activities, and acquisition of real property – for eligible projects.

Eligibility is also contingent on project costs, public support, and creditworthiness. The project's eligible costs must be at least $20 million. However, the threshold is lower for projects serving rural areas. Projects serving a population of 25,000 or less must have costs of at least $5 million. Projects that are carried out by private entities must demonstrate that the community has been consulted and that the project has the support of affected state, local, or tribal government in which the project is located. In addition, projects applying for WIFIA credit assistance must be creditworthy and must have a dedicated revenue source. If a projected is selected to receive WIFIA assistance it must abide by National Environmental Policy Act, Davis-Bacon, Buy America, and all federal cross-cutter provisions.

Benefits of WIFIA Credit Assistance

The volume of credit assistance offered through WIFIA is contingent on the size of congressional appropriations the subsidy rate of the eligible program. The EPA can use congressional appropriations for administrative purposes and loan subsidy costs – the estimated cost of default. Since the EPA is required to cover only the loan subsidy costs, a greater size of WIFIA credit assistance can be generated from the congressional appropriations. The Administration's Office of Management and Budget (OMB) estimated an average 1.55 percent subsidy rate for WIFIA projects in FY2018. OMB's estimated subsidy rate for WIFIA suggests that every $1 of WIFIA contract authority, on average, will enable the EPA to issue $102 in WIFIA loans (1:102 direct loan leverage ratio). Since WIFIA can cover up to 49 percent of project total costs, WIFIA appropriations could yield a total water infrastructure investment ratio of 1:208, on average.

Borrowers benefit from the low interest rates of WIFIA assistance and repayment schedule. The interest rate of the loan will be equal or greater to the U.S. Treasury rate of a similar maturity, thus lowering the cost of capital for borrowers beyond the cost of traditional tax-exempt municipal bond. Additionally, repayment on WIFIA loans may be deferred for a maximum of five years after the substantial completion of the project. However, the final maturity date of the WIFIA credit assistance shall be no later than 35 years after the date of substantial completion.

In FY 2015 and FY 2016, Congress appropriated $2.2 million to the EPA to design and staff the WIFIA program. Enactment of the Further Continuing and Security Assistance Appropriations Act of 2017 provided the first appropriation of funds to cover the subsidy costs of loans issued under the program. The Act appropriated $20 million to the EPA to begin subsidizing gross obligations for the principal amount of loans and allows the agency to use $3 million of the total for administrative costs. The Consolidated Appropriations Act of 2017 appropriated an additional $8 million for credit subsidies raising WIFIA's total appropriations to $25 million. For FY 2017, the WIFIA program selected 12 projects to apply for $2.3 billion in WIFIA loans, which, in addition to private capital and other funding resources, will help to finance $5.1 billion in water infrastructure investment.

For FY2018, the Consolidated Appropriations Act, 2018 (P.L. 115-141), provided $63 million for the WIFIA program (including $8 million for administrative costs). EPA estimated that its budget authority ($55 million) would provide approximately $5.5 billion in credit assistance, which could support an estimated $11 billion in water infrastructure.

Overview of SRF-WIN

The SRF-WIN Act amends WIFIA to provide to State infrastructure financing authorities additional opportunities to receive loans to support drinking water and clean water State revolving funds. It combines aspects of both WIFIA and State Revolving Funds (SRFs), building upon the leveraging concept in WIFIA to provide new funds for State Infrastructure Financing Authorities to utilize.

The Economics of Infrastructure Investment

The economics of public infrastructure are straightforward. Clean water, to take a concrete example, benefits everyone simultaneously. Once it is clean for one resident, it will be clean for all. For this reason, conventional private market methods work poorly in providing infrastructure and the public sector becomes involved.

That does not change the fact that the infrastructure is valuable and provides benefits to the population. If a $100 infrastructure investment provides $*B* on average annually in benefits to the population over its lifetime, the social rate of return on investments is $*B*/100 or *b* per year.

The resources to the make this investment must be drawn from the private sector via taxes or borrowing. This reduces the funds available for private investment by a corresponding $100, which eliminates a potential investment.

If the rate of return on the private sector investment is *r*, then the economics of infrastructure investment can be reduced to the canonical question: are the benefits greater than the costs. In this instance, is *b* bigger than *r*? If so, it makes sense for public policy to engender infrastructure investment.

The Federal Budgetary Treatment of Infrastructure Investment

The federal budgetary presentation bears essentially no resemblance to the core economic question in play for three reasons.

First, the budget process focuses on identifying <u>costs</u> of programmatic activities. It makes no attempt to quantify benefits or to systemically investigate the benefit-cost question. It simply addresses a different question.

Second, the focus is on federal budget cost. It is not attempting to measure the social cost of an infrastructure investment (*r* in the example above). Nor is it attempting to measure the costs borne by municipal governments, state governments, private sector investors, or any other participant in the infrastructure investment.

Third, it is focused on the costs of <u>financing</u> the investment. In the case of WIFIA and SRF-WIN the budget costs take two forms: (a) the subsidy cost that covers the probability of less-than-100 percent recovery of the initial infrastructure investment, and (b) the revenue forgone on taxing the return on private sector investments. In the federal budget context, this is entirely appropriate as these are measures of the budgetary resources made unavailable for other uses by funding WIFIA and SRF-WIN projects.

Thank you and I'd be happy to answer your questions.

Notes

[1] This section relies heavily on the WIFIA primer written for AAF by Brianna Fernandez.

Senator BARRASSO. Well, thank you so much for your testimony.

Mr. Sarmiento, let me first apologize. I think I introduced you from the wrong location. In fact, I understand you are the Orange County Water District representative. If you could clarify things as you open, but we are delighted that you are here to share your experience with us today. Thank you for being here.

STATEMENT OF VICENTE SARMIENTO, DIRECTOR, ORANGE COUNTY WATER DISTRICT

Mr. SARMIENTO. Thank you. Good morning, Chairman Barrasso and Ranking Member Carper and members of the Committee. It is my honor and privilege to be with you and address the Committee on the need to support Federal financing of our Nation's public water infrastructure projects.

My name is Vicente Sarmiento, and I am a Director with the Orange County Water District, as well as a Councilmember from the city of Santa Ana, California.

The Orange County Water District is an internationally recognized leader in the water industry, and we are presently celebrating our 85th anniversary. We are proud to provide clean and safe drinking water to 2.5 million people that live and work in Orange County, California, and our primary responsibility is to be stewards of the Orange County Groundwater Basin, which is a large underground aquifer that provides 75 percent of the county's water.

One of our most important assets is to recharge that basin with the Groundwater Replenishment System, or GWRS. It takes treated wastewater that would otherwise be sent to the Pacific Ocean and applies an advanced purification process that produces high quality water that meets or exceeds Federal and State drinking water standards. It is the world's largest advanced purification project of its kind. Some have called it toilet to tap. We like to refer to it as showers to flowers.

GWRS is a collaborative effort with the Orange County Sanitation District. Presently we generate about 100 million gallons a day of safe water for our folks in Orange County, and that is for about 850,000 folks. With our final expansion, we will be generating 130 million gallons a day for 1 million residents in Orange County.

The GWRS final expansion will cost approximately $270 million and is estimated to create about 700 new jobs during the design and construction phase. With this final expansion, the Orange County Water District and Sanitation District will be recycling 100 percent of recyclable water within their service area.

To finance the final expansion, the Orange County Water District applied for a WIFIA loan for 49 percent of its project, or $135 million. Of the 47 applications submitted, we were advised that our loan will be approved at the end of the month, which makes us very happy.

The borrowing rate of the assistance is approximately 3 percent. Our AAA rated agency could have issued tax exempt bonds at 3.8 percent, which is nearly a percent higher, but that would have cost our ratepayers approximately $18 million more had we gone to the private bond market.

In addition to the cost savings, the WIFIA loan program allows for repayment flexibility, subordination of other projected debt, and other opportunities to leverage the assistance, such as the State Revolving Fund, or SRF, for the remaining 51 percent.

It is fair to say that the WIFIA assistance is an essential tool in our toolbox to use to finance critically important water infrastructure projects. If not for the WIFIA loan, we would have had to have sought funding from the SRF. Unfortunately for us, the SRF is currently oversubscribed in California. Incidentally, the Orange County Water District does not want to see the SRF reduced, replaced, or dismantled at the expense of the new WIFIA program. Both programs are very vital to realizing important water projects.

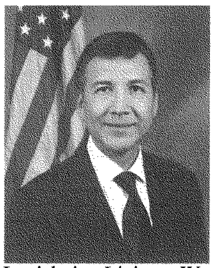
As a director and councilmember that represents many working families, I applaud your support of WIFIA, which provides access to funding for smaller agencies in low income communities.

In closing, the Orange County Water District was able to realize its landmark project, the GWRS, with reduced cost to our ratepayers and without significant delays because of the WIFIA program.

Finally, I want to thank you for allowing me to appear before you and your efforts to provide support for the water infrastructure projects that know no political or geographic boundaries, no socioeconomics of the end user, or any other differences among us. Water is genuinely a resource that benefits and is vital to us all.

I would be happy to answer any questions you or any of the other Committee members have. Thank you.

[The prepared statement of Mr. Sarmiento follows:]



Vicente Sarmiento
Director, Orange County Water District
Santa Ana, California

Reappointed by the Santa Ana City Council to represent OCWD's Division 8 (Santa Ana) in December 2016, Vicente Sarmiento previously served as a District board member from January 2013 to February 2015. During that time, he was the 1st Vice President of the board. He is currently a member of several OCWD committees including Administration and Finance Issues, Communication and Legislative Liaison, Water Issues, and Property Management.

In January 2007, Director Sarmiento was appointed to the Santa Ana City Council to represent Ward 1. He was formally elected in November 2008, November 2012, and November 2016 and is currently serving his third term. He also served as Mayor Pro Tempore from 2014 to 2016. In addition, he is the chairman of the Oversight Board of the Successor Agency to the former Redevelopment Agency for the city of Santa Ana. The Oversight Board has the fiduciary responsibility of handling the dissolution of the city's former Redevelopment Agency. Director Sarmiento also chairs the city's Development and Transportation, and Legislation committees; and he is also a member of the Finance, Economic Development and Technology Committee.

Director Sarmiento was recently invited to become a board member for the Joint Center for Political and Economic Studies based out of George Washington University. He was selected as one of 14 leaders from across the country to join the NewDEAL, a national network that is committed to highlighting innovative ideas from state and local elected leaders who are pro-growth progressives. Director Sarmiento is also a member of the board of directors of the National Association of Latino Elected and Appointed Officials (NALEO).

Vicente Sarmiento graduated from the University of California, Berkeley with a Bachelor of Arts degree in Economics. He received his Juris Doctorate from the University of California, Los Angeles School of Law. More recently, he attended the Kennedy School of Government at Harvard University and successfully completed the Certificate Program for Senior Executives in State and Local Government.

Director Sarmiento and his family have lived in and around Santa Ana since 1965. Presently, he and his wife Eva, also an attorney, are the principal owners of a law practice in Santa Ana. They have three children ages 17, 14 and 11.

