STATEMENT OF
THE HONORABLE POLLY TROTTENBERG
ASSISTANT SECRETARY FOR TRANSPORTATION POLICY
U.S. DEPARTMENT OF TRANSPORTATION

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Building American Transportation Infrastructure through Innovative Funding

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Chairman Rockefeller, Ranking Member Hutchison and Members of the Committee: thank you for the opportunity to appear before you today to discuss U.S. Department of Transportation (DOT) efforts to facilitate greater private sector investment in our Nation's transportation systems.

President Obama believes that the Federal Government should encourage more private sector investment in transportation projects to complement the Federal Government's commitment to robust public investment in our Nation's infrastructure. Visiting the Chamber of Commerce earlier this year, the President encouraged the private sector to "get in the game" and invest the $2 trillion sitting on its balance sheet in America's economic competitiveness; and the President has consistently made clear that infrastructure is a top priority area for investment of private capital.

Today I will focus on what we are doing at DOT, under the leadership of Secretary Ray LaHood, to utilize DOT's many innovative approaches to transportation investment, including some of DOT's credit assistance and discretionary grant programs, which are an important complement to a robust, long-term surface transportation program. I will also discuss the Administration's proposal for a National Infrastructure Bank, which will provide a needed proactive tool to bring private investors to the table.

Private Sector Investment in Transportation

According to *Infrastructure Investor*, the 30 largest infrastructure equity funds raised $180 billion of private capital for infrastructure investment over the last five years. These infrastructure equity funds include pension plans, private investment funds and infrastructure developers.

Private investment in transportation projects can take many forms. Much of the private capital that gets invested in transportation projects is supported by Federal credit assistance programs like TIFIA and RRIF, which make it easier for the public sector to access capital markets financing. The Federal govenrment also provides for traditional tax-exempt debt issued by State and local governments and the Build America Bonds program that expired at the end of last year.

Private capital can be invested in transportation through public-private partnerships, which allow the private sector to take a much more robust role in the delivery, financing and management of transportation infrastructure. PPPs allow the private sector to incorporate innovations and efficiencies and to put capital at risk for a project in a way that traditional procurement strucutures do not.

PPPs can offer an innovative new delivery approach for some of our country's most complex and challenging projects when they are appropriately structured, when they provide better value as compared to traditional public sector delivery approaches, and when the underlying projects are well-aligned with public policy objectives. DOT's recent experience demonstrates that, when creatively utilized, the flexibility afforded by Federal credit assistance can be a powerful catalyst for PPPs – including complex projects involving multiple public and private sector stakeholders.

In the last five years eight major PPPs have been completed in Florida, Texas, Virginia and Colorado with a total value representing approximately $13.5 billion of new investment in the transportation system. The pace has been accelerating lately with several new projects in active procurement or financing, including the replacement of the Goethals Bridge in New York and New Jersey and the Presidio Parkway in California.

Over the last few years, Federal programs have proven to be a key component of most of the major new PPPs that have been entered into in the U.S. DOT believes that Federal programs will continue to facilitate the majority of successful transportation PPPs in the U.S. It is therefore important to ensure that we maximize the value of the public investment and achieve national goals, such as economic competitiveness and environmental sustainability, through these projects.

TIFIA Program

One of the Department's most important and successful programs for facilitating private investment has been the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) program, which provides credit assistance for major surface transportation projects. The program offers direct loans, loan guarantees or lines of credit for up to 33 percent of a project's eligible costs. TIFIA offers flexible and favorable repayment terms, which help fill market gaps in financing plans and encourage broader co-investment by the public and private sectors. These include interest rates that are equivalent to Treasury rates – on Monday the interest rate was 4.23 percent, opportunities to defer interest and principal payments in the early years of the loan, and final maturity dates as much as 35 years from completion of construction.

Eligibility is open to large-scale surface transportation projects – highway, transit, rail, intermodal freight, and port access – with eligible costs exceeding $50 million. TIFIA credit assistance is available for State and local governments, transit agencies, railroad companies, special authorities, special districts, and private entities.

