

**JOINT STATEMENT OF JOEL SZABAT, ASSISTANT SECRETARY FOR
AVIATION AND INTERNATIONAL AFFAIRS,
PERFORMING THE DUTIES OF UNDER SECRETARY FOR POLICY,
DEPARTMENT OF TRANSPORTATION AND MORTEZA FARAJIAN,
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DEPARTMENT OF TRANSPORTATION
BEFORE THE UNITED STATES SENATE COMMITTEE ON
COMMERCE, SCIENCE, AND TRANSPORTATION SUBCOMMITTEE
ON TRANSPORTATION AND SAFETY
OVERVIEW OF THE BUILD AMERICA BUREAU AND THE U.S.
DEPARTMENT OF TRANSPORTATION RURAL TRANSPORTATION
INITIATIVES
JANUARY 28, 2020**

Thank you, Chairman Fischer, Ranking Member Duckworth, and Members of the Subcommittee. We appreciate the opportunity to share with you the steps the Trump Administration and Secretary of Transportation Elaine L. Chao have taken to facilitate better transportation in America's rural communities.

Rural transportation networks are vital to the nation's economic growth, creating opportunity, and ensuring that no one is left behind. Yet many rural communities in the United States continue to face significant transportation challenges. For example, while only 19 percent of Americans live in rural communities, 69 percent of highway lane miles are in rural areas, nearly half of all truck vehicle miles traveled occur on rural roads, and two-thirds of all U.S. rail freight originates in rural areas.

One result of these challenges is a disproportionate high rate of highway fatalities in rural areas.

- 72 percent of large truck occupant fatalities,
- 67 percent of pickup occupant fatalities, and
- 58 percent of SUV occupant fatalities occur in rural areas.

In fact, 46 percent of total highway fatalities in our country occur on rural roads – and the fatality rate on rural roads is twice that of urban roads. This is of special concern because safety is the Department of Transportation's Number One priority. So it is vitally important not only to growth and competitiveness, but to safety, that the transportation and infrastructure needs of rural communities be addressed.

The U.S. Department of Transportation is working hard to address these inequities through a number of initiatives, including:

- Funds Administration. The Department distributes about \$70 billion annually for infrastructure needs, much of which goes to State governments via formula stipulated by law. Yet DOT has several discretionary grant programs as well. Since FY 2016, the rural

share of discretionary funds awarded nearly doubled in the nine transportation programs that distinguish between rural and non-rural. And the number of awards made to rural projects more than tripled.

- **Rural Project Initiative Implementation.** This initiative allows more sponsors of infrastructure projects in rural communities to utilize the Department's major loan program, which offers very generous financing and loan repayment terms.
- **ROUTES Initiative.** The Rural Opportunities to Use Transportation for Economic Success (ROUTES) initiative helps rural communities access Federal transportation grant funding and loan programs. It also improves data sharing to help rural communities better analyze their transportation needs. As part of this initiative, the Department established a ROUTES Council, which supports rural communities to better identify and assess their transportation needs, and re-balance DOT discretionary grants to address those needs. Rural Transit. Access to transportation can also be a significant challenge for seniors, people with disabilities and low-income communities in rural areas. Public transportation is a lifeline for them. So the ROUTES initiative will be addressing public transit in rural areas, as well. Addressing rural-urban transportation disparities will help ensure a more inclusive transportation network for the future. That's a goal that all countries can and should incorporate into their national transportation plans.

The Administration recognizes that transportation in rural areas functions as a lifeline for farmers, working families, seniors, veterans, individuals with disabilities, tribal residents, and others. To that end, this Administration has placed considerable emphasis on underserved communities like those in rural America. We have met and exceeded our obligation regarding rural transportation in the 2015 FAST Act, and we continue pressing forward with new ways to improve rural mobility. In addition to efforts by DOT Operating Administrations, our innovative financing arm, the Build America Bureau, has also played a key role in supporting development of rural transportation infrastructure. Of course, while we have increased focus on rural areas, we are as intent as always on improving transportation systems throughout the Nation.

Rural transportation networks

Rural transportation networks are critically important for domestic production and export of agriculture, mining, and energy commodities as well as the quality of life for all Americans. For example, two-thirds of rail freight originates in rural areas, and nearly half of all truck vehicle-miles-traveled (VMT) occur on rural roads. And, 70 percent of America's road-miles are in rural communities.

At the same time, 90 percent of posted, or limited weight, bridges, which heavy trucks cannot use, are in rural areas. Freight-hauling truck drivers in rural areas often contend with lengthy detours to find a bridge able to handle the weight; these detours consume fuel and time. In addition to the problem of weight-limited bridges, 80 percent of the bridges in the U.S. that are rated to be in poor condition are in rural areas.