ORANGE COUNTY WATER DISTRICT

TESTIMONY OF

VICENTE SARMIENTO

DIRECTOR

BOARD OF DIRECTORS

ORANGE COUNTY WATER DISTRICT

ORANGE COUNTY, CALIFORNIA

AND

COUNCIL MEMBER

CITY OF SANTA ANA CALIFORNIA

PRESENTED TO

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

UNITED STATES SENATE

WASHINGTON, D.C.

ON

THE LONG-TERM VALUE TO U.S. TAXPAYERS OF LOW-COST FEDERAL INFRASTRUCTURE LOANS

July 11, 2018

PO Box 8300
Fountain Valley, CA 92728-8300
18700 Ward Street
Fountain Valley, CA 92708
(714) 378-3200
(714) 378-3373 fax
www.ocwd.com

Good morning Chairman Barrasso, Ranking Member Carper and members of the committee. It is a pleasure and an honor to appear before the committee to address a vital federal responsibility, the need to support the financing of our nation's public water infrastructure.

I am Vicente Sarmiento. I appear before you today on behalf of the Orange County Water District, otherwise known as OCWD, as a Director of OCWD. I am also an elected official, serving on the City Council of Santa Ana, California. By way of background, OCWD is an internationally-recognized leader in the water industry and its international reach is growing. OCWD takes the limited water supply found in nature and supplements it to provide water for more than the 2.5 million citizens that live and work in Orange County, California. OCWD was created in 1933 by the California Legislature. Since that time, OCWD has been entrusted to guard our precious and limited water resources and specifically the groundwater basin that serves as the crucial source of water supply for our region. OCWD not only manages the basin, we have led the way on water supply and demand innovation; most prominently with the Groundwater Replenishment System or GWRS that has been internationally acclaimed, receiving the Stockholm Water Prize and Lee Kwan Yew Prize, among other international and domestic recognitions. I enclose, as part of my testimony, information on the GWRS and its contribution to meeting the water sustainability needs of our region.

OCWD manages Orange County's Groundwater Basin, which is a large underground aquifer that through OCWD's careful management, supplies approximately seventy-five percent of the water supply for north and central Orange County. To replace the groundwater that is pumped out, OCWD has a proactive program to refill and protect the basin to ensure a reliable water supply.

As early as 1975, OCWD recognized the importance of finding new and sustainable water supplies and developed Water Factory 21 to take wastewater, treat it, and inject high-quality water into the groundwater basin to guard against advancing seawater intrusion. From this initial project, our efforts have evolved into the Groundwater Replenishment System that will ultimately produce 130 million gallons of water per day upon completion of the Final Expansion.

The GWRS takes treated wastewater that otherwise would be sent to the Pacific Ocean and purifies it using a three-step advanced process to produce high-quality water that meets or exceeds all state and federal drinking water standards.

The GWRS is the result of a collaborative effort between OCWD and the Orange County Sanitation District or OCSD. Operational since 2008, the GWRS initially produced 70 million gallons of high-purity water and was expanded in 2015 to produce a total of 100 million gallons per day or enough water for 850,000 people. The ultimate capacity will be 130 million gallons per day with the Final Expansion, which is enough water for one million residents. At a cost of $270 million and with completion set for in 2023, the GWRS Final Expansion project will create 700 jobs during the design and construction.

With this Final Expansion project, OCSD and OCWD together will be recycling 100 percent of the recyclable water within their service area.

At the outset, let me express OCWD's appreciation of the role that Congress and this committee has played (as well as the United States Environmental Protection Agency and United States Bureau of Reclamation) in making the GWRS a reality.

Our work and successes are not limited to Orange County. Rather, the research and project development have served as models for other communities across the nation and the world. We share our technical specifications, data and analyses that can lead to sustainable water supply practices in other communities. In any given year, we host thousands of visitors and dignitaries to learn how the most valuable resource—water—can be conserved without jeopardizing economic growth, and recreational activities and ensure a high quality of life.

As background, allow me to provide an overview of OCWD, and specifically the GWRS, and the role that a productive collaboration with the federal government has served in making the GWRS a reality. From this overview, I will then turn to the needs of the future and the approaches that the committee has put forth as embodied in America's Water Infrastructure Act or S. 2800.

OCWD manages, replenishes and protects the Orange County Groundwater Basin. This basin is the largest source of drinking water for Orange County. For purposes of conceptualizing this basin, consider that it is an underground reservoir for our almost three million citizens. It is a 270 square-mile basin providing seventy-five percent of our water supply. We serve nineteen cities and water agencies including the communities of Santa Ana, Garden Grove, Anaheim (home of Disneyland), Irvine, Huntington Beach, Fullerton, Yorba Linda, Newport Beach, Fountain Valley, Stanton, Westminster, Orange, Villa Park, Tustin, Buena Park, La Palma, Placentia, Cypress, Seal Beach, Los Alamitos, and Costa Mesa. OCWD is governed by a ten member Board of Directors drawn from these communities.

OCWD pioneered the development of the world's largest water purification system for indirect potable reuse with our sister agency, OCSD that provides the feedstock for our water project—highly treated wastewater that is purified by our project. This collaboration has the added benefit of helping to realize the Clean Water Act's goals and objectives of zero discharge as we anticipate that OCSD will, upon completion of the Final Wxpansion of the GWRS, dedicate its entire flow of reclaimable wastewater for purification.

As we like to say: GWRS—New water you can count on. This is increasingly the point as we in California have come to the realization that water scarcity is a way of life and we need to manage our resources wisely, efficiently and effectively. This is a priority. We are a semi-arid region that receives on average 14 inches of rain per year. This water year, we received a paltry 4.7 inches. Given that GWRS currently provides enough water for 850,000 citizens and will increase to a million citizens with the completion of the Final Expansion in 2023, you can begin to recognize the invaluable role the GWRS serves.

The GWRS is a major piece in the sustainable water supply puzzle. The GWRS is not inexpensive, but the alternative reality of unreliable water supplies is even more expensive. OCWD, in partnership with the state and federal governments, constructed the GWRS and today our purification process is helping to drought-proof the region, decrease reliance on imported water supplies and offer up water conservation that is protective of the environment and helps maintain the economic health of our region.

In order to make the GWRS work, wastewater flows from residential, commercial and industrial sources along 396 miles of pipelines to one of two OCSD treatment plants.

The cost to construct the GWRS was substantial. We may well have developed the project, but the collaboration of the federal government through the U.S. Bureau of Reclamation's Title XVI Program and the U.S. Environmental Protection Agency's State Revolving Loan Fund Program provided critical assistance to the project. It served in securing public support for the project's development. Specifically, the Title XVI program provided us with $20 million in grant assistance. The SRF program loaned $135 million to support the first phase of the project. When we embarked upon the design and construction of the final phase, we considered the costs and benefits of the proposed project, recognizing the value of developing a long-term sustainable water supply within the context of the avoided cost of alternative water supply options.

Our experiences with the GWRS original phase demonstrate that it is vital to bring the costs of the water in line with existing sources of potable water supplies and to drought-proof water deliveries. The absence of these goals would subject project approval to constant questions from ratepayers on the value of the project. OCWD carries one of the highest bond ratings a public agency can secure—AAA Bond Rating.

Fortunately, OCWD was able to leverage federal, state and local policies and programs to ensure public acceptance of the costs of the project. I want to emphasize that this financial assistance was critical to the GWRS timely construction and its operation today. Without the assistance, it is highly likely that the project would have been delayed in the best case scenario. OCWD was able to combine multiple sources of assistance. This included: $194 million from our local partner the Orange County Sanitation District, $20 million from the U.S. Bureau of Reclamation's Title XVI Program, $135 from the Clean Water Act's State Revolving Loan Fund, $37 from California's water bonds, and, of course, the backing of our rate structure made possible by the support of ratepayers in Orange County. As you can begin to recognize, the GWRS represented a carefully-balanced financing strategy that could reduce burdens on ratepayers and expedite project construction.

Today, we are in the process of expanding the GWRS to deliver 130 million gallons per day of highly-purified water that will meet the needs of more than one million people. In order to achieve this goal, we must address both technical and financial challenges.

On the technical matter of wringing out the final volume of water from the remaining wastewater flow is challenging. We are partially meeting this challenge because of Congress and the U.S. Bureau of Reclamation's commitment to support the advancement of our knowledge on how to develop treatment solutions. Specifically, OCWD and OCSD received financial assistance through the Water Infrastructure Improvements for the Nation Act. This committee is to be congratulated for its foresight in providing federal support to agencies, like OCWD and OCSD, that meet the challenges—financial and technical—that can lead to sustainable water supplies that are resilient, cost-effective and protect public health. While the assistance provided was limited (approximately $1.1 million), the federal involvement helped us to move forward and commit the resources that will allow us to capture the remaining flow of water and make it available to the GWRS.

The ability of our nation to meet the ever increasing demand to modernize our infrastructure is clear. We are now changing to managing our water resources infrastructure from a use once mentality to an almost closed loop system that can recycle water to stretch the supply.

These and other demands are vividly illustrated by USEPA surveys. The Safe Drinking Water Act's Sixth Drinking Water Infrastructure Needs Survey and Assessment documents that over the next twenty years $472 billion is required, of which $83 billion is required to meet the treatment needs of water agencies. Similarly, the Clean Water Act's most recent Watershed Needs Survey identifies $271 billion in financial needs. From a state level, according to the American Society of Civil Engineers' 2017 Infrastructure Report Card, California has $26 billion in wastewater infrastructure needs and $44 billion in drinking water needs over the next twenty years. These numbers are mirrored throughout the nation. We expect that without a cogent response from the federal government to renew a financial partnership commitment to agencies, like OCWD, we will witness a continued degrading of our water infrastructure's integrity that, in turn, will impact our economic growth and public health.

Fortunately, this committee has taken up the challenge of charting a course to address the financial needs of agencies like OCWD. I refer to the pending legislation, the America's Water Infrastructure Act (S. 2800). This legislation, if enacted, would build on the lessons learned from the implementation of Water Infrastructure Finance and Innovation Act (WIFIA) that the committee wisely developed as part of WRDA 2014.

OCWD was one of twelve original applicants selected to seek WIFIA assistance. We submitted a WIFA application, because it provided us with the ability to reduce the overall costs of financing the final phase of the GWRS, estimated approximately $270 million. OCWD expects that we will close on the WIFIA assistance within the month of July. We are excited with this prospect.

Our WIFIA loan will provide up to 49% or approximately $135 million of the project's cost. As of the end of June, the borrowing rate on this assistance is approximately 3%. By comparison, our highly rated agency could issue tax-exempt bonds at around 3.8%, almost a full percentage point higher. The real life translation of this is a net cost savings of as much as $18 million. But you need to factor in the extended repayment terms of up to 35 years, the ability to repay at any time, the subordination of the assistance to other OCWD issued debt (with a bankruptcy exception), funding flexibility in the use of the loan, and the opportunity to use the loan with other assistance like the SRF for the remaining 51% of the project's cost. Each of these elements enhanced the project's viability. It is fair to say that WIFIA's savings made it much easier to paint a financial picture to proceed with the project. If WIFIA had not been available, it is unclear how we would have proceeded with the project's financing given the oversubscription of California's SRF. It is highly likely we would have proceeded, but the costs of the project would have grown, putting pressures on the ratepayers.

In short, WIFIA is creating a savings for the ratepayers and the federal government is receiving a return on its investment through loan repayment and the dividends created in the development of a sustainable water supply that will support robust economic growth and improved public health.