Since its inception the TIFIA program has used $603.6 million of budget authority to support 22 direct loans and one loan guarantee totaling $8.3 billion in credit assistance (i.e. the face value of the loans). This credit assistance facilitates transportation projects totaling $31 billion in public and private infrastructure investment.

The $1.1 billion Port of Miami Tunnel Project provides a good example of how TIFIA supports private investment through PPPs. The project, which is currently under construction, will improve access to and from the Port of Miami by providing a dedicated roadway connector linking the Port, located on an island in Biscayne Bay, with the MacArthur Causeway and I-395 on the mainland. A private company is responsible for design, construction, financing, operation and maintenance of the project for 30 years. A relatively small amount of budget authority, $21.5 million, supported a $341 million TIFIA loan and facilitated a $1.1 billion investment in a nationally-significant transportation project.

TIFIA is also increasingly used for transit projects, for which local taxes and/or other revenue streams related to transit-oriented development can be leveraged to repay project financing sources. For example, TIFIA provided a $171 million loan for the Transbay Transit Center, a major passenger transportation hub connecting San Francisco with other Bay Area communities. The loan will be repaid with the tax increment collected from State-owned parcels and passenger facility charges from AC Transit, the Center’s initial primary tenant.

In the last two years, demand for TIFIA credit assistance has far outpaced the program’s limited budget authority. The Administration’s Fiscal Year 2012 budget proposed increases to TIFIA’s annual funding by almost four times to $450 million. Senator Barbara Boxer, Chairman of the Senate Committee on Environment and Public Works, and Representative John Mica, Chairman of the House Transportation and Infrastructure Committee, support increasing TIFIA’s annual budget authority to $1 billion.

TIGER Program

The Transportation Investments Generating Economic Recovery (TIGER) program represents a more proactive approach than TIFIA, being one of the Department’s most ambitious efforts to date to leverage Federal investments. The program catalyzes local, regional and national planning and facilitates substantial co-investment by the public and private sectors – the average dollar invested by the TIGER program is matched by more than three dollars of State, local or private funding. This far outperforms the leveraging we see in the formula programs.

Among the factors that make this program a success are its ability to fund a full range of surface transportation projects, not just particular modes, and its ability to provide funding to any government project sponsor, not just State DOTs and transit agencies. The program’s flexibility has allowed it to fund an unprecedented number of innovative and creative projects that the Federal Government would otherwise find difficult if not impossible to fund.

The competitive nature of the TIGER program helps spur cooperation among a variety of project sponsors and brings new sponsors and their ideas to the table. Applicants understand that whether or not they secure grants depends, at least in part, on their ability to leverage as many sources of funding as they can and demonstrate that they can make Federal dollars go further.

As an example, the TIGER program is investing in the Crescent Corridor freight rail project, a multi-billion dollar program centered on the continued development of Norfolk Southern's rail intermodal route from the Gulf Coast to the Mid-Atlantic. DOT provided a $105 million TIGER grant to support construction of two new intermodal facilities in Memphis and Birmingham, and this investment is being matched with $72 million of the railroad's private funds. Connecting the 2,500-mile Crescent Corridor network of rail lines and regional intermodal freight distribution centers will strengthen domestic and international freight distribution in the Southeast, Gulf Coast and Mid-Atlantic markets. This will help the railroad and also achieve key public objectives – increased freight rail capacity and efficiency, reduced emissions and fuel consumption, and has the potential to reduce highway congestion for drivers on neighboring roads, as well as reducing highway maintenance costs.

The TIGER program also provided $98 million for the National Gateway Freight Rail Corridor Project, which will allow CSX to increase freight rail capacity and carry double stacked containers in Ohio, West Virginia, Pennsylvania and Maryland, from East Coast ports to the Midwest. Similarly, the CREATE Program, a multi-billion dollar package of 78 projects that address nationally-significant freight rail congestion in the Chicago area, received a $100 million TIGER grant to help complete a handful of its highest priority projects, which will be matched by $62 million of other private and public funds.

