STATEMENT OF
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UNITED STATES SENATE

Innovative Project Finance

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

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

The President's Infrastructure Investment Proposal

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

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

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

This program must have a number of key elements. We need to continue the commitment by the President and the Congress to expand our high-speed rail program. As the Secretary has traveled around the country meeting with people in outreach sessions on our surface transportation program, a recurring theme is that people want high-speed rail. They don't want to have to wait in crowded airports or drive for hours on congested highways to get where they want to go. They want another choice. They want high-speed passenger rail.

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

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

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

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

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

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

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

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

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

Innovative Project Finance

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

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

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

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

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

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

<u>Reauthorization</u>

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

As you are aware, the TIFIA program provides credit assistance for up to one-third of the eligible costs of qualified surface transportation projects of regional and national significance. Eligibility is open to large-scale, surface transportation projects—highway, transit, railroad, intermodal freight, and port access—with eligible costs exceeding $50 million. TIFIA credit assistance is available for State and local governments, transit agencies, railroad companies, special authorities, special districts, and private entities.

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

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

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

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

The Infrastructure Bank proposed by President Obama and the National Infrastructure Innovation and Finance Fund previously proposed in the President’s FY 2011 budget can address many of the challenges I have described. It can avoid the excessive stovepiping of funds into narrow categorical programs. It can be focused on directing its investments toward achieving strategic national goals. It can focus its attention on meeting national and regional transportation needs while improving the livability of our communities. It can have a broad modal scope, so that it can invest funds in whichever mode of transportation is most suited to achieving our strategic goals. It can apply analytic tools to select projects that can be demonstrated to have the greatest possible impact on those goals. It can foster an environment of competition and innovation that will encourage the best projects to be funded. And it can offer the combination of funding and financing options – grants, loans, and loan guarantees – that will allow it to leverage public funds and get the best results from our limited budgetary resources.

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

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