We have always maintained that WIFIA is a tool in the proverbial toolbox. OCWD is firmly committed to the preservation and expansion of the Clean Water and Safe Drinking Water Act's SRF program. While not within the committee's jurisdiction, we appreciate the committee's actions in WIIN that brought about the first real update in more than two decades to the U.S. Bureau of Reclamation's program that supports water recycling projects. The submission of project requests under the WIIN competitive grants program illustrates how vital it is to continue the federal partnership with local agencies through multiple programs.

The committee recently approved, unanimously, the America's Water Infrastructure Act (S. 2800). This bill represents an important statement on how to respond to our nation's escalating water infrastructure needs.

Since the inception of the SRF program, Congress has provided billions of dollars in capitalization grants to the states to establish and maintain state water infrastructure assistance to communities. OCWD, along with other public stakeholders, has consistently urged Congress to increase funding to the SRF. These calls have resulted in incremental increases in annual appropriations; however, the funding levels do not approach the levels seen in the 1970s and early 1980s, despite the fact that the current needs far exceed those of past decades. In addition, the allocation formula that determines how much SRF assistance is allocated to each state has not been updated since the 1980s. So we are faced with the challenges of insufficient SRF funding levels compounded by the fact that the mechanism guiding resources to each state inadequately addresses the needs of each state.

We recognize that under current budgetary constraints, the reality of justifiable increases in the SRF is a difficult goal, but not impossible, to realize. At the same time, the notion of updating the allocation formula to better account for state needs is a zero sum game that for now appears unlikely to be addressed. However, we do continue to call upon Congress to reassess the formula to ensure that resources are equitably provided to the states.

This leaves us with one overriding question: How can Congress continue to ensure a meaningful federal partnership to improve our vital water infrastructure and avoid delays in constructing such projects?

One approach, embodied in S. 2800, represents an important step in responding to this need. Under S. 2800, a guiding principle is to preserve the SRF and its funding as the key to meet our immediate and long-term needs. We support this mandate. However, the reality of overwhelming demands placed on SRFs, as illustrated in California's instance with billions in project needs identified, does lend credence to the demand for supplemental approaches if we are unable to return to an era of billions in grants assistance. WIFIA clearly put in place one tool that has proven valuable to a select number of projects, including OCWD. The priority for going forward is how can we build upon the lessons learned.

S. 2800 would establish a new program of assistance to support the individual states' SRF programs. Under this program, a state could work with USEPA to secure leveraged financial assistance at WIFIA-like rates that the state could then use to support the backlog of priority projects on Intended Use Plan or Priority List. We believe that this approach is the catalyst that states can use to deliver projects that otherwise cannot be met by the current SRF program. For those that have concern over the impact of annual funding of the traditional SRF, S. 2800's mandate to fund the SRF at fiscal year 2018 levels prior to any funding of the new SRF-WIN. As we noted, every tool in the toolbox needs to be available to support public agencies' needs, but the primacy of the SRF must be preserved in any given year. The mandate to preclude funding is an appropriate approach to ensure the long-term viability. And we would urge the committee that as the bill proceeds through Congress that this commitment be re-enforced to ensure that no "wiggle" room exists that might, in later years, undermine the SRF.

Some have questioned how enhanced subsidization using below-market interest rates would work within an SRF-WIN approach and whether it is too costly. We believe that if a community is unable to secure assistance under the traditional SRF program or WIFIA because of its ability to pay, then there must be a mechanism in place to assist a community to comply with federal, state and local environmental and public health mandates. These are the real costs of not providing a mechanism to help such communities. Short of providing distressed communities with direct, targeted grants assistance in meaningful amounts, we believe that the SRF-WIN approach is an appropriate means to address unmet needs that otherwise might not be financed. SRF-WIN would impose a reasonable contribution from such a community without imposing undue burdens. And in the case of communities that have the ability to meet the financial conditions to borrow under an SRF-WIN Treasury rated security, the program could serve as a bridge to help reduce the project backlog that continues to increase annually.

Mr. Chairman, OCWD commends the approach of S. 2800. It protects the core SRF program. It offers a supplemental financing approach that offers another tool in the toolbox. It establishes a means to address project backlogs. It offers affordable financing to financially disadvantaged communities. It serves as a means to advance promising innovative water supply projects such as OCWD's GWRS. And lastly, it ensures that the federal commitments made under the Clean

Water Act in the 1970s and subsequent reauthorizations and the Safe Drinking Water Act to support the development of improved water infrastructure to protect human health and the environment is preserved.

In closing, allow me to restate one simple fact. OCWD was able to move its landmark water project to construction because of the multiple federal programs of assistance that helped to reduce costs and delays associated with the project. The ongoing Final Expansion would not have proceeded as smoothly absent WIFIA and other federal assistance.

Again, thank you for allowing OCWD to appear before you. I would be happy to answer any questions you or the other committee members may have.

Senator BARRASSO. Well, thank you. We are glad that you are here to testify today and share your experience.

Senator Carper.

Senator CARPER. I just want to say a word about Brian for a moment.

Brian, why do you pronounce your name "motel"?

Mr. MOTYL. Just the way I was told.

[Laughter.]

Senator CARPER. Have you ever told your parents that they were mispronouncing your name?

Mr. MOTYL. No, I have not.

Senator CARPER. Where do you come from? You didn't grow up in Delaware. Are you from New York? Where are you from?

Mr. MOTYL. From New York. Upstate New York.

Senator CARPER. And what brought you to Delaware? What brought you—was it to work with the Department of Natural Resources?

Mr. MOTYL. High taxes in New York, bad schools, crime rate, better Governor in Delaware.

Senator BARRASSO. Who was the Governor at the time?

Mr. MOTYL. Mr. Carper.

Senator CARPER. I have no further questions.

[Laughter.]

Senator CARPER. We are glad you are here. Thanks for all your work at the Department of Natural Resources and at DelDOT. God bless. Thanks. Welcome.

Senator BARRASSO. Mr. Motyl, welcome. Please share your testimony.

STATEMENT OF BRIAN MOTYL, ASSISTANT DIRECTOR OF FINANCE, DELDOT

Mr. MOTYL. Thank you very much for inviting me to talk about this very valuable financing tool. As Senator Carper said, for many years Delaware has been working on this US 301 project. It has been a priority. But unfortunately, with all the available resources we have, we just couldn't make it financially feasible to complete this much needed project.

Delaware has basically four sources of funds for capital programs, and none of the four, even in combination, could totally fund this project. Plus, we need to save our available resources for ongoing infrastructure needs of the State.

Delaware receives a Federal highway allocation of approximately $175 million annually, and the cost of this project was over $635 million, so Federal funding alone would not do the job. We do have normal senior revenue bonds, which we do use for infrastructure financing; however, these bonds are paid back through pledged revenues from DMV fees, motor fuel tax, and toll revenues. So all the State residents are paying back these bonds, so the theory on the bonds is we are going to use the money for projects that everyone in the State can benefit from. So, to use a revenue bond for the 301 project really wasn't a good option, and from a cost perspective it wouldn't have worked well, anyway.

We do have just regular State resources, which are defined as revenues minus debt services, minus transportation operating expenses. State resources average about $270 million a year, so you could see that the $270 million is inadequate to cover all of our normal infrastructure needs and then try and finance a project of this size.

The other option we had—and we did take advantage of—was a dedicated toll revenue bond for US 301, but the toll revenue bond is a higher interest rate, and the debt service coverage on that revenue bond did not allow us to fully finance the program. Just to simplify that, the revenue generated from the roadway would not be sufficient to pay the debt service, should we use the dedicated 301 toll revenue bonds, so we did use that in conjunction with the TIFIA loan to get the project done.

In December 2015 DelDOT was successful, and we did close the TIFIA loan, and the project finally became a reality.

Overall, the program is great. There are a couple of areas where it could be improved upon. For one, the time from the submission of the letter of intent to apply to the date of the loan closing was almost 3 years. The complete process was time consuming, and substantial documentation was provided. However, without the loan, the program could not have been done, so we are grateful for the loan.

Preparation of the application was considerably involved and time consuming. We spent many hours on conference calls with TIFIA personnel discussing the project financial plan and proposed loan terms. The loan negotiation and final documentation was exceptionally good. All terms and conditions were adequately detailed in loan documents, and the loan terms were both positive for Delaware and for TIFIA, making the project possible.

Some of the terms of the loan that are incredibly important that need to be talked about is the below market interest rate, which was over 1.3 times lower than our toll revenue bond interest rate. The other good factor about TIFIA that saved us a lot of money and made the project more financially feasible was that interest accrues only on the draws, as the TIFIA money is drawn. When we take out a revenue bond, we pay interest from day 1 on the full amount of the loan, so that is a huge feature that made the project more financially sound.

Another key feature was the 10-year principal deferral, which was necessary to keep the debt service down at the beginning phases of the project in the early years. We were able to establish a toll stabilization fund, which is very beneficial to both DelDOT and TIFIA, should there be an economic downturn and revenues aren't quite sufficient to pay debt service. There is also a revenue sharing provision, which allows us to use some of the money to pay down the TIFIA loan.

As far as reimbursement of funds, the required submission documentation is very easy to compile and not burdensome on the agency at all. Reimbursements have been received promptly and as scheduled, with no problems.

I am running out of time, so I will go right to the summary.

Several financing scenarios were run over almost 40 years as we attempted to find a fiscally sound financing plan for the US 301 project. The project could not have moved forward without the TIFIA loan. The Delaware Department of Transportation is grateful for this valuable program and maintains a great working relationship with our TIFIA partners.

The loan process was at times cumbersome, and the loan terms and negotiating were time consuming; however, the benefits of the TIFIA loan far outweigh the at times lengthy required processes involved with the program.

Thank you.

[The prepared statement of Mr. Motyl follows:]

Brian Motyl
Assistant Director of Finance and Transportation Trust Fund
Delaware Department of Transportation (DelDOT)

Brian Motyl joined the Delaware Department of Transportation in May 2006. Prior to coming to the Department, Mr. Motyl was a Fiscal Management Analyst with the Department of Natural Resources and Environmental Control where he was responsible for the financial management of the Water Pollution Control State Revolving Fund, the Wastewater Management Account and various loan/grant portfolios. He has experience working on and managing several of the Authority's issuances of senior revenue bonds, Build America Bonds, GARVEE bonds, TIFIA financing and Toll Revenue Bonds.

Mr. Motyl holds a Bachelor of Science degree in Business/Public Management from the State University of New York, College of Technology at Utica/Rome.

Delaware Department of Transportation (DelDOT) - TIFIA Loan

For many years, the US 301 project was a priority for Delaware DOT. The new US 301 roadway was much needed to remove the "neck in the bottle" of the regional highway network and increase safety in the region. The existing US 301 from the Maryland/Delaware state line to I-95 and its 2-lane sections (1 lane in each direction), 29 at-grade intersections (18 signalized) and numerous driveways with direct access to existing US 301.

DelDOT knew that the new US 301 would improve safety, manage truck traffic, and reduce congestion; support approved and proposed economic development in southern New Castle County (a key Delaware growth area); enhance the region's ability to compete for economic development; create needed construction jobs; improve local access to the Northeast Corridor Rail (Amtrak), commuter rail (SEPTA) and bus (DART) services; improve livability in the region; and reduce fuel consumption and greenhouse gas emissions.