DOT also uses TIGER funds to support TIFIA financing. In one case, DOT is funding an intermodal project linking the transit system to the aviation system. Up to $20 million in TIGER funds will support a $546 million TIFIA loan for the Crenshaw/LAX Transit Corridor Project in Los Angeles, a new 8.5-mile light rail line connecting the Exposition Line at Exposition/Crenshaw Station and the Metro Green Line. The project will include six to eight new stations and will directly connect to Los Angeles Airport. The TIFIA loan will cover approximately one-third of the total project cost of $1.7 billion. The project is a key piece of the City's 30/10 initiative, an effort to accelerate 12 major transit projects in just 10 years, rather than 30 years, using innovative financing backed by the voter approved Measure R sales tax.

TIGER can also support a more entrepreneurial and experimental approach to credit assistance. DOT provided four TIGER applicants with "TIFIA Challenge Grants," a $10 million grant, or the opportunity to use the $10 million as budget authority to support a larger investment in the form of a TIFIA loan. This gave the project sponsors a unique opportunity to catalyze an innovative financing strategy that had not previously been considered, or thought feasible, and enabled DOT to work proactively with project sponsors to get the best possible return out of its Federal investments.

The first project to successfully leverage a TIFIA Challenge Grant is the U.S. 36 Managed Lanes/Bus Rapid Transit Project in Colorado. The project will accommodate bus rapid transit, bikeways and congestion-reducing managed lanes northwest of Denver. Colorado plans to use the $10 million TIFIA Challenge Grant to support a $55 million TIFIA loan which helped galvanize a $300 million financing package that includes a robust mix of State, local and Federal funds. Not only did the TIFIA Challenge Grant help facilitate a more robust TIGER project than could have been achieved with a $10 million grant, but it may also create momentum for Colorado's procurement of the next phase of the project, extending the lanes an additional eight miles to Boulder. The TIGER-funded portion of the project is being procured as a design-build project and the next phase may be structured as a PPP with more private sector investment.

However, not all of the recipients of the TIGER program's TIFIA Challenge Grants were successful in catalyzing a more robust financing package. DOT worked with the South Carolina DOT to turn a $10 million grant for a portion of the overall I-73 construction project west of Myrtle Beach into a TIFIA loan, but the SCDOT determined that this portion of the project in a fairly rural area would not generate sufficient toll revenue to support financing without the completion of the much larger link from I-95 to Myrtle Beach.

RRIF Program

The Railroad Rehabilitation and Improvement Financing (RRIF) program provides direct loans and loan guarantees to acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings and shops and develop or establish new intermodal or railroad facilities. Under this program the Federal Railroad Administrator is authorized to provide direct loans and loan guarantees up to $35 billion. Up to $7 billion is reserved for projects benefiting freight railroads other than Class I carriers. The Federal Railroad Administration has made 30 loans totaling $1.6 billion.

Eligible borrowers include railroads, State and local governments, government-sponsored authorities and corporations, joint ventures that include at least one railroad, and limited option freight shippers who intend to construct a new rail connection. The loans can fund up to 100 percent of a railroad project, with repayment periods of up to 35 years and interest rates equal to the rate on Treasury securities of a similar term.

At the end of June, the Department announced a $562.9 million loan to Amtrak under the RRIF program that will finance the purchase of 70 high-performance, electric locomotives from Siemens Industry USA. The locomotives will be built by American workers in Norwood, OH, and Alpharetta, GA, with final assembly in Sacramento, CA, helping create hundreds of manufacturing jobs and spurring the domestic manufacturing sector. These locomotives are more energy-efficient and will enable Amtrak to improve frequency, performance and reliability for regional and intercity routes along the

Northeast and Keystone Corridors. While the Amtrak loan is the largest loan issued through the RRIF program to date, recent interest in the program suggests that RRIF could increasingly be used for major railroad investments, including freight rail investments that leverage substantial investments by private freight railroads, among others. At the same time, we recognize DOT's responsibility to ensure that these loans serve meaningful public policy ends and are not unduly risky – as well as to consider whether these investments would be made without Federal support.