Not surprisingly, a disproportionate number of roadway fatalities occur in rural areas based on exposure measures like population and VMT. While only one-fifth of the nation's population lives in rural areas, in 2018, 46 percent of the nation's highway fatalities occur on rural roads. Breaking that down into deeper categories, in 2018, 72 percent of large truck occupant fatalities, 67 percent of pickup occupant fatalities, and fifty-eight percent of SUV occupant fatalities occur in rural areas. And, the highway fatality rate per 100 million VMT in rural areas is more than twice that of urban areas. It is worth noting that 44 percent of personal vehicle miles traveled on rural roadways are driven by urban residents traveling to destinations outside their home metro areas, so rural roadway safety matters for our entire country.

Many people living in rural and tribal communities can ill-afford to drive the considerable distances they must travel to work and other destinations. That is why 81 percent of U.S. counties provide rural transit service. The disparity in transportation conditions between urban and rural communities are exacerbated because urban communities are better equipped to seek out federal resources to address their needs. Rural areas often lack the capacity to fully compete for federal transportation infrastructure funding.

This Administration is working hard through the Department of Transportation to ensure that rural and all other communities are treated fairly and equitably.

The Department's Efforts and Achievements

ROUTES: Rural Opportunities to Use Transportation for Economic Success

Addressing these disparities calls for a sharper focus on our investments in rural areas to meet national priorities such as improving safety and economic competitiveness in all parts of the country. That's why Secretary Chao launched the ROUTES initiative, in October 2019. The ROUTES initiative will improve how the DOT considers rural project applications in our discretionary grant programs, including ensuring that project costs, local resources, and the benefits to the American people and economy are appropriately considered. Under this initiative, ROUTES will provide rural areas with user-friendly information to improve planning and development of grant applications. It will also give projects in rural communities due consideration in grant programs, to assist in meeting their transportation needs.

Under the initiative, the Department has already begun collecting input from stakeholders on the benefits rural projects offer for safety and the economy, as well as the types and degrees of assistance rural projects require. The Department recently issued a Request for Information (RFI) seeking input on a number of rural transportation-related issues. This includes comments and data pertaining to current unmet needs in rural transportation, barriers rural communities face in addressing these transportation needs, stakeholders' experiences with applying to and using DOT discretionary grant and credit programs, and opportunities for the DOT to improve its services and technical assistance to rural communities in relation to these grant and credit programs, within the limits of statutory requirements. The RFI closed yesterday, and, as of Friday January 24, we had already received input from 130 respondents, and we expect this is just the beginning

of an effort to launch more data-driven approaches to better assess the need for and benefits of rural transportation infrastructure projects.

Given the feedback we have been receiving, we are trying to make DOT's discretionary grants easier for rural applicants to understand. For instance, we are currently developing a Toolkit that will help rural (and other) applicants identify which discretionary grant programs could help fund their particular safety and infrastructure priorities. We expect to make the Toolkit available this spring.

We have also established the ROUTES Council, an internal deliberative body of DOT leadership that will review and use input from the RFI as well as other public input to improve the alignment of the Department's discretionary funding programs with the needs of rural communities to address National transportation goals. The Council held its first meeting in November 2019 and met again on-schedule in January. It will review feedback received through the RFI and seek additional input from stakeholders, starting with State DOTs, local governments, and national organizations. The Council will identify critical rural transportation concerns, coordinate efforts among DOT's Operating Administrations, and shape the resources ROUTES avails to rural stakeholders.

Other Efforts

In addition to the new ROUTES initiative, the Department is also seeking other opportunities to benefit rural and other communities. Just two weeks ago, for example, Secretary Chao announced an interactive map application showing transportation infrastructure against a background layer featuring the U.S. Internal Revenue Service's designated Opportunity Zones and the U.S. Census Bureau's Urbanized Areas. Using the map, potential investors can discover which Qualified Opportunity Zones, many of which are in rural communities, offer good transportation connectivity. At the same time, other investors can identify rural Opportunity Zones that would benefit from private investment in transportation.

Grants

As previously mentioned, a meaningful way to help rural America is through discretionary grants. Just two months ago, in November 2019, Secretary Chao announced the award of \$900 million to 55 infrastructure projects in 35 states through the Better Utilizing Investments to Leverage Development (BUILD) Transportation Discretionary Grants program. Fifty percent of that investment was awarded to 31 projects in rural communities. In the previous year, the Department awarded \$965 million – 64 percent of its \$1.5 billion appropriation – to 62 rural projects.