For almost forty years prior to authorizing and advancing the project, the department had been looking for a fiscally sound option to finance the US301 Project while still meeting the annual infrastructure needs of our State.

Over the years, all available financing options were looked at and a fiscally sound scenario could not be found with existing State and Federal allocations. The TIFIA loan program became the only financing option that ultimately allowed the project to move forward.

Delaware is one of the smallest states and receives a Federal Highway Allocation of approximately $175M annually, the estimated total cost of the US 301 project was approximately $635M. To attempt to construct this new alignment with allocated Federal Funding alone was not financially feasible.

In December 2015, DelDOT successful closed a TIFIA loan for $211.35M and a Toll Revenue Bond for $212.5M. These funds in conjunction with a previous GARVEE Loan, Federal Highway Administration Funds and State Funds, made the $635M US301 project a reality.

Discussion of the TIFIA loan and process is broken down into four parts; Loan Process, Loan terms, reimbursements and post issuance compliance.

There were also political barriers to overcome with the complex financing proposal. Upon the understanding that the only option for moving this very important project forward was to utilize the newly available TIFIA funding mechanism the barriers were easily overcome.

Loan Process/Timeline

The time from the submission of the Letter of Intent to apply to the loan closing was almost three years. The complete process was time consuming and substantial documentation had to be provided.

December 21, 2012 DelDOT submits LOI to USDOT

April 16, 2013 USDOT accepts DelDOT's submission and approves moving to the next step

(During this period, DelDOT meets with rating agencies to receive indicative rating, submits credit worthiness report and completes oral presentation to USDOT. DelDOT responds to two lists of questions and provides additional information to USDOT)

April 27, 2015 USDOT approves creditworthiness and invites DelDOT to apply

May 15, 20115 Application submitted

August 14, 2015 Loan Approved

December 3, 2015 TIFIA Loan Closed

Preparation of the application is considerably involved and time consuming.

Department staff spent many hours on conference calls with TIFIA personnel discussing the project, financial plan and proposed loan terms.

Loan Terms

The final loan documents were negotiated by both parties, all agreed upon terms and conditions were accurately detailed in the loan documents.

The loan terms were positive for both DelDOT and TIFIA, and as stated earlier, securing the TIFIA Loan was vital to the financial plan enabling the project to move ahead.

The TIFIA loan provided the following financing benefits;

- Below market interest rate (30 year US Treasury at closing) Our rate was 2.94% our Toll Revenue bond closed at the same time has an interest rate of 4.27%.
- Debt-service savings of over $25M compared to borrowing all funds with a toll revenue bond.
- 35-year maturity from construction completion.
- Ability to pay loan of prior to maturity.
- Interest accrual only when funds are drawn. With normal bond financing the total loan amount starts accruing interest at closing.
- 10-year principal deferral.
- Establishment of a toll stabilization fund.
- Revenue sharing should the roadway outperform the financial plan. Deposits into toll stabilization fund up to the cap then 50:50 split between DelDOT and TIFIA (Loan Pay-down).

DelDOT has no concerns with the terms and finds all terms to be completely acceptable, and crucial to the viability of the financing plan.

Reimbursements/Drawing funds

The required submission documentation is easy to compile and has not been burdensome for our agency. The reimbursement process has been positive; to date Delaware has submitted and received payment for 12 monthly draws. All reimbursement funds have been received promptly as scheduled with no problems.

The reimbursement process was fully disclosed and agreed upon when signing the loan agreement. One item of note, the time period between the initial expenditure and (reimbursement) receipt of funds has potential to be burdensome to our agency due to the length of time it takes for expenditures to be reimbursed.

Unlike FHWA grant funding, which is reimbursed weekly, the TIFIA funding is reimbursed monthly.

To summarize the process, a draft disbursement request is submitted on the 15th of each month, this covers reimbursable expenditures from the 16th of the prior month to the 15th of the current month. The pre-approved disbursement request is then sent to TIFIA on the first of the month for disbursement to the State on the 15th of that month.

As a result, reimbursement occurs for expenditures that are between 30 and 60 days old.

(EX. Draft request for Jan 16 to Feb 15 expenditures is sent for pre-approval on Feb 15. The official submission to TIFIA is on March 1st. Reimbursement occurs on March 15)

Oversight/Post Issuance Compliance

Similar to a Bond Issuance, TIFIA requires periodic disclosures and updates during the loan period.

(Audits, Financial data, coverage analysis reports, rating changes) The information requested is reasonable and submission time-frames give the borrower ample time to comply.

Summary

Several financing scenarios were explored over almost forty years as we attempted to find a fiscally sound financing plan for US301. The US301 project could not have moved forward without TIFIA financing.

The Delaware Department of Transportation is grateful for this valuable program and maintains a great working relationship with our TIFIA partners.

There may be opportunity to streamline the pre-closing phases of the program which could be beneficial to future borrowers of the TIFIA program. The loan process was at times cumbersome and loan term negotiations were time consuming. However, the benefits of the TIFIA Loan far outweighed the at times lengthy processes required with this program.

Brian Motyl
Transportation Trust Fund Administrator
Delaware Department of Transportation
800 Bay Road, PO Box 778
Dover, DE 19903
(302) 760-2692

Senator BARRASSO. Well, thank you very much for the testimony from all of you. I will start with a round of questioning and will start with Mr. Holtz-Eakin.

The Congressional Budget Office found that the authorization for WIFIA and the SRF WIN in America's Water Infrastructure Act would generate about $12 billion in State funded investment. In your experience, would $12 billion in new State funding for needed infrastructure be positive or negative for the economy, and how about for U.S. taxpayers? The bottom line is is this going to be better or worse in the long run?

Mr. HOLTZ-EAKIN. I would expect it to be better. If you listen to the care with which these projects were vetted at the local level, these are projects that you are funding which are passing the threshold of things which add enough productivity and benefits to the population that they are worth doing, so $12 billion of that activity is a benefit to the population.

Senator BARRASSO. And to the taxpayers and to the communities in which they live?

Mr. HOLTZ-EAKIN. Absolutely. If the economy is better off, they are going to get more tax revenue. If people can receive these benefits through the infrastructure projects, they are not going to have to pay for them in other ways. Even environmental and health benefits have economic ramifications in that way.

Senator BARRASSO. Mr. Motyl, according to the 2016 U.S. Department of Transportation Report, TIFIA accelerates the delivery of significant transportation projects by an average of 13 years. What was Delaware's Department of Transportation's experience with TIFIA as it relates to accelerated project delivery, and then how does that help in terms of decisionmaking and ultimately benefit the taxpayers in your home State of Delaware?

Mr. MOTYL. Well, I will tell you in our case we have been working on the 301 project for over 40 years, and it just could not be done with any of the available programs or resources, so it accelerated the project in that there would be no project without the TIFIA loan. So, it is a valuable tool for those large projects that States just can't do on their own without the help.

Senator BARRASSO. Mr. Holtz-Eakin, we have heard what you have said and what he had said in terms of how much benefit it is to the communities and locales, but the Joint Committee on Taxation determined that if States borrowed the $12 billion to fund new infrastructure projects, then the Federal Government would lose about $2.6 billion in tax revenue. The calculation is based on looking solely at the loss of revenue from tax exempt bonds.

If you were to look at all the economic impacts of $12 billion in State investment and infrastructure, which is why I asked the first question, would you expect the benefits to the taxpayers to far outweigh this revenue loss?

Mr. HOLTZ-EAKIN. Yes, I would. As I mentioned in my opening, I don't think there is anything wrong with what the Joint Committee does or the CBO's score; it is simply a very narrow question. It is focused solely on the Federal budget costs; it does not look at the benefits to anyone in the economy and to the population as a whole.

Senator BARRASSO. Mr. Sarmiento, what aspects of the WIFIA program made it attractive for the Orange County Water District to use this tool?

Mr. SARMIENTO. Well, I think the benefit that we have is to be able to provide a project on an accelerated basis to our ratepayers. Also, the fact that we could use that to leverage some of the other moneys that are available to us. Unfortunately, in California, because the SRF is oversubscribed, it would have delayed project delivery for some of our ratepayers. We have a backlog of projects that we need to address, but this is certainly one source that was valuable to us, and our experience has been very positive with it.

Senator BARRASSO. So, without the tool, the detrimental impacts would have been significant and felt by people living in your communities?

Mr. SARMIENTO. It would have, and we see that, when project delivery is delayed, we have folks that will not remain in the communities; sometimes they will leave; they won't invest in projects that we need that are ancillary to the water project. But we certainly see that we do need all levels of funding and all different types of programs that are available to our ratepayers.

Senator BARRASSO. Thank you.

Mr. Motyl, could you talk about some of the aspects of the TIFIA program that made it attractive for the Delaware Department of Transportation to use the program, how important it was to have TIFIA available for you to pursue?

Mr. MOTYL. Yes. Probably the top four reasons would be the principal deferral. We have 10-year principal deferral, which keeps our debt service down during the early years of the project as the roadway matures and traffic builds. Without the principal deferral, the debt service would have been unmanageable in the first couple years of the project, so that is crucial.

The below market interest rate also very helpful.

The fact that interest accrues as the money is drawn allows us to use our other funds first that we are paying on from day 1, and just pay interest on the TIFIA as we use it, which saves us millions of dollars in interest expense.

And the ability to prepay the loan. If the roadway out-performs, which we hope it will, we could prepay this loan and get rid of our debt service a lot quicker.

Senator BARRASSO. Well, thank you very much.

Before turning to Senator Carper, I am submitting for the record and ask unanimous consent to enter into the record letters of support signed by the American Public Works Association and the Water Infrastructure Network, which is a coalition including the U.S. Chamber, the American Society of Civil Engineers, and numerous other leading infrastructure groups, highlighting the benefits of TIFIA, WIFIA, and SRF WIN.

Without objection, they are submitted to the record.

[The referenced information was not received at time of print.]

Senator BARRASSO. Senator Carper.

Senator CARPER. Thank you. I want to telegraph my pitch. One of the things that Brian mentioned, we are very grateful in Delaware for the program and the ability. This money actually enables us to build this road. We wanted to build this road forever.

You mentioned a couple things that could be done maybe to make this program better, so I would just ask you to be thinking about that. Telegraphing my pitch. Before I finish, I am going to come back and ask each of you is there any way we can make this program better, more effective, better for taxpayers, maybe better for our local communities, so think about that.

Brian, you mentioned toll revenue bond rate versus TIFIA loan rate. I heard you say 1.3 percent. Not 1.3 percent; you said 1.3 times. Would you just use actual rate numbers?

Mr. MOTYL. Yes. It was 1.33 percent lower. The TIFIA rate was, at the time——

Senator CARPER. I am just trying to get at the toll rate versus the TIFIA rate.

Mr. MOTYL. This is the rate of the borrowing. The toll revenue bond was 4.27 percent.

Senator CARPER. Versus?

Mr. MOTYL. The TIFIA loan was 2.94, so it was 1.33 lower. If we were to borrow the whole loan amount at the 4.27, it would have been over $26 million more, plus the other savings with the interest accrual. So, it is many millions of dollars we benefited from the TIFIA loan.

Senator CARPER. And was deferral actually an attractive aspect as well, that comes with the TIFIA loan?

