NATIONAL INFRASTRUCTURE BANK: MORE BUREAUCRACY AND MORE RED TAPE

(112–55)

HEARING

BEFORE THE

SUBCOMMITTEE ON
HIGHWAYS AND TRANSIT

OF THE

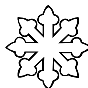
COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

OCTOBER 12, 2011

Printed for the use of the
Committee on Transportation and Infrastructure



Available online at: http://www.gpo.gov/fdsys/browse/committee.action?chamber=house&committee=transportation

U.S. GOVERNMENT PRINTING OFFICE

70–681 PDF WASHINGTON : 2012

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U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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October 7, 2011

MEMORANDUM

TO:	Members of the Subcommittee on Highways and Transit
FROM:	Subcommittee on Highways and Transit Staff
SUBJECT:	Hearing on "National Infrastructure Bank: More Bureaucracy & More Red Tape"

PURPOSE

The Subcommittee on Highways and Transit will meet on Wednesday, October 12, 2011, at 10:00 a.m., in Room 2167 of the Rayburn House Office Building to receive testimony related to the Administration's National Infrastructure Bank proposal that is part of the American Jobs Act of 2011 (H.R. 12). This hearing is part of the Subcommittee's effort to reauthorize federal surface transportation programs under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). These programs expired on September 30, 2009 but have been extended through March 31, 2012. The Subcommittee will hear from the Secretary of the Oklahoma Department of Transportation, a Senior Research Fellow from the Heritage Foundation, a Civil Engineer and Transportation Economist from the Independent Institute, a Partner from Nossaman, LLP, and the Director of Public Policy from the Progressive Policy Institute.

BACKGROUND

On September 8, 2011, President Obama transmitted to Congress the American Jobs Act of 2011. The President's plan includes a national infrastructure bank proposal, capitalized with $10 billion, to leverage private and public capital and to invest in a broad range of infrastructure projects of national and regional significance. The President's proposal is based on the legislation introduced by Senator John Kerry and Senator Kay Bailey Hutchison (S. 652). Senator John Rockefeller and Senator Frank Lautenberg (S. 936) have also introduced legislation to create a National Infrastructure Bank. Legislation introduced by Representative Rosa DeLauro (H.R. 402) would create an entity similar to a National Infrastructure Bank to issue public benefit bonds and finance infrastructure projects.

President Obama's proposal would create the American Infrastructure Financing Authority (AIFA) to provide direct loans and loan guarantees to eligible entities to facilitate infrastructure projects of regional or national significance. The AIFA would be run by a Board of Directors consisting of 7 voting members selected by the President and confirmed by the Senate. The majority leader of the Senate, the minority leader of the Senate, the Speaker of the House of Representatives and the minority leader of the House of Representatives would each recommend one person to the President to be nominated to the Board. The President would select the other three Board nominees on his own. Only four of the Board members could be from the same political party.

The AIFA would provide loans or loan guarantees to transportation infrastructure projects on highways, bridges, transit, airports, ports, inland waterways and rail systems (including high-speed rail); water infrastructure projects at wastewater treatment facilities, storm water management systems, solid waste disposal facilities, drinking water treatment facilities, dams and levees; and energy infrastructure projects for pollution reduced energy generation, transmission and distribution, storage, and energy efficiency enhancements for buildings (public and commercial). In the selection of projects, the Board of Director of AIFA would give consideration to the economic, financial, technical, environmental, public benefits and cost of each infrastructure project under consideration and would prioritize those projects based on contribution to regional or national economic growth, value for money to taxpayers, demonstration of a clear and significant public benefit, job creation, and environmental concerns.

Eligible entities would submit an application to AIFA to be considered for a loan or loan guarantee. To be eligible for selection by AIFA, most infrastructure project would have to equal or exceed $100 million in total costs. However, an infrastructure project in a rural area would only have to equal or exceed $25 million. The amount of a direct loan or loan guarantee issued by AIFA could not exceed 50 percent of the reasonably anticipated eligible infrastructure project costs.

The President's proposal is similar to the existing Transportation Infrastructure Finance and Innovation Act (TIFIA) program, which supplements traditional surface transportation funding and financing methods by providing federal credit assistance to multi-modal surface transportation projects of regional and national significance. The President's proposal is also similar to State Infrastructure Banks (SIBs). SIBs are revolving fund mechanisms that allow states to finance highway and transit projects through loans and credit enhancements by utilizing their federal-aid highway funds.

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Enacted as part of the Transportation Equity Act for the 21st Century (TEA 21), the Transportation Infrastructure Finance and Innovation Act of 1998 established a federal credit program for eligible transportation projects of national or regional significance. The program's goal is to leverage federal funds by attracting substantial private and other non-federal co-investment in critical project-based improvements to the Nation's surface transportation system. TIFIA credit assistance provides improved access to capital markets, flexible repayment terms, and potentially more favorable interest rates than can be found in private capital markets for similar instruments.

Through TIFIA, the U.S. Department of Transportation (DOT) provides federal credit assistance to highway, transit, rail, and intermodal freight projects, including seaports. The amount of TIFIA assistance may not exceed 33 percent of total project costs. The program targets only large projects – generally those costing more than $50 million. Both public and private project sponsors may apply for TIFIA assistance, but all prospective borrowers must demonstrate that the proposed project is consistent with State and local transportation plans.

The TIFIA program offers three types of financial assistance: secured loans, loan guarantees, and standby lines of credit. Secured loans are direct federal loans to project sponsors. Loan guarantees provide full-faith-and-credit guarantees by the federal government to institutional investors that make loans for projects. Standby lines of credit represent secondary sources of funding in the form of contingent federal loans that, if needed, supplement project revenues during the first ten years of project operations. To fund TIFIA, SAFETEA-LU and the recent extension of SAFETEA-LU have provided $122 million in contract authority from the Highway Trust Fund for each of fiscal years 2005 through 2010 to pay the subsidy cost and administrative expenses of credit assistance.

According to the Federal Highway Administration (FHWA), TIFIA has provided $8.4 billion in credit assistance to 24 projects totaling over $31 billion in total investment. In FY 2011, 34 projects submitted letters of interest seeking $14 billion in TIFIA loans and in FY 2010, 39 projects submitted letters of interest seeking $12 billion in TIFIA loans. In both years the program had the capacity to issue approximately $1 billion in loans.

State Infrastructure Banks

A SIB is a revolving fund mechanism for financing a wide variety of highway and transit projects through loans and credit enhancement. SIBs are intended to complement the traditional federal-aid highway and transit programs by supporting certain projects with dedicated repayment streams that can be financed in whole or in part with loans, or that can benefit from the provision of credit enhancements. As loans are repaid or the financial exposure implied by a credit enhancement expires, the SIB initial capital is replenished and can be used to support a new cycle of projects.

Section 350 of the National Highway System Designation Act of 1995 (P.L. 104-59) (NHS Act) authorized DOT to establish the SIB Pilot Program. Specifically, DOT was authorized to select up to 10 states to participate in the initial pilot program and to enter into cooperative agreements with FHWA and/or the Federal Transit Administration (FTA) for the capitalization of SIBs with a portion of their federal-aid highway funds. The DOT and Related Agencies Appropriations Act, 1997 (P.L. 104-205) opened SIB participation to 38 states and the Commonwealth of Puerto Rico and appropriated $150 million in federal General Funds for SIB capitalization. Under this authority, 32 states and Puerto Rico established SIBs. SAFETEA-LU made the pilot program permanent and expanded it to allow all states and territories to capitalize SIBs with a portion of their apportioned highway formula funding.

According to FHWA, since the creation of the program in 1995, a total of $661 million in federal funds have been used to capitalize SIBs. $6.25 billion in loan agreements have been made over the 16 years since SIBs were authorized -- a 1: 9.45 ratio. Each dollar of federal funds used to capitalize SIBS, combined with state funds and bonds issued against these

funds, has resulted in 9.45 times the credit assistance compared to the original federal capitalization.

WITNESS LIST

The Honorable Gary Ridley
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Oklahoma Department of Transportation

Mr. Gabriel Roth
Civil Engineer and Transport Economist
The Independent Institute

Mr. Scott Thomasson
Director of Public Policy
Progressive Policy Institute

Mr. Ron Utt
Senior Research Fellow
The Heritage Foundation

Mr. Geoffrey Yarema
Partner
Nossaman LLP

NATIONAL INFRASTRUCTURE BANK: MORE BUREAUCRACY AND MORE RED TAPE

WEDNESDAY, OCTOBER 12, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:00 a.m. in Room 2167, Rayburn House Office Building, Hon. John J. Duncan, Jr. (Chairman of the subcommittee) presiding.

Mr. DUNCAN. The subcommittee will come to order. I ask unanimous consent that members of the Committee on Transportation and Infrastructure who are not on the Subcommittee on Highways and Transit be permitted to sit with the subcommittee at today's hearing, offer statements, and ask questions. And without objection, that will be so ordered.

Today the subcommittee is convening to receive testimony from transportation financing experts on the administration's proposal to create a national infrastructure bank as part of the American Jobs Act of 2011. The national infrastructure bank proposal would create a new Federal bureaucracy that would distribute loans and loan guarantees to eligible entities for transportation, water, and energy projects. Capitalized with $10 billion, the projects would be selected by a board of directors that are appointed by the President.

Many people are skeptical that bureaucrats in Washington would have any idea of which transportation projects are the most worthy of receiving a Federal loan. We are going through many hearings and so forth about the Solyndra right at this time. This skepticism is why Congress already has established the State infrastructure bank program in SAFETEA–LU. A State infrastructure bank allows the States to use their Federal aid funding to capitalize the State infrastructure bank, and to provide loans and loan guarantees to appropriate transportation projects that the State deems most important. It is not a one-size-fits-all; it would vary from State to State.

The Transportation Infrastructure Finance and Innovation Act program, or TIFIA, was established in 1998 to provide loans and loan guarantees to surface transportation projects. In fact, the TIFIA program is so popular, that it has received 14 times the amount of project funding requests in fiscal year 2011 than the program has available to distribute. Why not give these established programs more funding, in order for them to reach their full potential?

Also, there is no guarantee that transportation projects would be favored over the water and energy projects that the President's national bank proposal would set up. This proposal seems to many simply just another distraction as Congress pushes for a long-term surface transportation reauthorization bill. The administration should be focused on helping Congress to pass this much-overdue legislation, and give the States some long-term funding certainty that a national infrastructure bank would most certainly not accomplish.

We believe that we will soon be passing a major transportation bill, and we believe we've got a good proposal that we are working with right now, and one that expands funding for State infrastructure banks, along with an expansion of the TIFIA program.

I want to thank our witnesses for being here today, and I look forward to hearing your testimony.

Now we will proceed to Mr. Coble, our—now we will go to the gentleman from North Carolina, Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman. I appreciate that. I want to thank you for convening the hearing, and thank you for the work you are doing to help create a jobs through long-term and accessible highway infrastructure planning. I also want to welcome the panel of witnesses, and look forward to hearing their testimony on a very timely subject, which, of course, is jobs.

I don't want to be a naysayer, Mr. Chairman. I try to avoid being a naysayer most of the time. But once again we are reminded of the fundamental problem with the current philosophy of the White House. To quote an old adage, why build one when you can build two at twice the price? The White House plan duplicates the efforts already found in the Transportation Infrastructure Finance and Innovation Act. It makes no sense, it seems to me, to create a completely new bureaucracy costing upwards of $270 million, when the Transportation Infrastructure Finance and Innovation Act already accomplishes that goal.

Mr. Chairman, I look forward to learning more today about the President's plans for an infrastructure bank, and hope our panel can help provide us with pertinent information to make an informed decision. Again, I thank you for having called the hearing, and yield back the balance of my time.

Mr. DUNCAN. Thank you very much. We will now recognize the Ranking Member DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman. Sorry I wasn't here promptly on time. My iPhone is on West Coast time; it didn't wake me up properly. The hazards of transcontinental commuting. Thank you for holding this hearing.

You know, for a number of years many have touted an infrastructure bank as the solution to our massive infrastructure deficit in this country. It isn't. However, it can be a useful adjunct.

Before Wall Street destroyed the economy, I had said, I really don't see why we need an infrastructure bank. Most of the States have good credit, and they can go out and borrow on their own at very good rates. But that isn't the case any more. The States need guarantees. They need help. Many are against their borrowing limits. And most of the banks who were generously bailed out by Con-

gress—not by me; I didn't vote for it—aren't lending. So—and the credit bond markets are tight.

So, an infrastructure bank could be more useful for the States in that sort of a circumstance. The question is the form of the infrastructure bank and the mission. Remember, again, for those who think it solves all problems, an infrastructure bank is a bank. That means it expects to be repaid; that means there are interest and principal payments due.

If you look at the TIFIA program, we can do forbearance on repayment during construction and even after construction under extraordinary circumstances. Well, that is a pretty good model. Maybe we should be using TIFIA and enhance the funding there.

On the other hand, an infrastructure bank could be particularly useful for projects which do have a revenue stream. Those could be PPPs in the case of transportation. They could be tolled projects for those States or entities that choose to build a tolled individual project. However, we are not going to toll the existing interstate, so it is not going to deal with the 150,000 bridges that need repair and replacement now. We are not going to toll the existing interstate, so it is not going to take care of the 40 percent of the pavement that needs restoration.

You know, transit systems lose money. This isn't going to help address the $70 billion backlog of capital improvements necessary just to bring transit systems up to current operating state of good repair, let alone new investments, because transit systems don't make money anywhere in the world, except, I'm told, one subway in Hong Kong.

Not going to pay for rail. You know, most of the rail problems we are talking about don't make money.

Could be particularly good to help with sewer, water, electrical transmission, other things like that, that are legitimate infrastructure needs.

So we should keep this discussion in context today. That is, an infrastructure bank could be useful to help this country deal with a massive infrastructure deficit that isn't just in transportation, it is in many other areas. But an infrastructure bank has its limits, and I would hope that the testimony will address the problem in that way.

What are the limits? What could it be good for? And what other programs do we have that could help us with the transportation deficit?

Thank you, Mr. Chairman.

Mr. DUNCAN. Thank you very much. We are always honored to have the chairman of the full committee here with us, and I would like to call on Chairman Mica for any statement he wishes to make at this time.

Mr. MICA. Well, thank you, Chairman Duncan and Ranking Member DeFazio, for holding this subcommittee hearing on a very important topic. And I think the administration's proposal for a national infrastructure bank deserves our review and consideration. I have been a strong proponent of creative and innovative financing methods, especially in a time when we have limited Federal resources, and States are scrambling to provide adequate financing for infrastructure projects, that we take and use every mechanism

possible to move projects forward and expand our financing capability. Financing is an important key. Process is also important. And I hope to talk about those briefly.

I have looked at the Kerry-Hutchison proposal from the Senate, basically the administration proposal. I think it mirrors the House proposal by Ms. DeLauro and some others. And I have given a great deal of thought to creating a new national infrastructure bank. I wish the administration had spent a little bit more time consulting with Members of Congress, myself and others, before moving forward with this. And as much as—consideration I have given it, unfortunately I am afraid that a national infrastructure bank, as proposed either by this legislation or the administration, is dead on arrival in the House of Representatives. The reason is—there are several reasons.

First of all, if you review the existing legislation, it creates more bureaucracy. If you don't think we have enough bureaucracy, we have got a chart somewhere that shows the existing bureaucracy of the Department of Transportation, and it is over 100 agencies' activities. And I guess this is supposed to be quasi-independent, it would be out to one side. But if you just look at the chart of existing Federal agencies and activities, we have tons of them.

And you can use this chart now. We have 33 States that have existing infrastructure banks. And Mr. DeFazio, in his opening remarks, said they are up against the wall. Most of them, like the Federal Government, don't have the monies to finance these infrastructure banks. This chart shows what we already have in place. The problem is they don't have the funds. So, rather than create a national new bureaucracy, another agency, I think we can utilize the existing infrastructure banks.

You will hear from the Oklahoma secretary of transportation shortly, and he will tell you they have the bank, they don't have the money. So we have existing capability.

The other thing, too, is what is all this about? This is about trying to get people to work immediately. To create this new infrastructure, Federal infrastructure bank, it is estimated a minimum of a year. This requires setting up a bureaucracy, staffing it—there is over 100 positions—a cost of $270 billion. Now, if we could leverage that out, it is worth probably $1.5 billion, even in a State that doesn't do very good leveraging.

So, at the cost of $270 billion, when I already have in place infrastructure banks that can make immediate decisions—what they need is the financial backing—so these are some of the reasons I think a Federal infrastructure bank is dead on arrival at this time, if we want to get people working.

Now, if you want a recipe not to get people to work, adopt that current proposal. If you want a recipe to put off job creation, adopt that national infrastructure bank proposal. And we can do just the opposite. We can get people working right away.

Let me just talk about what we have got, as far as existing financing structure. These are existing programs. And I thought we had a pretty good agreement, both with the House and Senate, TIFIA, transportation infrastructure financing. We have a loan program, and we have a guarantee program. And I think we have agreed on the 33 percent Federal participation can be increased. I

will go to 49, I will consider others. So we can finance with existing structures if we modify it. We have a successful example that needs some improvement, and it does also have a loan guarantee program.

The RRIF program—I checked yesterday—railroad infrastructure financing—has $34 billion in capacity. It doesn't work. The joke at Federal Railroad Administration that administers this program, the joke is that they have had more FRA administrators than they have had RRIF loans granted. That is one of the problems.

So, we can make this work. It exists. We don't have to create a new infrastructure bank. We have private activity bonds. And again, I think they need backing. GARVEE, Government-advanced revenue, where you can dedicate a stream of Federal dollars to projects, we can increase the amount of money that is available for commitments to States, and they can go ahead and get people working and do projects.

Harbor Maintenance Trust Fund—and that had a balance as of yesterday of $6 billion-plus—existing program.

So those are some things, as far as existing finance programs. Let me go to grants, because again, the Kerry-Hutchison bill calls for loans, loan guarantees, and grants. Well, the last time I checked, folks, none of my banks have been willing to give me a grant. I don't know any banks that are giving free money out right now, or grants. But the Federal Government has all of these agencies now giving grants. So we have a grant mechanism. What do I need to create another one?

They are also specialized. Most of them do a pretty good job, too. The Federal Aviation Administration people are critical of agencies getting their money out. They are the exception. They have actually got just about all of their money out through AIP money. Most of it is funded through a trust fund. And there are examples of getting grant money out. We have got plenty of agencies that can do that.

So, we have TIFIA that works—we can make it work better—RRIF that works. Sometimes it can work a lot better. Harbor Maintenance Trust Fund, we have got a good example of a grant program with AIP.

Finally, we have got a situation where we can get money, we can be creative, we don't have to create huge bureaucracy. But what we do need is some reform in the process of getting money out. We still have—and even if I create another—even if I put more money in these infrastructure banks at the State level, or we created a Federal new infrastructure bank, we created the stimulus program with $63 billion for infrastructure out of $787 billion. As of September 1, there was $22 billion still in Washington, DC, after 2½ years. You can't get the money out.

In the past bills that we have done authorization from this committee, I have asked the staff to total up how much money is still sitting there—TEA–21, TEA–LU, ISTEA—there is $8.5 billion. So there is $30.5 billion sitting there that we can't spend that we have. So we can do a better job in getting money out that we already have.

Yesterday the administration announced they are freeing up 14 projects for expedited process. Shovel-ready, as you know, has be-

come an national joke, because we don't have projects that are shovel-ready. Now, while they advocated and allowed 14 projects to move forward, they left thousands of projects behind. So we have got to revise the process and truly make projects shovel-ready, or you can have all the money in the world—and we have money here, sitting in Federal accounts that can't be spent, because projects aren't shovel-ready. So, we have got to address the twofold issue of financing and being creative and leveraging, and secondly, process.

So with that, I look forward to working with folks, and I think we can find a bipartisan bicameral solution to get money out, projects moving, and people working in this country. And I yield back the balance of my time.

Mr. DUNCAN. Thank you very much, Mr. Chairman. And next on the Democratic side is Ms. Hirono.

Ms. HIRONO. Chairman Duncan and Ranking Member DeFazio, thank you for scheduling this hearing. I would also like to thank our witnesses for being here today. The proposal we are examining today was laid out by President Obama in his American Jobs Act. And that bill would provide $10 billion to establish an American Infrastructure Finance Authority, AIFA, also known as a national infrastructure bank.

Right now, our country can borrow at historically low interest rates. And if we take advantage of this situation, we could fund this bank and it could be self-sustaining.

His proposal is modeled on bipartisan legislation introduced by Senators Kerry and Hutchison. And I would like to note that the President's proposal provides for loans or loan guarantees, not grants, as contained in the Senate bill.

Increasing our national capacity to invest in infrastructure is what our country needs right now. Over 14 million of our neighbors are unemployed, nearly 40,000 in Hawaii. The American Society of Civil Engineers estimates that we need $2.2 trillion in infrastructure investments to remain competitive. In Hawaii alone, we are facing an infrastructure funding shortfall of $14.3 billion. And since 2005, the U.S. has dropped from number 1 to number 15 in the World Economic Forum's rankings of national infrastructures.

So, bipartisan proposals that will put people to work, meeting the vital needs of our Nation are proposals we should be fighting hard to see enacted. I have been a supporter of establishing this type of bank for some time. This proposal has bipartisan support in Congress and among various industry and labor groups. In fact, establishing an infrastructure bank is one of the few matters that both the AFL–CIO and the Chamber of Commerce agree on. So I am sorry to hear that this idea, which has promise, is dead on arrival in the House.

Establishing the AIFA will add a powerful tool for financing large-scale, multiyear infrastructure projects, the type of game-changing investments that will increase our Nation's competitiveness in the 21st century.

Of course this one proposal won't solve all of our infrastructure challenges. We shouldn't pretend that it will. I know that some will argue that providing additional funds to State infrastructure banks, or expanding the budget of TIFIA will do the trick. They are

both worthy proposals, and I support them, as well. But they won't do the trick on their own, either.

What we need is a balanced approach to meeting our infrastructure needs. We need Federal, State, and private sector coordination. Contrary to what some may claim, none of these entities can finance the upgrades we need by themselves. Given its focus on regional, national, and rural projects, the AIFA will supplement State infrastructure banks. As envisioned, it will have a broader project scope, including transportation, energy, and water projects that will help support TIFIA's focus on transportation.

So, together, these three programs could help support the kind of large-scale investment in our economic future without being subject to the congressional appropriation process, or taking funds allocated under our multiyear surface transportation bills. These are investments we need at a time when we need them badly. We need to put our people to work.

I look forward to working with all of you, and I am sorry to say that I have a scheduling conflict, so I will be submitting questions to the panel in writing. Thank you.

Mr. DUNCAN. Thank you very much. Next we will call on Mr. LoBiondo.

Mr. LOBIONDO. No statement, Mr. Chairman.

Mr. DUNCAN. All right. Next, Mr. Sires.

Mr. SIRES. Thank you, Chairman Duncan. I will be very brief. You know, this creative proposal I have certain questions, and I am hoping that, as the committee moves forward, that I can get some answers.

For example, municipalities are allowed to go to this bank. Municipalities already have the bonding capacity to do any infrastructure project. Could a municipality circumvent their bonding capacity by going to this bank and getting themself into more debt?

So, you know, these are just questions that I hope that, you, be answered as the committee moves forward. Thank you very much.

Mr. DUNCAN. Thank you. Mrs. Capito.

Mrs. CAPITO. Thank you, Mr. Chairman. I don't have an opening statement. I look forward to the witnesses.

Mr. DUNCAN. Mr. Capuano. No statement? Mr. Harris?

Dr. HARRIS. No statement, Mr. Chairman.

Mr. DUNCAN. All right. Mr. Nadler is next.

Mr. NADLER. Thank you, Mr. Chairman. Mr. Chairman, I am going to be very brief. As is mentioned, the American Society of Civil Engineers says we have—estimates we have a $2.2 trillion backlog of infrastructure that we have to make. We are investing about 1.5 percent of GDP and infrastructure annually. China is something like 6 or 7 percent. Our infrastructure, as we all know, is falling behind our international competitors. It makes our economy less competitive, as well as making daily life more stressful and more expensive. We have got to start investing a lot more.

The country has fiscal stringencies. The chairman's mark for the service transportation bill would be a 35-percent cut in funding. That is exactly the wrong direction to be going in. How could we make up for this?

We have to leverage private funds. I am not saying this is a substitute for public funds. It is not. I certainly do not support the

chairman's mark of that low level of funding. We should have a much higher level of Federal funding. But we also have to leverage private funds as much as we can, and the I–Bank, the infrastructure bank, could be a very useful tool for this. TIFIA should be expanded, but the I–Bank is a very useful tool.

At the same time, it is not a panacea. We are going to have a fight on our hands to preserve the transportation funds that we do have. And we have to make sure that they are spent as wisely as possible.

I have a number of questions about the I–Bank. And I think some of the claims made for it are somewhat questionable. But on balance, I think it is a very good idea.

For example, I support this in addition to but not instead of a section in the infrastructure—in the reauthorization bill on projects of national and regional significance. I do not want all decisions taken away from Congress and given to people in the Department of Transportation or in the new infrastructure bank bureaucracy that you might set up.

We have to be careful about falling prey to lofty rhetoric about somehow finding a magic formula, a magic non-political formula for project selection. Every decision carries with it a value judgment. How do you determine, for example, whether a transit project that moves millions of commuters is more deserving than a port access project that moves millions of freight containers? Well, the commuters vote, the containers don't, but that is not the valid criteria.

Or, NextGen, that improves safety and efficiency in the aviation system. How do you calculate the cost and benefits? Do we fund only projects that have a revenue source and can repay a loan? That is one of the weaknesses of this I–Bank proposal, in that it does loans only, or loan guarantees only, and therefore can only help where you have a revenue stream.

But what if you don't have an adequate revenue stream on a project that is necessary to finance? How do we ensure that important projects with significant public benefits but maybe not the direct economic return as defined by an official in the I–Bank or in TIFIA also get funded?

I am sure that many others in this room have at some point questioned the decisionmaking of agencies. No matter who is making the decisions, there is always a political component. And putting a lot of money that is critical to the economy in the hands of unelected bureaucrats is not always the best idea. Many of the things I have supported in the past came to my attention because there was a specific need that was not being met by Albany or by Washington for any number of reasons. As long as the process is open and transparent, there should still be a role for Congress and elected officials to direct funding for worthwhile projects and programs.

Whatever we do, we must do it soon, and we must not lose sight of the necessity to pass a long-term transportation bill that will repair and sustain and improve our Nation's infrastructure systems, and provide a crucial boost in job creation and economic development.

With these caveats, that it must not be the only decisionmaking agency, that it must be supplemental to, not instead of normal

project financing and congressional decisions, I think an infrastructure bank such as the President has proposed could make an excellent addition to our armory of tools to address our infrastructure needs. I thank you, and I yield back.

Mr. DUNCAN. Thank you very much, Mr. Nadler. Mr. Petri. Oh, he is not—all right. We have got—I don't believe anybody else on our side. So Ms. Johnson?

Ms. JOHNSON OF TEXAS. Thank you very much, Mr. Chairman and Ranking Member DeFazio. I am glad to see that the Highway and Transit Subcommittee addressing such an important subject as the proposal for the national infrastructure bank. And I want to thank you for its consideration.

However, I am greatly disappointed to see that the current majority of this subcommittee seems to have already reached a conclusion on this topic by entitling the hearing, "National Infrastructure Bank: More Bureaucracy and More Red Tape." This is certainly a prematurely formed opinion on this matter, and I hope that the majority will keep an open mind on the proposal of a national infrastructure development bank, moving ahead.

The creation of the national infrastructure development bank to leverage private and public capital to finance nationally and regionally significant infrastructure projects is a proposal that I have been highly supportive of for many years, and I have cosponsored legislation that would achieve exactly this. And I have been a vocal supporter of the President's American Jobs Act that includes this proposal.

So, the creation of a national infrastructure development bank is an idea that enjoys bipartisan support. The President's proposal, as a part of the American Jobs Act, is based on legislation introduced by Democratic Senators Kerry and Rockefeller, with the support of Senators Graham and Republican Senators Hutchison and Lautenberg.

The House legislation for this Congress, H.R. 402, has been introduced by Congresswoman Rosa DeLauro, and currently has 70 cosponsors, including myself.