Last July, the Secretary announced the award of \$856 million in Infrastructure for Rebuilding America (INFRA) grants. Fifty-four percent of those awards, \$465 million, went to rural projects, far exceeding the FAST Act's statutory requirement of 25 percent. And, 10 percent of the FY 2019 INFRA investment was awarded to small projects with costs between \$5 million and \$25 million, most of which were in rural communities. Two weeks ago, the Secretary

announced the Notice of Funding Opportunity for the FY 2020 INFRA grants, and the Department will continue to adhere to or surpass the statutory requirements.

The Department's Operating Administrations were also mindful of rural America in their FY 2019 funding practices. For example, in FY 2019, the Federal Transit Administration (FTA) awarded \$119 million in Buses and Bus Facilities Discretionary Grants, 28 percent of the program's total awards, to projects in rural communities. FTA also awarded 41 percent of its Innovative Coordinated Access and Mobility Pilot Program grants, \$3.9 million, to rural projects, and a full 100 percent of its Tribal Transit Program awards, \$5 million, went to rural communities.

Also in FY 2019, the Federal Railroad Administration awarded \$179 million in Consolidated Rail Infrastructure and Safety Improvements (CRISI) awards to rural projects, 31 percent of its awards for that year. And, in August 2019, the Federal Highway Administration awarded \$225 million in grant funding under the Competitive Highway Bridge Program (CHBP) to 20 bridge improvement projects in 18 states, all of which have population densities fewer than 100 persons per square-mile.

These awards alone, only a sample of the Department's effort in the past 13 months to champion rural transportation improvements through discretionary grant awards, total more than \$2.4 billion. These grants are a powerful tool the Department is using to address rural transportation needs, in addition to the Operating Administrations' formula grant funding, much of which is also targeted for rural communities.

The Build America Bureau is developing products and processes specifically tailored to rural communities

Authorized by the 2015 FAST Act and established in July 2016, the Department's Build America Bureau administers the Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation and Improvement Financing (RRIF) credit programs, administers the INFRA grant program, allocates Private Activity Bonds, and serves as a one-stop shop for project sponsors to assist them in navigating the complex regulatory, governance and financial processes necessary in delivering successful transportation projects.

New Executive Director

The Bureau's Executive Director, Morteza Farajian, Ph.D., joined the Department in April 2019. Formerly, he served as Acting Deputy Secretary of the Virginia Department of Transportation (VDOT) and Director of that State's Public-Private Partnership (P3) program office.

Three Loans Issued During the Past 90 days

Dr. Farajian's experience as a practitioner is already paying tangible dividends as three new loans have been issued by the Bureau in just the past 90 days alone. These loans, totaling \$1.6 billion, will result in the delivery of \$6 billion in new transportation infrastructure. The Bureau's

participation in these projects alone has generated more than \$3 billion in non-Federal capital investment, further leveraging Federal dollars.

The Bureau is implementing two overarching goals that will benefit American transportation infrastructure in general and rural communities in particular:

- Enhance the pipeline of eligible projects to fully utilize the capacity provided by Congress, and;
- Diversify the pipeline of eligible projects by geography (i.e., urban and rural, new States, etc.) size, and type (i.e., highway, transit, rail, port, etc.), to ensure an equitable distribution of program benefits.

To achieve these goals, the Bureau is focusing on three key activities that will enable increased utilization and a more diverse pipeline of projects. They are:

- Conduct active, focused outreach to prospective borrowers that may not know of the Bureau, or of its new products and services. This activity includes the development and delivery of products that are best suited to underserved borrowers;
- Enhance the scope and scale of technical assistance to project sponsors, especially new, smaller borrowers, and;
- Continue to streamline the credit process, improving efficiency and reducing costs to borrowers.

The Bureau has considerable lending capacity and expertise to significantly expand its loan portfolio, including loans to rural borrowers.

Tailored Products

Historically, the TIFIA loan program has financed large, complex highway, bridge and transit projects that largely serve urban communities. We have the capacity to continue to support these projects. However, the TIFIA and RRIF loan programs – with some modifications (within our existing authorities) – can be tailored to focus on helping other geographic areas and asset classes that have, until now, not received Bureau assistance. One area of Bureau innovation that has been particularly valuable for rural communities is the effort to develop products tailored to the specific needs of these communities.