Mr. MOTYL. Absolutely, because the bondholders and the TIFIA lender worry about the debt service coverage, and the revenues at the beginning period, when the roadway is open, provided very low coverage factor for the repayment of the debt service. So, allowing us to defer the principal payment made our debt service much smaller during the first 10 years of the project, which made our coverage much higher, gave us a better interest rate, and allowed us to have a really fiscally sound program.

Senator CARPER. All right, good.

My colleagues, I know the projects in each of our States that you have a special interest in that you see maybe as you travel around your State, every day that I go down State on State Route 1, which goes from I–95 down passed the Dover Air Force Base, I see this project coming to a conclusion. I am going to actually clip the ribbon I think probably in November, and it will be all done. But it is just really exciting to see what is actually happening and to be able to know that we are going to enjoy it very, very soon.

A follow up question, if I could, for Brian, deals with transit policy change. Last week, the Federal Transit Administration released a guidance document that seems to suggest that Federal loans such as TIFIA should be considered part of the Federal funding, rather than as local match. Since DelDOT will repay the TIFIA loan, plus interest, through local toll revenues, do you consider that loan to be Federal funding or local funding? And in your opinion, if policy changed to require transit projects to use TIFIA and Federal grants for no more than, say, 50 percent of the total project cost, would that make TIFIA less attractive to project sponsors?

Mr. MOTYL. It absolutely would make it less attractive. A lot of projects probably won't move forward if they can't use TIFIA as the match. TIFIA, I don't see how it could possibly be considered non-Federal. FHWA funding is grant funding; that is money that the

Federal Government gives us. That is Federal funding. TIFIA is repaid by State dollars; it is all our money that is paying it, so it is ultimately our money. It has to be considered as a State resource. And by not doing that, I think it is going to drastically hurt the amount of applications for the transit program.

Senator CARPER. All right, thank you.

Now for my pitch well telegraphed. One of the things my colleagues hear me say a lot is everything I do I know I can do better. I think it is true of all of us; probably true for all Federal programs. How might we do this program better?

Doug, do you want to lead us off? Any improvements that you can think of that we should make?

Mr. HOLTZ-EAKIN. I don't have a laundry list of issues with either TIFIA or WIFIA. I think these are programs that are essentially pretty new, and probably the best thing you could do is to build in some evaluation of their effectiveness into their operation.

Senator CARPER. All right, thank you.

Mr. Sarmiento.

Mr. SARMIENTO. Well, again, I think that——

Senator CARPER. Would you just tell us one more time that really funny line you used?

Mr. SARMIENTO. Right.

Senator CARPER. Go ahead, one more time.

Mr. SARMIENTO. One more time, OK. So, we took a long time trying to message that this is clean, safe water, so people kept calling it toilet to tap. But when we said showers to flowers, for whatever reason, they started finally drinking and taking a little risk.

[Laughter.]

Mr. SARMIENTO. And they actually enjoyed it, and it tastes better than some of our tap water.

Senator CARPER. Some of my colleagues missed. I just thought it was worth repeating.

[Laughter.]

Mr. SARMIENTO. Well, when you come to Orange County, we will make sure we have some bottled water for you. I think we may even have some in our offices here in DC, so we will make sure we deliver some.

Senator CARPER. A reminder that branding is important.

Any other change you would recommend with respect——

Mr. SARMIENTO. More than anything, I think, obviously, the options of having the programs available is very important because they work complementary to one another. But with the SRF WIN, not requiring the application fee is something that obviously benefits and reduces the obstacle maybe for some of these smaller agencies, some of the smaller communities. And as we know, and myself representing a community that has many working families and low income families, those agencies that do work under our larger agency as retailers and producers have a difficult time, so to the extent any barriers could be removed for them to access some of the credit lines is a good thing.

Senator CARPER. Thank you, sir.

Brian, just very briefly. You mentioned a couple things that we might do to make it better. If you want to reiterate those, that would be fine.

Mr. MOTYL. Sure. The application process is very time consuming. You work with TIFIA staff, you work with their consultants, you work with their legal team. They are requiring a lot of back and forth questions and all. But overall, you know, it is worth doing the extra work to save that kind of money, so that is minor, but I wanted to bring up everything.

Probably the biggest thing that could be fixed is the reimbursement process. For example, if we are using FHWA funds, we run a report Monday morning for the expenditures the prior week, and FHWA reimburses us the full amount a week later.

With TIFIA, expenditures are getting reimbursed 30 to 60 days after the initial expenditure, so it can be a little burdensome on the State. In Delaware's case, the General Fund pays all of our bills, so they are on the hook for all that money until we get the TIFIA money to repay them.

So the monthly reimbursement process and the time between the approval hopefully could be streamlined so that we could get our money a little quicker.

Senator CARPER. Thanks.

Our thanks to each of you.

Thanks so much.

Senator BARRASSO. Thank you, Senator Carper.

Senator Inhofe.

Senator INHOFE. Thank you, Mr. Chairman.

Mr. Sarmiento, in June 2018 the Association of Metropolitan Water Agencies wrote an article on the benefits of the WIFIA program, and I am going to quote from the article. It says that "Perhaps, most importantly, WIFIA is designed to leverage modest Federal appropriation into a significant pot of available funds. To put it simply, WIFIA offers a tremendous bang for the buck in today's tight budget time."

Now, I fully agree with that and feel that that leveraging is working. Of course, WIFIA is fairly new, but we have been using TIFIA for quite a while, and it has been very successful.

My question would be—as you know, Senator Boozman's SRF WIN Act is within the WIFIA program. That being said, do you believe the programs like WIFIA and the SRF WIN Act offer a long-term value to the taxpayers?

You have actually answered that, worded a little bit differently, in your previous statement, but could you answer that for the record?

Mr. SARMIENTO. And I want to thank Senator Boozman for working with my Senator, Feinstein, in California and co-authorizing that, because, for us, SRF is a valuable tool that we have as an opportunity to fund some of these vital programs. The unfortunate part about it in California is that the program is oversubscribed. So, to the extent that we have other options and other alternatives and other tools in our toolbox, it is always a good thing.

So, we certainly believe that having more opportunities, having the ability to access, especially for some of our smaller agencies and for those that don't have the capacity, we are blessed in the Orange County Water District. We are a very large agency, but we do have retailers and producers that work with us that don't have as much capacity and have trouble bundling projects together, so we certainly see the value with that.

Senator INHOFE. Well, in fact, when I chaired this Committee, and Senator Boxer was the ranking member, she talked about the same thing you are talking about, except it was TIFIA. You have to have access to make it into a large program. That is good.

Now, some have raised the concerns that the SRF WIN Act could cannibalize SRFs, as well as the WIFIA program, and I have to admit I have this hard for me to believe, considering we have multiple supporters of both the WIFIA and the SRFs, and I am one of those. In fact, the SRF WIN Act has clear language that the program will not be funded until the SRF and the WIFIA program are funded at the 2018 levels. I can say, as an original cosponsor of the Boozman legislation, that our intention is to provide base funding for those programs in addition to SRF WIN Act funding to attack the $600 billion investment we need for water infrastructure.

The Orange County Water District is a WIFIA applicant, as well as a supporter of the SRF WIN Act, so what are your concerns about the accusations on cannibalizing the Act?

Mr. SARMIENTO. Well, I think that obviously there is value with the SRF program. There is obviously value with the WIFIA, but WIFIA is intended for larger projects, so I think the SRF WIN obviously addresses those smaller projects that some agencies may not be eligible for SRF or WIFIA. So, I think it is one more element that allows agencies of all levels and all sizes, and again, because we are a larger agency, we can't qualify for the WIFIA program, and as I said, the SRF is so oversubscribed in California that we do need that augmented or ancillary support for those smaller agencies.

Senator INHOFE. And you believe that helps.

All right; Mr. Holtz-Eakin, I was interested in your explanation on scoring. It was fascinating that you ended that up by saying is this a good idea. That was your question.

Well, let me be the only one who is responding. I think no is a better response because of the way that it is calculated. When you talk about the loss of revenue from the tax exempt bonds as being the source of the negative scoring that has taken place, is there a better idea? Have you thought about this? You are the expert in this area.

Mr. HOLTZ-EAKIN. So, to be clear, that question was is doing the infrastructure project a good idea, and I think the answer would be yes, even if you get the negative score, just to be clear.

Senator INHOFE. OK. That is not how I interpreted the methodology of the scoring.

Mr. HOLTZ-EAKIN. There are an enormous number of things that cost Federal money and they are worth doing, and this is an example of one where you have a score that says it costs money, but we have localities across the country who are willing to put their own money; they are willing to have private entities pay tolls and things like that to make these projects go. Clearly, they are in the interests of the population.

Senator INHOFE. OK, my time has expired, but I am going to ask questions for the record, send you something so we can pursue this a little further, because I think it would be worthwhile. Thank you very much.

Thank you, Mr. Chairman.

Senator BARRASSO. Thank you, Senator Inhofe.

Senator Cardin.

Senator CARDIN. Thank you, Mr. Chairman.

I thank all of our witnesses.

Let me start by just underscoring the point of the Chairman and the Ranking Member as to the need for greater infrastructure investment here in America. Our infrastructure, whether it is water infrastructure or transportation infrastructure, is not where it needs to be; it is hurting our economic growth, and it is certainly affecting quality of life. So, I usually look forward to the summers because I commute between Baltimore and Washington every day, and usually the summer is a lot easier because the schools aren't in and people are on vacation. The summer commute should take me a little over an hour. This morning was about an hour and 45 minutes, so even in the summertime our infrastructure is stressed.

I appreciate my colleague from Delaware talking about 301. As we crossed the Bay Bridge and head north into Delaware, the needs. If you were to head south, Senator Carper, and tried to get into Virginia, you have to go across the Nice Bridge, Harry Nice Bridge. I just checked Waze, and there is a tremendous backup there right now, and this is 11 o'clock on a weekday. That bridge needs to be replaced.

I just mention that because we have significant projects in which TIFIA is helpful in trying to put together, because of the size, that can be done, but there is still not enough money.

And I do appreciate the scoring issues you are talking about because one of the things President Trump tried to do is leverage more of the Federal funds by asking the States and local governments to come up with more of their funds. I am not sure that is a good idea, and it will be interesting to see how that gets scored by Joint Tax Committee, because that would increase the States' use of tax exempt funding, which would have a score, I assume. And I see a nod from Dr. Holtz-Eakin.

So, I guess my question to all three of you; I am one who believes, as I think the majority of this Committee believes, we should be having a more robust Federal infrastructure program with Federal funds, that we should have a bigger program, but what can we do to better leverage the funds that we have?

Certainly, TIFIA and WIFIA were programs that do that, but are there better ways to leverage the Federal share without requiring larger local government shares, because we are all the same taxpayers, whether it is Federal or State? But are there better ways of leveraging to be able to keep interest costs down or to get a greater leverage from the governmental shares, whether they be Federal, State, or local?

Mr. HOLTZ-EAKIN. So, in the end, this is Casablanca, you round up the usual suspects. You have the Federal Government, you have the State governments, you have the localities and special districts, things like that; and if you want to keep their shares down, you have to attract private capital. So, the difficulty is, to attract private capital, you are going to have to have some cash flows that you can give to them that offer a rate of return that is commensurate to what they could get elsewhere, and that becomes the core sticking point in trying to have enormous private participation in infrastructure projects. There just, in my view, aren't enough places where you can or are willing to toll a bridge, pay a fee for wastewater, whatever it may be, to generate the cash flows that will attract that much private capital.