The President's national infrastructure development bank proposal would create American infrastructure financing authority to provide direct loans and loan guarantees to expedite regionally or nationally significant projects, in partnership with the existing Transportation Infrastructure Finance and Innovation Act program. While the TIFIA program focuses on helping fund traditional surface transportation projects with Federal credit assistance, the AIFA would expand eligibility, eligible infrastructure projects, to include not only highways and bridges, but also transit projects: airports, inland waterways, and rail systems, and water infrastructures, dams and levees, as well as energy infrastructure and others.

These national programs would work with State infrastructure banks to enhance our country's aging infrastructure system. They are regional proposals to improve the financing expensive infrastructure projects and enjoy the support of Democrats, Republicans, and Independents.

So, I look forward to hearing the witnesses today, and I thank you very much for the hearing, again. I yield back.

Mr. DUNCAN. Well, thank you very much, Ms. Johnson. I will tell you that I was not the one who came up with the title for this hearing, but there may be better ways to fund these projects.

I did not overlook Mr. Lankford, though. We are saving him to the last, so he can introduce our first witness.

I will say that we have a very distinguished panel here today, and I will introduce the other witnesses. We have Mr. Ron Utt, who is the senior research fellow at the Heritage Foundation, Mr. Geoffrey Yarema, who is a partner at Nossaman LLP, Mr. Gabriel Roth, who is a civil engineer and transportation economist with the Independent Institute, and Mr. Scott Thomasson, who is director of public policy for the Progressive Policy Institute.

And now, I call on Mr. Lankford for any opening statement he wishes to make, and then request that—Mr. Lankford, that you introduce our first witness at the conclusion of your opening statement.

Mr. LANKFORD. Well, thank you, Mr. Chairman. I am glad to be a guest of this committee today. I am on the full Committee for Transportation, but a guest of this subcommittee, since we have the finest secretary of transportation in the Nation, Mr. Gary Ridley, that is here from Oklahoma, who absolutely does set the standard for planning and long-term research, and looking out on the horizon to see what is coming up on things.

I am glad that we are taking the time to discuss the issue of the national infrastructure bank, as well, before we get in a hurry to do something, and end up creating another labyrinth of red tape and another Federal program to solve the previous labyrinth of red tape and the previous old Federal program. In the past, Government high-risk loans were used for activities like nuclear power plants, but had such a high cost and high regulation that lenders were slow to put capital at risk, because of the uncertain political environment.

Now, apparently, the regulation and political risk is high on asphalt pavement. What have we become, as a Nation, when we have driven the cost of construction up so high, increased the construction time through regulations so long, and burdened the State budget so much that we need a Federal loan program to offset the risks of lending for a bridge? This is a prime case of the Federal Government creating the problem, and then running in with a solution that will really just create more problems.

It is my concern that this loan program is designed to bail out States that cannot get credit because of bad budgeting decisions in the past, so they are at high risk. Or it is another way to shuttle additional money to States that already receive a high proportion of transportation dollars.

There is a legitimate role for the Federal Government in transportation and facilitating interstate commerce. But creating a new infrastructure bank with the start-up cost of $270 million and 100 new employees to do what normal transportation funding, TIFIA, and many State infrastructure banks already do, I do not believe is one of them.

States do not need yet another way to increase their debt from the Federal Government. They need answers to the problem. They also don't need a group from Washington determining which

projects get funding, based on the decisions of another yet-to-be-named group from the administration. The last thing we need is another Government enterprise like Fannie Mae and Freddie Mac, or another loan program like the Department of Energy's loan to Solyndra.

The Federal infrastructure bank is also not shovel-ready. It would take a significant amount of time to select directors, get established, do the studies, hire the large staff, then start giving taxpayer-backed loans. In the meantime, what is really needed is a long-term reauthorization bill, a funded TIFIA program, and a streamlined construction process so they can get started.

I do look forward to the testimony today, Mr. Chairman, and I thank you for allowing me to be able to be here, and to be able to introduce Mr. Ridley of Oklahoma, a great secretary of transportation. I look forward to his testimony, and the testimony of the others.

Mr. DUNCAN. Thank you. Thank you very much, Mr. Lankford. And I would like to welcome all of our witnesses and thank them for being here today, and ask unanimous consent that our witnesses' full statements be included in the record. And unless there is objection, that will be so ordered.

Since your written testimony has been made a part of the record, the committee requests that you limit your opening statements, the summary of your opening statements, to the 5 minutes. And Mr. Ridley, we will begin with you.

Secretary Ridley.

TESTIMONY OF THE HONORABLE GARY RIDLEY, SECRETARY OF TRANSPORTATION, OKLAHOMA DEPARTMENT OF TRANSPORTATION; RONALD D. UTT, PH.D., HERBERT AND JOYCE MORGAN SENIOR RESEARCH FELLOW, THE HERITAGE FOUNDATION; GEOFFREY S. YAREMA, CHAIR, INFRASTRUCTURE PRACTICE GROUP, NOSSAMAN LLP; GABRIEL ROTH, CIVIL ENGINEER AND TRANSPORT ECONOMIST, THE INDEPENDENT INSTITUTE; AND SCOTT THOMASSON, ECONOMIC AND DOMESTIC POLICY DIRECTOR, PROGRESSIVE POLICY INSTITUTE

Mr. RIDLEY. Mr. Chairman, members of the committee, my name is Gary Ridley. I am the secretary of transportation in Oklahoma. I am here today to testify on behalf of the Oklahoma Department of Transportation.

First, we want to thank you, Mr. Chairman, for your efforts to ensure that transportation infrastructure is a priority of the Nation. We appreciate you, Congressman Lankford, other members of the committee, to recognize the important contribution of the transportation system in improving the Nation's economy, viability, and sustaining our quality of life.

Dedicated public funding, innovative financing, and opportunistic partnerships have important roles in the development and management of modern world-class transportation system. Depending on the condition, each method can be equally effective in delivering infrastructure improvements, and each has both positive aspects and drawbacks.

Considering the Nation's transportation system, it is imperative that we recognize the success of dedicated funding initiatives, financing methodologies and partnerships. All are dependent on the identification and stability of long-term supporting revenue streams. Therefore, as we turn our attention to the work of identifying ways to modernize, expand, maintain our aging and deteriorated infrastructure, we must remain mindful that dedicated, long-term, and consistent transportation funding is critically important.

Today a variety of financing methodologies can be brought to bear in order to help successfully deliver significant transportation improvements that are out of reach of the immediate availability of transportation funding sources. In recent times, the utilization of grant-anticipated revenue vehicle bonds, referred to as GARVEE, transportation infrastructure finance and improvement financing, referred to as TIFIA, public-private partnerships, Build America bonds, State infrastructure banks, and other such methodologies have proven effective in financing certain well-defined transportation system needs.

Focusing specifically on the successes of TIFIA, the structure and organization of the program seems to hold particular promise for assisting with financing of transportation improvements. Recognizing extension acts and continuing resolutions, TIFIA currently receives $122 million each year, and can support an estimated $1 billion in average annual credit assistance.

In recent years, more widely accepted and mature—in recent years, a more widely and mature TIFIA program has received a considerable level of interest, and has participated in many important transportation improvement projects. Most recently, in 2011, the program received $14 billion in letters of interest for participation in projects with an estimated value of more than $48 billion.

Based on the summary information currently available, both the House and Senate reauthorization bills include a plan to build upon and improve a TIFIA loan program. It is very appropriate to utilize the existing and successful program and format to deliver an enhanced financing opportunity, along with a more robust set of eligibility criteria.

Providing additional funding for TIFIA will help meet the demand for credit assistance for transportation projects, and enable an increased leveraging of Highway Trust Fund dollars with State, local, and private sector funding.

Conversely, the concept of a new Government corporation and Federal authority will somehow enhance the ability to finance infrastructure seems untimely and entirely unnecessary. Especially when considering that many of the ideas encompassed by the proposed authority already appear to be closely paralleled provisions of other existing Federal financing programs.

In addition, recognizing the apparent Federal duplication and administrative control of the proposed national infrastructure bank, most States already have and can easily obtain the expertise necessary to facilitate infrastructure banks and other innovative transportation financing methodologies. States can choose to work with existing Federal bureaucracies, or seek assistance of private financial institutions, knowledgeable investors, or even experience of other States.

In Oklahoma, we have been effectively and efficiently arranging financing for transportation improvement projects within our borders for more than 50 years. Again, it is important to acknowledge the difference between identifying new sources of transportation revenue and creating new ways to incur debt without providing for new revenue streams capable of retiring that debt. None of the referenced financing opportunities specifically provides for any new additional funding. Bonds still must be repaid with interest. Government-guaranteed loans are still loans. And the associated long-term repayment plan reduces the availability of future resources.

Capitalizing an infrastructure bank duplicates other financing methodologies, and does not generate new revenue. For financing transportation projects, States only require clear Federal guidance in the law and continued and enhanced utilization of existing financing opportunities. A bold new vision will be necessary to meet the increasing transportation challenges ahead, and it is unlikely that such a vision will be defined by an easy payment plan.

It is much more likely that efficiencies can be gained through regulatory reforms and red tape reductions, rather than through the creation of a new Government corporation and additional bureaucracy.

Mr. Chairman, thank you for the opportunity to provide testimony. I would be happy to answer any questions that the committee may have.

Mr. DUNCAN. Thank you very much, Mr. Secretary.

Mr. Utt, you wrote a real fine column on this issue that I read in the Washington Times. And thank you for being here with us today. You may begin your testimony.

Mr. UTT. Well, thank you for having me. Chairman Duncan, Ranking Member DeFazio, and members of the subcommittee, thank you for inviting me to express my views on the various proposals to create a national infrastructure bank. My name is Ronald Utt. I am a Herbert and Joyce Morgan senior research fellow at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Until recently, Federal interest in infrastructure banks has been limited to the creation of funding of State infrastructure banks, several of which were created in the 1990s, and are still in operation. Congressional focus has since shifted to a Federal infrastructure bank. Several bills have recently been introduced in Congress to create such an entity. Added to this are the several plans President Barack Obama has proposed since taking office.

What these Federal-level proposals all have in common is the goal of attempting to muster a greater volume of financial resources for various types of infrastructure. But beyond that, they all differ significantly in how they would operate, who would run them, the volume and source of funds, what they can invest in, and what types of infrastructure would be eligible for support.

I have reviewed these proposals and believe that there is little added value from them beyond what could be achieved by modest alterations in existing transportation programs. Reasons for my skepticism are as follows.

First, the Federal Government has created a number of credit entities over time, and most have been challenged by serious financial failure involving taxpayer bailouts. Fannie Mae and Freddie Mac are the most recent and perhaps the most catastrophic of all, with bailout costs totaling about $150 billion so far. Would an infrastructure bank be immune from these risks?

In this regard, what is noteworthy about the typical infrastructure bank proposal is that all will begin with risks and deficiencies that could exceed those confronting the Federal finance entity cited above. Fannie Mae, for example, was supposed to be investing only in conforming mortgages, thought by most to be safe, conservative investment, providing a steady stream of revenue.

With the exception of some well-established toll roads, bridges, and tunnels, most transportation infrastructure earns no revenue, and must be supported through taxes or related user fees. Most roads are still free to users, and will likely remain so, while fares earned on even the best run transit systems recover none of their debt service, and only about half of their operating costs.

As such, the inevitable source of revenues to an infrastructure bank seem likely to be taxes. And, of course, this would be the case with any grants by banks, as some proposals would allow.

Senator Inhofe, ranking member of the EPW committee noted that "banks don't give out grants, they give out loans. There is currently a mechanism for giving out Federal transportation grants. It is called the Federal highway program."

My second concern reflects the Senator's, and that is to wonder what the value added would be of creating another Federal transportation program when you already have one that has a half-a-century of experience and has served the Nation reasonably well. If credit availability is the issue, then a quick review of existing Federal transportation infrastructure credit programs reveals that there are several programs in existence, including the TIFIA program, GARVEE bonds, tax-exempt private activity bonds, tax-exempt State municipal revenue bonds, or tax-exempt general obligation bonds. If current levels of credit availability for existing programs are deemed insufficient, why not propose that these existing channels be improved or expanded?

Third, I am perplexed by how such a bank would aid in the economic recovery. For some advocates, these banks are seen as a mechanism to propel the economy forward out of the lingering recessions and into an era of greater prosperity and more jobs. Sadly, all evidence indicates that this isn't so. In large part, such programs have been a disappointment because of time delays in getting underway, projects identified, projects approved, and money spent.

Supporters of the American Recovery and Reinvestment Act claim that it would focus on shovel-ready projects, but USDOT recently reported to this committee that, as of July 2011, 2½ years after the enactment of the legislation, just 61 percent of authorized transportation funds had been spent. Yet the stimulus funds were spent through existing Federal, State, and local channels by departments, managers, and employees with many years of experience in the project approval business.

In the case of the proposed infrastructure banks, no such administrative infrastructure exists. And one will have to be created from scratch, once the enabling legislation is ultimately enacted. As a result, delays would be even longer in getting projects underway.

That concludes my oral remarks, and I would be pleased to discuss them further during questions and answers. Again, thank you, Mr. Chairman, for the invitation.

Mr. DUNCAN. Thank you very much, Mr. Utt.

Mr. Yarema.

Mr. YAREMA. Thank you, Mr. Chairman, Ranking Member DeFazio, and members of the subcommittee. It's an honor to be here today. I appreciate the invitation.

I am a partner in a law firm that has the privilege of representing State and local transportation agencies around the country. They are all struggling with the same basic problem: how do they deliver our largest and most important new infrastructure projects, while minimizing the use of Federal gas tax dollars?

We have been fortunate to have been successful in helping them deliver signature projects doing just that. In addition, I had the privilege to serve on the National Surface Transportation Infrastructure Financing Commission, appointed by the U.S. Secretary of Transportation Mary Peters, of which I was proud to be a part. Our unanimous and bipartisan report to Congress and the administration was completed 2 years ago. So my testimony today reflects my firm's experience on the ground, representing public transportation agencies in your districts, as well as the work I did with the Commission.

As the subcommittee is well aware, the role of the Federal Government in delivering our largest transportation infrastructure projects is changing. Historically, the function of the Federal Government has been to provide funding to the States and then regulate how they use it. As those Federal resources have declined in very real dollars, States and localities have been faced with deferring those large projects for decades or filling the ever-growing gap with their own resources instead.

Thus, the Federal role is evolving away from a traditional apportionment-based funding paradigm and toward a credit assistance and incentive-based model that leverages as few Federal dollars as possible into the maximum State, local, and private contributions to projects of regional and national significance. In other words, the Federal role is getting the States themselves to do now what the Federal Government used to do much more itself.

This shift in thinking is evidenced best by the policy underlying one of the key components of the President's proposed Jobs Act, the national infrastructure bank. The President is certainly right—we can create hundreds of thousands of badly needed jobs and build critically important infrastructure with a federally supported bank. What is ironic, however, is that we already have a national infrastructure bank for transportation. And as you have heard today, it is called TIFIA. And Congressman Johnson has been one of the longest standing supporters of TIFIA, and we can't thank you enough for your steadfast commitment.

This program has been operating successfully for 12 years. Every $100 million of TIFIA credit subsidy creates approximately $1 bil-

lion in the face amount of loans, which States, localities, and private entities use to create about $3 billion in project finance plans. Thus, the Federal Government gets a 30 to 40 times multiplier for every TIFIA dollar that it provides.

The problem today is that TIFIA is terribly underresourced. Currently, the program has a backlog of applications for over $30 billion in projects of regional and national significance in districts all over the country. Instead of going to the cost, the delay, and the bureaucratic struggles to create a new institution, why not just add to TIFIA, size it to meet the demand that we project, and clear out the backlog now? At the same time, we can simply take the opportunity to fine-tune the program based on the successful 12 years of experience we have had with it, and modernize its mechanics.

For related reasons, it is hard to listen to the President's statements supporting an infrastructure bank concept without some degree of consternation. The U.S. Department of Transportation actually has had the opportunity to expand the TIFIA resources that it has available today with shares of its TIGER funds, but has simply chosen not to do so.

Under TIGER I it could have added $250 million in credit subsidy to TIFIA, which would have produced $2.5 billion more in TIFIA loans, or $7.5 billion in project value, than the base TIFIA program had resources for. But it elected to award less than a quarter of that.

Under TIGER II the U.S. DOT could have added up to $150 million or $1.5 billion in loans to the program, but again, despite excellent applications, awarded less than 15 percent of that.

Now, under TIGER III, Secretary LaHood has the discretion today to award up to $150 million, or $1.5 billion in loans for projects totaling over $4.5 billion in project costs. These projects, which will otherwise be delayed or canceled, will produce literally hundreds of thousands of jobs, not for modest repaving jobs, but for projects of regional and national significance, making a material contribution to our critical mobility needs and economic growth. The letters of intent for that TIGER III program go in on October 31st. If the President really believes in the national infrastructure bank concept, he should tell the Secretary to fully fund TIFIA out of the TIGER III program. Whether the Secretary does that or not really should be a litmus test for whether the President really supports a national infrastructure bank concept, and wants to maximize job creation.

Thank you for the opportunity. I am happy to answer questions.

Mr. DUNCAN. Thank you very much, Mr. Yarema.

Mr. Roth.

Mr. ROTH. Good morning. I would like to start by thanking you, sir, and Ranking Member Peter DeFazio, for inviting me to testify before this subcommittee. I would also like to thank the other witnesses for their informative and helpful testimony. Having heard the case against the new infrastructure bank, I am looking forward to hearing the case in support.

But, as for myself, I am also against the President's proposed American infrastructure financing authority. This is not because of any objection to an infrastructure bank. My disagreement is with

the idea that the Federal Government should finance such a bank. My disagreement is for four principal reasons.

First, the Federal Government, having run out of money, should not finance facilities that can be financed by others.

Second, because U.S. transportation systems have a long user-pays tradition, having been financed over long periods by private investors and by user-funded, dedicated road funds. As you all know, the Federal Highway Trust Fund was set up in 1956 with great care to avoid subsidies from general revenues. And this seems to me to be a precedent worth following.

Third, Government involvement can actually delay projects, and even politicize them, so that the most urgently needed projects do not get funded. This point is pertinent, because the executive branch seems to have a problem in identifying viable projects on which to spend taxpayers' money. Job creation does not justify all projects. And the private sector actually tends to be good at finding those with benefits that exceed costs.

In my testimony I suggest that priority be given to relieving urban traffic congestion by providing express toll lanes, the tolls being collected electronically and varied to ensure free flow on the lanes at all times.

Finally, Federal involvement raises costs, for example, because of numerous regulations, including those arising from the Davis-Bacon and "Buy American" acts. Therefore, for projects that cannot be financed by private investment, it seems to me that financing by individual States seems preferable to Federal financing.

This subcommittee has important responsibilities. I am sure that all of us testifying today wish its members all success in encouraging the provision of urgently needed transportation projects at the highest possible speeds and the lowest possible costs. Thank you.

Mr. DUNCAN. Thank you very much, Mr. Roth.

Mr. Thomasson.

Mr. THOMASSON. Thank you. I thank the subcommittee, especially Chairman Duncan and Ranking Member DeFazio, for holding this hearing today. I hope the committee members find today's discussion helpful to fully understanding this important proposal to enhance our national strategy for infrastructure spending and investment.

There is no better symbol of the recent dysfunction of our political system than the partisan divide on funding infrastructure. Infrastructure has long been a shared bipartisan priority, but Congress now finds itself unable to pass critical transportation funding bills that expired years ago. Swift rejections from Republicans to the proposals President Obama offers for infrastructure render many good ideas "dead on arrival," simply because the President was the one to suggest them.

The latest target of this rush to judgment is the President's proposal in the American Jobs Act for a national infrastructure bank. Although leaders throughout the U.S. and around the world support infrastructure banks as a smart investment tool, the idea is still new and unfamiliar to many here in Washington. The infrastructure bank proposal has generated a lot of confusion and misinformation, with opponents often painting a misleading picture of

what this type of bank would look like. Many of the criticisms now lobbed against the President's proposal are arguments about older infrastructure bank legislation, and they have little to do with the current version in the jobs bill.

So, let's set the record straight on what the President's bank proposal is and is not. When he introduced the jobs bill, President Obama explained that the bill included a bipartisan Senate proposal to create a national infrastructure bank. That bipartisan approach is taken directly from the BUILD Act, which was introduced by John Kerry, Kay Bailey Hutchison, Lindsey Graham, and Mark Warner.

The bipartisan infrastructure bank represents a new approach to the idea of creating a bank. Its funding and operations are kept to a fiscally responsible scale, while preserving the best principles of political independence and merit-based decisionmaking to make the bank worth doing in the first place. And the bipartisan proposal is also limited to loans and loan guarantees, and would not issue grants, as full committee Chairman Mica said in his statement today. That is just not accurate for the version in the jobs bill.

The bipartisan infrastructure bank will not be a sprawling Federal bureaucracy that entangles States and regulations in red tape. It will be an optional financing tool that is available to empower States and local governments to invest in transportation, energy, and water projects, and it will be staffed by financial professionals, not bureaucrats.

The bipartisan infrastructure bank will also not be a policy-driven subsidy program designed to pick winners or dictate planning decisions to States. It will invest in pouring concrete, not propping up companies. It will do so independent of political pressure and influence, evaluating projects based on their economic merits, using the same bottom-up approach as DOT's successful TIFIA program, which we have heard so much about today.

The bipartisan infrastructure bank will not be another Freddie and Fannie type entity that runs the risk of a taxpayer-funded bailout. It would be a Government-owned corporation, similar to the U.S. Export-Import Bank. It would draw on a familiar Treasury-based lending mechanism, and it would not borrow its own money to leverage its lending. This structure ensures that the bank bears no resemblance whatsoever to shareholder-owned GSEs like Fannie and Freddie.

The approach of the bipartisan infrastructure bank is new and innovative. But there is nothing new about broad support for infrastructure banks. The infrastructure bank is an idea that has already been widely adopted in countries around the world, and by many States here in the U.S. There is strong support for a national bank here in America that includes broad coalition of top corporate CEOs, Wall Street investors, organized labor, and local government leaders. Just this week, the President's Jobs Council, an all-star team of CEOs and top leaders from the U.S. economy, recommended we create a national infrastructure bank that can "invest aggressively and efficiently in cutting-edge infrastructure."

Even the U.S. Chamber of Commerce wants a national infrastructure bank. Chamber president Tom Donohue has said that the bank would be an invaluable part of the solution to how we pay

for maintenance and improvements that we can't afford to ignore, but it can only work if it is added to a strong foundation of spending in the transportation reauthorization bills.

Now more than ever, Congress needs to consider the full range of options we have to increase U.S. infrastructure investment. And the new national infrastructure bank proposal in the President's jobs bill deserves to be part of any discussion about the solutions on the table for solving our enormous investment challenges.

I thank the committee for the chance to testify today, and I look forward to answering your questions about this important bipartisan proposal.

Mr. DUNCAN. Thank you very much, Mr. Thomasson. I am going to yield my time at this point to Vice Chairman Hanna for any questions or comments that he might wish to have.

Mr. HANNA. Thank you, Mr. Chairman. Mr. Thomasson, thank you for being here. What separates this from a subsidy, in your mind? I mean why is it the case that if something could happen in the natural marketplace, and the Government has to step in with what amounts to lower interest loans, which, in my mind, is a subsidy, why should we permit that to happen if, as you say, they are self-supporting?

Mr. THOMASSON. Well, first of all, there is no direct subsidy in these loans. Most of the loans under the bipartisan proposal are "self-pay," similar to the 1703 proposal program in DOE, as opposed to the subsidized 1705 proposal.

But to address your question about the market being able to handle these projects, there are certain market failures, if we could call them that, for large projects of national and regional significance that some States can't handle on their own, that many banks and investment funds can't handle because they have diversification requirements that just can't stretch as far as some of these projects need.

And, obviously, there are coalitions that can do that. You have seen many States and governments at every level around the world partnering with private sector, partnering with different Government agencies to fund these large-scale projects, and that is part of the role that this national infrastructure bank would play.

As Congressman Nadler said—I couldn't say it better—it would be an excellent addition to our armory of tools. And State infrastructure banks want this—the ones I have talked to—as an additional tool. They understand that it doesn't solve all their problems, but there is a need for it that markets aren't currently addressing.

Mr. HANNA. You say that there are multinationals and national companies that are perfectly capable of handling this magnitude of project. So your reason for this is because they are just too big for the general marketplace. Doesn't that suggest, then, that the risk is too big, also?

Mr. THOMASSON. In part. And also, for some of these large projects, in part because of the risk, and in part because the local financing costs for local governments are higher than the Federal Government's, and also the higher cost of private capital—private capital expects higher returns than, typically, the bond market does, and those higher costs make some of the economics of these projects not work out so well.

And when you introduce lower cost Federal lending as part of this equation, it really, on the margins, allows certain projects to become economically rational, to pass that market test, and——

Mr. HANNA. Obviously, that is the premise. And I would agree with you, that as long as the Government wants to subsidize a lower rate of interest, based on the full faith and credit of the country—that, incidentally, has a multitrillion-dollar debt in its own right—that they wouldn't work without that. That is what you are saying.

Mr. THOMASSON. Well, I think you have seen the demand for this, with the TIFIA program. I mean TIFIA is over-subscribed, has a backlog of applications. If the private sector can handle this without the economics of the Federal Government working, then the TIFIA program would not have the demand——

Mr. HANNA. And therefore, the Federal Government assumes that marginal risk.

Mr. THOMASSON. Well, the Treasury is made whole for that risk under the Federal Credit Reform Act, which this proposal would be subject to. And through the loan repayments, the subsidy fee under the Federal Credit Reform Act would be repaid into the Treasury, and taxpayers would be made whole for that default risk that they take on.

Mr. HANNA. Mr. Utt, are there any circumstances under which you would feel good about this type of loan guarantee?

Mr. UTT. No, but we already have loans and loan guarantee programs run by the Federal Government. And some of them are quite large, and particularly the railroad one. And I have argued that they should be either—particularly the railroad one—cut back or substantially reduced from the current level, which is $35 billion.

I think that there is an enormous amount of money in the private sector that would be available for a well-conceived project in a State with accommodating legislation for public-private partnerships. The case in point is the State of Virginia, which has very early experience on this, and has enacted accommodative legislation, has tweaked that legislation, and has established the expertise in the Virginia Department of Transportation, slowly but surely, to do these deals.

Right now, not too far away from us, a $2 billion project on the beltway is coming to an end and it received $400 million worth of private funding to supplement TIFIA money, private activity bonds, and input from the State. They are also involved in a huge tunnel in the Hampton Roads area, which was another public-private partnership, and may soon be getting underway HOT lanes on I–95, 395, which is another multibillion-dollar project.

So, it can be done. But it has got to be the right project. Not every project lends itself to that kind of self-financing or revenue stream that will pay off the debt.

Mr. HANNA. Thank you, sir. I yield back.

Mr. DUNCAN. Thank you very much. Mr. DeFazio.

Mr. DEFAZIO. Thanks, Mr. Chairman. This isn't the direct subject, but I just want to address one issue here, because it rankles me.

I voted against the stimulus, ARRA, in part because it was deficient in real investment in infrastructure, building things, putting

people back to work, and very heavy on tax cuts: 13 times more in tax cuts than infrastructure investment. Yet I keep seeing these mythical sort of "It is not working." That was the one part of the thing that worked.

And here in Mr. Utt's testimony, we have this rather disingenuous statement, and I would just like to correct it. And it implies that somehow the money hasn't been committed, couldn't be spent on the highways and transit. Actually, 100 percent has been committed. Yes, project sponsors do not get reimbursed by the Federal Government until the project is finished. And that information in Mr. Utt's statement was from July, which was the beginning of the construction season. So the number would be quite a bit higher now.

And so, Mr. Utt, I just wish that you and others would stop parroting that, and pretending that that part didn't work. It did. One hundred percent commitment of the money. Projects, 100 percent underway or completed.

And then you go on to say that this is not a good way to put people back to work. In his testimony, Mr. Yarema does not agree. Mr. Yarema, I would be interested in your response. Mr. Utt, citing a 1983 GAO report, says that infrastructure investment is an inefficient way to create jobs and recover from a recession, doesn't employ unemployed people, et cetera. You say that it will—that TIFIA investment could create jobs, and quickly. Could you respond? Is infrastructure a really poor way to create jobs?