TIFIA Rural Project Initiative

The first of these is the TIFIA Rural Projects Initiative (RPI), which Secretary Chao announced in November, 2018. RPI represents a targeted and significant easing of financial barriers to participation in the TIFIA program – while maintaining robust creditworthiness standards to protect taxpayers. By combining existing authorities, the Bureau offers qualified borrowers a number of significant benefits.

An eligible RPI project is one that is not inside a U.S. Census Bureau-designated urbanized area with a population greater than 150,000 persons and that has eligible project costs not greater than \$100 million. For qualifying projects with total eligible costs between \$10 million and \$75 million, the usual application costs (e.g. the cost of procuring independent financial and legal advisors) may be paid by DOT. This often represents a savings of several hundred thousand dollars. Eligible RPI may borrowers receive a 50 percent interest rate reduction. As of mid-January, a rural project could receive a loan at a fixed interest rate of slightly over one percent for 30 or more years. Additionally, some rural borrowers may benefit from the Bureau's flexibility – we can also provide short-term assistance at even further reduced interest rates. In addition to the lower interest rate available under RPI, eligible project sponsors under this program can borrow up to 49 percent of a project's eligible costs instead of the 33 percent ceiling more typical of a TIFIA loan.

Currently, the Bureau is providing technical assistance to develop 12 RPI projects in eight states. This represents approximately 10 percent of the projects in the Bureau's pipeline.

RRIF Express

Small and medium-sized freight railroads represent a significant opportunity for economic growth in rural communities. Even small marginal savings in shipping costs for agricultural, mining, energy or manufacturing goods can have a major impact in global competitiveness, and about 80 percent of short line and regional freight railroads are in rural America. As such, the Bureau has developed a pilot program that focuses on improving the borrowers experience for short line and regional railroads, called RRIF Express, which I announced in mid-December, 2019.

Although the Bureau has, since its inception, closed four loans under the Department's RRIF program, in its current form, RRIF is significantly undersubscribed by smaller railroads. Like TIFIA RPI, RRIF Express eases several financial barriers for prospective borrowers. A qualifying RRIF Express borrower is a U.S. Class II or III short line or regional railroad, seeking a loan up to \$50 million that meet the requirements set forth in the Notice of Funding Opportunity.

The cost of paying for the Bureau's external financial and legal advisors and the Credit Risk Premium often poses a significant obstacle for prospective RRIF borrowers. Under the RRIF Express initiative, these costs are paid by DOT, using funds from appropriations. In addition, RRIF Express also promises to expedite the credit process by streamlining reviews and speeding the procurement of outside advisors.

The 90-day application window for RRIF Express opened on January 13, 2020 and we hope to receive a healthy number of qualified expressions of interest.

Innovative Procurement Model – Short-Term Design Build Finance

The TIFIA loan program can provide loans of up to 35 years after the date of substantial completion. However, we are learning that some jurisdictions, including State DOTs, might benefit more from shorter-term loans to increase efficiency and reduce the costs of projects they otherwise would deliver in phases. A high proportion of these jurisdictions are in rural America.

When projects are phased, costs and schedules can increase considerably: multiple mobilizations, de-mobilizations, numerous contracts and sequential construction all impact cost and schedule. Future phases of construction also incur cost escalations, often exceeding four percent annually.

Additionally, because rural projects often are not good candidates for tolling, they often overlook Bureau credit as a financing option at all.

To address these gaps, the Bureau has introduced an innovative procurement concept that offers alternatives that allow project sponsors to construct projects more quickly in a single phase, potentially reducing costs due to single contract, single mobilization, but also avoiding annual cost escalations incurred by future phases.

Under this concept, projects can proceed into construction of all phases in a single procurement and utilize shorter-term loans, further reducing costs. This procurement can take the form of a Design-Build-Finance procurement, where the developer actually borrows from the Bureau while also delivering into service new or upgraded transportation options more quickly.

Because the Bureau can lend to the contractor and not the public sponsor, this can be particularly useful for projects whose sponsors lack borrowing authority, or those who typically use a pay-as-you-go infrastructure funding model.

In short, the Bureau – in engaging jurisdictions that have not typically borrowed from TIFIA and/or RRIF – is finding that a one-size-fits-all approach to lending is not optimal and offering a wide variety of financing options can help a far more diverse pool of applicants deliver their projects more efficiently and at lower cost.

Education & Technical Assistance

Since April, 2019, the Bureau has increased its Outreach and Project Development (OPD) team by 150 percent, adding six staff members, all of whom bring considerable experience. This team has been instrumental in performing more up-front planning with project sponsors and providing more technical assistance to project sponsors earlier in the project cycle.