So, I believe, as much as you can get is a good thing, but the core framework should be are these projects that are worth it for the country. If they are, get as much private capital as you can, but the rest will have to come from taxpayers, one way or another. But they have benefits as well, so you should do it.

Senator CARDIN. I agree with your assessment. You need the money. And yes, TIFIA has been able to reduce some interest costs. TIFIA has been able to get more predictable funding, which is an extremely important thing to get projects moving, so that is a really positive program. Strongly support that. But at the end of the day, if you are trying to attract more capital, you have to have a revenue flow in order to deal with it, whether it is taxpayer revenue flow or whether it is a special revenue flow.

Any other ideas from our panelists as to how we can better use the Federal participation today to increase the infrastructure in this country?

Mr. SARMIENTO. Well, Senator Cardin, I think I would agree with you as well, the more low barrier ability to access funding for these projects, since there is such a deferred maintenance on those and deferred investment in our infrastructure, is better, but ideally, that would be the best scenario, to have grants and maybe funding available that is easy to access. But given where we are, I think these low interest loans and credit assistance to agencies is probably the next best thing, and that is something that we need to continue to protect, continue to improve on the approvals so we accelerate some of that delivery on that investment. So, to the extent that agencies like ours benefits from a more rapid, more quick approval so we can deliver those services and deliver those projects to our ratepayers is a benefit that is very, very valuable to them.

Senator CARDIN. Thank you.

Thank you, Mr. Chairman.

Senator BARRASSO. Thank you, Senator Cardin.

Senator Fischer.

Senator FISCHER. Thank you, Mr. Chairman.

Mr. Motyl, the FAST Act created the Build America Bureau, which now manages TIFIA and other transportation financing programs. The purpose of the Bureau is to be a one stop shop for Federal transportation funding, such as TIFIA, grants, and private activity bonds. Has the Bureau been effective in managing these programs, do you think?

Mr. MOTYL. Yes, they have. Our working relationship with the Bureau is exceptional. I, luckily, don't have to deal with them a lot right now because I don't have problems. Things are happening as they are supposed to with the loan program, so I don't deal with them a lot now. I did during loan process, but I found that they are always knowledgeable and very helpful. I have nothing negative to say about the Bureau.

Senator FISCHER. OK. And when the Build America Bureau receives a TIFIA application, it doesn't scale the review to the project based on size. For example, a $20 million project must meet all of the same requirements as a $400 million project.

Should the Build America Bureau scale projects based on size, do you think?

Mr. MOTYL. I think they probably should. Any time you can streamline the program would be beneficial. In our case, we needed it to do the roadway, but if I am to go to TIFIA for a low-cost loan, I may go elsewhere if it is really small, if I have to go through a lot of application process, and it becomes burdensome. I might get the funds elsewhere. Of course, there is still that savings, but it is not going to be very significant if it is a very small program. They could probably speed up delivery and have more applications if they did.

Senator FISCHER. I am from the State of Nebraska, and we are viewed as a rural State. And though 10 percent of the loans provided by TIFIA must go to rural projects, TIFIA loans are still perceived as going mostly to urban areas. In fact, rural is defined as areas outside an urban population with more than 150,000 people, and rural projects must cost at least $10 million.

Right now, there have been 84 projects in 22 States that have utilized the TIFIA program. Texas and California alone account for 26 of those projects. Six States account for about two-thirds of all of TIFIA projects, and nine States account for over 80 percent of all TIFIA projects.

What do you think can be done so that we can broaden the use of TIFIA to benefit all States?

Mr. MOTYL. I am not sure. I don't know why the other States wouldn't be applying for and using the funding; it is going to provide the lowest cost of financing in most cases. I don't know why they would not apply.

Senator FISCHER. Do you think we need to look at what is all involved in the application process and maybe try to make changes to that so it can be more broadly used? I mean, in my State, it is difficult to find an urban area with 150,000 people and then say, outside of that area, well, that is going to be the rural area, when the State itself, outside of a metro area and the Lincoln area, is a rural area.

Mr. MOTYL. Maybe it goes back to some of the necessary terms. We used it for the 301 project because we had a dedicated revenue source, but for small projects we don't have a dedicated revenue source; all of our revenue is pledged to our senior revenue bonds, so TIFIA won't work for a majority of our projects, so we want to use it for those projects. So maybe if the smaller loan amounts, they still need to be secured, but maybe have a subordinate pledge of existing revenues or something, because not all these small projects are going to have the revenue stream that TIFIA requires for repayment.

Senator FISCHER. Right.

Mr. MOTYL. That might be a big issue why they are not getting the applications.

Senator FISCHER. Thank you very much.

Mr. MOTYL. You are welcome.

Senator FISCHER. Thank you, Mr. Chair.

Senator BARRASSO. Thank you, Senator Fischer.

Senator Duckworth.

Senator CARPER. Senator Duckworth, would you yield to me for a minute? Am I mistaken or is the first full week you have been back with us full-time since the birth of Miley?

Senator DUCKWORTH. It is.

Senator CARPER. We are glad you are back. It was nice to see her on the floor this week.

Senator DUCKWORTH. Thank you so much. Pretty bipartisan. It is good to be back.

Thank you, Mr. Chairman.

I am so happy that we are discussing the importance of safe, reliable infrastructure to hardworking families, small businesses, and communities both in my home State of Illinois and around the Nation. I want to thank the witnesses for participating in today's hearing, and I do agree with my colleagues that more must be done to ensure that State and local governments have the tools that they need to move infrastructure projects forward.

My first question is for Mr. Motyl. Would you agree that while financing mechanisms are attractive for advancing large infrastructure projects, what is important is robust funding programs, because they are absolutely crucial to ensuring safe and reliable transportation systems? I am trying to get at the difference between the funding and financing.

Mr. MOTYL. Right. Well, there has to be a good mix between funding and financing. Our transportation trust fund is probably similar to any other transportation trust fund in the country. Our State resources is our revenues minus our debt service minus operating, so if you are relying totally on debt financing, you are taking away from the State resources; you are taking away from the infrastructure of the State.

So, yes, long programs are nice and necessary, but all the infrastructure needs can't be met with just loan programs alone. You really need some grant funding and other mechanisms.

Senator DUCKWORTH. Thank you. And mechanisms like TIFIA and WIFIA were designed to help State and local governments pursue major infrastructure projects that otherwise would be too expensive to advance through traditional means. With an impressive leverage of 42 to 1 for TIFIA and 102 to 1 for WIFIA, it is easy to understand why Congress is really enamored with these tools.

However, securing a loan, as you have said, isn't always easy. They are limited to certain types of projects with high cost thresholds, and they are limited to a portion of total project cost.

Assuming that a project's underlying fundamentals are financially sound, that is to say, the non-Federal sponsor enjoys appropriate bond ratings, private instruments have been identified, et cetera, would you agree—following up on your answer to the first question—that TIFIA and WIFIA could benefit other major infrastructure projects such as building or modernizing airports, for example?

Mr. MOTYL. Absolutely. As long as there is a dedicated revenue stream, I don't know about airports, but I would assume it would work the same way. It is going to provide a lower cost to financing, so ultimately it would be a great way to finance a project.

Senator DUCKWORTH. Thank you. I am glad to hear you say that.

I am actually going to be introducing legislation in the coming weeks that would responsibly expand TIFIA eligibility for major airport projects such as those that are already underway in Chicago, Salt Lake City, Philadelphia, Miami, and elsewhere.

Would the greater Delaware region benefit from a proposal to expand these financing instruments to help modernize and improve our aging airport infrastructure?

Mr. MOTYL. That is totally out of my realm. I would assume yes, but I can't really say anything.

Senator DUCKWORTH. No, that is fine.

My next question is for Mr. Sarmiento. It is my understanding that the Orange County Water District is receiving WIFIA assistance for a water recycling project to benefit your 2.4 million customers, and that is fantastic. However, success stories like those we have heard about today must not allow us to ignore the significant limitations of WIFIA and TIFIA. They often fail to help rural communities where infrastructure projects are unlikely to provide a rate of return that lures private investments or the tax base is not adequate to repay a substantial Federal loan.

Would you agree, then, that clean drinking water and safe roads are just as important to small rural and disadvantaged communities as they are to major metropolitan areas?

Mr. SARMIENTO. Thank you for that question, Senator. Yes, I do agree. I think because we are blessed as a large agency, I think we could leverage the private bond market obviously at a higher cost for our ratepayers. We do have some smaller agencies that are part of our network of producers, so we realize that they also have a difficult time being able to be eligible for some of this funding.

So, to the extent rural communities, disadvantaged communities, we see issues going on in Flint, Michigan, Compton, California, West Virginia, all over the country that have these issues, and sometimes accessing funding is difficult because of their capacity and their ability to go ahead and apply and leverage some of those private dollars. So, for us, we are completely supportive of what this Committee and what these bills are trying to do to make sure that all agencies are able to deliver clean, safe drinking water, because we know communities of color, low income communities are the ones who especially suffer when there isn't funding like this available.

Senator DUCKWORTH. Thank you for your answer.

I yield back, Mr. Chairman.

Senator BARRASSO. Thank you.

Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman, and thank you for you and our Ranking Member for holding the hearing on such an important subject.

Senator Booker and I have worked really hard to secure broad bipartisan support and endorsements from over 30 of the Nation's leading organizations representing construction, engineering, municipalities, conservation, public works, labor for the SRF WIN Act.

Thanks to the hard work by the EPW majority and minority staff, SRF WIN no longer scores.

Despite all this, SRF WIN does have some detractors. The main argument I hear is that the legislation is a solution in search of the problem, with which I am totally confused. According to the EPA's most recent drinking water infrastructure needs survey and assessment, released earlier this year, $472.6 billion is needed to maintain and improve the Nation's drinking water infrastructure over the next 20 years. That is just the drinking water; that doesn't have anything to do with wastewater infrastructure.

One of the other problems that I am seeing is that municipalities, because they are struggling financially, tend to push things down. You know, you deal with it, the EPA comes in, eventually the DOJ because it has been pushed down, and all of a sudden you are under a court order with a fine, and again, subsequently massive rate increases. So, this is just an attempt to again put some more tools in the toolbox.

Can you tell us again, Mr. Sarmiento, if you feel like that this would be a good tool in the toolbox to help you in dealing with the many problems that we have? And let me congratulate you, also, on the fact that you all do a great job, and you have a huge problem, a huge population with, like everyone else, limited resources, but also in a climate that makes it very, very difficult.

Mr. SARMIENTO. Thank you, Senator. And you are right, I think for us our challenge is hydrology is difficult to predict, so we have, unfortunately, suffered the last four out of five seasons with very, very dry seasons. We normally average 14 inches of rain a year. Last year we received less than 5 inches of rain, so it is a problem that just becomes very difficult for us to address. Programs like this, programs such as WIFIA, the SRF, the SRF WIN are vital to us because they make it available for us to be able to choose from, again, different resources for us to tap into.