Mr. YAREMA. No, infrastructure is a great way of creating jobs. It is one of the best ways of creating jobs. TIFIA is a valuable tool to attract non-Federal investment, but it is not intended to be a substitute for Federal apportionments. We do need Federal apportionments, and the States are doing more than their share to fill the gap left over.

What TIFIA does is recognize the fact that current levels of Federal apportionments, combined with State and local resources, still leave us a huge gap, as the national Commission really focused on.

And so, how do you incentivize States, localities, and private entities to come in and help fill that gap? What TIFIA does, as I mentioned, is create significant leverage and incentives for the States and localities to do exactly that. Estimates of how many jobs are created for every billion dollars invested in infrastructure vary. But AASHTO numbers say it is about 28,000 or 29,000 jobs per billion dollars of expenditure.

If you just take the $30 billion in TIFIA backlog, and right-size TIFIA to make it equivalent to demand, you multiply 28,000 times 30 billion—you get almost a million jobs. What is so important about the TIFIA program sitting here today is that the $30 billion backlog represents projects that are almost all ready to go. I don't use the word "shovel-ready," but this backlog of projects of regional and national significance are almost all environmentally cleared; the State, local, and private monies that will be needed to repay the TIFIA loans are almost all assembled; and the procurements are all either in process, soon to be in process, or final negotiations in process.

So, we are talking about a very unique moment in our history, when we have many billion-dollar-plus jobs that are ready to go if

we can right-size TIFIA. With consensus on that, we can proceed to refine how TIFIA works. There has been some mention today of the discretionary decisionmaking that takes place under TIFIA and would be enhanced with the national infrastructure bank. If we size TIFIA to meet demand, we can make it a first-come-first-served, rolling application program. You make your application, check the boxes. Does it qualify? If so, you do your financial analysis. Is it feasible? If so, then get in line for money. If loan capacity is available, it goes out the door. One hundred twenty days from initial application should be sufficient for fully qualified and financially sound projects, given without waiting for a one-time-a-year window to open and shut.

So, really, that kind of a program, which is the way almost all the rest of the credit programs work in the United States, would have a dramatic impact on employment, mobility, and economic growth.

Mr. DEFAZIO. And when the loan was made—since what Mr. Utt and others are using is the spend-out rate versus the obligation of money—would those loans be immediately all spent, and would we measure the projects by that, or would some of them take a couple of years, because they are big projects?

Mr. YAREMA. You are absolutely right. The spend-out would be over the construction period.

Mr. DEFAZIO. Thank you. But you do raise one issue I have a concern about, which is springing liens. Because you know the way the Federal Government scores things is risk.

Mr. YAREMA. Right.

Mr. DEFAZIO. And I would assume—you are an attorney, I am not—that the Government would be assuming more risk if that springing lien provision did not exist, which means that the trolls down at OMB would score these things differently, which means we would get less efficiency for the money that we put into TIFIA.

Mr. YAREMA. That is correct. The scoring that the Treasury does and OMB does on these loans varies, based upon the overall risk of the loan. There are many risk factors that go into that calculation, of course, the source of repayment of the loan being the principal one.

So, for example, a TIFIA loan backed by local option sales tax revenues, would be scored lower than a loan backed by toll revenues, like may happen with the planned Columbia River Crossing between Portland and Vancouver.

The springing lien would create slightly more risk. But I really don't think it is going to be material. With a 12-year history TIFIA is not a new program. The success rate that those TIFIA loans have had will, I think, be a significant mitigating factor in any incremental increase in scoring created by a move away from the springing lien balance.

Consequently, I really advocate removing the springing lien requirement. Not only will it have only a modest impact on loan scoring, I think it will have a huge impact on attracting senior debt into the projects, which is exactly what TIFIA seeks to accomplish. With the springing lien removed, I think we will have a net gain.

Mr. DEFAZIO. OK, thank you. My time has expired, Mr. Chairman.

Mr. DUNCAN. Yes, thank you very much. Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman. Good to have you gentlemen with us this morning.

Mr. Ridley, has Oklahoma utilized its SIB as a tool for innovative financing?

Mr. RIDLEY. We have not. We have used general obligation bonds, revenue bonds, GARVEE. We have not used TIFIA, simply because we have not had a project that really lent itself. We do think that the TIFIA program is a viable program that we may use in the future. Certainly if it was better capitalized and maybe modernized a little bit, so that it made it easier for accessibility, we think it certainly has some pluses. But we have not.

Mr. COBLE. Thank you, sir. Mr. Utt, do you see any benefit in creating another Federal bureaucracy, when it appears we have one in place now that would essentially serve the same purpose?

Mr. UTT. Exactly. I agree with you there. We have a program that is ready to go with experienced people running it, a huge batch of knowledge out there by potential users on how it works. And you lose all that, or you ignore all that if you then spend as much as a year creating a new entity with new rules, new procedures, which will then go out and solicit the projects, and then people have to come in with the projects, and according to their rules. You are talking about more than a year before the first dollar or first commitment goes out.

Just to add to that, even some of the current programs are not working as efficiently as possible. The rail part of the ARRA took about a year before the first awards were made. It took them that long to get up and running because it was a relatively new program, even with a bureaucracy—even within a Government department of experienced people in the area of making judgments about railroads and their viability.

Mr. COBLE. I thank you, sir. Mr. Yarema, could a national infrastructure bank be successful in combination with TIFIA?

Mr. YAREMA. If there were a bill passed that really created adequate Federal apportionments and if TIFIA were funded to meet anticipated demand, I think that would be sufficient for transportation. There may be other kinds of infrastructure, however, that can't avail themselves of the TIFIA program that a national infrastructure bank would facilitate, without transportation competing for loans with other kinds of infrastructure, like dams, levees, and ports.

So, my strong preference would be to achieve the same goals of the national infrastructure bank concept by fully funding TIFIA to meet demand, maximizing the incentive for States and localities and private entities to bring new sources of revenue to the table, and converting TIFIA into a first-come-first-served program. And I think that will be sufficient for transportation.

Mr. COBLE. Thank you, sir. Mr. Thomasson, before my time expires, let me extend what Mr. Utt said. In your estimation, how long do you think it would take for the national infrastructure bank to actually begin issuing loans?

Mr. THOMASSON. It's hard to say. It would take time, and I think those who proposed the bank acknowledge that it is not an immediate solution. It sends a good long-term signal to the private mar-

kets that helps trigger investment. But it would take a year or two, probably, before the loans were issued.

I think the faster process could be hiring the financial professionals that TIFIA lacks, that RRIF lacks. The DOE loan program has some that were hired after Solyndra. But I think those financial professionals could play an important and valuable consulting role to existing Federal credit programs that could prevent the need for additional bureaucracy increases in DOT for TIFIA if you are super-sizing its loan capacity.

So, I think there are certain functions that could be more immediate. I think it could help expedite some of the backlog on TIFIA if we have this kind of expertise in the Government.

But I fully acknowledge that some of the loan process would take time. You want it to take time, because this is a different approach that needs to be clear and transparent, and you do have to set up a process for it. It shouldn't be a rushed program in the name of short-term stimulus.

Mr. COBLE. Very quickly. Mr. Roth, do you want to weigh in on that? Do you want to add anything to that, Mr. Roth?

Mr. ROTH. I would not like to add anything to that point, but I would like to add something to the point made previously——

Mr. COBLE. Well, my time is expired. Mr. Chairman, may he do that?

Mr. DUNCAN. Yes. Go ahead, Mr. Roth.

Mr. ROTH. I beg to dispute the suggestion that roads cannot be financed without Government support. In the last century, the Interstate Highway System was financed by road users, without any Government money coming into it from general revenues. And in the century before, tens of thousands of miles of roads were financed privately, under incredibly difficult conditions. As a proportion of GDP, more money was spent on roads in the 19th century than in the 20th.

Mr. COBLE. Thank you, sir. Thank you, Mr. Chairman. I yield back.

Mr. DUNCAN. Thank you, Mr. Coble. Mr. Nadler.

Mr. NADLER. Thank you. I just have to comment before I start asking questions. Of course the private sector can finance certain roads and big projects. But clearly, as Henry Clay realized, and Abraham Lincoln, and President Eisenhower, and a lot of others, it can't finance all the roads and projects that we need. Some projects just don't pay for themselves, even though they may well pay off for the economy. But we will leave that debate to Henry Clay.

Mr. Thomasson, could you succinctly tell us why an infrastructure bank would be superior—or not superior, why we would need that in addition to an adequately funded TIFIA program for transportation, not for other projects?

Mr. THOMASSON. Sure. One thing I would say first about the TIFIA program and this committee's proposals to expand the loan capacity of the TIFIA program is that it is currently understaffed, as Mr. Yarema said. The resource is very low. It outsources all its——

Mr. NADLER. No, but let's assume we adequately staffed and adequately funded it.

Mr. THOMASSON. Well, first of all, it funds projects beyond transportation: energy, water——

Mr. NADLER. The infrastructure bank, not TIFIA.

Mr. THOMASSON. The national infrastructure bank. So that is critical—I know that is not within the jurisdiction of the committee, but it is a critical point.

Mr. NADLER. Of course.

Mr. THOMASSON. And we have serious needs in the country for those kind of projects.

Also, as you said earlier, there are certain projects that go beyond the scale of TIFIA that would require more independent analysis and professionalism within the national infrastructure bank. I think you get a different approach under that than you do under——

Mr. NADLER. When you say beyond the scale of TIFIA, what limits TIFIA?

Mr. THOMASSON. Well, TIFIA's loan authority, and its allocations from this committee under the Highway Trust Fund. But——

Mr. NADLER. So you are saying that some projects are simply too big for TIFIA?

Mr. THOMASSON. There are. And I think if you have a more adequately staffed and professionally run national infrastructure bank with project finance experience on those big types of projects, we as a country will be better able to handle them. We are not very good at those large projects, currently.

You also see the national infrastructure bank as a platform for credit expertise and—for the Federal Government—could also play this consulting role for other loan programs in the Government—DOE, RRIF, which——

Mr. NADLER. OK. Now, the proposal—or, well, there are different proposals for a national infrastructure bank, but I believe the administration proposal and Senator Kerry's proposal limits the national infrastructure bank to things like—to loans, loan guarantees, not to grants, although I think Congresswoman DeLauro's proposal has grants, too.

Mr. THOMASSON. That is correct.

Mr. NADLER. How would you finance—I mean there are clearly projects that are vital to the economy, both transportation and nontransportation, that don't have enough of a revenue stream, or cannot generate enough of a revenue stream to generate enough revenue to pay back bonds and so forth? So if you don't allow for grants, how do you finance those?

Mr. THOMASSON. I think there are two answers to your question. One is that the bipartisan infrastructure bank proposal does have that restriction. It is more limited than Congresswoman DeLauro's proposal. And Congresswoman DeLauro would tell you that we need to be more bold to be able to fund every type of project like that.

So, it is true that the bipartisan proposal would not be able to fund every type of project that is out there. I think it is a tool in the armory, as you said. There are other sources for grants available that——

Mr. NADLER. OK.

Mr. THOMASSON [continuing]. Infrastructure bank projects might be able to seek as——

Mr. NADLER. You might use infrastructure bank financing, plus something else.

Let me ask you the last question, because my time is running out; I have got 45 seconds, plus whatever leeway is granted.

Chairman Mica has estimated the cost of establishing a national infrastructure bank would be about $270 million. Could any of the witnesses explain where this figure comes from, and whether it seems to be accurate? And does anybody have a different estimate of the cost that would be associated with establishing such an entity?

Mr. THOMASSON. I have not seen this number before. I am not sure where it comes from.

Mr. NADLER. Mr. Utt?

Mr. THOMASSON. You know, I——

Mr. NADLER. Thank you.

Mr. UTT. Yes. I think I put it in my testimony, and it comes——

Mr. NADLER. Could you talk louder, please?

Mr. UTT. I think I put it in my written testimony, and I also think I footnoted it. It goes back to the President's February 2001 transportation budget plan, which was also his transportation reauthorization plan. There was a page——

Mr. NADLER. 2001?

Mr. UTT. 2011, I am sorry. In this age of austerity, I have less numbers.

The President's budget proposal includes a page devoted with some detail to a transportation infrastructure bank, as opposed to the current infrastructure bank proposal, which covers a wide range of infrastructure. And it lays out in some detail what the funding would be. And it talks about a total of $270 million to get it up and running, consulting fees, different kinds of studies, and paying a staff of, I think they estimate, 100 people. And so that would be the start-up cost for that.

And again, we are pulling it right out of the President's proposal.

Mr. NADLER. And would that figure differ greatly if it were simply to expand TIFIA to the similar size?

Mr. UTT. I can't imagine that it would. In fact, I find the $270 million figure that was in the President's budget a little bit on the high side for starting up a public entity. But nonetheless——

Mr. NADLER. That was his estimate?

Mr. UTT. Those were the numbers that were there.

Mr. NADLER. Thank you. I see my time has expired.

Mr. DUNCAN. Thank you very much, Mr. Nadler. Dr. Harris?

Dr. HARRIS. Thank you very much. And thank you very much, Mr. Chairman, for holding the meeting. It is an important day, because I guess the news today is that we probably are going to have to break up the American Jobs Act and do what we probably should have done from the beginning, handle things piece by piece.

Let me just ask Mr. Thomasson. I am going to—and I will ask the same question for all five of the panelists here. You know, the President said in his speech—and I quote—"The American Jobs Act answers the urgent need to create jobs right away." The testimony I am hearing is that none of you think that this is a—establishing

the American infrastructure bank in a hurry, which is what we are talking about, we are talking about a major new program, rushing through the process of a major new program—I assume that none of you believe that this will create—and I quote—"jobs right away." Well, except for the people we hire into the bureaucracy.

But starting with Mr. Thomasson, do you agree that that is true?

Mr. THOMASSON. Well, I think my first answer to your question is his statement was about the American Jobs Act broadly. He has two different infrastructure sections in the jobs act. One is immediate infrastructure investment and the second is this long-term——

Dr. HARRIS. Right. But you agree this long-term one is not short-term. It is not immediate in any way, shape, or form. It will take a long time, comparatively. I mean we have a 9.1 percent unemployment rate. CBO says it is not scheduled to go down before the next election. Would you agree that we really won't see concrete evidence of this working—no pun intended—before the next election?

Mr. THOMASSON. I would, as an administrative point. But I would——

Dr. HARRIS. Thank you. Can we just go—I only have 5 minutes.

Mr. THOMASSON. OK.

Dr. HARRIS. I can't have—I have another question. Mr. Roth?

Mr. ROTH. It seems to me that the obstacle to creating jobs in transport infrastructure is more regulation than lack of money.

Dr. HARRIS. And this really doesn't do anything to address the regulatory side.

Mr. ROTH. I think that the Honorable Gary Ridley could tell us more about this from his experience in Oklahoma.

Dr. HARRIS. Sure.

I am working my way down there. Thank you, Mr. Roth. Mr. Yarema.

Mr. YAREMA. Early in my career, I was a lawyer for the U.S. Synthetic Fuels Corporation, which was formed under the Energy Security Act of 1980. It was a Government corporation intended to provide loans, loan guarantees, and other instruments for alternate energy projects. And it worked fairly well. But it took a long time to get the program started. I think a year is a very unlikely period of time to get this program off the ground. The rulemaking alone will take time.

If TIFIA is managed and staffed properly, it can make significant loans quickly. In 2003 the TIFIA program issued a $917 million loan to the Texas Department of Transportation for the $3.6 billion Central Texas Turnpike Program. That loan was made when needed—the projects are all built and it is completely performing. There was no problem in getting that loan made. And there are very few projects in the United States that would be larger than that.

Dr. HARRIS. And what TIFIA can do. Thank you. Mr. Utt.

Mr. UTT. I mean I agree that any of these programs are going to be hard to get underway very quickly. So they should be viewed as infrastructure investment programs, which is a long-term issue. And there is a backlog that is necessary, or that exists, that needs to be remedied.

But that is much different than a stimulus program. And I think all of these—ARRA and the current jobs act are being sold as something, or promoted as something, that we need right now. And yet I think there is widespread agreement on this panel, and also within the experience, that you are not going to get jobs right now.

Dr. HARRIS. Well, except in the bureaucracy. Thank you. Secretary Ridley?

Mr. RIDLEY. Congressman, without adding a permanent revenue stream, adding another credit card to the Government will not create jobs in the short term nor the long term. It will not.

We have the abilities to be able to finance projects today. States need to ensure that they have the revenue streams in order to repay the debt as accumulated. So, having another way to do that is not necessary, in our belief.

Dr. HARRIS. Thank you. And working the way down, just kind of a very brief answer, so what I am hearing is that basically we could take the currently existing program, TIFIA, and with some modification—Mr. Thomasson mentioned maybe putting some other areas of expertise on it—we could basically deal with virtually any size project that comes along. General agreement? All kind of nodding.

Mr. YAREMA. Absolutely correct.

Mr. THOMASSON. Except I don't think you get too much more of a time advantage beefing up TIFIA than you do creating an infrastructure bank. I think that takes time, also.

Dr. HARRIS. OK, thank you. Yield back.

Mr. DUNCAN. Thank you very much. Mr. Boswell.

Mr. BOSWELL. I pass.

Mr. DUNCAN. Mr. Altmire.

Mr. ALTMIRE. Thank you, Mr. Chairman. Secretary Ridley, you just said—and I think I heard you correctly—that we have the ability, as a country—presumably the States and others—to fund projects already. Is that correct?

Mr. RIDLEY. Congressman, if I said that, I said it in error. We have the ability to finance projects. The funding capability is where the draw is, where it is difficult. We have, again, all different ways of being able to finance a project and receive financing. It is funding the projects and funding the repayment of the financing that becomes difficult.

Mr. ALTMIRE. Right, OK. I appreciate the clarification. I come from a region of the country where we have over 1,000 structurally deficient bridges—Western Pennsylvania—and we are obviously having trouble finding that funding, and finding the way to repair and do the maintenance on those bridges. And to that point, I wanted to talk to Mr. Thomasson for a moment.

And, you know, I am a fiscal conservative. I have accumulated a voting record on a lot of these things. And I share the same concerns that a lot of us do about the spending decisions that had been made in the past in Congress, and some of the same concerns have been expressed by the other members of the panel. And I wanted to ask you: why is the infrastructure bank the fiscally responsible thing to do now, and what role does private capital investment play in getting more out of what we would spend under the infrastructure bank?

Mr. THOMASSON. Sure, thank you. First of all, as most on this committee probably recognize, infrastructure spending isn't the kind of thing that you save money by cutting. There is nothing fiscally responsible about deferred maintenance. When you are looking at a required repair cost, it doesn't get any cheaper by putting it off.

But with regard to the bank specifically, there is no better time for the infrastructure bank than now, with loans and loan guarantees as a credit approach. We have heard time and time again today that TIFIA is an effective way of leveraging the Government's money and the Government's loan authority.

And as Mr. Yarema could probably testify to this better than I can, the Government's loans, whether through the bank or through TIFIA, only cover a portion of the total project cost—for TIFIA 33 percent, for the bipartisan bank 50 percent—that leaves at least 50 percent, and in most cases more than that, of the total cost to be picked up by private-sector investors and by State and local governments. That alone leverages it. But the loans themselves are also typically scored at about 10 percent of their total cost.

So, in terms of "bang for the buck" for taxpayers and smart, efficient approaches to investing, both TIFIA and the infrastructure bank really provide advantages that we should look at.

Mr. ALTMIRE. You referred, Mr. Thomasson, in your opening statement, about the Chamber of Commerce and some opinions that have been expressed by other organizations publicly. And there has been a lot of talk about how more infrastructure investment, including the bank, would make the U.S. more globally competitive. At least that has been the opinion expressed by supporters of the bank.

Have you heard directly from companies or investors who agree with that claim?

Mr. THOMASSON. Actually, we heard directly last week. My group, the Progressive Policy Institute, held a forum here on the Hill with top CEOs from the U.S.: the CEO of Nucor, the biggest steelmaker in the country; and the CEO of Siemens Industry, a multinational that invests heavily in the U.S. We heard from CEO after CEO that we need this kind of strong signal to the international business community that the U.S. is a place worth investing in.

The Siemens CEO told this short story about starting a new manufacturing plant in Charlotte, North Carolina, to build gas turbines. And to do that, part of their costs were building their own rail line up to the Port of Norfolk, because they are exporting these turbines. And he said, "You know, Siemens is a 160-year-old company. We look at the long term. We are happy to include those costs in our decisions of bringing our own infrastructure to the U.S. But how many companies are going to do that?" How many global investors, when they look at the U.S. and they see that they have to bring their own infrastructure, are going to do that?

And we heard the infrastructure bank would send a clear signal that the U.S. is improving its decisionmaking ability to invest in infrastructure and attract private capital from abroad and multinational corporations to invest here at home.

Mr. ALTMIRE. And Mr. Utt, very quickly, Mr. Thomasson makes the point that deferred maintenance is not a fiscally responsible decision, that if you allow things to fall into disrepair the costs are more later than they are today. Is that a statement that you agree with?

Mr. UTT. Sure, yes, absolutely.

Mr. ALTMIRE. OK. My time is up. I would like to follow up, but my time has expired. Thank you.

Mr. DUNCAN. All right. Thank you very much, Mr. Altmire. I have to leave in just a few minutes for another meeting, but I do want to ask some questions before I go.

Secretary Ridley, you have had long experience in this field. And we have heard your skepticism about the national infrastructure bank proposal. You do know, I am sure, that in our base bill we tried to expand TIFIA, we tried to expand the State—get more incentives for State infrastructure banks.

What ways—what are the two or three most important things that we could do, here at the Federal level, to make your job easier or to help a State DOT operate more economically and more efficiently? Would it be—it is a little bit beyond the scope of this, but it ties in, I guess, directly and indirectly, both. Would it be environmental streamlining? What two or three things would you suggest to us?

Mr. RIDLEY. Mr. Chairman, it would be regulation reform. I think that we can accelerate projects. We heard comment today about the administration targeting 14 projects across the country for accelerated delivery. I can tell you from our own experience in Oklahoma we had an interstate bridge go down, a 525-foot long bridge, four-lane facility, about 25,000, 30,000 vehicles a day on it. We were able to completely rebuild that bridge in 64 days. And we did not break any laws or skirt around any regulations. But the Government was focused on the task at hand, and the regulatory agencies that we deal with were focused on that at hand.

If you really want to accelerate project delivery, if we really want to put the construction industry back to work, and making the assumption that you would be able to fund things at the historic levels over the last few years, if you can remove the brick that is around everyone's neck that holds us back from being able to do our job—and that would be in the regulatory effort—it is my belief if the administration would declare an economic emergency, and therefore these regulatory agencies knew they had to respond quickly and timely with every project, not just with 14, that I think that you can see a lot of things happen rather quickly.

Mr. DUNCAN. Let me ask you this. The two most recent studies by the Federal Highway Administration have said that—one said it took 13 years, one said it took 15 years for the average highway project, from conception to completion. And these are not transcontintental roads, these are relatively short, mileage-wise, projects.

If we did what you want us to do, and when—these projects on an emergency basis, how much do you think we could speed those projects up? Could we cut that time in half? Would that be just totally unrealistic? Or what would you say about that?

Mr. RIDLEY. Oh, I think that—I think maybe even better than that. As—all of us remember the bridge that went down in Minnesota, and how fast they were able to rebuild that structure.

Mr. DUNCAN. Right.

Mr. RIDLEY. The earthquakes in California, and how fast Caltrans was able to put those back together, the bridge and causeway that went down in Texas, and how fast TxDOT was able to put that back together, and it is simply because the focus of the agencies are on the same project, or the same goal, if you will.

Right now, it isn't the same goal. Regulatory agencies do not have the same goal as DOTs or local units of governments. It—their goal is somewhat different. But if you put a focus and a microscope on what actually has to be done and what you are trying to build—we build the whole—not the whole, I won't say the whole—90 percent of the interstate in this country was built in about 17 years. Think about that a minute. Now, the only reason I know, because I was there. But in about 17 years, 90 percent of our whole interstate system was built.

Mr. DUNCAN. Yes.

Mr. RIDLEY. And today, as you pointed out, it takes many, many years from conception until we get project completion, just on a single portion of that.

Mr. DUNCAN. I remember one of the main contractors on the California earthquake highway project was given an incentive bonus of $100,000 a month. And that really speeded up things out there. It is amazing how early they came in, in comparison to the original estimates.

I need to move on. Mr. Utt, my friend Mr. DeFazio seemed to imply that you were sort of misleading people in your—some of your writings that you have done. Would you like to respond?

Mr. UTT. Well, I didn't mean to, if that was the perception. I agree with several of the other statements, that jobs will occur as a consequence of spending on infrastructure. But the issue that we are discussing today is being presented as a desperately needed effort to get the unemployment rate down as quick as possible. And if that is the case, then this is not the proper tool to do that.

And likewise, on ARRA, is that this was also presented as something urgent, a national emergency. We were in the midst of a recession, we have a stagnant economy, we were losing jobs. And again, what we see is that, despite the urgency of enacting it, you cannot make a program like that work very quickly. And this is not a deficiency on the part of people being involved, it is just that infrastructure is a slow, deliberative process.

For example, one of the biggest delays in ARRA was getting acceptably presented projects in from all the State DOTs. And you can't do anything until you do that. And then you have to evaluate them. And this involves a long time before any money is spent.

So, if you want jobs next week, or jobs tomorrow, or even jobs within a couple of months, this is just not the way to go.

Mr. DUNCAN. All right——

Mr. NADLER. Would the gentleman yield?

Mr. DUNCAN. Well, I am in kind of a hurry, Mr. Nadler, so I am going to move on.

Mr. NADLER. At the conclusion of your remarks?

Mr. DUNCAN. Yes, you can——

Mr. NADLER. Thank you.

Mr. DUNCAN. Mr. Yarema, everybody has said glowing comments about TIFIA—has had glowing comments about TIFIA here today, and especially you. And it is a program that I support, as well. But I am just curious. You have great expertise in this area. Is this the—is TIFIA the first perfect Federal program, or would you tell us what problems there are with it, or what changes you would make?

And I am particularly interested—do you know of a TIFIA project that has gone bad? And what was the reason for that?

Mr. YAREMA. TIFIA is not perfect, but what we have is 12 years' experience with it. I was around when it was enacted in 1998. We have worked on about two-thirds of the applications that have gone in. And it needs to be modernized in that 12 years.

And there is no question we can improve it. If it is, in fact, right-sized, we would need new staff, nowhere near the 100 employees the national infrastructure bank proposal calls for, only a small fraction of that, and you would need additional leadership in the TIFIA program.

But the most important thing to move away from is the discretionary decisionmaking process that has the potential—and some would say the reality—of being politicized—toward a first-come-first-served program where applicants put together their projects, they meet all their criteria or they don't, they are either feasible or they don't, and then they stand in line to get their money. If we use that kind of approach, TIFIA loans could be going out 120 days after the applications come in. It would be a very simple process to use.

In my memory, over the 12-year history of TIFIA, there has only been one default. That is the SR–125 toll road in eastern San Diego County which opened right at the beginning of the recession. As a result, the traffic isn't there. So, the TIFIA program has a default on its record.

But if you look at it as you should, which is a program where Congress effectively pays insurance premiums into the Treasury every year under the Credit Reform Act, the Treasury has actually made money off the TIFIA program. So that, I think, gives it strong credibility, going forward.

Mr. DUNCAN. All right, thank you. Mr. Roth, you mention or cite the Solyndra project in your testimony, and that has raised a red flag with some of us, because this national infrastructure bank proposal from the President would include energy-type projects such as that. And we would have some concern about that.

But as a proponent of more private investment and less Government involvement in these types of things, do you believe that private investment alone will be able to cover our infrastructure revenue shortfalls?

Mr. ROTH. It would be difficult, until the way that road use is charged for is changed. When people pay for using roads by means of a fuel tax, it is not easy to reimburse private road providers. That is why I think that the Government should be interested in helping States to switch to new ways of paying for roads, based on vehicle miles traveled, as recommended in 2009 by witness Geof-

frey Yarema and his colleagues on the National Surface Transportation Infrastructure Financing Commission.

But, even under the present methods of payment, it is possible to bring in the private sector. And I gave in my testimony an example of how this was done in Britain 20 years ago.

