WRITTEN TESTIMONY OF PETER J. BASSO
PRINCIPAL
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HEARING ON REBUILDING THE NATION'S INFRASTRUCTURE; LEVERGING INNOVATIVE FINANCING TO SUPPLEMENT FEDERAL INVESTMENT

BEFORE THE SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION'S SUBCOMMITTEE ON SURFACE TRANSPORTATION, MERCHANT MARINE INFRASTRUCTURE, SAFETY AND SECURITY

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Mr. Chairman, I am Peter J. "Jack" Basso Principal of Peter J. Basso and Associates, LLC and consultant to Parsons Brinkerhoff. I also serve on the advisory board of Meridiam Infrastructure North America. and as a Board Member of the Maryland Transportation Authority. I am pleased to be here today to discuss the critical need for infrastructure investment and ways that increased investment levels might be achieved.

The Federal government is a key player in partnership with the State and local governments and the private sector. There is much to be done and achieving enhanced investment in the broad field of infrastructure can enhance America's international competitive position.

In my testimony I will discuss:

- the gap between needs for investment and the level of investment by all parties,
- provide information on the evolution of financing approaches that compliment traditional funding approaches,
- discuss new innovative financing approaches, e.g. the advancement of proposals that would create an independent government corporation to enhance and expand financing to the broad infrastructure needs of the nation,
- provide information on how such innovations might be seen by both public and private partners in a way that would expand infrastructure investment

CURRENT TRANSPORTATION FUNDING AT ALL LEVELS OF GOVERNMENT VERSUS TRANSPORTATION INVESTESTMENT NEEDS

Currently all levels of government (Federal, state and local) invest an estimated $90 billion annually in surface transportation infrastructure. [1] The National Transportation Policy and Revenue Study Commission estimated that the needs at all levels of government to be an average of $225 billion annually. Thus the investment level is about forty percent of needs. This underinvest has been documented in various studies for at least the past twenty years.

Historically, the source of this investment has been predominately taxes and "user fees" complimented beginning in 1993 with the development of Federal credit programs for surface transportation. Such programs existed prior to that time for water and sewer programs and a few other Federal infrastructure programs.

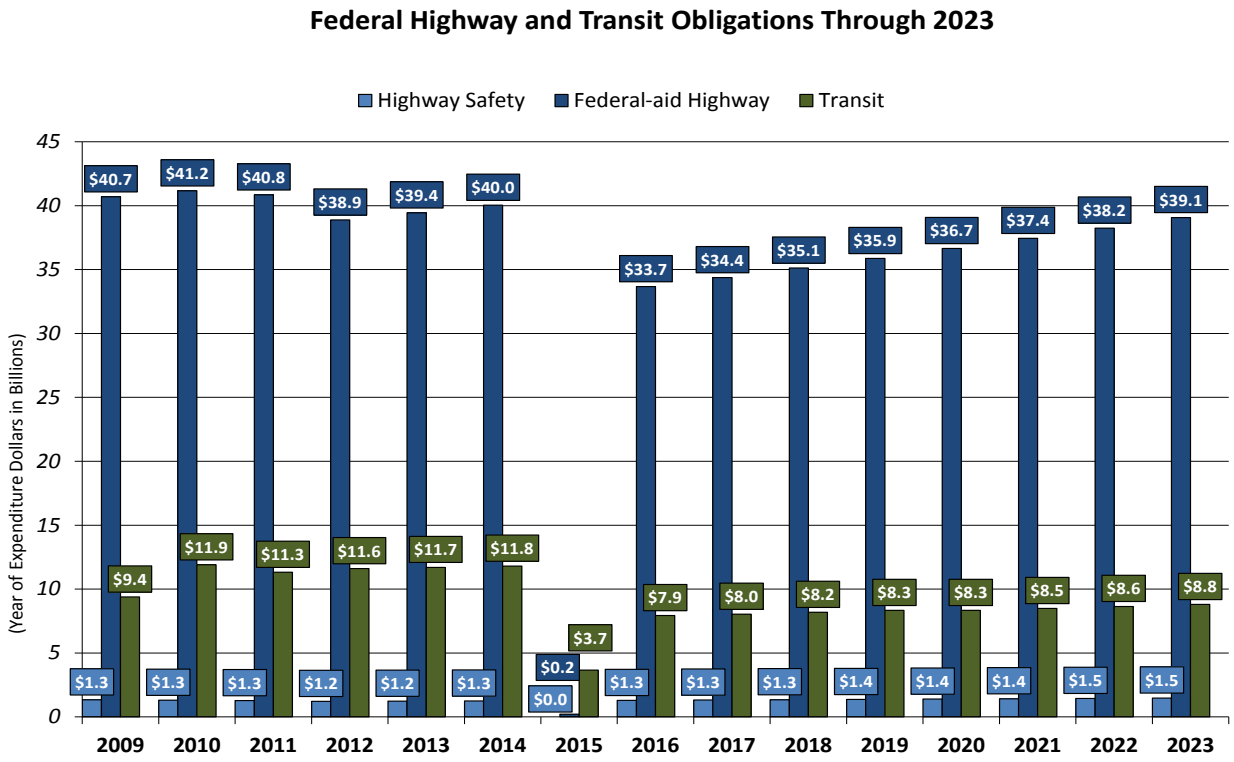
THE CURRENT CRISIS IN SURFACE TRANSPORTAION INFRASTRUCTURE INVESTEMNT

[1] Source: The National Transportation Policy and Revenue Study Commission, 2008

While the Highway Trust Fund has served as the backbone of federal surface transportation programs since 1956, it is now expected to reach a shortfall situation where virtually all new obligations will be eliminated in FY 2015. According to the Congressional Budget Office, this is due to the structural deficit between receipts and outlays which averages around $15 billion and will continue to increase over time.

