

The seal of the City of Los Angeles is a circular emblem with a yellow border of small circles. Inside, a shield is divided into four quadrants: top-left has red and white vertical stripes; top-right has a red bear; bottom-left has a golden eagle; bottom-right has a red lion. A red banner with a white star is at the top. The words "CITY OF LOS ANGELES" are written in a grey arc across the top, and "FOUNDED 1850" is written in a grey arc across the bottom.

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

**Innovative Project Finance**

**Environment and Public Works Committee  
United States Senate**

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



**ANTONIO R. VILLARAIGOSA**  
**MAYOR**

**United States Senate Committee on Environment and Public Works**

Written Testimony of Los Angeles Mayor Antonio R. Villaraigosa

September 28, 2010

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

**Introduction**

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

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

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

**National Context**

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

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

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

**Importance of Los Angeles to the U.S. Economy**

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

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

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

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

**About Local Infrastructure Development**

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

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

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

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

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

**Why Transit?**

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

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

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

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

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

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

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

**Why We Need Federal Financing Assistance**

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

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

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

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

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**Existing & Proposed Federal Programs**

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

**TIFIA**

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

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

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

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

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

**Build America Bonds**

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

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

**National Infrastructure Bank**

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

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**Proposed National Model for Innovative Infrastructure Financing**

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

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

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

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

**Emerging National Support**

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

10. NOW, THEREFORE, BE IT RESOVED that The U.S. Conference of Mayors urge Congress to expand existing and/or establish new federal tax preferred bond programs with very high subsidies that would allow state and local governments to issue tax-preferred debt at or near zero percent interest for transportation projects that meet national criteria, such as reduction of greenhouse gas, and already have significant non-federal sources committed; and
11. BE IT FURTHER RESOLVED that The U.S. Conference of Mayors urges Congress to modify the TIFIA loan program to enable USDOT to make an upfront credit commitment to a project sponsor at an earlier stage of development for projects that already have the majority of non-federal funding committed and that would reduce greenhouse gas

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**Conclusion**

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

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

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

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**Appendix: Background**

Measure R

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

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

Los Angeles 30/10 Initiative

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

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

The major benefits of 30/10 include:

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