Mr. DUNCAN. All right. Well, I am running way late. Mr. Nadler, if you could be very brief——

Mr. NADLER. Yes, I will be very brief.

Mr. DUNCAN [continuing]. Your side.

Mr. NADLER. I thank you. I just wanted to make a comment, because it has come up twice now, and that is the jobs aspect of the bank and the timing.

It is clear, obviously, that it will take some time to get an infrastructure bank up and running, and it is not—and forgetting its aspect of infrastructure finance, just looking at its employment aspects—it is not the solution to an immediate jobs crisis. But anyone who thinks that our jobs crisis is going to be over in a year or two, no matter who the President is or what we do or how successful other things are, I think is not realistic.

The problem we have now is a long-term as well as a short-term job crisis. And an infrastructure bank, if it worked properly, could be invaluable in dealing with the jobs crisis that is an ongoing crisis. That is all I wanted to say. So you have to evaluate it. Not only—from a jobs perspective, not only will it help the problem within a year, but will it help the problem over a period of time. Thank you.

Mr. HANNA. [presiding.] Ms. Edwards. Donna?

Ms. EDWARDS. Thank you, my good friend, Mr. Hanna. Good to see you in the chair.

I want to thank you all for your testimony. I am just curious about something. I think all of us acknowledge—or most of us do—that whether it is hearing from the U.S. Chamber, from the AFL, from the various construction trade associations, that we have about a $2 trillion infrastructure deficit. That is money that we really need to spend on infrastructure, our roads, bridges, you know, all of our infrastructure that just is crumbling, to get us to where we need to be in the 21st century.

And I think, Mr. Yarema, even if I agree with you, which I do, about what you describe as sort of right-sizing TIFIA and, you know, dealing with the $30 billion backlog that could create a million jobs, that that still leaves a rather significant shortfall, in terms of what we really need to be spending on infrastructure. And so, maybe we could argue that it is about $200 billion or $250 billion a year that we need to be spending.

And so let's say we do the $30 billion backlog. That other balance we really do need to invest in infrastructure. And if it can't be through TIFIA—and we have had arguments in this committee about whether—and with the administration and others—about whether we can do it through a fuel tax or measuring—looking at miles consumed, used in that sense—we have to put together some combination of things to meet our infrastructure needs.

And so, isn't—and I direct this to Mr. Thomasson and Mr. Yarema—isn't an infrastructure bank at least one of the legs of the stool that could be used to, you know, to provide the balance that

we need for infrastructure, recognizing that we still might have to deal with the $30 billion need that we have, the backlog in TIFIA? And I wonder if you could address that.

Mr. YAREMA. I would be pleased to. The National Surface Transportation Infrastructure Financing Commission, on which I was honored to serve, absolutely underlines what you are saying—that the shortfall in Federal transportation revenues will not be made up for by project revenues alone. So we do need a level of Federal apportionment that does its best to meet as much of the Federal role as possible. The Commission recommends a vehicle miles traveled fee that would be imposed by the year 2020.

I think the only point I was making about TIFIA in distinguishing from the national infrastructure bank is that if we right-size TIFIA, I believe that all the projects where there will be sufficient revenues to be able to repay a loan. TIFIA can handle that.

The national infrastructure bank, as a tool, will be redundant for the transportation program if TIFIA is right-sized. It will not be redundant for other kinds of infrastructure that don't have TIFIA. Energy projects, ports, levees, and dams don't have the benefit of TIFIA. So there may very well be a role there for a national infrastructure bank. All I was saying is that the national infrastructure bank probably will not be able to provide an instrument that requires repayment any better or different than TIFIA's.

If you compare TIFIA to the other multilateral banks in the world, like the European Development Bank and the Asian Development Bank, that provide Government-supported finance for projects, those applicants would all kill for the terms that TIFIA provides. So we do have a great program.

Ms. EDWARDS. Thank you. And, Mr. Thomasson, if you could also address this, you know, this burning question that I have kind of had that—I mean, look. We have a fuel tax we haven't actually raised in a gazillion—not since I was in college, or something like that. And in Maryland, we actually are now, you know, considering that, because we have a whole bunch of State and local projects that don't really qualify to be used out of our Federal funding, and we have still got to do that stuff, too.

So if you could address those questions, I would appreciate it.

Mr. THOMASSON. I think that is absolutely right. It has been, what, 17 years, I think, since we have raised the fuel tax. And that leaves States in a bind. We have States who are not only facing tough fiscal situations, but who are there on the ground, trying to make these investments in infrastructure because the Federal role is limited.

And part of the idea of the infrastructure bank is to offer an optional tool to the States, another tool, because we need as many as we can to meet this infrastructure deficit that we are facing. As you said, it is in the trillions, and the magnitude is just awesome. And we need every tool we can have available.

We can talk about the duplication with TIFIA, but this funds other kinds of projects. The need for water projects is enormous at the State level, and there is no good financing mechanism for that. It is worth doing, just for the water programs, if nothing else.

But I think you are exactly right. This is a long-term project, whether it is the President's new jobs bill, or the recommendations

from his jobs council just this week, where there are a dozen recommendations about infrastructure. This is not a silver bullet. This is one part of a broad-based strategy that we need for this overwhelming challenge that we are facing on infrastructure.

Ms. EDWARDS. Thank you. And I just would conclude by just reminding us that with this $2 trillion deficit and the need that we have to spend, I would say, a couple of hundred to perhaps $300 billion a year in infrastructure, there is no shortage of multiple ways that we are going to need to finance this stuff. We have to bring the United States into a 21st-century infrastructure if we want to be competitive, globally. And we cannot wait to do that, arguing over whether it is this or that. It is not this or that. It is all of these things.

And so, I would urge us to do that and get on with it. Instead of talking about the 1 million jobs that we would create with a right-sized TIFIA, we could be talking about 7 or 8 million jobs that we would fund with a long-term infrastructure plan for this country that would really put people back over the course of time, and allow States to do the kind of planning that they need for the big projects, and not just for routine maintenance.

And so, with that, I would yield. Thank you.

Mr. HANNA. Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. And gentlemen, I apologize. I heard all your testimony, but I had to leave during the first question. So if I am redundant, welcome to Congress.

Gentlemen, especially Secretary Ridley, you made some comments in your statement—and also in your written statement—that I found very interesting. First and foremost, "Recognize that the success of dedicated funding, financing methodologies, and partnerships are all dependent on the identification and stability of long-term supporting revenue streams." That is 1 million percent right.

Is there anybody on the panel that disagrees with the statement that we need to put more money into our national infrastructure needs? Is there anybody who disagrees with that?

[No response.]

Mr. CAPUANO. OK. Is there anybody who disagrees with the statement—do you disagree, Mr. Roth?

Mr. ROTH. I disagree with the statement the way that it is put.

First, I am very suspicious about this $2 trillion figure. I suspect that——

Mr. CAPUANO. Well, you disagree with it. So you think that we are fine with the amount of money we put into our infrastructure now. And that is fine. You are welcome to that opinion.

Mr. ROTH. What I want to say is that the money has to be put into the right place, and we have to have a way of prioritizing——

Mr. CAPUANO. Well, I understand that.

Mr. ROTH [continuing]. And putting money——

Mr. CAPUANO. That is a judgmental call, and I respect that. We may have differences of opinion on where it should go. And I understand that. But you are telling me that you are fine with the amount of money that we put into the infrastructure system. You don't agree—I didn't mention $2 trillion; some people have different numbers.

I happen to think that, no matter what the number is, I think our infrastructure system is crumbling, and we are turning into a Third World country over time. And if you disagree with that, you are welcome to that opinion. That is all I asked. Do you disagree with that?

[No response.]

Mr. CAPUANO. I will take that silence as a disagreement.

Mr. ROTH. I do not think there is any rational way of knowing whether we should be spending 2 or 3 or 4 billion dollars on infrastructure——

Mr. CAPUANO. Well, unfortunately, we have to make that decision, and I respect that.

Mr. Roth, I presume, then, you would then disagree that you think the Highway Trust Fund is probably perfectly well funded.

Mr. ROTH. I believe that the people who are running the Highway Trust Fund should raise the fuel tax to get more money into——

Mr. CAPUANO. So you think we need more money for the Highway Trust Fund.

Mr. ROTH. Yes, certainly.

Mr. CAPUANO. Does everybody else agree that we need more money into the Highway Trust Fund?

Mr. ROTH. The fuel tax, at the moment, is not——

Mr. CAPUANO. Mr. Roth, I understand this, but there are many ways——

Mr. ROTH [continuing]. Does not even cover the maintenance costs——

Mr. CAPUANO. I am trying to avoid the discussion of how to get that money, because that sets everybody off here. I am simply asking a simple question.

Do people on this panel think that we need more money into the Highway Trust Fund? If you do, fine. If you don't, that is fine. I am not an argumentative question. It is argumentative when you start saying how we get it in there. And I am trying to avoid that. I am trying to be nice. I don't want to upset my colleagues here.

Mr. ROTH. We do need more money in the Highway Trust Fund.

Mr. CAPUANO. That is—so we all agree on that. So, as this—as we sit here today, we are all struggling with a way to get more money into infrastructure. That is really what this is all about, and how to get it done.

Now, for me, whenever you introduce private sector into anything, does the private sector do anything, or should they—I don't think they should—do they do anything for free? No. It costs money to get the private sector in. And in this case, it costs interest payments, which I am not arguing is good, bad, or indifferent, but it takes money away from infrastructure to pay private enterprise.

And, Mr. Ridley, when you were involved with the creation of the Interstate Highway System, did we do that?

Mr. RIDLEY. Most of the monies that was paid for the interstate system was pay-as-you-go, although there was some——

Mr. CAPUANO. A little bit.

Mr. RIDLEY [continuing]. Roads that were toll roads. Oklahoma has a few that were——

Mr. CAPUANO. But a toll road is pay-as-you-go, too, if you are a toll payer.

Mr. RIDLEY. That is correct.

Mr. CAPUANO. Either way, every penny, or virtually every penny to create the Interstate Highway System was out of the taxpayers' pockets.

Mr. ROTH. No.

Mr. CAPUANO. My concern—well, on the Federal side it was. The State side it wasn't. On the Federal side it was.

Mr. ROTH. It was paid by road users. It did not come out of Federal general revenues.

Mr. CAPUANO. Well, Mr. Roth, now we are getting into a substantive discussion. Whenever the Government reaches into my pocket—and I am a liberal, by the way, I don't mind this—that is a tax. You can call it a fee, you can call it a toll. But when the Government reaches into my pocket, that is Government action. It is a tax.

When I go—when I drive down the Mass Pike, I don't really care why they are collecting my dollar-and-a-half; I know that they are doing it.

So, I guess the question for me is, why are we arguing, in any capacity, adding a middle man to this? Bottom line is we are here today to discuss an option because we haven't got the courage or the fortitude to do what we have to do, which is to increase revenues, increase funds going into our infrastructure. And we are all struggling for 1,000 different ways to do this.

And the truth is, it is all going to cost taxpayers or toll payers, which are the same people, by the way, more money over the long run. If we just did it straight up, either through a gas tax or a vehicle mile, or the 10 other proposals that are on the table, the long-term benefit to the Commonwealth of Massachusetts, to the taxpayers of Massachusetts, to the people of this country, is that they get a bigger bang for their buck when it comes to infrastructure.

And I guess I just want to argue. Does anybody here think that it is good to simply deny our obligations, to say, "We don't really need this," or, "We don't have the courage to pay for it now, we will let somebody else pay for it later"? How is that a strong-minded, intelligent, long-term process when the day will come—maybe not for you, Mr. Ridley, but for me or my kids or your kids—when they are going to have less money to fix their roads and bridges because we burned them with interest payments that were unnecessary, because we don't have the courage to do what we need to do today?

I would like to know. My time is up, but I had fun doing it. If you have any time, I would like to know if any of you disagree with that.

[No response.]

Mr. HANNA. Ms. Richardson.

Ms. RICHARDSON. Yes, thank you, Mr. Chairman. I have a few questions. First of all, Mr. Roth, in your testimony you reference the California State 91 Freeway, which—I happen to live in California, and I go along that freeway often. Are you aware of some of the problems regarding your suggestion of why tolling and all that is a great scenario? Have you studied the problems, as well? You didn't reference the issues with that.

Mr. ROTH. I know that there was a problem in connection with the State building new roads parallel to that, and that that problem was overcome by the toll road being sold to Orange County. But I don't know of other problems. The road has been working well since 1995. The system has been replicated in other parts of California, in Colorado, in Minnesota, and of course, is coming to Washington, DC.

The beauty about that arrangement is that paying the toll is voluntary. People who use that corridor if they need to get to somewhere in a hurry. If they are late for picking up their child, then they can pay the money and use the toll road. If not, they stay in the untolled lanes, and it seems——

Ms. RICHARDSON. OK, excuse me, sir——

Mr. ROTH [continuing]. To me that these arrangements can be replicated——

Ms. RICHARDSON. Excuse me. We have only got 5 minutes. Reclaiming my time, I would like it to be noted for the record, because I think it is important, if we are going to have people come and testify, that we are testifying accurately and providing information, especially to this committee.

Sir, in your testimony you note, as you just started to explain, that payments are collected electronically from customers from prepaid accounts. So I would like to ask you. If it is from a prepaid account, and if someone—suddenly an emergency and needs to get there, or someone is driving through that area and would like to utilize it, they don't have the ability to use that road, because it is only collected through prepaid accounts, which is called Fast Track.

So, essentially, what it is doing is it is eliminating people, such as myself. I don't drive—go down the 91 Freeway every single day into Orange County. I may do it once a month. So if I would like to reduce congestion and have the ability to do it, I currently don't, because of the Fast Track system.

So, I would only say if you are going to reference as a positive of toll roads in communities, especially across the United States, you need to make sure to reflect all of the information and some of the problems, and not just the limited area in the way that you did. Because it is a well-known fact and an issue in California.

Mr. ROTH. It——

[Following are supplementary remarks regarding California's State Route 91 HOT lanes submitted for the record by Gabriel Roth:]

> A subcommittee member queried the omission from my testimony of the fact that road users have to open accounts before using California's State Route 91 HOT lanes.
>
> I spoke to a staffer at the Orange County Transportation Authority and was advised that road users can enter the HOT lanes even without having an account. Those who do so receive an invitation to open an account, and are charged a $25 fee for using the lanes without one. However, if they then open a HOT lanes account the $25 fee is credited to it.

Ms. RICHARDSON. My next questions are for Mr. Yarema. You mentioned about TIFIA—and we were pretty involved with TIFIA legislation last year, both myself and some others, in terms of extending that program—and on page five of your testimony you talk about a first-come-first-served program. And you are proposing that we would eliminate discretionary competitive programs, and somehow that this would help us with regional and national significance.

I don't quite agree. So let me let you take a stab at explaining why you think that is right.

Mr. YAREMA. Sure. As long as you have more applicants than you have resources, then you have to have a discretionary program. And hopefully that discretionary program will be based upon objective criteria that Congress has laid down.

TIFIA was, for many years, undersubscribed. So until recently it was essentially first-come-first-served, because the resources that Congress made available to it were greater than the demand.

That curve started to change in the last couple years. And as it has changed, it has become oversubscribed. So those discretionary decisions have become, for the first time, real.

Ms. RICHARDSON. Let me——

Mr. YAREMA [continuing]. If we right-size the program——

Ms. RICHARDSON. If you could, wrap it up in 5 seconds.

Mr. YAREMA [continuing]. We can go back to the way it was.

Ms. RICHARDSON. If we what?

Mr. YAREMA. If we right-size the program, we put the resources in it to meet demand, then we don't need to have a discretionary program, because it is not a limited resource; it will be sized to meet the demand that the States and localities are asking for.

Ms. RICHARDSON. OK. Reclaiming my time, the problem is we live in the United States of America. And the fact that we are going to be able to resize it to the point that we can meet every single road and highway, I don't know that I would probably say that that is realistic.

So, in light of that, I just want to say for the record that I would have a great concern with us eliminating the discretionary and competitive program, because I think it would do the very thing that your statement actually suggests. I think it would be contrary to that. By doing a first-come-first-serve, to me, that eliminates establishing whether the projects are, in fact, of regional or national significance. It just means whatever project happens to come up is going to get funded. And I don't think the——

Mr. YAREMA. No, I would say that the objective——

[Following are supplementary remarks submitted for the record by Geoffrey S. Yarema:]

> A first-come-first-served program can and should still impose strict eligibility requirements, including qualification as a project of regional or national significance, among others.

Ms. RICHARDSON. Excuse me, I have reclaimed my time. You already got to testify. We only get 5 minutes, and we are in the middle of a Homeland Security markup.

I am just saying, from reading your testimony—and I am happy to have an offline conversation with you about it—but my concern is, listed in your testimony of suggesting going to a first-come-first-served, I believe—I don't see, realistically, that we are going to have all the money we could possibly need. And so I think it is important for the record—because we are going to be working on a transportation bill—that we seriously understand the problems with this. Because I don't believe that then the projects of national significance and regional significance would be adequately met.

So I just wanted, for the record, to clarify that part in your testimony. Thank you.

Mr. HANNA. Thank you——

Ms. RICHARDSON. I yield back the balance of my time.

Mr. HANNA. Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman. Mr. Ridley, some of those who object to the national infrastructure bank—and I made clear my position on it at the beginning, that it was appropriate for certain things, not for others, I don't know that we need it for transportation—are offering saying, "Well, we should just encourage State infrastructure banks."

I notice apparently your State doesn't have one, a State infrastructure bank.

Mr. RIDLEY. We do have an infrastructure bank. It is not capitalized. It was established in the late 1990s. We haven't had a use for it, but it is established. It is in statute. We promulgated the rules, and we do have a bank.

Mr. DEFAZIO. So you have one, but you haven't found a need to utilize it.

Mr. RIDLEY. That is correct.

Mr. DEFAZIO. OK. And what would bring you to utilize it? I mean what——

Mr. RIDLEY. Certainly I think we would have to understand that when we capitalize the bank, then that takes money out of the revenue stream that we would have. So capitalization of it would be the start.

The second thing is that you would have to assume that you could get lower interest loans through the State infrastructure bank than you can get currently now, just in the market. Our rating in Oklahoma is very good. The turnpike authority rating is very good. So whether it is revenue bonds or others, we have a good enough rating that we get very good interest rates on our money today. And that is not the issue.

Mr. DEFAZIO. OK. I would like to see if I can turn this into a question. It is back to Mr. Capuano's comment regarding the levels of investment.

I guess first I will ask, are any of you or all of you familiar with the new and different report from the American Society of Civil Engineers? They regularly rate the state of our infrastructure, which is, as Mr. Capuano said, headed toward Third World status, and it gets poor ratings. But they came out with a different report this year—first one they have ever done of this kind which looks at the cost of not investing in our transportation infrastructure.

I don't know who on the panel is familiar with it. My reading is they are saying that our lack of investment in transportation infra-

structure—and I believe Mr. Thomasson sort of referenced this when he talked about foreign firms looking at making capital investments in the U.S. having to build their own infrastructure, something you would have to do in Siberia or the interior of Africa, but you wouldn't think you would have to do it in the United States of America—is a detriment to investment, both by foreign capital and by U.S. capital in plants and equipment here. They estimated about a $30 billion-per-year loss because of the lack of investment.

Does anybody have any issues with the report? Mr. Thomasson, you were nodding your head.

Mr. THOMASSON. I am familiar with it, not enough to quote it, but that was some of the background behind sort of the deferred maintenance and the competitive concerns.

I think you also see domestic costs. The Nucor CEO that we had last week who said, "What is good for America is good for Nucor, and I would love to be putting out more steel for investments here in this country. I am having to ship some abroad because there is so much foreign investment. But also, I am under capacity and would love to have more economic growth from that investment."

So I think there are both costs, in terms of attracting capital from abroad, getting businesses to invest here, but also businesses we already have would love to see more infrastructure investment, because they benefit directly from the economy, as a whole, growing.

Mr. DEFAZIO. OK. Mr. Roth?

Mr. ROTH. I suspect that the nice civil engineers who make those reports are being a bit self-serving, and they are looking——

Mr. DEFAZIO. Well, sir, have you read the report?

Mr. ROTH. No, I have not.

Mr. DEFAZIO. OK. Well then I really don't want to hear from you on that.

Mr. ROTH. May I make——

Mr. DEFAZIO. No, sir. I am reclaiming my time. If you haven't read the report, you haven't seen that it was done by economists, not by civil engineers, you have nothing to contribute here. Anybody who has read the report who would like to comment or contest the conclusions?

[No response.]

[Following are supplementary remarks submitted for the record by Gabriel Roth:]

> A subcommittee member asked the witnesses whether we accepted the estimate made by the American Society of Civil Engineers that the "infrastructure needs" of the U.S. total $2.2 trillion. I have doubts about this estimate because it is associated with requests for Federal money and, as such, may be exaggerated. I could name projects that make no sense to a transport economist but which are probably included as somebody's "need."
>
> Furthermore, the concept of "needs," with no prices attached, is dubious. I may "need" to travel in Washington, DC, at a speed of 20 miles per hour but that "need" is like-

ly to vanish if I were required to pay my share of the costs of providing it.

Mr. DEFAZIO. OK. So I think they make a good case. I mean I will just give a slight example. We had a failure of a major interstate bridge in Oregon on I–5. And what it meant was a truck route detour which went over the Cascade Mountain range, down the other side of the mountains, and then back down the Cascade Mountain range. I think some companies find that inconvenient. And UPS has documented what a delay means to them, and other companies have, too.

So, I think what—we hopefully have a common goal here, which is to enhance our investments, deal with the decrepit state of repair. Whether a national infrastructure bank, you know, would be a major contributor, or is necessary for transportation—I have my doubts—it would be necessary, I believe, for other forms of infrastructure, or potentially necessary, because we don't have a TIFIA program for water and sewer, and States are limited these days, in entering into the markets.

Anybody have any comments on how important that potential could be for other infrastructure investments, which are also important to our economy and our citizenry?

Mr. THOMASSON. Well, I think that is absolutely right. We have heard in the bipartisan proposal in the Senate there is just an enormous outpouring of concern about water infrastructure projects that can't get financed—that States are having trouble financing them.

Our energy transmission grid is a generation older than it needs to be. We have massive modernization challenges that could be expedited, if we lower the financing costs for those projects. I think this is critical for our overall investment deficit.

And I think TIFIA is a great program. We learn from the lessons and success of TIFIA. We can scale that to other areas of infrastructure, focus on the kind of projects that we need as a country to make the economy more efficient, to keep from being the kind of Third World country that we are headed toward being, and that kind of national strategy is essential if we are going to have a long-term strategy for growth and prosperity.

Mr. DEFAZIO. Thank you. Just back to the topic I raised earlier, which Mr. Utt was given the opportunity to comment on, that ARRA was defective, very defective. I voted against the bill. A lack of investment in infrastructure was a big part of it. Seven percent for infrastructure, over 40 percent for tax cuts.

Can anyone on the panel tell me of a major infrastructure project which has been initiated by tax cuts?

[No response.]

Mr. DEFAZIO. No, I didn't think so. Tax cuts don't seem to build infrastructure. They don't seem to put people back to work, either.

And I would also observe, in terms of how quickly the money can be spent, it varies by program, Mr. Utt. If you look at the backlog in our transit infrastructure, which is about $70 billion for a state of good repair—they are killing people in Washington, DC, because of a lack of state of good repair, a little embarrassing and kind of

tragic for the families, the Nation's Capital is running obsolete equipment that actually kills people.

In Chicago—and I use this example because of my differences with the President over this—Chicago Transit Authority was able to commit its total ARRA allocation of $270 million in less than 30 days, which immediately initiated orders, which immediately put people to work, and there are Made In America requirements, and they were all Americans. That did initiate employment.

So, if you choose where to target the money—if you want quick employment you probably would put more money into areas where there are on-the-shelf investments ready to go, orders waiting. I talked to the people who make buses. They are waiting. They have orders for thousands of buses, but can't move forward because they lack the funds.

So, they are ready to go. They are ready to hire. So it depends on where you choose to invest the funds. If you put it into a new, major road project that requires environmental review, that is going to take a long time. If you put it into bridges, quite a bit quicker—150,000 bridges on the Federal system need replacement or repair. I have a bridge company out in my State, American Bridge, they have two branches. They are kind of underemployed at the moment. They would love to be building more bridges made in America.

We have the strictest Made in America requirements for transportation investment. We have the least leakage, unlike tax cuts, which go into savings, or junk made in China.

So, I have got to say that those who fault the idea that we could both get long-term and short-term growth, and increased foreign investment, out of investing in infrastructure just couldn't be more wrong. Is an infrastructure bank a magic wand, no. And I never said that. Perhaps there are some who have. But we need more investment from all sources. And that is the bottom line here.

I do note with appreciation that the Republican side has now dropped their proposal to cut infrastructure investment by 35 percent, and they are now talking about current levels of funding extended in the future. Not what we need. We need more investment. But that is a good start. Now they are searching for a revenue source, and I will do anything I can to help them in that effort.

So, thank you, Mr. Chairman. I appreciate the opportunity.

Mr. HANNA. Thank you, Mr. DeFazio. I have one last question.

It has been widely written by economists that infrastructure banks—whether you agree with the premise that the Government should be the source of last resort or not—are similar to Fannie Mae and Freddie Mac, especially as we come reeling off of the whole housing crisis, with public risk and private profit.

How does anyone feel about that? Do you think that is an accurate comparison? Sir? Mr. Ridley?

Mr. RIDLEY. In the description of the infrastructure bank, it is described as a Government corporation. I know of very few Government corporations, and I don't know that I can—I certainly cannot speak on behalf of the two lending institutions, and whether those are considered Government corporations, but certainly you—have been established by the Government.

U.S. Postal Service and Amtrak would be others, I would think, that would have been started by well-meaning people and created, in some cases, unintended consequences, a debt on the Government or a debt on the State. So——

Mr. HANNA. Thank you. Mr. Utt?

Mr. RIDLEY [continuing]. But I do not have the answer for that question, sir.

Mr. HANNA. Mr. Utt?

Mr. UTT. Do I believe it is a risk? Yes, absolutely. I mean there are a lot of infrastructure projects that were originally projected to do quite well, based on ridership estimates and cost to do it, and everything worked out, and the bonds were issued, and lo and behold, the customers didn't show up, who need to pay the toll.

The classic case is the Nevada monorail system, which would have allegedly—based upon projections done by a highly reputable consulting firm in transportation—would have made it the second transit system in the world to earn a profit, or at least cover its costs and its capital. And, as a consequence, it moved forward.

Now, if this was 10 years ago, this would have been—they would have come to the infrastructure bank, possibly, for this. But let's talk about what happened. It turns out that the ridership projects were dead wrong. Instead of the 50,000 people per day, they got about 21,000 per day. The consequence was that revenues were very short of what was needed for debt service, let alone operating costs. The consequence is that $600 million of private activity bonds are now worth zero.

Now, that could have been held by the infrastructure bank. And there are other programs like that. Even Fannie Mae didn't have assets that went to zero, OK?

Mr. HANNA. Right.

Mr. UTT. So there are risks out there. It is not to say it is not worth doing, but it is just not a slam dunk. Just because somebody is charging tolls and you have got some private activity bonds there, and you have got private partners, doesn't necessarily mean it is going to work. It is like any other business.

Mr. HANNA. Yes. Mr. Yarema?

Mr. YAREMA. Let me just offer some comments about the Las Vegas Monorail.

First of all, there were no private activity bonds in that project. The private activity bond program wasn't authorized until 2005, and the Las Vegas Monorail closed its financing in September of 2000.

Secondly, yes, there is a shortfall in revenues. But it didn't cost the Government a single dollar. That was private money taking private risk. The hallmark of a public-private partnership program is for the Government to shift risk to the private sector that it normally assumes in a conventionally delivered and conventionally financed project.

Yes, people think these projects print money, and the private sector just gets rich off them. Actually, in the way most public-private partnerships are structured, there is a cap on the amount of profit they can make and there is no floor on how much money they can lose. In fact, in the Las Vegas Monorail, private investors did lose money. But that project would have otherwise been developed by

the Regional Transportation Commission, the transit agency for Clark County, Nevada. And Clark County didn't put a dime into that project, either at the time of the financing or subsequently.

So, from the public sector's perspective, protecting the public interest, it was protected. That system operates today without a single dollar of Government money.