This earlier and more active engagement will facilitate a faster credit process with less re-work and inefficiency, especially for smaller, first-time borrowers such as rural project sponsors. It also will help project sponsors avoid inadvertently making the project ineligible for a loan by taking actions such as initiating non-qualified procurements, missing critical environmental

review requirements or not sourcing materials in the United States. Sponsors of larger projects, typically urban or suburban, often avoid this type of misstep thanks to experienced internal resources and to the participation of outside consultants and advisors. Project sponsors less experienced with Federal processes and less able to access the valuable expertise of outside consultants cannot benefit from this advantage, an inequity that earlier Bureau participation from a more well-staffed OPD team will remediate. In addition to allowing the Bureau to support more projects earlier in their development, a fully staffed OPD team allows the Bureau to educate more prospective project sponsors about the Bureau's products and services.

While the Bureau continues to represent itself at the larger, main-stream infrastructure and public-private-partnership (P3) conferences and events, we have also targeted the events that cater to smaller jurisdictions, rural communities, towns and counties. To educate potential project sponsors and access more prospective projects, the Bureau is now focusing on these venues, including, for example, the 4th National Technical Assistance Conference of the Rural Transit Assistance Program this past October. We look forward to introducing the Bureau, its products, and its services to the membership of the National Association of Towns and Townships this March.

We have also participated in regional meetings sponsored by the U.S. Department of Commerce's Economic Development Administration (EDA), including sessions in West Virginia and southeastern Massachusetts, where the EDA convenes planners from distressed communities seeking technical assistance to develop the infrastructure needed for economic growth.

The Bureau has also increased its work with like-minded organizations such as the Association of American State Highway and Transportation Officials, planning associations, contractors and industry groups. This has borne considerable fruit already.

The Bureau's recent engagement with the American Short Line and Regional Railroad Association was instrumental in the successful launch this past December of the RRIF Express pilot program for Class II and III short line and regional railroads.

State visits

Another important recent initiative is the Bureau's outreach to new States. Under this initiative, the Bureau has reached out specifically to States with little or no DOT credit experience or other Bureau engagement. Many of these states are largely rural.

Bureau leadership visits the State capital for a full day of meetings introducing the Bureau to the State DOT director or secretary, participants from the Governor's office and congressional delegation, key State legislators, administrators of the various State DOT departments, economic development organizations, planners, and county and municipal leaders. Many of the participants during these visits indicate they had never heard of the Bureau or the Department's credit programs and that they plan to utilize the Bureau and its products and services in the future.

Since June 2019, the Bureau has visited with ten new states, including Alabama, Mississippi, Wisconsin, Minnesota, North Dakota, Montana, Nevada, Connecticut, Pennsylvania, and Louisiana. Those visits have resulted in nearly two dozen prospective projects. Currently, the Bureau has visits planned with Tennessee and New Mexico, and specific discussions are underway with four other states: Arkansas, Arizona, Maine, and Vermont.

Regional Infrastructure Accelerators

Another element in the Bureau's ongoing mission to provide more technical assistance to rural communities is the Regional Infrastructure Accelerator program. By pooling resources, regional accelerators can assist local governments in developing improved infrastructure priorities and financing strategies for the accelerated development of projects, many of which would be eligible for TIFIA, RRIF and other innovative programs. Accelerators will act as multipliers of the Bureau's existing staff and resources, helping develop infrastructure planning and delivery capacity in rural communities and elsewhere.

As a result of last month's \$5 million Congressional appropriation, the Bureau is developing a Request For Information to seek input from interested parties about the most effective, transparent and expedient ways to structure and deliver the accelerator program. Upon receipt of public feedback, we intend to issue a Notice of Funding Opportunity to fund, through grants, a small number of Regional Infrastructure Accelerators as a demonstration program that will continue to explore more innovative and efficient ways to identify, finance and deliver projects – especially in small town America.

Conclusion

The Department of Transportation and its Build America Bureau have placed a long-overdue emphasis on Rural America. Through the ROUTES Initiative, discretionary grant programs and the innovative solutions offered by the Bureau, we have been focusing, and are continuing to focus, all available resources and authorities on solutions for rural communities. Focused Bureau outreach, tailored products such as TIFIA RPI, RRIF Express, Build It Now and others, combined with technical assistance and streamlining the process have already begun to produce tangible dividends for small-town America.

We know we have much more work ahead as we continue the important job of solving those challenges and improving the both the safety and connectivity of transportation in rural America. We look forward to working with the Committee and other partners to continue to remove barriers to safety, economic growth and mobility for rural and urban communities alike.

Thank you.