Significantly, RRIF assistance was also recently combined with TIFIA assistance to make a unique and innovative financial plan feasible. The $516 million Denver Union Station Project is a public-private development venture located on approximately 50 acres in lower downtown Denver, which includes the historic Denver Union Station building, rail lines, vacant parcels, street rights-of-way, and offsite trackage rights. The Project comprises the redevelopment of the site as an intermodal transit district surrounded by transit-oriented development, including a mix of residential, retail, and office space. The transit district will serve as a regional multimodal hub connecting commuter rail, light rail and bus rapid transit, regularly scheduled bus service, and other related transportation services. The Federal Government is providing a TIFIA loan of $145.6 million, a RRIF loan of $155.0 million, an FHWA grant of $45.3 million, an FTA grant of $9.5 million, and a Recovery Act grant of $28.4 million.

While the Denver Union Station Project had to approach each of these Federal programs independently, and comply with each program's specific requirements and timelines, they were ultimately able to assemble a viable financial plan. A national infrastructure bank would allow DOT to coordinate most or all of this assistance – senior debt, subordinated debt and grants – through one institution, which would save substantial time and money for all of the relevant parties, and could be the difference in a project's feasibility.

Private Activity Bonds

The Private Activity Bond (PAB) program allows for the issuance of tax-exempt debt to support private development and financing of public infrastructure. One active project estimates that PABs could save close to 9 percent of the total project cost. The bonds are issued by a public sector conduit and purchased by private investors, but the private entity developing the project is solely responsible for repayment of the bonds. SAFETEA-LU amended the Internal Revenue Code to add highway and freight transfer facilities to the types of private projects for which PABs may be issued, and PABs are now being incorporated in the financing plans of several major PPPs.

PABs can be used for surface transportation projects which receive Federal assistance through certain programs, including highways, transit, passenger rail, and freight transfer facilities. The law limits the total amount of such bonds that may be issued to $15 billion and directs the Secretary of Transportation to allocate this amount among qualified facilities. Providing private developers and operators with access to tax-exempt interest rates lowers the cost of capital, enhancing investment prospects. To date, the DOT has approved almost $6 billion of PAB allocations for eight projects, of which over $2 billion of PABs have been issued for five projects. Increasingly, PABs and TIFIA credit assistance are being used together to support multi-billion dollar projects.

One recent example is the I-635 Managed Lanes Project, which will relieve congestion north of Dallas on 13 miles of Interstate highway. The total project cost is $2.6 billion, and the project is being developed as a PPP. The private concessionaire will be responsible for design, construction, financing, operation and maintenance of the project for 52 years and is committing $672 million in equity, which includes an equity commitment from the Dallas Police and Fire Pension System. DOT played a key role in the financing and helped facilitate the PPP structure by providing an $850 million TIFIA loan and authorizing $606 million in PABs.

The I-635 Managed Lanes Project highlights a new element in financing PPPs, which is the successful incorporation of a direct pension fund investment in the financial plan. While the involvement of pension funds as direct investors in public transportation projects is still rare, this project demonstrates that pension funds are interested in infrastructure investments through PPPs. Sharing PPP revenue with public pension systems presents additional potential for the public sector to realize value from transportation PPPs.

The TIFIA program and PABs demonstrate the extent to which tolling and pricing can facilitate partnerships with the private sector to supplement current transportation funding and increase overall investment in transportation infrastructure. Tolls present a dedicated source of revenue which can be forecasted and used to repay long-term debt and equity investments. However, just because tolls make a project commercially viable does not necessarily mean the project is well-aligned with national, regional or local public policy considerations.

As with any PPP, a toll road needs to be examined through the lens of public policy considerations. For example, there are important ongoing discussions about whether existing Interstate highways should be tolled or only new capacity; what should be done with excess revenue generated by tolling; what type of pricing mechanisms are appropriate for managing demand and changing driver behavior; and whether congested urban areas might need greater tolling flexibility to address their needs.

Where a tolling structure makes sense there are increasing opportunities to implement variable or congestion pricing mechanisms that not only generate revenue to pay for the facility, but also help manage demand for the facility by encouraging more use of off-peak capacity, shared rides and transit use. In addition to generating funds, pricing can reduce the overall need for investment in new transportation facilities.