Mr. HANNA. Mr. Roth?

Mr. ROTH. I think it is more helpful to focus on individual projects, rather than looking at infrastructure as a whole.

An interesting example is the Channel Tunnel, which was, in fact, privately financed. A lot of people, private people, lost a lot of money on it. And the tunnel was produced. But no Government money was lost on its construction.

I think we have to remember, when we talk about the references to this country becoming a Third World country, that it is the policy of this administration to reduce the miles traveled per person. And it is the policy to take monies—35 percent, according to Chairman Mica's letter of July 15, 2011, to the Chamber of Commerce—from road users and spend them on bike paths and beautification, and things like that. And I believe there is a wish to take money from road users to spend it on rail, 19th-century technology used in Third World countries.

So, I think we have to be very careful when we design methods of routing Government money to infrastructure.

Mr. HANNA. Thank you. Mr. Thomasson?

Mr. THOMASSON. Well, to get back to your question, Congressman, about Fannie Mae and Freddie Mac, it is an important question, because the bipartisan infrastructure bank bill that the President has adopted started with the intent of avoiding the kind of structure that the GSEs had that has gotten them into trouble.

The biggest distinction in that structuring is that Fannie Mae and Freddie Mac are Government-chartered corporations, but they are owned by private shareholders. You have this divergence of interest, a conflict of interest, between the private shareholders that want to chase high returns and have Fannie Mae and Freddie Mac holding higher risk portfolios to generate those returns, and the public interest that is supposed to be served by those GSEs.

The bipartisan infrastructure bank that Senator Kerry and Senator Hutchison have introduced maintains ownership of the corporation by the Federal Government, so you don't have that conflict of interest with the public interest. It also doesn't issue its own bonds like Congresswoman DeLauro's bill would do, so it is not able to leverage or gear its own capitalization by issuing debt, which Fannie and Freddie also did to abandon.

I mean look at the numbers—Fannie Mae in 2008 had debt that was 18 times its equity; Freddie Mac's was over 60 times its equity. This is designed intentionally to avoid that. The bank would have to hold an investment-grade portfolio. It is a lower—much lower—risk profile that we are talking about. And it uses the same sort of risk approach as TIFIA and the Export-Import Bank, which is a much better analogy, a much better comparison, that is financially self-sufficient and returns money to the Treasury every year.

Mr. HANNA. Thank you. Thank you all. I guess I am the only one here, so there is no further questions. I want to thank you for your contributions and your insights today, and particularly your time.

I ask unanimous consent that the record of today's hearings be left open until such time as our witnesses have provided answers to any questions that may be submitted to them in writing, and unanimous consent during such time as the record remains open.

Additional comments offered by individuals or groups may be included in the record of today's hearing. Without objection?

[No response.]

Mr. HANNA. So ordered. I would like to thank our witnesses once again for coming.

If there are—no other Members have anything to say, obviously. This hearing is adjourned. Thank you so much.

[Whereupon, at 12:29 p.m., the subcommittee was adjourned.]

SENIOR DEMOCRATIC WHIP

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON WATER RESOURCES & ENVIRONMENT
SUBCOMMITTEE ON AVIATION
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT

COMMITTEE ON SCIENCE AND TECHNOLOGY
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CHAIR, 107TH CONGRESS

Eddie Bernice Johnson
Congress of the United States
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Opening Statement of Congresswoman Eddie Bernice Johnson

Transportation and Infrastructure Subcommittee on Highways and Transit Hearing on:

"National Infrastructure Bank: More Bureaucracy and Red Tape"

October 12, 2011

Chairman Duncan and Ranking Member DeFazio, I am glad to see the Highways and Transit Subcommittee addressing such an important subject as the proposal for a National Infrastructure Bank and I thank you for its consideration.

However, I am greatly disappointed to see that the current majority of the Subcommittee current majority seems to have already reached a conclusion on this topic by titling this hearing: "National Infrastructure Bank: More Bureaucracy and Red Tape". This is certainly a prematurely formed opinion on this matter and I hope that the majority will keep a more open mind on the proposal of a National Infrastructure Development Bank moving forward.

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The creation of a National Infrastructure Development Bank to leverage private and public capital to finance nationally and regionally significant infrastructure projects is a proposal that I have been highly supportive of for many years and I have cosponsored legislation that would achieve exactly this and I have been a vocal supporter of the President's American Jobs Act that also includes this proposal.

The creation of a National Infrastructure Development Bank is an idea that enjoys bipartisan support. The president's proposal, as part of the American Jobs Act is based legislation introduced by Democratic Senators Kerry and Rockefeller with support from Sen. Graham(S. 652), and Republican Senators Hutchison and Lautenberg (S. 936). The House legislation for this Congress, HR 402 has been introduced by Congresswoman Rosa DeLauro and currently has seventy cosponsors, including myself.

The president's National Infrastructure Development Bank proposal would create the American Infrastructure Financing Authority (AIFA) to provide direct loans and loan guarantees to expedite regionally or nationally significant projects in partnership with the existing Transportation Infrastructure Finance and Innovation Act program (TIFIA).

While the TIFIA program focuses on helping fund traditional surface transportation projects with federal credit assistance, the AIFA would expand eligible infrastructure projects to include not only highways and bridges but also transit projects, airports, inland waterways and rail systems, water infrastructure, dams and levees, as well as energy infrastructure and others.

These national programs would work with State Infrastructure Banks to enhance our country's aging transportation and infrastructure system. They are reasonable proposals to improve the financing of expensive infrastructure projects and enjoy the support of Democrats, Republicans, and Independents. I look forward to the witnesses' testimony on this important topic. Thank you.

TESTIMONY OF

THE HONORABLE GARY RIDLEY

SECRETARY OF TRANSPORTATION
STATE OF OKLAHOMA

REGARDING

"NATIONAL INFRASTRUCTURE BANK: MORE BUREAUCRACY & MORE RED TAPE"

BEFORE THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT

OCTOBER 12, 2011

Mr. Chairman and Members of the Committee, my name is Gary Ridley. I am Secretary of Transportation in Oklahoma. I am here today to testify on behalf of the Oklahoma Department of Transportation.

First, we want to thank you, Mr. Chairman, for your work towards identifying ways to increase the efficiency of investing transportation funding and to accelerate project and program delivery. We appreciate that you, Congressman Lankford and the Members of your Committee recognize the important contribution of the transportation system in improving the Nation's economic viability and sustaining our quality of life.

Today, I want to emphasize several points –

- The nation requires new and effective transportation revenue streams, but does not need new ideas about how to go into debt.

- The utilization of GARVEE, TIFIA, Public / Private Partnerships, state infrastructure banks and other such financing methodologies have proven effective in delivering certain, well defined transportation system needs and our work should focus on enhancing the effectiveness of these existing programs.

- The proposition that an additional federal Authority is necessary to organize, support and provide states with insight into innovative financing options is ill conceived.

Understanding the Fundamental Difference Between Funding and Financing

Dedicated public funding, innovative financing and opportunistic partnerships have important roles in the development and management of a modern, world class transportation system. Depending on the conditions, each method can be equally effective in facilitating infrastructure implementations and each has both positive aspects and drawbacks. For example, pay as you go infrastructure delivery has minimal up front risk, but may be slow to deliver the desired results. Infrastructure financing accepts a higher level of risk but can sometimes implement large scale and expensive improvements in a vastly expedited manner.

First and foremost, it is imperative we recognize that the success of dedicated funding initiatives, financing methodologies and partnerships are all dependent on the identification and stability of long term supporting revenue streams. When a system exists in a state of disrepair at a defined funding level, it should not be expected that the government can incur enough debt to influence those conditions without introducing new, long term revenue streams. Much the same, a defined funding level that is inadequate to support the development, expansion and maintenance of a system in the near term certainly will not improve those conditions in the long term without reducing the scope of that system or adding some type of new resources.

The federal interstate and national highway systems have been predominantly constructed and operated on a publicly **funded** basis with the majority of projects designed, operated and maintained by public sector transportation agencies. Most of the mileage of these critical transportation systems

was originally conceived and delivered through a pay as you go process facilitated by the dedicated funding revenues provided by the States and the Federal Highway Trust Fund.

The important work of creating those systems as originally conceived is now largely complete and the country has benefitted greatly. However, the aging core transportation infrastructure of this nation has developed an enormous backlog of unaddressed deficiencies that are commonly and consistently recognized. This country's CORE infrastructure is in a state of disrepair and we have no fiscal pay as you go solution for making wholesale improvements. Simply put, it is no secret that the revenues being deposited to the once stable Highway Trust Fund are consistently being outstripped by demand.

Therefore, as we turn our attention to the work of identifying ways to modernize, expand and maintain our aging and deteriorating infrastructure, we must remain mindful that long term, consistent funding is critically important to the development and delivery of transportation improvement projects. Extremely difficult decisions related to the care, preventative maintenance, reconstruction and expansion of the transportation system must be made every hour of every day. These decisions and investment strategies are predicated on the basic, critical needs of the system and the clear understanding of long term resources available to address these needs.

Certainly, when properly vetted and administered, a variety of **financing** methodologies can be brought to bear in order to help successfully deliver significant transportation improvements that are out of the reach of immediately available transportation funding sources. In recent times, the utilization of Grant Anticipated Revenue Vehicle bonds (GARVEE), Transportation Infrastructure Finance and Innovation Act (TIFIA) financing, Public / Private Partnerships, Build America Bonds, state infrastructure banks and other such methodologies have proven effective in financing certain, well defined transportation system needs.

The difference between identifying new near and long term sources of transportation revenue and simply creating new ways to incur debt without providing for new revenue streams capable of retiring the debt must be acknowledged. None of the referenced financing opportunities specifically provides for any new or additional funding. Bonds still must be repaid with interest. Government guaranteed loans are still loans and the associated long term repayment plan reduces available resources. Capitalizing an infrastructure bank duplicates other financing methodologies and does not generate new revenue. Therefore, attempting to address the dilemma by citing partnerships and innovative financing options simply cannot be the federal government's best or only solution to stemming the further deterioration of our national transportation system.

Transportation Departments across the country are hopeful that the Congress will make every effort to at least fund transportation at the historic levels. However, we understand the difficulties that are presented by the limitations of the Highway Trust Fund revenues. Therefore, we are greatly appreciative of the work to find ways to get more of the scarce transportation dollars to the core transportation infrastructure through reducing or eliminating bureaucracy and transportation funding diversions and increasing the efficiency of project delivery. In addition, the continuation and enhancement of the federally facilitated transportation financing tools that exist and that are already available to the States today represents an important component of this current and on-going discussion.

Enhancing the Existing Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Program verses the Creation of a National Infrastructure Bank

As excerpted from the United States Department of Transportation's (USDOT) TIFIA Program Guide –

The Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) established a Federal credit program (referenced hereafter as the TIFIA program) for eligible transportation projects of national or regional significance under which the U.S. Department of Transportation (DOT) may provide three forms of credit assistance – secured (direct) loans, loan guarantees, and standby lines of credit. The program's fundamental goal is to leverage Federal funds by attracting substantial private and other non-Federal co-investment in critical improvements to the nation's surface transportation system. The DOT awards credit assistance to eligible applicants, which include state departments of transportation, transit operators, special authorities, local governments, and private entities.

In the current form (extension acts and continuing resolutions recognized), TIFIA receives $122 million each year and can support an estimated $1 billion in average annual credit assistance. In recent years a more widely recognized and mature TIFIA program has received a considerable level of interest and has successfully participated in important transportation improvement projects. Most recently in 2011 the program received over $14 billion in Letter of Interest requests for participation in projects with an estimated value of more than $48 billion.

While TIFIA is generating interest, the relatively low levels of funding availability and the low participating percentages along with narrowly defined project eligibility have potentially constrained the effectiveness of the program. Oklahoma has yet to submit a Letter of Interest to utilize the TIFIA program. This fact is primarily because we have a very limited number of projects that would fit the criteria and have had reasonable success in financing transportation projects through other available mechanisms. However, under the right set of project circumstances we would not hesitate to enter the competitive TIFIA consideration.

Based on the summary information currently available, both the House and Senate reauthorization bills include plans to build upon and improve the TIFIA loan program. It is very appropriate to utilize the existing and successful program and format to deliver an enhanced financing opportunity along with a more robust set of eligibility criteria. Providing additional funding for TIFIA will help meet demand for credit assistance for transportation projects and enable an increased leveraging of Highway Trust Fund dollars with state, local and private-sector funding.

Even with the success of TIFIA, nothing in federal transportation law should inhibit or restrict the way a state is allowed to fund or seek financing for the transportation improvement projects and transportation facilities of today. In a time of such overall funding uncertainty, federal law should be permissive and States should be empowered to look outside the federal government for desperately needed transportation investment dollars.

Conversely, the concept that a new **"government corporation"** and Federal Authority will somehow enhance the ability to finance infrastructure seems untimely and entirely unnecessary. Especially when considering that many of the proclaimed new ideas encompassed by the Authority already appear to closely parallel the provisions of other existing federal financing programs.

In addition to recognizing the apparent federal duplications of the proposed National Infrastructure Bank, most States already have or can easily obtain the expertise necessary to facilitate infrastructure banks and other innovative transportation financing methodologies. States can choose to work with the existing federal bureaucracy or seek the assistance of private financial institutions, knowledgeable investors and even other experienced states. If Oklahoma determines that innovative financing advice and counsel is necessary, we will consult with other states that have demonstrated success along with the private financial sector. It has been our experience that they will gladly share their information and knowledge with us and we have been effectively and efficiently arranging financing for transportation improvements within our borders for more than 50 years.

Quite simply, the bureaucracy is already in place to finance public infrastructure projects and an additional federal layer in the form of a new **"government corporation"** will add no value. It is time to face the fact that if we are unable to repay our debts now, government loan guarantees and financial innovation are incapable of improving those conditions.

Conclusions

For financing transportation projects, the states only require clear federal guidance in the law and the continued and enhanced utilization of existing financing opportunities. A bold, new vision will be necessary to meet the increasing transportation challenges ahead and it is unlikely that such a vision will be defined by an easy payment plan.

The resolution of our national transportation funding crisis is not yet at hand. The crafting of new, more effective project and program funding, financing and delivery protocols will be slow to develop and must be forged in a renewed and fundamental State and Federal partnership. It is much more likely that efficiencies will be gained through regulatory reforms and red tape reductions, rather than through the creation of new government corporations and additional bureaucracy. The nation requires new and effective transportation revenue streams and delivery mechanisms, but does not need new ideas about how to go into debt. Now more than ever, extreme care and caution must be exercised in order to avoid over projecting and over extending our limited resources.

GARY M. RIDLEY
Secretary of Transportation

MARY FALLIN
Governor

STATE OF OKLAHOMA

October 28, 2011

The Honorable John J. Duncan, Jr.
United States House of Representatives
Committee on Transportation and Infrastructure
Chairman, Subcommittee on Highways and Transit
2207 Rayburn House Office Building
Washington, D.C. 20515

Re: Subcommittee on Highways and Transit October 12, 2011 testimony – Oklahoma written responses to the Questions for the Record.

Dear Chairman Duncan:

We are corresponding in response to your letter of October 24, 2011 regarding our testimony before your Subcommittee on October 12, 2011. Please find our written responses to the questions for the record attached for your review and further disposition.

Thank you again for everything you are doing to improve the federal transportation program and for the opportunity to offer testimony. We remain available should you wish to discuss our responses further or should you require additional information.

Sincerely,

Gary M. Ridley
Secretary of Transportation

xc: Geoff Strobeck, Subcommittee on Highways and Transit

Subcommittee on Highways and Transit
Hearing on National Infrastructure Bank:
More Bureaucracy & More Red Tape
October 12, 2011
Questions for the Record

Questions from Chairman John J. Duncan, Jr.

1. **In your testimony, you said that Oklahoma has not applied for a single TIFIA loan. Please explain why. What steps could be taken to make TIFIA loans more appealing for states to apply?**

Answer 1 - Since the inception of TIFIA loans, Oklahoma has initiated a very limited number of projects that would fit the current program criteria. Also, Oklahoma has had reasonable success in financing transportation projects through other available mechanisms at rates competitive to those offered through TIFIA loans. Therefore, serious consideration of the federally influenced and regulated TIFIA program has proven unnecessary and would likely prove to be more expensive in the final cost / benefit evaluation of the financing.

- As always, the federal transportation program project delivery mechanisms that also apply to TIFIA should be scrutinized at all levels to find and implement efficiencies and associated federal regulations should be expedited, reduced or eliminated to the extent possible.
- In order for the TIFIA program to be more successful and effective, the relatively low levels of funding availability and the low participating percentages should be increased and the narrowly defined project eligibility should be revisited and redefined.
- The "discretionary" project selection process should also be reviewed and enhanced to make the selections more transparent and eliminate the possibility of TIFIA becoming another discretionary earmarking program. While "first come – first serve" may not be the right solution, a process that validates proposed projects and insures sound investments is and will continue to be paramount to TIFIA's success and track record.

Questions from Congresswoman Mazie Hirono

1. **According to U.S. Chamber of Commerce President Thomas Donohue, "A national infrastructure bank is a great place to start securing the funding we need to increase our mobility, create jobs and enhance our global competitiveness. With a modest initial investment of $10 billion, a national infrastructure bank could leverage up to $600 billion in private investments to repair, modernize and expand our ailing infrastructure system. Receipts to the Highway Trust Fund have fallen dramatically, funds are being diverted to non-infrastructure projects, and the gas tax has not been increased in 17 years. We need a multiyear highway bill to meet immediate needs, but we have to figure out a way to ensure we have adequate public investments for years to come." Do you agree with Mr. Donohue's statement?**

Answer 1 - As stated in our testimony, we do not agree that the introduction of a new government corporation and bureaucracy in the form of a national infrastructure bank is necessary to finance transportation infrastructure. We do generally acknowledge the factual nature of the statements

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related to the solvency of the Highway Trust Fund and certainly agree with Mr. Donohue's recognition of the long standing practice of diverting Highway Trust Fund dollars for non-infrastructure projects. Also, we concur with his observations related to the need for a multiyear highway bill and the need to continue public investments as specific to transportation infrastructure.

2. **State infrastructure banks have one thing in common - they cannot alone finance large, regional or multi-state projects. How then is greater support for state infrastructure banks a substitute for a nationally-focused approach?**

Answer 2 - State infrastructure banks have other commonalities. One very important commonality which should not be overlooked is that the administration, utilization level and control of a State infrastructure bank rests with the State. As such, if a State determined it to be fiscally prudent, it would certainly seem feasible that a State infrastructure bank could provide the financing or a portion of the financing for large regional or multi-state projects in support of a nationally focused approach. More importantly, the development and delivery of a large regional or multistate project in a nationally focused approach is not possible without the direct acceptance, involvement and participation of the State(s) regardless of the funding or financing participation. It is difficult for us to understand how an additional federal financing bureaucracy enhances these conditions in a fiscally responsible approach.

3. **Many have said that a national infrastructure bank would be creating a new Fannie Mae or Freddie Mac - but given that the bank in the President 's bill would be independent, could not issue or purchase debt, and could only provide loans and loan guarantees - much like TIFIA. Given the similarities between the proposed AIFA and TIFIA, do you believe that TIFIA raises similar "Fannie Mae" concerns? Would the significant increases being proposed for TIFIA's funding capabilities and staff exacerbate those concerns?**

Answer 3 - The bureaucracy necessary to continue the support of the TIFIA program is generally in place and has proven to be reasonably effective. We have no detailed understanding of the federal overhead and administrative requirements for reinvigorating the TIFIA program, but simply support the unique concept of enhancing an existing, reasonably successful federal program before creating a new one. However, if necessary perhaps resources could be reallocated to the administration of TIFIA from the consolidation or elimination of other currently administered federal programs.

4. **How many additional federal employees would need to be hired to handle the substantial increase in TIFIA funding that has been proposed? Why would the President's proposal for an AIFA - which limits funding for administrative costs to $100 million over 3 years, and has personnel detailed to it from a variety of federal agencies - lead to more bureaucracy?**

Answer 4 – Please reference Answer 3.

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5. **Leveraging federal dollars with direct private investment for infrastructure projects should be an important objective. Do you think that states that are able to bring substantial private funding - as well as public funding - should receive an advantage for leveraging those public dollars with private investment? Does the idea of getting more "bang for our bucks" provide a clear reason to establish a national bank, which would provide incentives and reward innovative thinking and partnerships on a larger scale than any state could alone?**

Answer 5 - Private funding is only directly invested in public infrastructure projects in order to secure a reasonable rate of return for the investors. We do not agree that a state should be somehow advantaged for crafting an infrastructure **financing** model that utilizes public funding in any form to facilitate a reasonable rate of return for private investment. We also do not believe that providing an additional method to finance transportation projects can provide incentive, rewards or **funding**. An infrastructure bank can only generate debt for the entities that borrow from it. The debt may come with an attractive interest rate, but it is still debt. Therefore, the repayment of infrastructure bank loans must be factored into the management of infrastructure assets and must be recognized as a long term commitment of future resources.

6. **Members of Congress from rural areas believe that the bank's funding decisions will mean an unfair portion of federal funding will go to urban and suburban areas. Do you believe that is true, and how could the bank be designed to ensure that situation does not occur?**

Answer 6 – By their very nature, the project selections of federal discretionary programs are subject to all manner of review and scrutiny. As long as there are more loan applicants than financing opportunities, winners and losers are inevitable and the competitive aspect of discretionary programs will never meet the satisfaction of all interested parties.

However, our current understanding is that the national infrastructure bank as proposed provides an additional federal financing mechanism and opportunity only and that financing obtained through the bank must be repaid by the borrowers. If our understanding is correct, then the national infrastructure bank as currently proposed does not provide additional federal **funding** or federal grants. The bank only provides an additional opportunity to incur debt along with the burden of federal laws, rules and regulations that go with it. Therefore, a thorough evaluation of the financial plan proposed for the projects and of the sponsor's ability to repay the loan without default may prove more valuable in the selection process than an exercise in urban verses rural equitable distribution.

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT
Testimony on
National Infrastructure Bank
by

Gabriel Roth
Civil Engineer and Transport Economist

October 12th, 2011

Executive Summary

The American Jobs Act provides for an "American Infrastructure Financing Authority" (AIFA), "a wholly-owned Government corporation ... [to] provide direct loans and loan guaranties to facilitate infrastructure projects". A bank specializing in infrastructure lending (also known as an "Infrastructure Bank") could be a good idea, but federal financing of such a bank would be undesirable because:

> First, the federal government has run out of money. In these times of financial stringency, it should not finance facilities payable by users, nor local facilities for which state or local governments are responsible.
>
> Second, federal involvement raises costs, e.g. due to Davis-Bacon, "Buy American" and other regulations.
>
> Third, federal involvements can result in politicized projects, even low priority ones.
>
> Fourth, private capital can fund roads and other transportation facilities

These considerations do not apply to appropriations from the federal Highway Trust Fund, which receives dedicated revenues from road users, and has no claims on general revenues. Highway Trust Fund revenues could be increased by raising the dedicated federal fuel taxes but, because conditions vary from state to state, and because of the waste involved in the federal financing of state roads, it would be preferable to meet road funding shortages by the states raising their own charges.

My testimony discusses these issues in more detail, and also describes how specific transportation modes could attract the funding needed to enable transportation users to obtain the facilities they are prepared to pay for.

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON HIGHWAYS AND TRANSIT

Testimony on

National Infrastructure Bank

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October 12th, 2011

Introduction: Arrangement of my testimony

I would like to thank Chairman Duncan for his flattering invitation to testify before the Subcommittee's hearing "National Infrastructure Bank: More Bureaucracy & More Red Tape". My testimony covers four issues:

First, whether the federal government should have a role in financing a National Infrastructure Bank;

Second, a review of how projects in different transportation sub-sectors can be financed, generally without federal involvement;

Third, a comment on commercial road financing using "shadow tolls";

Fourth, conclusions

Federal financing by means of an "Infrastructure Bank"

The objectives of the "Infrastructure Bank" (or the "American Infrastructure Financing Authority" (AIFA)) as proposed by President Obama, are attractive, but I am not convinced that its financing has to be governmental. Why could not private banks put up $10 billion to achieve the same objectives? Because private banks would try to finance only financially viable projects?

Government financing — which would be subsidized by taxpayers — could well discourage private financing. The offer of cheap finance could lead to slower spending on infrastructure, because potential borrowers would line up for the bank's loans and put off their own decisions while waiting for the bank's action. Borrowers are likely to be public institutions that would face criticism from their political supervisors if they do not seek loans at lower rates from the government's infrastructure bank.

In dealing with applications, a government-backed bank could be concerned about the reactions of politicians. Government rules would invoke "fairness" as a criterion. And

loans would have to be distributed "fairly" among political jurisdictions. The regulations governing the proposed AIFA already require that funds be "set aside" for rural areas, and disputes about what is "rural" could result.

Those of us who are risk-averse may also be concerned about the proposition (claimed for the BUILD Act) that "After the initial years, the American Infrastructure Financing Authority is set up to be a self-sustaining entity". Was not Amtrak "set up to be a self-financing entity after the initial years"? Why should the Federal Government take risks at potential taxpayer expense? Have the lessons of Solyndra not been absorbed?

Financing transportation projects

The American Jobs Act lists the sub-sectors in which "transportation infrastructure projects" are "eligible" for AIFA financing. I reproduce the list below, with comments on each item on it.

(i) Highway or road.

There is a long "user pays" tradition for financing roads in the US, typically by means of fuel taxes. In many cases revenues from these taxes feed dedicated road funds. The Federal Highway Trust Fund revenues could be increased by raising the dedicated federal fuel taxes. However, because conditions vary from state to state, and because of the waste involved in the federal financing of state roads, it would be preferable to meet road funding shortages by the states raising their own charges.

Many roads can be financed commercially. An innovative example is a ten-mile stretch of California's State Route 91, some 30 miles east of Los Angeles[i]. In the 1990s the California Private Transportation Company conceived, financed, designed and provided, tolled lanes in the median of this ten-mile stretch. These tolled lanes can be made available to buses, specific types of high-occupancy vehicles (such as van-pools), and to other vehicles for which tolls are paid. Payments are collected electronically from customers' pre-paid accounts, the payment levels being set to ensure congestion-free travel at all times. Tolls for the 10-mile stretch now vary from $1.30 for much of the night to $8.95 at 4:00 PM on Thursday afternoons[ii]. All income classes use the tolled lanes, with 10 per cent more women than men switching to them. Those who choose not to pay stay on the non-toll lanes.

The SR-91 express lanes proved popular and have been replicated in the areas of Denver, Houston, Miami, Minneapolis and San Diego. Contracts have been let to add such lanes to the Washington Capital Beltway. Robert Poole and Ted Balaker have dubbed them "Virtual Exclusive Busways[iii]

These electronically tolled lanes, which can be privately provided, have many advantages:

- They offer buses speedy congestion-free travel;
- Single-occupant vehicles get premium service and save time;
- Those who choose not use the express lanes enjoy reduced congestion in other lanes; and
- The fees collected can cover the lane costs.

Cities wanting more than tolled lanes could adopt the proposal by Robert Poole and Kenneth Orski for tolled *networks*[iv]: Sets of interconnected premium lanes to be added to congested freeway systems in urban areas by converting selected lanes to tolled lanes, and using toll revenue bonds to finance the missing links and flyover connectors.

Poole and Orski sketched out such networks for Miami, Atlanta, Dallas/Fort-Worth, Houston, Seattle, DC, San Francisco and Los Angeles. They estimated the costs at $40 billion, possibly equivalent to $60 billion today. The networks would be financed by electronically collected tolls, varied to ensure congestion-free travel at all times.

(ii) Bridge

Bridges, like roads, can be financed locally, or by tolls, preferably electronically collected, as by E-ZPass systems.

(iii) Mass transit

Mass transit provides local service, and should be financed by state or local government. It does not seem right that farmers in Idaho should be forced to finance transit services in Washington DC. Federal funding is not appropriate.

(iv) Inland waterways

Inland waterways can be put to alternative uses, such as domestic consumption, transportation, irrigation and power generation. The analyses are difficult and investment can merit government intervention, e.g. for the Mississippi, because activities up-river have effects down-river. But financing should be from beneficiaries; can be private; and does not need an "Infrastructure Bank".

