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Committee on Environment
and Public Works Washington, D.C.

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

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The committee met, pursuant to notice, at 10:07 a.m. in room 406, Dirksen Senate Office Building, the Honorable 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.

STATEMENT OF THE HONORABLE JOHN BARRASSO, A UNITED STATES 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 affects.

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 two 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.

[The prepared statement of Senator Barrasso follows:]

STATEMENT OF THE HONORABLE THOMAS R. CARPER, A UNITED STATES 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 three 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.

[The prepared statement of Senator Carper follows:]

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 five 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:]

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 are 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 costed 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:]

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, DELDOT, ASSISTANT DIRECTOR OF FINANCE

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 three 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 one 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:]

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 decision-making 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 monies 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 one, 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 follows:]

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 benefitted 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 okay. 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 D.C., 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 of 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. Okay. 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. Okay, 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 11:00 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. Okay. 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, etcetera, 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 Holtz-Akin.

Senator Wicker. Holtz-Akin. Okay.

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

Senator Wicker. Okay.

[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. Okay. 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.

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

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 two 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.]