The Capital Beltway High Occupancy Toll (HOT) Lanes project is a partnership between the Virginia DOT and a private concessionaire to deliver new lanes and over 50 bridges and overpasses on one of the busiest stretches of Interstate in the country. The $1.9 billion project is deploying innovative managed lanes to provide real-time congestion mitigation options for transit vehicles and drivers paying tolls from the Springfield

Interchange to the Dulles Toll Road. The private concessionaire will be responsible for design, construction, financing, operation and maintenance of the project for 85 years. In addition to public funds, the private partner is committing $350 million in equity. DOT played a key role in the financing by providing a $589 million TIFIA loan and authorizing $589 million in PABs.

Infrastructure Bank

The infrastructure bank is one of the most promising ideas for leveraging more private sector dollars into infrastructure and has generated support from leaders here in Congress, including the Chair and Ranking Member of this Committee, Senators Lautenberg, Warner and Kerry and Representatives DeLauro and Ellison. President Obama has been a long-time supporter and the Administration's budget for Fiscal Year 2012 requests $5 billion for a new national infrastructure bank. This is the first year of a six-year plan to capitalize the bank with $30 billion.

The infrastructure bank, which would provide grants, loans, loan guarantees or a combination thereof to the full range of passenger and freight transportation projects in urban, suburban and rural areas, marks an important departure from the Federal Government's traditional way of spending on infrastructure through mode-specific grants and loans. By using a competitive, merit-based selection process, and coordinating or consolidating many of DOT's existing infrastructure finance programs, the infrastructure bank would have the ability to spur economic growth and job creation for years to come.

Rigorous benefit-cost analysis would focus funding on those projects that produce the greatest long-term public benefits at the lowest cost to the taxpayer. This is achieved, in part, by encouraging private sector participation in projects in order for them to be competitive. Other important selection criteria would encourage accelerated project delivery and risk mitigation.

The increased capacity and coordination of Federal infrastructure finance programs in the infrastructure bank will allow for greater investment in those projects that have the largest and most immediate impact on the economy. Many of these projects of national and regional significance are currently underfunded due to the dispersed nature of Federal investment and lending. The national infrastructure bank would be able to address this issue in a systemic fashion, partnering with the private sector as well as State and local governments to address the most pressing challenges facing our transportation networks. We expect that an infrastructure bank would be well-positioned to better align investment decisions with important national economic goals, such as increasing exports. This would amplify job creation and economic growth.

The emphasis placed at the Federal level on competitive, merit-based selection will also serve as a model to State and local governments who will continue to make the bulk of infrastructure decisions. In Chairman Mica's recent transportation reauthorization proposal, he focuses on providing incentives for States to create and capitalize State infrastructure banks. A national infrastructure bank could leverage State investments through their own infrastructure banks.

The national infrastructure bank would build on the best practices developed through DOT's existing credit assistance and discretionary programs to provide a more robust and effective mechanism for investing Federal funds and attracting substantial private sector co-investment to our most challenging and complex transportation projects.

Conclusion

The Federal Government has many programs that facilitate and encourage private investment in transportation projects. Of particular note are the TIFIA, TIGER and RRIF programs, PAB and the proposed national infrastructure bank. These programs reflect an acknowledgement that the Federal Government needs to take a more active role in supporting major transportation projects with targeted grants and credit assistance. The Department's experience is that competitive national programs facilitate creative and innovative approaches at the State and local level to leverage substantial revenue for major transportation investments.

I think it is also important for the Federal Government, in close collaboration with the private companies engaged in PPPs, to do a better job of educating and supporting all of the relevant public entities that are considering PPPs. There is value for the public sector in innovative P3s, but there is also complexity and risk.

As we consider increasing the role innovative finance and private investment play in our transportation system, we must insure that applicants of all sizes and in all parts of the country have the guidance and technical assistance they need to succeed.

We already provide that through our program experts at DOT and in the future we hope to better tap into the expertise represented here today from the private sector, labor and other transportation stakeholders.

Thank you again for the opportunity to discuss these important programs and DOT's efforts to increase private sector investment in transportation infrastructure. On behalf of the Administration and the Secretary, I can underscore that we look forward to working with this Committee and other Members of Congress to consider innovative ways to utilize private sector capital and expertise to improve our nation's transportation infrastructure. I would be pleased to answer any questions you may have.