(v) Commercial ports

Ports can be financed by user fees and do not generally justify federal funding.

(vi) Airports

Airports tend to be used by wealthier members of the community and can readily be financed by user fees.

(vii) Air traffic control systems

The federal government does have a legitimate interest in air traffic control (ATC), but does not have a good record in updating it. Maybe it should consider privatizing ATC. Canada's ATC is successfully provided by NAV CANADA, a private corporation.

(viii) Passenger rail, including high-speed rail

Where passenger rail is economically beneficial, it is generally paid for by users. The Executive Branch's obsession with this mode does not seem to be based on credible analysis. Information received from the Federal Railroad Administration on April 18, 2011, (attached as an annex to my testimony) indicates that it had no cost-benefit analyses for projects to which it channelled billions of dollars. One of my principal concerns about a federal Infrastructure Bank is the possibility that the Executive Branch would use it to fund High-Speed Rail services.

(ix) Freight rail systems

They can be financed by user fees and do not justify federal funding.

Commercial road financing using "shadow tolls"

In the 1980s, government funding for roads was scarce in the UK, and much of the construction industry idled. Private consortia then offered to finance new roads and to be paid by the government an agreed amount for each vehicle-mile using the new road. The principal advantages of this arrangement were:

- Provision of private capital would relieve the pressure on public funds;
- Payment tied to road use would reduce the risk of "roads to nowhere" being financed;
- There would be no tolls to divert traffic to "free" roads; and
- Private provision of the funds would tend to reduce costs.

Eventually, thirty-year concessions for eight highway schemes were offered in the UK in the period 1994-97 under the Thatcher government's "Private Finance Initiative". The UK Department of Highways invited bids from consortia to Design-Build-Finance-and-

Operate these roads that, after the end of the concession, were to be returned to the government in good condition[v]. Payments to the successful bidders were based on agreed rates per vehicle-mile, based on traffic counts, the rates being determined by bidding.

The agreement for these Design-Build-Finance-and-Operate projects included a clear division of risks, and two risks in particular were borne by the private concessionaires:

- First, all construction, operating and maintenance costs, and
- Second, all traffic forecast risks.

Total investment on these contracts exceeded £1.5 billion, and financial savings in reduced construction costs were of the order of 20 per cent.

Similar contracts were made in Belgium and Spain, and I can see no objection to their introduction in the US, as an alternative to an "Infrastructure Bank" for roads.

Conclusion

I conclude that a federal "Infrastructure Bank", even when called the "American Infrastructure Financing Authority", is not necessary for the provision of roads and transit, and could even be harmful, in that it could discourage private investment while wasting scarce federal resources on unviable projects.

If raising fuel taxes to replenish dedicated highway trust funds is considered to be politically unacceptable, private investment could be invited to replace bridges, to expand urban road networks and to improve rural roads.

References

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[ii] http://www.91expresslanes.com/schedules.asp

[iii] Poole, R.W. Jr., and Ted Balaker "Virtual Exclusive Busways", Policy Study 337, Reason Foundation, Los Angeles, September 2005.

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[v] Roden, Neil, "Development of Highway Concessions on Trunk Roads in the United Kingdom" Chapter 17, pp. 399-421, in (Ed. Gabriel Roth) *Street Smart — Competition, Entrepreneurship and the Future of Roads*, Transaction Publishers, New Brunswick, New Jersey, 2006.

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Questions from Rep. John J. Duncan, Jr.

1. You cited Solyndra, the recently bankrupt solar panel manufacturer, in your testimony. Do you believe a National Infrastructure Bank will be another way for politics to decide the project selection process?

Yes, I do.

2. Please shed light on the risk you mentioned in your testimony pertaining to a self-sustaining National Infrastructure Bank.

First, there is no strong evidence that the proposed "National Infrastructure Bank" would be self-sustaining. The example of Amtrak suggests that it would not be. Self-sustaining entities can be financed by private capital.

Second, the current administration seems to have a problem in identifying effective transportation projects. For example, on January 18, 2011, it approved the proposed Honolulu Rail Transit Project, which could cost federal taxpayers some $1.5 billion, although bus-based services could provide superior service at a fraction of the cost. Governments that approve such weak projects should not be voted further ways of wasting monies that they do not even have.

Questions from Rep. Mazie Hirono

1. According to U.S. Chamber of Commerce President Thomas Donohue, "A national infrastructure bank is a great place to start securing the funding we need to increase our mobility, create jobs and enhance our global competitiveness. With a modest initial investment of $10 billion, a national infrastructure bank could leverage up to $600 billion in private investments to repair, modernize and expand our ailing infrastructure system. Receipts to the Highway Trust Fund have fallen dramatically, funds are being diverted to non-infrastructure projects, and the gas tax has not been increased in 17 years. We need a multiyear highway bill to meet immediate needs, but we have to figure out a way to ensure we have adequate public investments for years to come." Do you agree with Mr. Donohue's statement?

   No, I do not. I suggest that the US Chamber of Commerce be advised that the Federal Government has no money to spare, and that the "modest initial investment of $10 billion", if considered important, should be raised from its members, not from taxpayers.

2. State infrastructure banks have one thing in common—they cannot alone finance large, regional or multi-state projects. How then is greater support for state infrastructure banks a substitute for a nationally-focused approach?

The Federal Government should not support state infrastructure banks. Private capital can finance "large, regional and multi-state projects".

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3. Many have said that a national infrastructure bank would be creating a new Fannie Mae or Freddie Mac – but given that the bank in the President's bill would be independent, could not issue or purchase debt, and could only provide loans and loan guarantees—much like TIFIA. Given the similarities between the proposed AIFA and TIFIA, do you believe that TIFIA raises similar "Fannie Mae" concerns? Would the significant increases being proposed for TIFIA's funding capabilities and staff exacerbate those concerns?

Other members of the panel are more competent than I to answer questions about TIFIA.

4. How many additional federal employees would need to be hired to handle the substantial increase in TIFIA funding that has been proposed? Why would the President's proposal for an AIFA—which limits funding for administrative costs to $100 million over 3 years, and has personnel detailed to it from a variety of federal agencies—lead to more bureaucracy?

Other members of the panel are more competent than I to answer questions about TIFIA. My objection to the proposed Infrastructure Bank is not only to its administrative costs, but also to the likelihood that it would be used to force taxpayers to support poor projects.

5. Leveraging federal dollars with direct private investment for infrastructure projects should be an important objective. Do you think that states that are able to bring substantial private funding—as well as public funding—should receive an advantage for leveraging those public dollars with private investment? Does the idea of getting more "bang for our bucks" provide a clear reason to establish a national bank, which would provide incentives and reward innovative thinking and partnerships on a larger scale than any state could alone?

I do not agree that federal dollars should be leveraged to direct private investment. There are no federal dollars available and, even if there were, private investment rarely benefits from federal "levereging"

6. Members of Congress from rural areas believe that the bank's funding decisions will mean an unfair portion of federal funding will go to urban and suburban areas. Do you believe that is true, and how could the bank be designed to ensure that situation does not occur?

While not knowing what you mean by "fair", I agree that government often seeks "fairness" in its expenditures. That is why I prefer investments that maximize benefits, irrespective of where they are made.

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

Hearing before the Subcommittee on Highways and Transit
"National Infrastructure Bank: More Bureaucracy and Red Tape"

October 12, 2011

Testimony of

Scott Thomasson
Economic and Domestic Policy Director
Progressive Policy Institute

The National Infrastructure Bank: Separating Myths from Realities

Executive Summary

Building and maintaining world-class infrastructure is essential for America to compete in the global economy and to attract capital investment needed for long-term growth and job creation. As other countries pour money and resources into modernizing their own infrastructure, the U.S. is lagging behind and surrendering one of our greatest competitive advantages: a strong system of infrastructure that was once the envy of the rest of the world. To regain our competitive edge, we need a national infrastructure strategy that takes advantage of modern financing and policy innovations that other countries are already using to out-invest and out-compete the U.S.

The national infrastructure bank is an approach that has been adopted by developed countries around the world to facilitate investment in new transportation projects and other types of infrastructure, with strong track records of success. Many states in the U.S. have also established their own versions of infrastructure banks, with more being added and expanded every year. There is also strong support for a national infrastructure bank from a broad coalition of top corporate CEOs, Wall Street investors, organized labor, and local government leaders.

Although leaders throughout the U.S. and around the world support infrastructure banks as a tool to supplement direct public funding, the idea is still new and unfamiliar to many here in Washington. There remains a great deal of confusion and misinformation about the role of a national bank, and about the structure and features of specific bank proposals currently before Congress, including the president's own proposal included in the American Jobs Act. This testimony addresses many of the misconceptions in Washington about the bank proposals before Congress, and it specifically responds to frequently expressed concerns about the bank.

Now more than ever, Congress needs to consider the full range of options we have to increase U.S. infrastructure investment. The time has come for a clear-eyed look at how a national bank might be one piece of a multi-pronged approach to making the investments we need. Doing that means putting aside polarizing rhetoric from both sides and talking frankly about what a national infrastructure bank is, and what it is not.

A properly structured national infrastructure bank is an innovative and sound investment tool that represents the next step in the evolution of federal financing programs for transportation, energy, and other infrastructure projects. The bank deserves to be at the center of the current debate about the many challenges to investing in long-term economic growth and job creation. As Chamber President Tom Donohue has said, it's an invaluable part of the solution to how we pay for maintenance and improvements that we can't afford to ignore, but it can only work if added to a strong foundation of spending in the transportation reauthorization bills.

I thank the Committee, especially Committee Chairman Mica and Subcommittee Chairman Duncan, for holding this hearing today. I hope the Committee members find today's discussion helpful to fully understanding this important proposal to enhance our national strategy for infrastructure spending and investment.

Widespread Support and Adoption of Infrastructure Banks

The idea of establishing a national infrastructure bank to facilitate private capital investment in new transportation projects, energy resources, and other types of infrastructure is one that has been adopted by developed countries around the world, with strong track records of success. Many states in the U.S. have also established their own versions of infrastructure banks, with more being added and expanded every year, most recently in Virginia, where Governor Bob McDonnell signed a new bank into law earlier this year. The proliferation of infrastructure banks shows that they are a widely accepted and proven approach to lowering financing costs and attracting private capital investment for badly needed new projects.

Here in the U.S., there is also strong support for a national infrastructure bank from a broad coalition of top corporate CEOs, Wall Street investors, organized labor, and local government leaders. These are the people making decisions every day that drive our country's economic prosperity, and they recognize the huge potential for a bank to help address our investment needs by mobilizing private capital to leverage public funding.

At a Capitol Hill forum held last week by the Progressive Policy Institute, urgent calls for swift action and smarter financing policies came from top executives from Nucor, the nation's largest steel producer; Siemens, a multinational corporation making huge investments in manufacturing, energy, and infrastructure here in the U.S.; Ullico, an insurance company owned and funded by large union pensions; UBS Investment Bank, which advises U.S. and foreign investors on infrastructure financing; and Meridiam Infrastructure, a private-capital fund focused on investing directly in U.S. transportation, water, and energy projects. Both the U.S. Chamber of Commerce and the AFL-CIO have prominently endorsed the bipartisan Senate proposal for a bank that has more recently been adopted in the American Jobs Act.

Although governments, investors, and industry leaders throughout the U.S. and around the world have seen the wisdom and benefits of infrastructure banks as a tool to supplement direct public funding, the idea is still new and unfamiliar to many here in Washington. There continues to be a great deal of confusion and misinformation about the role of a national bank, and about the structure and features of specific bank proposals currently before Congress, including the president's own proposal included in the American Jobs Act.

A properly structured national infrastructure bank is an innovative but sound investment tool that deserves to be a part of the current debate about the many challenges of investing in long-term economic growth and job creation. As Chamber President Tom Donohue has said, it's an invaluable part of the solution to how we pay for projects we can't afford to ignore, but it can only work if added to a strong foundation of spending in the transportation reauthorization bills.

The Next Step in the Evolution of a National Investment Strategy

Both the federal government and state authorities have already taken important steps toward achieving some of the goals of a national infrastructure bank. Innovative financing programs like TIFIA, the Railroad Rehabilitation and Investment Financing Program ("RRIF"), and the Department of Energy's 1703 and 1705 loan guarantee programs have brought powerful changes to

the way we approach infrastructure projects, by shifting a portion of the government's role from spending (grants and direct funding) to investment (credit assistance, loans, and loan guarantees). And thanks to incentives created by Congress in past transportation legislation, states have created their own infrastructure banks to take advantage of new approaches to project finance and planning.

As this Committee has recognized, these existing approaches are helpful responses to the enormous investment challenges we face, and they have moved us in the right direction to bring us closer to the modern financing practices used around the world for infrastructure projects. But even when looked at together, these programs have been unable to achieve the full potential we have to mobilize public and private investment in this country. The TIFIA program is oversubscribed with more project applications than it can process and finance, and it is limited by a small staff structure that would likely prove inadequate to handle the large program expansion recently proposed by this Committee. RRIF has failed to deploy most of the loan authority it already has. The DOE loan guarantee program has faced many challenges, most recently highlighted by the Solyndra bankruptcy. And state infrastructure banks have had a mixed track record, due in part to insufficient capitalizations and leveraging power.

Given the interest the Committee has expressed in dramatically expanding the TIFIA program and opportunities for state infrastructure banks, it is timely to ask whether these programs can be improved by simply throwing more money at them, or whether an additional credit platform is needed to boost their effectiveness. This question is underscored by the recent news surrounding the Department of Energy's loan guarantee to Solyndra, which suggests we should be wary of believing an existing program can deliver on the promises of a massive expansion in loan approvals before the necessary staff and expertise are in place. Throwing more money at the TIFIA program without an enhanced organizational structure will run the same risks of questionable underwriting decisions that the Solyndra critics have argued against. And expanding TIFIA's resources is likely to create more bureaucracy and red tape than a properly structured infrastructure bank.

An independent and professionally staffed infrastructure bank is the best response to the increasing need for expanded federal credit programs and for ensuring prudent financial management of those programs. A properly structured national bank achieves this first and foremost by replacing politically driven decision making with a more transparent and merit-based evaluation process overseen by a bipartisan and expert board of directors. This feature of the bank becomes even more important as the federal government moves toward financing larger, big-ticket projects that are beyond the scale of anything existing programs have taken on before. But unlike the DOE approach that has been characterized as "picking winners," a national bank would rely on the same bottom-up approach of state and local project sponsorship currently used by TIFIA. Because that approach is purely voluntary and would not mandate specific project finance structures, the bank would empower states, rather than tying their hands with red tape.

There are also advantages a national bank could offer to state infrastructure banks to expand their investment options and lower their borrowing costs. A national bank could assist states in financing large, expensive projects that are beyond the scale of state bank capitalization or lending power. A national bank would also be better able to evaluate and finance projects of regional and national significance—those that produce clear economic benefits to the country, but which otherwise would not benefit any one state enough to justify bearing the cost alone. And a properly structured national

bank would have much lower borrowing costs than state banks, particularly with U.S. Treasury rates at historically low levels, as they are now. Those savings could be passed through to states by partnering with state banks to finance projects selected and preapproved by the states themselves. By improving the economics of such projects, the national bank would also make them more attractive to investors, making more private capital available to states to leverage scarce taxpayer dollars.

In short, the approaches used so far to expand public investment tools and mobilize private capital for infrastructure financing have been positive steps for the country. But even with more money, they can not address all of our national investment needs, and they should not be thought of as substitutes for a national infrastructure bank, but rather as complementary partners to the bank.

Misconceptions About the National Infrastructure Bank

As the unavoidable costs of repairing and maintaining our nation's infrastructure climb into the trillions of dollars, the time has come for a clear-eyed look at how a national bank might be one piece of a multi-pronged approach to making the investments we need. Doing that means we need to put aside polarizing rhetoric from both sides and talk frankly about what a national infrastructure bank is, and what it is not.

The driving motivation behind the national infrastructure bank is twofold. First, the financing offered by the bank would provide an additional tool for reducing the costs of new projects and attracting private capital to share in the risks and expenses of these investments. The bank would be an optional tool available to states and local governments and for federally-sponsored projects like NextGen Air Traffic Control. Second, the bank's evaluation and financing of projects would be a transparent and predictable process, staffed by professional finance experts and guided by clearly defined, merit-based criteria. This would ensure that at least some portion of our public investment decisions would focus on projects that will generate economic benefits and enhance competitiveness at a national or regional level.

Many of the arguments for a national infrastructure bank are the same as those made in favor of state banks, and even for existing credit programs like TIFIA, both of which have been supported by members of this Committee on both sides. The objection to creating a national bank as somehow inferior to supporting state infrastructure banks seems to rest on the claim that a national bank would impose new burdens on states and shift decision making from state officials to Washington bureaucrats. Neither of these objections is accurate.

In spite of the suggestion built into the title of today's hearing, my hope is that the members of the Subcommittee will be open to considering the ways in which a national infrastructure bank could actually reduce red tape for states, and possibly even shrink the regulatory footprint of federal bureaucracy in the landscape of project finance activity nationwide.

If properly implemented, an independent bank could actually reduce regulatory burdens imposed by existing federal programs, by establishing a project selection and financing process that is focused on the economic merits of investments, rather than the myriad regulatory and policy goals pursued by different bureaucratic silos in executive branch departments. Whether every existing federal mandate and regulation should be attached to infrastructure bank financing is a policy choice to be

debated for any bank legislation, but it is also a collateral issue that need not disqualify the bank as a financing option.

A New Approach to the Infrastructure Bank

Much of the criticism of the infrastructure bank focuses on features that are not shared by all the proposals now before Congress. For example, the objection that is most frequently misapplied is that the infrastructure bank is not a true "bank," because it makes grants in addition to issuing loans. The argument is that making grants is essentially giving money away for free, something a "real bank" would never do. This criticism has been lobbed against the president's jobs bill proposal many times since he announced it, but it simply does not apply to that proposal, which is limited to loans and loan guarantees.

The president's current proposal in the American Jobs Act is not the same as his own earlier "I-Bank" included in his most recent budget proposal submitted to Congress earlier this year, nor is it the same as previous bills offered by Congresswoman DeLauro, Senator Dodd, and others, which are the versions many opponents choose as the targets of their criticism. The president's jobs bill proposal adopts the model that resulted from a thoughtful bipartisan effort in the Senate, embodied in the BUILD Act in introduced by John Kerry, Kay Bailey Hutchison, Mark Warner, and Lindsay Graham. The BUILD Act represents an entirely new approach to the idea of creating an infrastructure bank, one that goes a long way to reconcile the huge levels of needed investment with the very real spending constraints facing Congress. This proposal launches the bank on a fiscally responsible scale, while preserving the best principles of political independence and merit-based decision making that make the bank worth doing in the first place. They do this by structuring their bank as an independent, government-owned financing authority using model used by the U.S. Export-Import Bank, the TIFIA program, and other well-run existing federal credit programs, none of which bear any resemblance to shareholder-owned GSEs like Fannie Mae and Freddie Mac.

Both the BUILD Act and the American Jobs Act would create a new entity called the American Infrastructure Financing Authority ("AIFA"). The AIFA proposal has been the subject of much confusion and misinformation, with opponents painting a misleading picture of what this type of bank would look like and how it would finance infrastructure projects.

The difference between the investment tools offered in the bipartisan AIFA proposal and earlier approaches starts with understanding the distinction between funding and financing. Grants and funding programs "give money away for free" by spending federal money directly to pay for projects, or passing that money along to states and local governments to pay for them. Financing programs like AIFA and TIFIA require repayment of loans and reimbursement from borrowers for the default risks assumed by the federal government, making the Treasury whole for its financing of the project.

AIFA loans and loan guarantees would be issued using the same credit mechanisms as TIFIA and RRIF established under the Federal Credit Reform Act ("FCRA"). This approach makes AIFA a particularly appropriate successor to the TIFIA program for transportation projects. Because of this structural compatibility with FCRA-based credit programs, combined with the independence and expertise of its staff and board of directors, an AIFA-type entity could provide a unique opportunity

to enhance existing programs by offering those programs the option of utilizing its staff and resources to assist in the evaluation of loan applications. Offices like RRIF or the DOE loan guarantee programs could retain their discretion to make final decisions on applications, while improving the review and structuring of those projects by calling on the bank as a financial advisor.

AIFA would be funded with a one-time discretionary appropriation of $10 billion. While the initial start-up funding could be paid for using funding from the surface transportation bill or other legislation reported from this Committee, there has thus far been no proposal to do so. A key feature of AIFA is that it is designed to be self-sustaining. The bipartisan Senate proposal is carefully structured to ensure it adheres to the requirement to operate without ongoing appropriations from Congress.

Putting All Options on the Table

Any proposal to devote taxpayer money to create a new federal program should always be subject to close scrutiny by Congress, especially at a time when fiscal responsibility is an especially high priority for members of Congress charged with making these decisions. But we are also facing monumental economic problems and urgent investment needs to keep our country globally competitive. With so little common ground to be found in Washington today for solutions to these problems, a bipartisan idea that has such broad support from business, labor, and investors should not be dismissed without serious consideration.

The infrastructure bank is a concept that has evolved over time and taken many forms, but it has proven to be an effective tool in other countries and an attractive approach for state governments. Most of the concerns raised about the bank can be addressed by debating and amending any of the current proposals, if there is a bipartisan will to do so. The Senate is already proving this kind of cooperation and fresh thinking about an infrastructure bank is possible, and the members of this Committee should not foreclose their chance to do the same here by rushing to judgment on the new bank proposals.

Top Ten Myths about the National Infrastructure Bank

Myth #1: We can't afford a national infrastructure bank, because the federal government is already "out of money."

Reality: The claim that the government is "broke" because we are running deficits is not unique to infrastructure, and it could apply to any spending proposal currently before Congress. But it does argue for focusing on our most urgent spending priorities, and for making the most efficient use of taxpayer dollars. Maintaining healthy infrastructure has always been supported by both parties as a top priority that is essential to economic prosperity and a high quality of life for all Americans. There is no avoiding the generational need to rebuild our aging infrastructure, and we must remember that there is nothing fiscally responsible about deferring maintenance costs, because those costs only become more expensive the longer we put them off.

One of the best arguments for the bank approach is that produces much more "bang for the buck" from taxpayer dollars than the direct funding and grants that dominate our existing federal programs. This Committee has recognized that providing credit assistance to long-lived infrastructure projects is not the same as deficit spending—it is investing, not "spending." By focusing on loans and loan guarantees that cover only a portion of the total cost of new projects, the bank would ensure that private capital or state funding sources bear a significant share of our investment burdens. Creative partnerships with states, local governments and agencies, and private investors will allow for flexible solutions that make the most efficient use of all our country's financing resources.

Myth #2: Supporters of the national infrastructure bank believe it is a substitute for passing transportation reauthorization bills.

Reality: Many in the transportation community worry that bank proposals distract from the need for Congress to pass broader reauthorization legislation. Supporters of the infrastructure bank acknowledge that it is not a silver bullet for meeting our investment needs or a substitute for comprehensive aviation and surface transportation bills. The bank is not even a stopgap measure for transportation spending—its funding would be very small compared to the funding levels in the aviation and surface bills. No one has suggested that passing a bill to create an infrastructure bank would be enough for anyone to declare our investment problems solved, or to reduce the urgency of reaching agreement on long-term funding bills that allow planned projects to move forward and create jobs immediately.

The bank is one part of a multi-pronged approach to meeting our infrastructure investment challenges. It is intended as a durable institution that would complement existing programs and those contemplated by the reauthorization bills. And the debate about the bank is not just about transportation—it is also intended to complement and improve existing programs for other types of infrastructure, such as energy and water projects.

Myth #3: A national infrastructure bank would create a massive and inefficient federal bureaucracy.

Reality: Creating a national infrastructure bank would certainly require a new staff of professionals to carry out its mission. But the size of that staff may be comparable to the additional staff needed for the massive increases to the TIFIA program this Committee has recently proposed. TIFIA is already oversubscribed and understaffed, with only a handful of current staff to process loan applications. Some people familiar with the workings of the TIFIA program believe it will not be able to handle the additional workload that will accompany a new "super-sized" budget authority. The need for such a dramatic increase in staff was demonstrated by the rapid expansion of the Department of Energy's loan guarantee program, which hired roughly 200 additional staff and contractors to review applications. And while that bureaucratic growth came into the program after the now-infamous approval of the Solyndra loan guarantee (and likely avoided bad loan decisions going forward), the questions raised about Solyndra also show the need for a professional, unbiased staff that is not subject to political pressures and inter-agency management problems.

A modest but expert staff in an independent national infrastructure bank could also reduce the need for redundant bureaucracy and staff in existing federal credit programs, including TIFIA, RRIF, and possibly even the DOE loan guarantee program. By empowering existing programs to call upon the bank's staff and resources for diligence and evaluation functions like borrower creditworthiness reviews, those programs could reduce the size of their own bureaucracy and avoid political interference within the executive branch departments. In this sense, a bank-type entity could serve as a platform for infrastructure project finance expertise that could make all federal credit programs more efficient. This is particularly true for the AIFA model, which uses the same financing mechanism under the Federal Credit Reform Act ("FCRA") as these other federal programs.

The resources and staff of the national infrastructure bank could similarly be made available to state banks for consultation and technical assistance, upon request by state officials.

Myth #4: A national infrastructure bank would shift more decision making to Washington and out of the hands of states.

Reality: A properly structured national infrastructure bank would not be a monolithic central-planning authority that would tie states' hands and impose its judgment on state funding priorities. To the contrary, a well designed bank would empower states by giving them a new option to pursue low-cost financing of projects of their own choosing, and it would provide them the opportunity to benefit from large-scale projects that cross state borders or that may be too expensive or unwieldy for states to execute alone. In this way, a national bank could complement state infrastructure banks and Highway Trust Fund allocations, and it could also avoid the kind of frustration states have now over the failure of Congress to pass long-term reauthorization bills.

Myth #5: Financing offered by a national infrastructure bank would just mean more red tape and increased costs for state and local projects.

One of the goals of the infrastructure bank is to professionalize the government's approach to project finance and selection decisions, by creating an alternative to existing bureaucratic and political decision making. Most of the bank proposals, particularly the bipartisan BUILD Act, are designed specifically to replace red tape with black-and-white economic decisions. By making the bank independent of executive branch political agendas, we may also reduce the regulatory strings that are so often tied to federal infrastructure funding.

Whether specific federal mandates and regulations are attached to infrastructure bank financing is a policy choice to be debated for any bank legislation, but it is a collateral issue that should not disqualify the bank as an option for Congress to consider.

Myth #6: We don't need a national infrastructure bank, because we can strengthen state infrastructure banks instead.

Reality: State banks are an excellent tool and an important step in the right direction for project finance in the U.S. But state banks are woefully inadequate for meeting many of our financing needs, and they should not be thought of as substitutes for a national infrastructure bank, or even as incompatible with creating a national bank.

A well designed national bank offers a number of features and advantages not available from state banks. A national bank could finance large, expensive projects that are beyond the scale of state banks. A national bank would be better able to evaluate and finance projects of regional and national significance—those that produce clear economic benefits to the country, but which otherwise would not benefit any one state enough to justify bearing the cost alone. And a properly structured national bank would have much lower borrowing costs than state banks, particularly with U.S. Treasury yields at historically low levels, as they are now.

A national bank could easily be structured to complement and empower state banks by passing through lower federal borrowing costs for state-sponsored projects. Giving states the option to partner with the national bank would be an additional and purely voluntary tool, so the argument that the bank would somehow limit the decision-making power of state banks is entirely misplaced.

Myth #7: We don't need a separate infrastructure bank, because we can simply expand existing programs like TIFIA or the Export-Import Bank.

Reality: Both TIFIA and the Export-Import ("Ex-Im") Bank are well-run programs that are effective in achieving the specific missions they are charged with. There are structural similarities between AIFA and both TIFIA and Ex-Im that make the idea of transforming either program to act like an infrastructure bank very interesting on paper and perhaps worth exploring more. However, the organization and governance of the infrastructure bank would be materially different from TIFIA, and its mission and expertise would not necessarily be compatible with the Ex-Im Bank.

TIFIA is already oversubscribed with only a handful of staff to process loan applications. Some people familiar with the workings of the TIFIA program believe it will not be able to handle the additional workload that will accompany recent proposals to "super-size" its budget authority. Throwing more money at the TIFIA program without an enhanced organizational structure will run the same risks of questionable underwriting decisions that the Solyndra critics allege of the DOE loan guarantee program.