We could finance our final expansion of our groundwater replenishment system, but it would be going out to the private sector and bringing things back at a much costlier rate to our ratepayers. We would suffer delays. So, the fact that these programs are available to us, we can deliver much quicker, we can make sure that folks—because I think there are some tangible benefits that we are talking about, but there are also some intangible benefits that we don't discuss sometimes. Not knowing whether or not we are going to have to go into a drought crisis, we are going to have to start rationing, we are going to have to deal with heavy, heavy conservation, makes folks unsettled. It hurts our economic development in our town, in our region just because people don't like uncertainty. And when you see that, it makes it very difficult for us to be able to attract folks, and there is a multiplier effect to the money that is invested and the money that is made available for these improvements.

So, we certainly applaud the efforts, Senator, that you are doing, along with Senator Booker and this Committee, because it does make that uncertainty a little bit less difficult for us to overcome.

Senator BOOZMAN. Very good.

Mr. Holtz-Eakin, affordability is a major concern in Arkansas, with many families having trouble affording to pay the utility bills every month. When a community invests in their infrastructure, ratepayers generally see rate spikes.

Can you explain how leveraging programs like WIFIA and TIFIA and SRF WIN help communities plan ahead to ensure their ratepayers won't see massive rate spikes in the future?

Mr. HOLTZ-EAKIN. As a way to augment the ability to do debt finance investments, which is the core of these programs, it allows you to smooth the rate increases over a longer period of time. If you had to finance on a year by year basis big capital construction projects, you would be getting enormous rate spikes, and that is just not desirable.

Senator BOOZMAN. And that goes along with what you just said, Mr. Sarmiento, about having the predictability, the reliability.

Thank you all very much. We appreciate you being here.

Senator BARRASSO. Thanks.

Now we turn to the man celebrating his birthday today.

Senator MARKEY. Thank you, Mr. Chairman.

Senator BARRASSO. Happy Birthday, Senator Markey.

Senator MARKEY. Thank you, Mr. Chairman.

Senator CARPER. Senator Markey, I just note for the record each of the witnesses modified their testimonies to begin their testimonies by extolling you, saying how they wish each of their Senators was as accomplished.

Senator MARKEY. And hopefully it will also be reflected in their answers to my questions. The answer is yes, if I can just give you a hint going forward. 7/11 is a good day, so I have always felt fortunate.

Senator BARRASSO. So, when they sing, "Oh, thank heaven for 7-Eleven," you think it is about you?

[Laughter.]

Senator MARKEY. My favorite chain.

Low-cost Federal loan programs are one important tool in our infrastructure toolbox that can help us modernize our Nation's roads and rail and water infrastructure.

In 2018 Massachusetts closed on a $162 million TIFIA loan to implement positive train control technologies, which are safety features that can trigger a train to stop or slow down during an emergency, so that is a good use of a loan program, and Massachusetts took advantage of it.

But earlier, Senator Duckworth mentioned that many of our small and disadvantaged communities may not be able to use these low-cost Federal loan programs because they cannot afford to repay the loan, and that is why, yesterday, I introduced the Clear Drinking Water Act, which would authorize more than $1 billion in Federal grants to help small and disadvantaged communities replace contaminated water infrastructure to comply with the Safe Drinking Water Act requirements. And I am proud that 11 of my colleagues have joined me in cosponsoring this bill as it has been introduced.

We must take swift action to eradicate the environmental contaminants of the 20th century and invest in infrastructure for the 21st century, and for every community in the country that can afford to replace their old facilities, there is a poorer community nearby that cannot.

Mr. Sarmiento, do you believe that Congress should provide targeted Federal investments to small and disadvantaged communities that do not have the means to use low-cost Federal loan programs?

Mr. SARMIENTO. Thank you, Senator, and let me begin by saying Happy Birthday.

Senator MARKEY. Thank you, sir.

Mr. SARMIENTO. I am also a fan of 7-Eleven.

Absolutely. And I want to thank you for thinking about those communities, because I represent one of those communities that is a disadvantaged community in a wealthy county, albeit our average median income is very, very low relative to our neighbors throughout the county. We do feel that there is a huge benefit in making agencies in cities like ours eligible for those low interest loans, because we do have some heavily deferred maintenance on our infrastructure that we need to address, so, to the extent that additional funds are available, it certainly is a welcomed supply.

Senator MARKEY. So, for every Palo Alto there is an East Palo Alto.

Mr. SARMIENTO. Right.

Senator MARKEY. For every Boston there is a Chelsea. So, we just have to deal with the complexity of it that not everyone can comply with the requirements if they are required to pay it back dollar for dollar. Just very, very difficult.

So, if we want to modernize America's infrastructure, we have to be committed to making those investments. But the Trump administration's infrastructure proposal, $200 billion of Federal funding that would presumably come from budget cuts, even possibly to older transportation and infrastructure programs, fails to deliver on the President's promise to invest $1.5 trillion in our Nation's infrastructure, and the reason why is simple: $200 billion simply is not $1.5 trillion.

The Administration assumes that as a condition for receiving Federal assistance, cash strapped States and local governments will have to work with private investors to cover the other $1.3 trillion by using credit programs such as the Transportation Infrastructure Finance and Innovation Act. But many infrastructure projects are not well suited to attract private investment, and State and local governments are already struggling to find the funds to simply fill in potholes and maintain healthy drinking water.

Dr. Holtz-Eakin, in a blog post you wrote that "It is a tall order for the Administration's infrastructure plan to generate $1.5 trillion of investment." Do you think the Administration erred in assuming State and local governments, in partnership with private investors, can generate $1.3 trillion in infrastructure investment?

Mr. HOLTZ-EAKIN. I think it was extremely optimistic. I mean, to get the private sector involved, you have to have some cash flows on the table for them, and at least in my judgment, it didn't look like there would be sufficient opportunities to do that, to generate that kind of participation. I also don't think that $1.5 trillion is the right way to think about any problem. The question is is an infrastructure project valuable? If it is, do it; and if it is not, stop, and you will either get to a $1.5 trillion or you won't. I don't see the magic of going for that number.

Senator MARKEY. Except that it is a magical number that they have created, huh? The magic asterisk.

Mr. HOLTZ-EAKIN. My profession has been spent with magical numbers, and most of them are really magical.

[Laughter.]

Senator MARKEY. I remember when David Stockman, one of your predecessors, he talked about a magic asterisk in the 1981 Reagan budget to make up for all of the funding they actually couldn't account for; they just put a magic asterisk next to it, and I think that is where they are with this $1.3 trillion.

I think this is the Committee that should be realistic, that we should be practical. That is really what the history of the Committee is, and that we should just try to come back and put something together that has real numbers, realistic numbers that we are working on so that we can really have the infrastructure upgrade that we need.

So, I thank you all very much, and thank you, Mr. Chairman.

Senator BARRASSO. Senator Wicker.

Senator WICKER. Doug, I have known you for 20 years. You have been in and out of government; you have been on TV. How do you pronounce your last name?

Mr. HOLTZ-EAKIN. The correct pronunciation is Holts-Akin.

Senator WICKER. Holts-Akin. OK.

Mr. HOLTZ-EAKIN. I long ago settled on Holts-Eakin because it is just not worth it.

Senator WICKER. OK.

[Laughter.]

Senator WICKER. And Brian, help me with your last name.

Mr. MOTYL. Motel. Motel.

Senator WICKER. Motel.

Mr. MOTYL. But Senator Carper pointed out that was wrong.

Senator WICKER. Like the one at 7-Eleven there.

[Laughter.]

Senator WICKER. Well, Dr. Holtz-Eakin, you were very gentle in saying it is optimistic, overly optimistic. In a nutshell, what suggestion do you have for us, other than the one you made, to find out what the needs are and figure out how much the cost is, rather than start with 1.5? What would you do to make the financing more realistic, more doable, more workable?

Mr. HOLTZ-EAKIN. So, beginning narrowly, as I said in my opening statement, I think the design of WIFIA, TIFIA, SRF WIN is consistent with good infrastructure projects. You have people on the ground vetting them; there is local stakeholder financing, so they have a reason to both choose and operate them effectively; there is a role for the Federal Government in terms of a debt finance augmenting that; and that program will be designed and will generate some projects, and it might not get to $1.5 trillion, but they will be beneficial projects. So that makes sense to me.

I think what you are seeing in the bigger picture, if you step back, and the Committee is well aware of this, is this is one way to use general revenues to finance infrastructure projects, and that is a reflection of the fact that there is not a stable financing mechanism that satisfies the Highway Trust Fund's needs. So, you have a bigger problem, which is what will be the way to commit to stable funding of transportation infrastructure from the Federal Government? And that question has been unresolved for quite a long time, and I know why.

Senator WICKER. OK. But do you see Senator Boozman's point and my point, coming from smaller States that have never used TIFIA, never used WIFIA, because we don't have the revenue stream, that we need this other little program to maybe help us to bundle up some small funds and get eligible for this kind of nifty financing?

Mr. HOLTZ-EAKIN. I absolutely do. Remember, I am, first and foremost, a trained economist, and the core economic question is is the rate of return on this infrastructure project, albeit it a small one in a rural locality, greater than the market rate of return? And if the answer is yes, it should be done. The public will be better off doing that.

There are things that get in the way of that: inefficiencies in bond and other markets, overhead costs in running Federal programs. To the extent that you can bypass those things, you are doing a better job of financing infrastructure.

Senator WICKER. Mr. Motyl, we don't have a robust revenue stream in States like Mississippi and Arkansas, so do you have any ideas regarding small communities' being able to leverage private sector investment to fund transportation infrastructure projects, since TIFIA doesn't work for us?

Mr. MOTYL. I don't really have any experience on the private sector partnerships. I will say that TIFIA worked for us, and it is a tool that we have, but it is not fair that we can use it and so many other States can't. There have to be programs developed that everybody can take advantage of, and I don't know what those programs are; maybe grant funding for the lower income communities or whatever. But we can afford the loan; we are happy to pay it, but a lot of people can't, so there have to be programs for those other States.

Senator WICKER. Well, I think it is worth mentioning, also, in response to Senator Markey's statement and question, that there is proposed in the Trump program a carve out for rural areas that just can't afford to do this.

Mr. Sarmiento, do you want to comment on this issue?

Mr. SARMIENTO. Yes. I think because we are in a more urban area, we realize that there is a need for other States and other areas to be eligible for the same amount of funding and be able to access it. I know that the SRF WIN is trying to address maybe that gap that is there for those smaller agencies and smaller cities. So, we certainly believe that, as we go through this, the more options, the more tools in that toolbox that you are trying to create for our Nation is an important step forward.

Senator WICKER. Well, it is a tool that is in our bill right now, and I appreciate the leadership and the Committee in trying to keep it there.

Thank you, gentlemen.

Senator BARRASSO. Thank you, Senator Wicker.

Senator Gillibrand.

Senator GILLIBRAND. Thank you, Mr. Chairman.

I would like to build on the concerns raised earlier in the hearing by Senator Carper regarding the Federal Transit Administration's guidance to count Federal loans, including TIFIA loans, as Federal funding when evaluating a project for a capital investment grant.

I am very dismayed that in a letter dated June 29th of this year, the Acting Administrator of the FTA, Jane Williams, wrote that "FTA considers U.S. Department of Transportation loans in the context of all Federal funding, and not separate from the Federal funding sources."