An independent and professionally staffed infrastructure bank is the best response to the increasing need for expansion and better management of federal credit programs. A properly structured national bank achieves this first and foremost by replacing politically driven decision making with a more transparent and merit-based evaluation process overseen by a bipartisan and expert board of directors. This feature of the bank becomes even more important as the federal government moves toward financing larger, big-ticket projects that are beyond the scale of anything existing programs have taken on before.

With respect to the idea that we can create an infrastructure bank within the Ex-Im Bank, we should be cautious about assuming we can re-task a well established bureaucracy with an entirely new mission that requires different financing expertise and a different institutional culture. It is probably better to avoid big changes to a program that is currently functioning well, and instead to look to it as a model to be drawn upon and replicated instead of forcing a merger of two very different programs under the one roof.

Myth #8: Funding for a national infrastructure bank would rob-from proposed funding for Highway Trust Fund programs, including TIFIA and state infrastructure banks.

Reality: The infrastructure bank proposal is not a zero-sum competitor for Highway Trust Fund resources with TIFIA, SIBs, or any other existing programs in the surface transportation bull. Most of the bank proposals are drafted to be funded by appropriations outside the Highway Trust Fund, or in some cases by allowing the bank to issuing its own bonds. They are also designed to supplement existing programs and allocations, not substitute for them. Not only would the initial funding not need to rob Trust Fund resources, the activities of the bank could relieve some of the pressures on these oversubscribed and underfunded programs by providing an alternative financing path for certain projects that now rely on Trust Fund programs. This would free up money for projects that are most appropriate for these funding programs.

Myth #9: The national infrastructure bank is the next huge federal bailout waiting to happen, just like Fannie Mae and Freddie Mac.

Reality: Troubled government-sponsored enterprises ("GSEs") like Fannie Mae and Freddie Mac are not valid comparisons for current proposals for a national infrastructure bank. All of the bank proposals would be government corporations that are fully owned by the federal government. Fannie and Freddie are government-chartered but owned by private shareholders, which means they act in their shareholders' interest to maximize profits. That structural incentive to chase higher shareholder returns led to the leveraging and risky portfolios that resulted in insolvency and federal takeovers of these GSEs.

As a government-owned and controlled entity, a properly structured national infrastructure bank would not suffer from this conflict of interest between the public interest and private shareholder returns. It would also avoid the "moral hazard" problem created by allowing private shareholders to pursue risk-free profits by making risky loans with implicitly backing of the full faith and credit of the U.S. Treasury. This distinction is particularly applicable to the AIFA proposals in the BUILD Act and American Jobs Act, which would be explicitly backed by the Treasury, but would also be subject to the same FCRA rules governing its loans as existing credit programs with track records of responsible risk management, such as TIFIA and the Export-Import Bank.

A very important difference between the AIFA approach and the GSEs is that AIFA would not borrow a dime of money under its own name, but would rely instead on debt issued by the Treasury Department, the process for which is strictly controlled under FCRA. This restriction stands in stark contrast to the GSEs, which are able to issue their own debt securities and did so with great abandon to leverage their financing: as of June, 2008, Fannie Mae's debt was 18 times the size of its equity capital, and Freddie Mac's debt stood at over 60 times its equity.

Myth #10: The national infrastructure bank is another example of the federal government trying to "pick winners" that will result in taxpayers picking up the tab for failed companies like Solyndra.

Reality: The national infrastructure bank would invest in pouring concrete, not propping up companies. The idea that choosing between different infrastructure project applications is the same practice of "picking winners" that some use to describe the Section 1705 loan guarantee program at the Department of Energy is a completely wrong analogy. A properly structured infrastructure bank would be limited to financing lower-risk infrastructure projects than those of the DOE program, which included non-infrastructure business ventures such as manufacturers. And unlike the DOE approach of pursuing projects for federal policy goals, the bank would rely on the same bottom-up approach of state and local project sponsorship used by TIFIA.

The scope and mission of the1705 program was not limited to financing energy infrastructure projects. A good example of this is Solyndra itself, which is a manufacturer of solar panels, not a power producer or a project directly investing in the energy grid. The 1705 program was intended from the beginning to be more aggressive in its risk profile and financing decisions than any infrastructure bank would ever be. The 1705 loan guarantee program subsidized borrowing costs through direct appropriations and let the federal government underwrite a large share of a project's total costs, shifting the risks from private investors to the federal government. The bipartisan AIFA proposal has neither of these features.

However, the questions raised about how the Solyndra application was managed do demonstrate the need for more transparency in approving projects and for a professional, unbiased staff that is not subject to political pressures and inter-agency management problems. An independent infrastructure bank is designed to be built around an institutional culture of transparency and objective, merit-based decision making with clear criteria and creditworthiness requirements.

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CONGRESSIONAL TESTIMONY

The Limited Benefits of a National Infrastructure Bank

Testimony before
The Subcommittee on Highways and Transit
The Committee on Transportation and Infrastructure
United States House of Representatives

October 12, 2011

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My name is Ronald. D. Utt. I am the Herbert and Joyce Morgan Senior Research Fellow at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Until recently, federal interest in infrastructure banks has been limited to legislation focusing on the creation and funding of *state* infrastructure banks, several of which were created in the 1990s and are still in operation. Recently, congressional focus has shifted to a federal infrastructure bank or a related financing facility, and several bills have been introduced in Congress to create such an entity. Added to the many congressional initiatives are the several plans that President Barack Obama has proposed since taking office.

What these federal-level proposals all have in common is the goal of attempting to muster a greater volume of financial resources for various types of infrastructure, but beyond that they all differ significantly in how they would operate, who would run them, the volume and source of funds, what they can invest in, and what types of infrastructure would be eligible for support.

Some would be limited to just transportation infrastructure; others would allow investments also in water supply and treatment, housing, energy, and environment; and still others would focus on infrastructure with a social welfare intent. Some would be funded by appropriations only, while others would have a mix of appropriations and debt. In some, this debt would be guaranteed by the federal government; in others, it would not. Some would provide loans, loan guarantees, and grants, while others would provide only loans and loan guarantees.

Some of the bills have changed significantly from session to session. The White House has offered at least three different proposals, the most recent being the American Infrastructure Financing Authority included in the American Jobs Act proposal.

I have read the legislative language (or discussion drafts) that would create these banks and finance facilities and have concluded that there is little added value from any of them beyond what could be achieved by modest alteration in existing transportation programs. What value there is could be more than offset by the problems that could emerge from such entities. The reasons for this skepticism are as follows.

The Checkered History of Federal Finance Facilities

Beginning in the 1930s, the federal government created a number of bank-like entities and credit insurance facilities, and every one of them has been challenged by serious, if not catastrophic, financial failure that often involved costly taxpayer bailouts. They include the Federal Land Banks, Farm Credit Administration, Federal Housing Administration, Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, Federal Home Loan Banks, and Fannie Mae and Freddie Mac. The latter two are perhaps the most catastrophic of all, with the taxpayer bailout cost totaling about $150 billion so far.

In every case, these entities were believed to have been soundly organized and operated, and they provided loans and guarantees and insurance on products or entities that were also believed to be financially sound. Importantly, these loans and investments also provided a reliable stream of income to fund the federal entity, service its debt, and provide it with the necessary reserves and contingency funds.

In short, they were all deemed to be commercially viable, as were their clients. Yet they all failed in one way or the other despite the top-notch talent thought to be running them.

Could the Bank Avoid These Risks?

In this regard, what is noteworthy about the typical infrastructure bank proposals is that all will begin with risks and deficiencies that significantly exceed those confronting the federal finance entities cited above. Fannie Mae, for example, was supposed to be investing only in conforming mortgages, thought by most to be a safe, conservative investment providing a steady stream of interest and principal repayment.

In contrast, and with the exception of some well-established toll roads, bridges, and tunnels, most transportation infrastructure earns no revenue and must be supported entirely through taxes or related user fees. Most roads are still "free" to users and likely will remain so, while fares earned on even the best-run transit systems cover none of their debt service and only about half of their operating costs.

While a growing share of new transportation capacity underway will be tolled and thus will yield a stream of revenues, "freeways" will likely continue to be the norm. However, even the act of tolling is no assurance that the necessary and sufficient revenues will be there to cover debt service: Over the past decade or so, a number of new toll roads in Virginia, California, South Carolina, and Texas have suffered revenue shortfalls of some significant magnitude. Obviously, a revenue-generating environment of this degree of uncertainty seems likely to impose important challenges to any transportation infrastructure bank attempting to maintain a sound financial footing.

Moreover, those banks that would also make grants would lose money on every grant made, effectively losing both interest and principal the minute the grant is made. This has led one critic to observe that "institutions that give away money without requiring repayment are properly called 'foundations' not 'banks.'"[1] Senator James Inhofe, ranking member on the Senate's Environment and Public Works Committee, likewise noted that:

> Banks don't give out grants; they give out loans. There is also currently a mechanism for giving out federal transportation grants—it is called the highway bill. I don't believe an infrastructure bank will increase total transportation investment—it will only take money away from what would otherwise go through the existing highway and transit programs.[2]

Would It Improve Overall Federal Transportation Policy?

Senator Inhofe makes a very good point by wondering about what the value added would be of creating another federal transportation program (independent of the current one under some proposals) when you already have one that has been up and running for more than half a century

[1] Ken Orski, "The Transportation Community Braces for Continued Uncertainty and Improvisation," *Innovation NewsBriefs*, Vol. 21, No. 3 (February 1, 2010), p. 2, at *http://www.innobriefs.com/*.
[2] Senator James M. Inhofe, statement before the Committee on Environment and Public Works, U.S. Senate, September 28, 2010, at *http://epw.senate.gov/public/index.cfm?FuseAction=Hearings.Statement&Statement_ID=8cee4317-6930-454a-8ad4-39395bf7cb7e&IsPrint=True*.

and, for the most part, has served the nation well. More specific to some of the infrastructure bank proposals is the emphasis on loans and loan guarantees as opposed to grants, suggesting that the bank will somehow be paid back—a notion about which, as we have seen, we have reason to be skeptical.

Nonetheless, if credit availability is at issue, then a quick review of existing transportation infrastructure federal credit programs reveals that there are plenty of attractive credit programs including the U.S. Department of Transportation (USDOT) Transportation Infrastructure Finance and Innovation loan program (TIFIA), Private Activity Bonds, and State/Municipal/public authority Revenue Bonds.[3] For passenger and freight rail projects, there is also the USDOT's Rail Rehabilitation and Improvement Financing (RFFI) program.

For these concerns, there are questions but not yet any answers.

- If grants were to be provided by the new bank, how would they be different from—or better than—those already provided through the existing mechanisms in USDOT and the highway program?
- If current levels of credit availability for existing federal transportation credit programs are deemed to be insufficient by some, why not propose that these existing channels be improved and/or expanded?
- If spending is thought to be deficient, why not simply provide more grants through the existing mechanism rather than going through the costly and complicated process of setting up and operating a new federal transportation entity, which President Obama's budget estimates would cost upwards of $270 million to create and staff?[4]
- In this era of fiscal austerity and yawning budget deficits, wouldn't there be better uses for this money than a redundant bureaucracy?
- Are the banks' independent status, separate board, funding, and approval process designed to circumvent the existing role that state DOTs and governors have in the allocation of transportation resources?
- Would its independent status and separate board of directors thwart congressional oversight?

I don't think a satisfactory answer has been provided to any of these questions, and certainly none of the existing proposals have addressed them. But they are certainly valid concerns, and Congress should seek answers to them as Members contemplate these many infrastructure bank proposals.

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[3] Note that several of these credit mechanisms have been used to considerable success in recent years to fund very large and ambitious transportation infrastructure projects. To finance the new Beltway HOT lanes project, Virginia is providing a grant of $409 million; the U.S. Department of Transportation is providing a "TIFIA" loan of $589 million; another $589 million will be borrowed by issuing private activity bonds (PABs); and the remaining $350 million is an equity investment provided by the joint venture partners. Net revenues earned through variable-rate tolls will be applied first to the PABs and then to the TIFIA loan, and any residual will accrue as profit to the private, joint venture partners.

[4] U.S. Department of Transportation, "Fiscal Year 2012 Budget Highlights," February 2011, p. 22.

Management and Operational Concerns

Previous sections have already touched on the management challenges confronting any of these banks. If these banks are allowed to borrow on their own, or if they are funded by a large, one-time appropriation that can be leveraged into more debt and loan guarantees, it seems that Congress and the President would have little say in what they did and how they did it. Indeed, the nation has already experienced a couple of such incidents, and they are commonly referred to as Fannie Mae and Freddie Mac.

All of the bills to create infrastructure banks include many pages of exhaustive detail on the prospective management structure, a pseudo-corporate board, and its duties. Degrees of independence vary from one proposal to another, but the greater the independence, the more likely it is that the bank may wander away from the changed priorities of future Congresses and Presidents and instead pursue opportunities that are not necessarily in the public interest. In a democratic society where voters periodically get to pick the people and policies that govern them, it might not be appropriate to have entities supported by taxpayers that are not responsive to the voters.

There is also the question of the extent to which some of these infrastructure bank proposals may be designed also to circumvent existing budget controls and spending caps, as well as ongoing oversight. How each of these proposals might be scored is beyond the scope of this testimony, but it is certainly an issue that Congress should carefully review.

Would an Infrastructure Bank Contribute to Jobs and Stimulate the Economy?

For some advocates—especially the President—these banks are seen as mechanisms to propel the economy forward out of the lingering recession into an era of greater prosperity and more jobs. Sadly, all evidence indicates that this just isn't so. As far back as 1983, the General Accounting Office (now the Government Accountability Office) reviewed an earlier infrastructure-based stimulus program and observed that although the program was enacted during the worst of the recession, "implementation of the act was not effective and timely in relieving the high unemployment caused by the recession." Specifically, the GAO found that:

> Funds were spent slowly and relatively few jobs were created when most needed in the economy. Also, from its review of projects and available data, the GAO found that (1) unemployed persons received a relatively small proportion of the jobs provided, and (2) project officials' efforts to provide employment opportunities to the unemployed ranged from no effort being made to working closely with state employment agencies to locate unemployed persons.[5]

Infrastructure-based stimulus programs have been a disappointment, in large part because of time delays in getting programs underway, projects identified and approved, and money spent. More recently, supporters of the American Recovery and Reinvestment Act (ARRA) claimed that it would focus on shovel-ready projects, but USDOT recently reported to this committee that as of July 2011—two and a half years after the enactment of the ARRA—just 61 percent of the

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[5] U.S. General Accounting Office, *Emergency Jobs Act of 1983: Funds Spent Slowly, Few Jobs Created*, GAO/HRD-87-1, December 1986, p. 3, at */static/reportimages/3EBDD12EC030CC2F58506D309FCA2E69.pdf*.

authorized transportation funds had been spent. Perhaps contributing to this is the fact that the Federal Railroad Administration required 12 months to set up a mechanism to receive, review, and approve rail infrastructure projects authorized by the ARRA.

In both of these cases, the stimulus funds were being spent through existing federal, state, and local channels by departments, managers, and employees with many years of experience in the project approval business. In large part, these delays are not due to any particular institutional failing but simply to the time it takes to establish guidelines and rules for project submission, for outside parties to complete the request, and for USDOT to review the many requests submitted and pick the most promising, perhaps with modifications, and fulfill the contractual details of awarding the contract. Once the award is made to state and local entities, they in turn must draw up the RFP (and perhaps produce detailed engineering plans as appropriate), put the contract out for bid, allow sufficient time for contractors to prepare bids, review submitted bids, and finally accept the winning contract. It is at this point that money can be spent on the project, and the time that elapses from the beginning to the end of the beginning can easily exceed a year or more.

In the case of an infrastructure bank, such delays will be much longer—perhaps even double that described above. In the case of the above example, the assumption is that the newly authorized stimulus money would flow through an institutional "infrastructure" of well-established channels staffed by experienced people. In the case of the proposed infrastructure banks, no such administrative structure exists, and one will have to be created from scratch once the enabling legislation is enacted.

In the case of some of the proposals, this creation process could take a while. President Obama's most recent plan, for example, first requires the selection, recommendation, and Senate confirmation of a seven-person bipartisan board appointed by the President. The President will also appoint, and the Senate confirm, a Chief Executive Officer who in turn will select the bank's senior officers—Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer, General Counsel, Chief Operation Officer, and Chief Lending Officer—subject to board approval.

The Chief Lending Officer will be responsible "for all functions relating to the development of project pipelines, the financial structuring of projects, the selection of infrastructure projects to be reviewed by the board, and related functions." So once all of this administrative effort is completed and the bank is ready to go, then the process of fulfillment, as described in the paragraph just prior to the preceding paragraph, would then be in effect.

As is obvious, dependence upon this prospective bank will further delay the time in which the project money would be spent, but in the process, it would also incur substantial administrative expenses that might better be used for actual infrastructure repair and investment.

Would State Infrastructure Banks Be a Better Bet?

This committee's draft proposal for reauthorization of the federal highway program includes a section whose purpose is to enhance and expand the role of state infrastructure banks in transportation funding. Although the legislative language has not yet been made available, the draft proposal says that the new approach:

> will reward states that create and capitalize state Infrastructure Banks to provide loans for transportation projects.... The percentage of federal funding that a state can dedicate to a state infrastructure bank will be increased from 10 percent to 15 percent and states will receive a specific amount of funding that can only be used to fund State Infrastructure Banks.

At present, there are several state infrastructure banks (SIBs) in operation, and their existence, or lack thereof, reflects a series of past federal SIB legislative initiatives enacted in 1991, 1995, 1997, and 1998. Today, several SIBs are in active operation, some very much so, and some illustrate the concerns discussed earlier in discussing a federal bank. A quick review of some of these SIBs suggests that few of the projects they fund return a stream of income (if any) sufficient to cover debt service and operating expenses and that state and local tax revenues account for much of the revenues supporting these banks. This suggests that they may not be materially different from the workings of the state DOT and are not banks in the normal use of the term.

Some Final Thoughts

As this testimony has argued, at the end of the day, a real bank needs a reliable stream of revenues to thrive and survive, yet many of the transportation projects now underway and contemplated do not provide a reliable stream of revenues—beyond state or local taxes—that can meet the debt service payments for infrastructure bank loans provided or guaranteed.

Beyond more taxes, the only other obvious option is to "commercialize" infrastructure in ways that more closely connect use of infrastructure with fees paid by users. Tolls, of course, are the most obvious fee and were essential in creating a precursor of the interstate highway system running west from Boston to Chicago and south to Washington, D.C. In recent years, the advent of public–private partnerships (P3s) in several states has worked to boost infrastructure spending that creates projects providing new capacity that are expected to pay for themselves through tolls charged on new lanes offering premium service.

While P3s could offer a promising supplement to the traditional highway program and could be important customers of an infrastructure bank, their existence is dependent on accommodative state legislation, and not all states have enacted such legislation. Virginia has done so and at the moment is the beneficiary of approximately $4 billion in additional road spending by way of three P3s now underway or soon to be started.

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Response by Ronald D. Utt to additional questions stemming from October 12, 2011 Subcommittee on Highways and Transit hearing on infrastructure banks.

Answer to Chairman Duncan's Question

1. **Do you believe a National Infrastructure Bank would be self-sufficient as the proposal claims? What is stopping this bank from becoming another General Fund bailout on a year in, year out basis?**
   Any bank that relies upon an appropriation is by definition un-self-sufficient. Likewise for any bank proposal that allows the bank to provide grants. It is also not obvious how any of these banks –whether dependent upon appropriations or borrowed funds -- will be able to produce a reliable stream of earnings from the projects they fund unless these projects, in turn, rely on dedicated state and local taxes of sufficient magnitude to cover all debt service and operating costs. In sum it is likely that these bank proposals would require ongoing bailouts.

Answers to Rep. Hirono's Questions

1. **According to U.S. Chamber of Commerce President Thomas Donohue, "A national infrastructure bank is a great place to start securing the funding we need to increase our mobility, create jobs and enhance our global competitiveness. With a modest initial investment of $10 billion, a national infrastructure bank could leverage up to $600 billion in private investments to repair, modernize and expand our ailing infrastructure system. Receipts to the Highway Trust Fund have fallen dramatically, funds are being diverted to non-infrastructure projects, and the gas tax has not been increased in 17 years. We need a multiyear highway bill to meet immediate needs, but we have to figure out a way to ensure we have adequate public investments for years to come." Do you agree with Mr. Donohue's statement?**
   Mr. Donohue's quote includes several statements, some I agree with. I doubt, for example, that $10 billion will leverage $600 billion in project funding, but I do agree that the gas tax has not been increased in 17 years. I agree with his point about the negative impact of the many diversions from the trust fund, but I would also have added that another major problem is the funding of low priority projects. Transit, for example, gets 20 percent of federal trust fund money, but carries less than two percent of urban passengers, while offering no net benefit in energy savings or greenhouse gas emissions.

2. **State infrastructure banks have one thing in common—they cannot alone finance large, regional or multi-state projects. How then is greater support for state infrastructure banks a substitute for a nationally-focused approach?**
   I am no fan of state infrastructure banks, as most of the larger ones are not banks in the real sense of the term but are reliant upon various sources of tax revenues. However

states should be encouraged to seek solutions to their transportation needs and the federal government should not interfere for or against any legitimate pursuit of that goal.

3. **Many have said that a national infrastructure bank would be creating a new Fannie Mae or Freddie Mac – but given that the bank in the President's bill would be independent, could not issue or purchase debt, and could only provide loans and loan guarantees—much like TIFIA. Given the similarities between the proposed AIFA and TIFIA, do you believe that TIFIA raises similar "Fannie Mae" concerns? Would the significant increases being proposed for TIFIA's funding capabilities and staff exacerbate those concerns?**
The fact that the President's proposed bank would be independent should be a major source of worry since taxpayer funds would now be outside the scope of Congressional and Executive branch oversight. There are a variety of ways that an entity can lose taxpayer money and debt need not be involved in the entity's funding for that to happen. Fannie and Freddie were independent too, and that didn't deter the catastrophe from occurring. I believe that TIFIA suffers from the same risk, although so far the limited number of projects it has done seem to be sound. But as a review of its projects reveal, many TIFIA loans are dependent upon state and local taxes for debt service. And as I have written elsewhere I am also concerned about the viability of the RRFI program, which I believe could become problematic in the future.

4. **How many additional federal employees would need to be hired to handle the substantial increase in TIFIA funding that has been proposed? Why would the President's proposal for an AIFA—which limits funding for administrative costs to $100 million over 3 years, and has personnel detailed to it from a variety of federal agencies—lead to more bureaucracy?**
Sections 245 through 251 of the AFIA proposal call for a costly and top-heavy management/director bureaucracy, none of which would be necessary for an increase in TIFIA.

5. **Leveraging federal dollars with direct private investment for infrastructure projects should be an important objective. Do you think that states that are able to bring substantial private funding—as well as public funding—should receive an advantage for leveraging those public dollars with private investment? Does the idea of getting more "bang for our bucks" provide a clear reason to establish a national bank, which would provide incentives and reward innovative thinking and partnerships on a larger scale than any state could alone?**
I am supportive of any and all efforts to involve private sector funds in infrastructure projects through public-private partnerships and through outright privatization and long-term concessions. In some current instances TIFIA loans (and federally permitted private activity bonds) are used in conjunction with state funds and private equity investments. One of the most notable being the $2 billion Virginia Beltway HOT lanes project now

underway. More such cooperative endeavors should be encouraged in pursuit of infrastructure opportunities whose revenue generating capabilities attract at-risk private capital.

6. **Members of Congress from rural areas believe that the bank's funding decisions will mean an unfair portion of federal funding will go to urban and suburban areas. Do you believe that is true, and how could the bank be designed to ensure that situation does not occur?**
   This would occur only if the bank willfully discriminated against conforming projects in rural areas. AFIA includes provisions that would discourage this from happening.

Testimony of Geoffrey S. Yarema
Chair, Infrastructure Practice Group, Nossaman LLP
Member, National Surface Transportation Infrastructure Financing Commission

Before the
United States House of Representatives
Committee on Transportation and Infrastructure
Subcommittee on Highways and Transit

Hearing on "National Infrastructure Bank: More Bureaucracy & More Red Tape"

October 12, 2011

Chairman Duncan, Ranking Member DeFazio and members of the Subcommittee, thank you for inviting me to testify today. My name is Geoff Yarema. I chair the Infrastructure Practice Group at the law firm, Nossaman LLP. We advise state and regional transportation agencies around the country in the innovative procurement, contracting and financing of large transportation projects in ways that minimize the use of federal gas tax revenues.

Nossaman has assisted in the delivery of many of the signature projects that have utilized the foundational mechanisms provided by the existing surface transportation authorization bill, SAFETEA-LU, helping to build the next generation of transportation infrastructure. I was also privileged to serve, at the behest of former Secretary of Transportation Mary Peters, as a Commissioner on the National Surface Transportation Infrastructure Financing Commission (the "Financing Commission"). My testimony today reflects my experience on the ground advising public agencies and my two years of work on the Commission.

A. <u>The Evolution of Federal Infrastructure Funding</u>.

As the Subcommittee is well aware, the role of the federal government in delivering large transportation infrastructure projects is changing. Historically, the function of the federal government has been to provide both funding and to regulate how that funding is spent.

Today, federal resources for transportation infrastructure fall far short of need and the expectation that the federal government would or could fix the nation's aging surface transportation system with a direct infusion of federal dollars is fading. Compelled by these very real fiscal constraints, the federal government has been moving away from the traditional, apportionment-based funding paradigm and toward a credit assistance and incentives-based model that

leverages fewer federal dollars to maximize local, state and private contributions to finance large transportation projects of regional and national significance.

B. **The Evolution Is Already Underway.**

This shift in thinking about the federal government's role in financing transportation infrastructure is evidenced by one of the key components of President Obama's proposed Jobs Act: the much-buzzed about national infrastructure bank. The concept, as the President has explained it, would be to use federal dollars to leverage private investment to finance large public works projects. The President has touted the ability of an infrastructure bank to harness substantial private and other non-Federal dollars for capital-intensive projects, including transportation projects that are critical to mobility, goods movement and economic growth. Frankly, I couldn't agree more.

I couldn't agree more because, as far as transportation projects are concerned, we already have a national infrastructure bank – it's called TIFIA. Authorized by the Transportation Infrastructure Finance and Innovation Act, the TIFIA program has been providing federal credit assistance to large-scale highway, transit and rail projects since 1998. In the 12 years that the U.S. Department of Transportation (the "USDOT") has been administering the TIFIA program, we have seen how effective federal offerings of low-cost financing can be in accelerating the delivery of qualified projects – projects that generate significant economic benefits, implement new technologies and attract private and non-Federal investment.

Under TIFIA, the USDOT helps project sponsors, including state departments of transportation, transit operators, local governments and private entities, to assemble project capital by providing long-term financial assistance in the form of secured loans, loan guarantees and letters of credit. Currently, TIFIA credit assistance is available to finance only 33% of the eligible costs of a project, the applicant needing to demonstrate the creditworthy means of repaying the TIFIA loan and funding the remaining two-thirds of eligible project costs from private investment, commercial loans, federal-aid highway or transit grants. In this way, TIFIA loans provide foundational financing that encourages public sponsors to identify and dedicate project funding from non-federal sources. Costs the U.S. Treasury incurs to provide TIFIA credit assistance typically amount to about 10% of the face value of the credit provided.

Therefore, every $1 of TIFIA credit subsidy creates $10 in the face amount of a loan, which in turn, helps finance a $30 project. In terms more proportional to the scale of project eligible for TIFIA assistance, $100 million in federal credit subsidy can result in $1 billion in federal loans to support a $3 billion project. With this unique level of leverage, TIFIA helps build major projects of regional and national significance at a relative bargain price to the federal government.

C. **TIFIA Offers Significant Advantages That Can Be Realized Today**

While promoting the concept of a national infrastructure bank, the President has rightly noted that "building a world class transportation system is part of what made us an economic superpower." I would suggest, however, that building a new bureaucracy to improve that system is an entirely avoidable diversion of limited federal resources. Instead, we should use the TIFIA program to help restore our nation's transportation infrastructure and regain the competitive advantage of a mobile economy.

1. Use Our Existing Tools

Unlike a newly-conceived national infrastructure bank, TIFIA – and all of the necessary authorizations and organizations required to implement and administer it – already exists. By using TIFIA to help finance improvements to the nation's surface transportation system, we avoid incurring the costs, delays and bureaucratic struggles inherent in creating a brand new governmental institution. The TIFIA program already has in place an established decision-making process, administrative regulations, a dedicated staff, guiding policies and procedures, and a successful 12-year track record as an institution. In a phrase, TIFIA is a proven, valuable and essential commodity.

2. Turn the Backlog Into Blueprints – Now

What the TIFIA program also has, as discussed in more specific detail below, is a backlog of applications for nationally significant projects totaling nearly $30 billion. Although we do not typically think of an inventory of unrequited demand as an asset, the existing backlog means that the TIFIA program is already positioned to quickly help finance billions of dollars in new projects that might otherwise be delayed or deferred due to their size, complexity or the unpredictability of their revenue streams. These are large projects of regional or national significance that are cleared or are close to obtaining environmental clearance, have project sponsors assembling state, local and private capital to substitute for the diminished availability of federal tax dollars, and provide critical improvements to passenger and freight mobility in this country. With additional resources, TIFIA could get more projects currently stalled at the proposal stage to their groundbreaking ceremonies – and in short order.

3. Focus on Transportation

In addition to transportation infrastructure, the President's proposed national infrastructure bank would entertain applications for financing assistance from projects ranging from dams and levees to energy efficiency enhancements and transmission lines. What we conclude from the breadth of infrastructure classes that would be eligible to apply for the bank's maximum $10 billion volume

of annual loans and loan guarantees, is that transportation will be fighting for this limited resource in much the same way constituencies of diverse interests and conflicting agendas fight over the General Fund.

TIFIA resources are dedicated to highways and transit projects. With TIFIA serving as the "national infrastructure bank" for transportation projects, the struggle for federal assistance among other forms of infrastructure would be eliminated.

4. Create Jobs

The projects financed through TIFIA will create jobs in enormous numbers – and quickly. According to the FHWA, 28,000 jobs are created for every billion dollars in transportation construction. If TIFIA were funded only to the extent of its existing $30 billion backlog, it could create nearly one million jobs.

D. Modernize the TIFIA Process

Since the TIFIA program's inception in 1998, the USDOT has provided TIFIA assistance in excess of $8 billion, supporting projects with a total capital value in excess of $30 billion for less than $1 billion in budget authority. We should build off of TIFIA's programmatic success by implementing several improvements to the program. The changes I propose would further induce non-federal public and private investment in our national transportation system and are as follows:

1. Size TIFIA to Meet Demand

As I discussed above, the demand for TIFIA's high-quality federal loans far exceeds the program's existing funding capacity. Currently, the TIFIA program is limited to $122 million in annual budget authority. For fiscal year 2010, the USDOT received 39 applications, of which only four resulted in TIFIA allocations. On March 1, 2011, the USDOT received letters of interest for FY 2011 funding from 34 potential TIFIA applicants with a total estimated project cost of $48.2 billion, a total TIFIA request of more than $14 billion, requiring credit subsidies of roughly $1.4 billion, more than 10 times the $122 million available. A list of these applicants is attached.

The USDOT has selected 8 projects from that list to be funded from the FY 2011 TIFIA program, totaling upwards of $1.8 billion in loans. While these allocations will help finance worthy projects, credit agreements to partially finance these select few fail to make a material dent in the backlog of qualified projects. Moreover, several of the projects that were selected were not invited to apply for the full amount of TIFIA funding that they had originally requested. Georgia's Northwest Corridor project, for example, originally solicited a TIFIA loan in the

amount of $375 million out of $1.43 billion in total project costs, but was invited to apply for up to $270 million in TIFIA funding.

Our firm projects demand for TIFIA loans over the next three years to be well in excess of $12 Billion per year, or $1.2 Billion per year in needed credit subsidy. If the role of the federal government is to evolve away from directly funding transportation projects of national importance, it should evolve towards fulfilling the clamoring demand for leverage-making assistance that the federal government, as the "patient investor," is uniquely able to provide. Sizing TIFIA to meet this demand, thereby unleashing TIFIA's ability to mobilize investment from state, local and private sources, only makes sense in today's budgetary climate.

2. Refine TIFIA Based on its 12-Year History

In addition to funding the TIFIA program to meet legitimate demands, I recommend that certain substantive improvements to the TIFIA Program be adopted, summarized as follows:

- First Come, First Serve. The TIFIA program should be converted from a discretionary, competitive project selection process to a first come, first served, non-discretionary review to verify a project meets objective eligibility criteria. With enough resources to meet demand, the TIFIA program would not need to exercise discretion to turn down credit-worthy and legally compliant projects of regional and national significance.

- Funding Source. If TIFIA's budgetary authority is exhausted in any given fiscal year, the USDOT should be directed to give applicants the option to either use other funding sources to pay the credit subsidy amount, including Highway Trust Fund ("HTF") apportionment, or to roll their application into the next fiscal year.

- Expand Eligible Project Costs. The maximum TIFIA loan amount per project should be expanded to an amount equal to 49% of eligible project costs, including costs incurred at any time before application submission. By raising this limit, we can optimize state, local and private investment in major transportation projects.

- Eligibility Criterion. In order to protect against premature application for TIFIA credit assistance, we should add an eligibility criterion that requires the project sponsor have commenced the process for contracting for construction or major equipment acquisition.

- Minimize Delay. The TIFIA program could be improved with the addition of provisions and procedures for the timely processing of applications and credit documents.

- Eliminate the "Springing Lien." Under current law, in the event that the borrower goes bankrupt or insolvent, the TIFIA loan "springs" to parity with any debt senior to TIFIA. This discourages the investment of private capital and decreases the value of TIFIA assistance, undermining the very purpose of the program. Congress should eliminate the "springing lien."

E. TIGER III – Obama's Litmus Test for Transportation Finance

In addition to the limited annual budgetary authority available through TIFIA, the American Recovery and Reinvestment Act of 2009 (ARRA or TIGER I) permitted the USDOT to fund up to $250 million in TIFIA credit subsidy, but only $60 million was used. The FY 2010 Appropriations Act (TIGER II) program permitted up to $150 million in TIFIA credit subsidy, and, despite excellent applications, only $20 million was used.

On April 15, 2011, the President signed the FY 2011 Continuing Appropriations Act (TIGER III), which appropriated $526 million to be awarded by the USDOT for national infrastructure investments. As in FY 2010, approximately $150 million of the total appropriation is permitted – at USDOT's discretion – to provide credit assistance to large-scale transportation projects. The deadline to submit letters of interest for this TIGER III appropriation is October 31, 2011. I strongly suspect that, at the end of this month, the Department will receive requests for assistance that far exceed the available $150 million TIFIA allocation. If this scenario materializes, the USDOT will have to decide whether to exercise its discretion to maximize the leverage-making power of TIFIA by expending the total allowable allotment of TIGER III money for credit assistance. In making this decision, the USDOT and the Administration will be confronted with a very important policy question: whether a national infrastructure bank is essential to the federal role. If the President is as committed to the concept as his proposed Job's Act suggests, we should expect that all of the available allocation – some $150 million – will be used to support $1.5 billion in TIFIA credit assistance. TIGER III TIFIA should be too good an opportunity to pass up.

F. Conclusion

We can all agree that there are very real economic consequences to delaying the delivery of large-scale transportation infrastructure projects in the United States. At a time when federal funding is in scarce supply, we already have the tools to create powerful incentives for state, local and private entities to invest non-federal funds in large-scale transportation infrastructure projects of regional and national significance.

Thank you for the opportunity to offer my recommendations to refine and enhance the TIFIA "transportation bank" in order to help the United States accelerate the delivery of major transportation infrastructure projects and their associated benefits for economic growth. I am pleased to answer any questions and to otherwise assist the Committee in any way.

Subcommittee on Highways and Transit
Hearing on National Infrastructure Bank:
More Bureaucracy & More Red Tape
October 12, 2011
QFR Response of Geoffrey Yarema

Rep. Mazie Hirono

1. Mr. Donahue is correct in pointing out that we do need a multi-year bill, that the gas tax is not keeping up with inflation and that we must figure out a way to ensure adequate public investments. The national infrastructure bank (NIB) proposal, however, is simply not the solution to those challenges. The bi-partisan National Surface Transportation Infrastructure Financing Commission made that clear in its unanimous report. As I mentioned in my testimony, for those transportation projects capable of utilizing federal credit assistance of the type an NIB might offer, it can apply to the existing TIFIA program now for exactly that type of assistance. If TIFIA is sized to meet anticipated demand, for which there is a compelling value proposition, a new institution will not be necessary. The NIB proposal may, however, be a perfectly good tool for other kinds of infrastructure not eligible for TIFIA.

2. State infrastructure banks (SIBs) are not themselves a substitute for an NIB. They are tools to supplement state and local capability for financing a class of projects that are likely not of regional and national significance, but are still important to the transportation network. The states need all the tools we can give them, including SIBs, to make up for the large and growing gap between inadequate federal resources and necessary investments to maintain and improve the condition of our transportation assets.

3. We have a 12 year history with TIFIA against which to review the program's performance. During that period, Congress has provided annually the funding to cover the "risk premiums" associated with the TIFIA loans that were made. To date I am aware of only one TIFIA loan default. The risk premiums paid for the performing assets are more than sufficient to cover whatever that default's cost to the Treasury turns out to be. So the portfolio of loans TIFIA has produced to date have effectively turned a profit for the Treasury, a great result compared to grant programs that are by definition 100% outlays with no return whatsoever for budgetary purposes. Expanding the TIFIA program, while maintaining its creditworthiness requirements and consequent OMB "scoring" of each loan, will only enhance the quality of the TIFIA portfolio.

4. I do not purport to be an expert on staffing requirements for federal loan programs but if you were to calculate the administrative costs to date for the volume of loans the TIFIA program has produced, then multiply that by the proposed future size of the program and apply an appropriate discount for some economies of scale, I think you will find that it has been and will continue to be a very administratively efficient program. Indeed, if it is now sized to meet anticipated demand, it can become, as I recommend, a program that makes loans not on expensive discretionary decisions but on strict "bright

line" statutory eligibility determinations and thus become even more administratively efficient than it has been to date. Having said that, I do believe that a right-sized TIFIA program should be elevated within the USDOT management structure and directed by senior officials who clearly understand a mandate for loan decisions to be made strictly on financial feasibility, unflavored by changing notions of political acceptability.

5. Leveraging federal dollars with direct private investment, incentivizing increased non-federal investment in transportation and rewarding innovative thinking should indeed be important, even overarching federal objectives. The Financing Commission saw these as critical to the evolving definition of the federal role and that is exactly what the TIFIA program has a proven track record of achieving. By sizing TIFIA resources to meet anticipated demand and thereby freeing it from the uncertainty associated with unnecessary discretionary decision making, while maintaining strict eligibility and financial feasibility requirements, Congress will dramatically enhance TIFIA's ability to serve these key objectives without the need for a new bureaucracy that will face, not only significant start up costs, but also unnecessary delays in implementing financing assistance to over $30 billion in project backlog.

6. TIFIA can help rural areas in several ways. First, utilizing TIFIA requires states and regions to re-engineer the way the think about project financing. There is nothing inherent in that process that favors urban areas over rural areas; it's just that, because of the large costs of their new capacity projects, urban areas have had to face up to those challenges to a greater extent. As rural areas examine more closely the value proposition that TIFIA offers, I believe they will find ample ways of utilizing it for their needs as well. Second, remembering that TIFIA provides loans, not grants to its applicants, to the extent that urban areas are able to finance their needs increasingly in ways, utilizing TIFIA, that minimize the use of federal apportionments, there will be less pressure to starve rural areas of increasingly precious federal gas tax dollars, at least within the same states.

From Rep. Laura Richardson

1. Part D Modernized TIFIA process -First come first serve process. Go into detail about rationale for that.

As you have noted, I am advocating that the TIFIA application process rely no longer on a once a year application window that reserves for the USDOT complete Administrative control over selecting from a fully qualified application pool which applicants are and are not to receive loans. Instead I respectfully suggest that TIFIA employ, as it did successfully for many years, a rolling application process that results in the USDOT first ensuring that the project is fully eligible, second confirming the financial feasibility of the sought for loan and third scoring the loan to determine the amount of "credit subsidy" or risk premium needed. In a world where applicants are seeking TIFIA loans in annual amounts far in excess of available resources, this change would not be possible. In a world, however, where TIFIA is sized closer to anticipated demand than at present, a result we hope Congress will achieve, this change is not only possible but

highly desirable to minimize administrative expense, to increase responsiveness of federal credit when projects actually need it, to signal to potential borrowers predictability and uniformity in USDOT decision making and to remove the perception or reality of bias in the exercise of discretion, regardless of the party in power. If my proposed change in process were to be implemented, it would not in any way water down either the criteria for TIFIA loan eligibility or the financial feasibility required for underwriting loans. These would remain just as stringent as before. In the event that, in a given year, TIFIA resources would be insufficient to provide the credit subsidy or risk premium needed for all applicants, under my proposal, the applicants affected by the shortfall would be given a choice: pay the credit subsidy themselves (thereby relieving the federal government of the financial cost of the loan and increasing significantly the borrower's loan costs, an option many applicants still might take); or instead agree to roll their application to the next fiscal year to be first in line when the USDOT would have a renewed amount of credit subsidy available. Among the potential applicants that would benefit most from this revised approach is the Orange County Transportation Authority and Los Angeles Metropolitan Transportation Authority, which are considering finance plans including TIFIA for the much needed new rail and highway capacity improvement projects.

2. *Eliminate the Springing loan - How would we protect the taxpayer's money against that point?*

In advocating for a removal of the springing lien requirement, I am at the same time advocating for increasing, not decreasing, the protections for taxpayer money. Any time the USDOT makes a TIFIA loan, it and OMB make a financial calculation of the "credit subsidy" or risk premium that the Treasury should receive to protect the taxpayers from a default. The idea is that, with a portfolio of loans, the aggregation of credit subsidy amounts paid to the Treasury will be sufficient to cover any taxpayer losses. There are many factors that influence this calculation on a given loan. If the springing lien were to be eliminated, it is likely that the credit subsidy would be higher for a loan than it would be if the springing lien were present, thus adding whatever additional financial protection the taxpayers should have, based upon hard analytics. We have a 12 year history with TIFIA against which to review the program's performance. During that period, I am aware of only one TIFIA loan default. The risk premiums paid for the performing assets have been more than sufficient to cover whatever that default's cost to the Treasury turns out to be. So the portfolio of loans TIFIA has produced to date have effectively turned a profit for the Treasury, a great result compared to grant programs that are by definition 100% outlays with no return whatsoever for budgetary purposes. Expanding the TIFIA program, while maintaining its creditworthiness requirements and consequent OMB "scoring" of each loan, will only enhance the quality of the TIFIA portfolio. The OMB scoring mechanism will adjust for the removal of the springing lien, creating more "insurance" against losses.

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Statement of

The American Society of Civil Engineers

"National Infrastructure Bank Would Create More Red Tape and Federal Bureaucracy"

United States House of Representatives

Transportation and Infrastructure Subcommittee on Highways and Transit

October 12, 2011

The American Society of Civil Engineers (ASCE)[1] would like to thank the House Transportation and Infrastructure Subcommittee on Highways and Transit for holding a hearing today on the creation of a National Infrastructure Bank. The Society is pleased to present to the Committee our views on investing in the nation's infrastructure. ASCE supports the creation and operation of a National Infrastructure Bank.

ASCE's *2009 Report Card for America's Infrastructure* graded the nation's infrastructure a "D" based on 15 categories (the same overall grade as ASCE's 2005 Report Card), and stated that the nation needs to invest approximately $2.2 trillion over five years to maintain the national infrastructure in a state of good repair. Even with the current and planned investments from federal, state and local governments in the next five years, the "gap" between the overall need and actual spending will exceed $1 trillion in 2014. If the nation continues to under-invest in infrastructure and ignores this backlog until systems fail, we will incur even greater costs.

The total of all federal spending for infrastructure as a share of all federal spending has steadily declined over the past 30 years, according to the Congressional Budget Office. The results of years of under-investment can be seen in traffic and airport congestion, unsafe bridges and dams, deteriorating roads, and aging drinking water and wastewater infrastructure. ASCE is concerned with this accelerated deterioration of America's infrastructure, with the general reduction in investment for the preservation and enhancement of our quality of life, and with the threatened decline of U.S. competitiveness in the global marketplace.

INFRASTRUCTURE AND ECONOMIC COMPETITIVENESS

ASCE released an economic study in July entitled *Failure to Act: The Current Economic Impact of Current Investment Trends in Surface Transportation Infrastructure*. The findings in that report are equally as sobering as the Report Card results, as it details how American households and businesses will be negatively impacted and quantifies the loss of America's economic competitiveness if the nation's infrastructure continues to deteriorate.

The report finds that the nation's deteriorating surface transportation infrastructure will cost the American economy more than 876,000 jobs, and suppress the growth of the country's Gross Domestic Product by $897 billion by 2020. Furthermore, the report shows that in 2010, deficiencies in America's roads, bridges, and transit systems cost American households and businesses roughly $130 billion, including approximately $97 billion in vehicle operating costs, $32 billion in delays in travel time, $1.2 billion in safety costs, and $590 million in environmental costs. If investments are not made soon, those costs are expected to grow exponentially. Within 10 years, U.S. businesses would pay an added $430 billion in transportation costs, household incomes would fall by more than $7,000, and U.S. exports will fall by $28 billion per year.

[1] ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 140,000 civil engineers individually in private practice, government, industry, and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a non-profit educational and professional society organized under Part 1.501(c) (3) of the Internal Revenue Code.

Failure to Act estimates that in order to bring the nation's surface transportation infrastructure up to tolerable levels, policymakers would need to invest approximately $1.7 trillion between now and 2020 in the nation's highways and transit systems. The U.S. is currently on track to spend a portion of that - $877 billion – during the same timeframe. The infrastructure funding gap equals $846 billion over 9 years or $94 billion per year.

This investment in infrastructure would:

- Protect 1.1 million jobs
- Save Americans nearly 2 billion hours in travel time each year
- Deliver an average of $1,068 to each family, and
- Protect $2,600 in GDP for every man, woman, and child in the U.S.

INNOVATIVE FINANCING

As Congress is in the process of developing a comprehensive multi-year surface transportation authorization, and as President Obama makes plans to invest $50 billion in the nation's infrastructure in the American Jobs Act, our roads, bridges, dams, and water systems continue to remain in a state of decline. Aging and overburdened infrastructure threatens the economy and quality of life for all Americans. However, while the problem may appear staggering, innovative financing such as a National Infrastructure Bank, could provide a fiscally prudent means to begin repairing our nation's deteriorating infrastructure.

Innovative financing techniques can greatly accelerate infrastructure development and can have a powerful economic stimulus effect. Currently, the burden of infrastructure funding is shifting from federal to state and local resources to fund the growing need for improvements. Innovative programs in SAFETEA-LU, such as the establishment of the State Infrastructure Bank program, have been a good start, but more needs to be done to expand their scope, and new programs or approaches must be introduced. The nation must develop and authorize innovative financing programs that not only make resources readily available, but also encourage the most effective and efficient use of those resources. Federal investment must be used to complement, encourage, and leverage investment from the state and local government levels as well as from the private sector. In addition, users of infrastructure must be willing to pay the appropriate price for their use.

ASCE supports innovative financing programs for transportation projects and believes the federal government should make every effort to develop new programs or flexibility in innovative procurement approaches. President Obama's newly released infrastructure investment plan proposes the permanent creation of a national infrastructure bank, which could leverage private capital for projects of national and regional significance. This sort of proactive thinking toward infrastructure will allow states to come together for regional projects such as high speed rail and can move the nation's infrastructure forward. ASCE applauds President Obama's leadership on the issue and believes that the administration's infrastructure investment plan has great potential to be a part of the solution. In particular, the President's call to establish a national infrastructure bank is a concept ASCE long has supported.

CREATION OF A NATIONAL INFRASTRUCTURE BANK

The National Infrastructure Bank Act, H.R. 402, and the Building and Upgrading Infrastructure for Long-Term Development (BUILD) Act, S.652, would begin to address a problem that is rapidly approaching crisis levels. Each bill would establish a National Infrastructure Bank, which would be an independent body designed to evaluate and finance infrastructure projects of substantial regional and national significance. Eligible projects would range from mass transit systems, roads, bridges, drinking-water systems, and sewage treatment systems. The bills would begin the process of meeting the nation's broad infrastructure needs, while selecting those projects which will be most beneficial.

The infrastructure bank text in the American Jobs Act is modeled after the Senate BUILD Act. While job creation out of a newly created infrastructure bank would take several years to take effect, the long term benefits could be significant. Estimates for the BUILD Act, show that in the first 10 years the fund could provide up to $160 billion in direct financial assistance. However, since federal funding must be matched by other sources, the initial $10 billion in government funding could reach between $320 billion and $640 billion in the first decade. This level of infrastructure investment could spur hundreds of thousands of jobs in the engineering and construction sector.

ASCE supports the creation and operation of a National Infrastructure Bank, which should leverage public funds with private dollars to invest in transportation, environment, energy, and telecommunications projects of significance. Each infrastructure system should have a dedicated source of revenue that is independent of the federal government's annual appropriations process. This ensures that the owners and managers of publicly owned treatment works and other systems will be able to finance improvements to their physical infrastructure in a systematic, long-term program that avoids the volatile atmosphere surrounding yearly spending authorizations.

However, an infrastructure bank should adhere to certain key requirements.

- The bank should be capitalized initially by general fund appropriations and should be self-sustaining after the initial start-up period.
- The bank should develop financing packages for selected projects which could include direct subsidies, direct loan guarantees, long-term tax-credit general purpose bonds, and long-term tax-credit infrastructure project specific bonds.
- The bank should not replace existing infrastructure funding and financing mechanisms, but act as a supplement to leverage federal, state, local, and private infrastructure financing.

Additionally, ASCE encourages an infrastructure bank where public works projects must meet the continuing needs to provide natural resources, industrial products, energy, food, transportation, shelter, and effective waste management, while at the same time protecting and improving environmental quality. Sustainability and resiliency must be an integral part of improving the nation's infrastructure. Today's transportation systems, water treatment systems, and flood control systems must be able to withstand both current and future challenges. Infrastructure systems must be designed to protect the natural environment and withstand both natural and man-made hazards, using sustainable practices, to ensure that future generations can use and enjoy what we build today.

Furthermore, a National Infrastructure Bank should allow states to make the ultimate decision on which projects receive financing from the federal bank based on established priorities. The bank however, should retain sufficient oversight to guarantee an equitable distribution of funds and to ensure that all eligible projects are able to compete for financing on a relatively even footing.

Without long-term financial assurance, the ability of the federal, state, and local governments to do effective infrastructure investment planning is severely constrained. Therefore, in addition to a National Infrastructure Bank ASCE also supports:

- User fees (such as a motor fuel sales tax) indexed to the Consumer Price Index.
- Appropriations from general treasury funds, issuance of revenue bonds, and tax-exempt financing at state and local levels.
- Trust funds or alternative reliable funding sources established at the local, state, and regional levels, including use of sales tax, impact fees, vehicle registration fees, toll revenues, and mileage -based user fees to be developed to augment allocations from federal trust funds, general treasuries funds, and bonds.
- Public-private partnerships, state infrastructure banks, bonding and other innovative financing mechanisms as appropriate for the leveraging of available transportation program dollars, but not in excess of, or as a means to supplant user fee increases.
- The use of budgetary firewalls to eliminate the diversion of user revenues for non-infrastructure purposes.

CONCLUSION

ASCE is concerned with the accelerated deterioration of America's infrastructure, with the general reduction in investment for the preservation and enhancement of our quality of life, and with the United States' continued competitiveness in the global marketplace. As stewards of the nation's infrastructure, civil engineers must be a voice in the national debate on infrastructure. ASCE has and will continue to support innovative financing programs that not only make resources readily available, but also encourage the most effective and efficient use of those resources. However, financing alternatives such as a National Infrastructure Bank, cannot replace a public commitment to funding. Financing by any technique does not supplant the need for adequate user fees or other funding sources to eventually pay for projects.

KAY BAILEY HUTCHISON
TEXAS

COMMITTEES:
APPROPRIATIONS
COMMERCE, SCIENCE, AND TRANSPORTATION
RULES AND ADMINISTRATION

United States Senate

WASHINGTON, DC 20510-4304
October 12, 2011

The Honorable John Mica
Chairman
U.S. House Committee on Transportation and Infrastructure
United States House of Representatives
Washington, DC 20515

Dear Chairman Mica:

I write to you today on the important matter of financing our nation's infrastructure.

In 1991, while serving as the Treasurer for the State of Texas, I was appointed by President George H. W. Bush to serve on the Commission to Promote Investment in America's Infrastructure. The Commission was charged with conducting a study on the feasibility and desirability of creating a type of security to permit investment of pension funds in design, planning, and construction of infrastructure facilities in the United States, as well as examine other methods of encouraging public and private investment in our nation's infrastructure. After hearing extensive testimony from private sector stakeholders and public officials, the Commission produced a report entitled *Financing the Future*.

Nearly 20 years later, the Commission's report contains a number of observations regarding our nation's infrastructure that remain true. At the time, levels of public sector spending did not meet the needs of our critical infrastructure. Today, the American Society of Civil Engineers estimates that the U.S. must invest $2.2 trillion over 5 years to bring our infrastructure up to good condition.

The report noted that traditional sources of infrastructure finance – government grant programs and tax-exempt bonds – all face serious impediments in filling the gap, and that tax increases do not represent a long-term solution to the structural problems of infrastructure financing. These hurdles remain today, and are further amplified by our difficult fiscal climate and continued disruption of our financial markets.

The Commission's report has served as the basis for important federal initiatives, such as the Transportation Infrastructure Finance and Innovation Act (TIFIA). TIFIA offers credit assistance to qualified borrowers for the purpose of financing significant transportation projects, encouraging major undertakings that might not otherwise be possible. Each dollar of federal funding is estimated to support up to $30 in transportation infrastructure investment.

State Infrastructure Banks (SIB) are another form of innovative infrastructure finance modeled after the Commission's report. Capitalized by a combination of federal and state funds,

SIBs offer loans and other credit assistance tailored to meet the needs of an individual project. In Texas, the SIB has approximately 90 loans that have helped leverage over $3.5 billion towards transportation projects throughout the state.

However, the Commission's chief recommendation has yet to be acted upon by Congress – namely, to "establish a new federally-chartered financing entity, a national infrastructure corporation."

On March 16th 2011, Senator John Kerry (D-MA) and I introduced S. 652, the Building and Upgrading Infrastructure for Long-Term Development (BUILD) Act. This legislation would establish the American Infrastructure Financing Authority (AIFA), an independent, government-owned entity that would provide loans and loan guarantees – not grants – for important and economically viable projects across the United States. To achieve self-sufficiency, AIFA would assess application or transaction fees, and would only select projects with a dedicated revenue source and an investment grade credit rating. To assure a project's viability, the federal loan could not be more than 50 percent of the total; the remainder must be private or local. While the BUILD Act calls for a one-time appropriation of $10 billion, I have committed to ensuring this amount is offset by corresponding spending cuts.

As our nation works to address its significant deficit, no longer can state and local governments come to Washington looking for financing of their infrastructure needs. We must provide incentives to attract private funding to meet the needs of our crumbling infrastructure and, in turn, grow the economy. AIFA would be broader in scope than existing financing mechanisms, to include transportation, energy, and water infrastructure sectors. It would operate like a bank, apart from the political process or bureaucracy of federal agencies. Unlike Fannie Mae and Freddie Mac, AIFA would not be owned by private shareholders; its underlying mission would be to encourage investment in projects of public benefit, not to seek profit for shareholders but to build reserves. AIFA would not replace existing programs authorized to provide federal support towards our infrastructure – rather, it would supplement these existing mechanisms.

While many important tools have been developed since our Commission released *Financing the Future*, a need for innovative financing solutions remains. The BUILD Act represents the only national infrastructure bank proposal with demonstrated bipartisan support. I look forward to working with you and other leaders in Congress to ensure consideration of this legislation.

Sincerely,

Kay Bailey Hutchison

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