This ignores the distinction between grant funding and loan financing, and does not take into account whether the loan is actually repaid using non-Federal funds.

The FTA's interpretation is not consistent with the law, which states that the proceeds of secured loan under the TIFIA program may be used for any non-Federal share of project costs required for a Federal highway or transit project if the loan is repayable from non-Federal funds.

I am very concerned that this Administration is intentionally trying to make it more difficult for States and localities to use low interest Federal loans for major transit projects, and instead, push more private financing for public infrastructure projects.

And just as our colleagues pointed out, private financing is not going to be available for non-economic projects, which may well account for a great deal of the rural projects that were mentioned by our colleagues from rural States.

Just don't take my word for it. Acting Administration Williams' letter says, "The FTA strongly encourages project sponsors to consider innovative financing and funding approaches, including value capture and private contributions."

Now, value capture obviously means there is an economic stream that you take from it. A rural road in Mississippi is not going to have enough of an economic stream. That is also the same for upstate New York.

I think we can all agree that local project sponsors should be utilizing an element of non-Federal funding so that we can leverage our Federal resources with other funding sources. However, limiting the ability of a project sponsor to utilize the full suite of Federal grants and loan assistance to put together a financing plan for major projects is not the answer. This approach makes it more difficult to build major transit projects and could end up making those projects more expensive.

First, Mr. Motyl, how do low interest Federal loans like TIFIA differ from other financing that you would get if you had to rely more heavily on other sources, including the private market?

Mr. MOTYL. Low interest loans like TIFIA have much greater flexibility than other financing options. We do a lot of bond financing; we have senior revenue bonds; we have dedicated toll revenue bonds. The flexibility with the amortization schedule on TIFIA gives you a lot of benefits; deferred principal payment.

Senator GILLIBRAND. Are there any other benefits to local taxpayers of utilizing Federal financing?

Mr. MOTYL. Any savings to the Department is a savings to the taxpayers.

Senator GILLIBRAND. Dr. Holtz-Eakin, you mentioned that a benefit of Federal loan programs is that project sponsors have an interest in not wasting money because they are repaying it. Would you agree that Federal loan programs like TIFIA require local project sponsors to have skin in the game?

Mr. HOLTZ-EAKIN. Absolutely, yes.

Senator GILLIBRAND. And would you agree that there is a distinction between Federal grant funding that does not require repayment and credit assistance and loan financing that is repaid with non-Federal funding?

Mr. HOLTZ-EAKIN. Certainly seems so to me. I did not know about this guidance until today, but I am going to take a look at it.

Senator GILLIBRAND. I would be grateful if you could submit a letter to the Committee of your thoughts on this guidance and what the negative or unforeseen effects of it will be.

Mr. HOLTZ-EAKIN. I would be happy to do that.

Senator GILLIBRAND. Thank you, Mr. Chairman.

Senator BARRASSO. Thank you so much.

Senator Carper.

Senator CARPER. I want to thank Senator Gillibrand for following up on this issue. I think you raised an important point, and I thank you for your comments.

In reference to the concerns that Senator Fischer raised earlier about small projects, I would just like to note for the record that small projects—I believe those are ones that are under $75 million in project costs, but they do face easier requirements. For example, only one investment grade rating is needed, I believe, on these projects. So, requirements are not exactly the same, regardless of the size.

However, I agree that there may be more to do to expand access to TIFIA loans to all of our communities, and we have been talking about those ideas here today.

A couple of my colleagues, Senator Markey and others, Dr. Holtz-Eakin alluded to this as well, we have a huge demand and a need for infrastructure investments, all kinds. Not just roads, highways, bridges; not just airports, railroads; not just ports, not just broadband deployment; all kinds of needs. What we don't have is the will to pay for them.

Some of us believe that there is value in the three Ps, public-private partnerships. I think that could be part of the solution, but I think the last, I don't know, 30 years or so, we have maybe 60 of them, something like that. That doesn't really solve the problem, although it is helpful. TIFIA is helpful, and you have given us some good ideas on how to make it even more helpful.

Historically, we have used user fees to pay for infrastructure projects, especially with respect to roads, highways, bridges. The user fee that we use hasn't been changed in about 25 years, it is worth about half of what it was when it was adopted, so there are some of us who suggested we consider restoring the purchasing power of the user fees. Not everybody is crazy about doing that, although Senator Barrasso and I were in a meeting with the President, you were sitting right beside him, I was sitting right in front of him when he stated very boldly his strong support for raising—

even more than some of us had suggested—the user fees, the ones that we traditionally use.

In the meantime, people ask me how do we fund roads, highways, bridges in the long term. I think in the long term we move to a vehicle miles traveled approach. I think that is the way to go. We have a pilot project underway now. There are a number of States, especially on the East Coast, that are involved in that. Delaware is one of them. My 2001 Chrysler Town and Country minivan is one of several hundred vehicles that are even used in that project. They wanted a relic to be able to include with the really snazzy new cars and trucks to be part of it.

Dr. Holtz-Eakin, would you just opine for us for a little bit about vehicle miles traveled? My sense is that is where we are going ultimately, because we are seeing more and more battery powered vehicles, electric powered vehicles, more and more fuel cell powered vehicles, and people like driving them. They are easier to maintain, better environmentally.

Your thoughts about vehicle miles traveled?

Mr. HOLTZ-EAKIN. I am a big supporter of that switch. In the end, the damage to roadways comes from weight, axles, and miles driven, and you can adjust for all three of those things using a vehicle miles tax. It will, thus, be a more genuinely targeted user fee that will create the right incentives for the amount of driving that people do, the vehicles they select, and also the funding to both build and maintain roadways. So, I think that would be a big step in the right direction.

Senator CARPER. All right, thank you.

Does either witness have any thoughts on this? You may or may not. If you do, please, go ahead, but if not, that is OK.

Mr. MOTYL. It is a great idea, and it makes sense. We will see how the pilot goes, but there is a lot of potential there.

Senator CARPER. All right, thank you.

I think we will just hold it there. This has been a good hearing. We appreciate very much you all being here. Thanks so much for just helping us pronounce your names correctly and for helping us with some good advice on branding from California. I wrote that down. Maybe I will find a way to use that in Delaware. I will not give you the credit; I will just take it myself.

Mr. SARMIENTO. Thank you, Senator.

Senator BARRASSO. He never did that as Governor, did he?

[Laughter.]

Senator BARRASSO. Senator Boozman.

Senator BOOZMAN. Well, we are not quite done, so we still have the opportunity to mess up names, pronunciations or whatever.

Let me just ask one final thing, Mr. Sarmiento. One of the major criticisms with the WIFIA program is the lack of opportunity for small and medium projects in non-metropolitan rural areas, which is so important. Certainly, Senator Barrasso, Senator Carper, again, we have a few cities of size, but most of it is small and medium.

You are a guy that runs a huge district and does it very, very well, but you are constantly aware, constantly in contact with the small and medium. Do you think a program like SRF WIN, that allows States to bundle their smaller projects into one application so they may qualify for the WIFIA program, would be helpful for the small and rural communities?

Mr. SARMIENTO. Yes, Senator. Thank you. And by the way, I never thought I would have the easy name to pronounce, so next to these two gentlemen I think I am in good company.

But thank you for that question. I do think, as a representative of a larger agency, I think that we believe that there is a huge benefit to having the SRF WIN make itself available for those smaller agencies and smaller communities that don't have the capacity that may——

Senator BOOZMAN. So bundling would be a——

Mr. SARMIENTO. So the funding is critical because that is a way for eligibility. Obviously, we know the threshold for WIFIA is higher, so it does make sense to have easier accessible ability for these low interest loans.

Senator BOOZMAN. Well, thank all of you all for being here. We appreciate your testimony; it was very helpful. Again, we hear a lot up here about all of the situations of folks not getting along and trying to get things done, but this is not a Republican or Democrat issue; this is something that truly is affecting big city infrastructure, medium, small, and it truly is a crisis. So, we appreciate your efforts in helping us come up with better solutions. Thank you.

Senator BARRASSO. Thank you, Senator Boozman.

I want to thank all of you for being here today to testify.

The record is going to be open for another 2 weeks. Members may submit written questions, and I hope you will be able to respond quickly. I want to thank all of you for your time and your testimony today.

The hearing is adjourned.

[Whereupon, at 11:35 a.m. the Committee was adjourned.]

[Additional material submitted for the record follows:]

Council of Infrastructure Financing Authorities

316 Pennsylvania Avenue, S.E. • Suite 201 • Washington, D.C. 20003

Council of Infrastructure Financing Authorities

Statement for the Record

"The Long-term Value to U.S. Taxpayers of Low-cost Federal Infrastructure Loans"

U.S. Senate Committee on Public Works and the Environment

July 11, 2018

The Council of Infrastructure Financing Authorities is pleased to submit this statement for the record for a hearing by the U.S. Senate Committee on Public Works and the Environment on "The Long-term Value to U.S. Taxpayers of Low-cost Federal Infrastructure Loans" on July 11, 2018.

The Council of Infrastructure Financing Authorities supports S. 2800, America's Water Infrastructure Act of 2018, which was amended to include "Securing Required Funding for Water Infrastructure Now Act" (SRF WIN) by a unanimous vote of the U.S. Senate's Subcommittee on Transportation and Infrastructure on May 22, 2018. The SRF WIN provisions provide a valuable new financing tool for states that will increase investment in water infrastructure across the nation.

For more than 30 years, the federal government has partnered with states to fund water infrastructure through the Clean Water and Drinking Water State Revolving Funds. These proven, successful programs, which receive annual funding from both federal and state governments and provide low interest loans and other assistance to communities to build critical water infrastructure that protect public health and the environment.

Over the last three decades, these programs, combined, have generated an investment of more than $150 billion in our nation's water infrastructure. Because of the revolving nature of the programs - loan repayments fund new projects - these programs ensure a long-term, sustainable supply of capital to address future needs.

The SRF WIN provisions provide a streamlined path for State Revolving Funds to access low-interest funding offered through the Water Infrastructure Finance and Innovation Act (WIFIA). These provisions provide all states with an efficient and economically-attractive alternative to the private bond market that will allow the SRFs to fund more projects.

Providing State Revolving Funds with a more efficient process for securing loans backed by the U.S. Treasury enhances the fundamental financial stability and effectiveness of these state-federal partnerships. Additionally, the SRF WIN streamlining provisions eliminate fees, reduce red-tape and avoid needless duplication which can drive up the cost of water infrastructure projects.

Greater investment in water infrastructure benefits the public, the economy and the environment. Projects funded by the State Revolving Funds have provided tens of millions of Americans, particularly those in low income and underserved communities, with access to safe, reliable drinking water and have increased protection for America's sensitive water resources which are the foundation for healthy and vibrant wildlife habitats.

The Council of Infrastructure Financing Authorities (CIFA) is a national association dedicated to representing the interests of state agencies that are responsible for implementing and managing the Clean Water and Drinking Water State Revolving Funds. Our members include state health departments, environmental protection agencies, and infrastructure finance authorities. Although diverse, these agencies share a common mission – to implement financially sound policies and strategies that provide ongoing and sustainable investment in critical water infrastructure that protects public health and conserves our sensitive natural resources for generations to come. Our members are grateful to the leadership of the Committee and the U.S. Senate for their unwavering commitment to investment in our nation's water infrastructure.