If no new revenues are identified for the Highway Trust Fund, highway obligations are expected to be reduced by almost 100 percent from $40 billion in FY 2014 to $0.2 billion the following year. Transit obligations are expected to also experience a significant funding reduction.

The chart that following graphically presents the impact of these reductions



THE GROWING FEDERAL ROLE FOR SURFACE TRANSPORTATION FINANCE: 1990s TO TODAY

In 1993 the Federal government (Federal Highway Administration) began an effort to introduce credit tools into the system using Title 23 Test and Evaluation authority to solicit projects that might be developed using credit and project acceleration tools. States submitted multiple proposals and many were used to form the basis for financing as a departure from traditional revenue based funding.

In 1995 Congressional authority was sought using the Credit Reform Act of 1990 to make $400 million direct loan to contribute to the building of the Alameda Railroad Corridor in California. The key was the $400 million became the final piece of a $2 billion project and scored on the Federal budget not at $400 million but rather $50 million in appropriations. The loan was paid by tolls from the users of the corridor.

In that same period the Federal government began authorizing States to issue Grant Anticipation Revenue Vehicles (GARVEE bonds) which are to be paid from future Federal apportionments from the HTF. Some $16.2 billion of bonds have been issued by twenty six states, the District of Columbia and Puerto Rico through, 2012.[2] The National Highway System Designation Act codified this program in 1995.

Other the credit concepts: in 1996 and 1997 the Federal government appropriated funds to seed the development of State Infrastructure Banks and multiple states acted to create these banks. Many of these banks continue to operate today.

With the passage of TEA-21 the TIFIA program was created to provide, a portion of capital for loans, loan guarantees and standby lines of credit for transportation programs. The program was reauthorized most recently in MAP21 with a tenfold increase in credit subsidy funding ($1.75 billion) with a leverage factor of 10 to 1 to the subsidy.

The Build America Bonds program enacted in the economic stimulus legislation further enhanced the advancement of credit financed projects.

It is important to keep in mind that tools like TIFIA loans that needs to be paid back over time are not like traditional grant dollars (e.g., Federal-aid Highway Program, federal transit formula program, etc.). They fall in the realm of financing vehicles like bonding, which are used to leverage transportation funding and allow transportation agencies to raise the high upfront costs needed to build projects, and expedite the implementation of transportation improvements. As such, in order to utilize these financing tools, funding sources such as taxes, fees, and user charges—the very same revenues that are in short supply—must be pledged for repayment over decades.

PUBLIC\PRIVATE PARTNERSHIPS

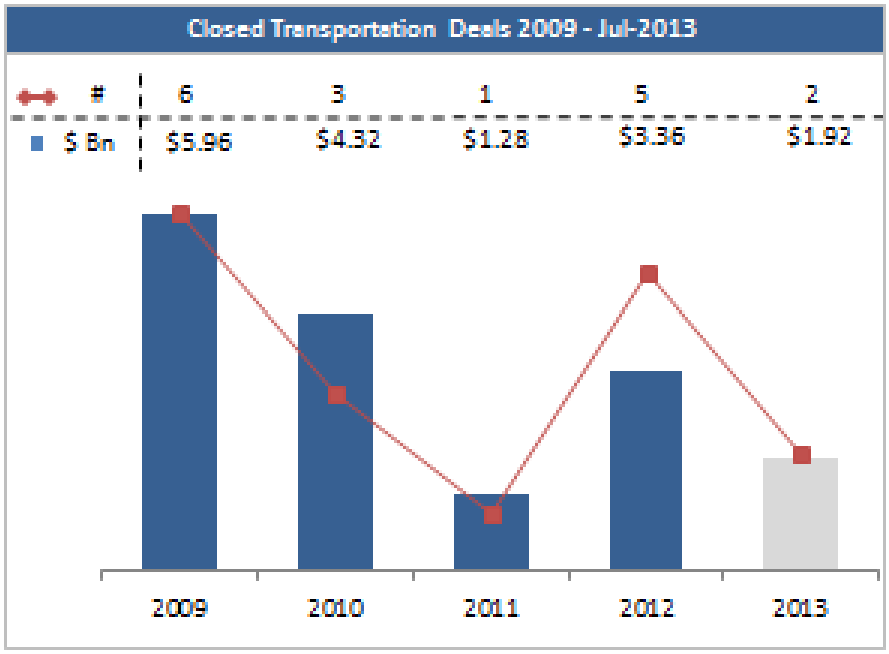
A major development complementing the aforementioned financing programs has been the development of public-private partnerships (PPP) around the country. Early involvement of the private sector can bring creativity, efficiency, and capital to address complex transportation problems facing State and local governments. As project delivery

[2] Source: U.S. Federal Highway Administration data.

and financing approaches, PPPs do not serve as a funding source; rather, private investment must be repaid with general revenue (taxes) or project-specific revenue (tolls). Public sector interest in PPPs has continued to increase in the recent years, as thirty three states now have adopted enabling legislation to permit its use.

Below are a series of examples of projects at have come about through the use of ppps.

Transportation P3 Market Activity



Closed Deals
2009
I-95 Express Toll Lanes PPP
Chicago Parking Meters Project
Florida I-595 Highway Upgrade PPP
Port of Miami Tunnel P3
Connecticut Hwy Service Areas Maint. P3
North Tarrant Express P3 Segment 1
2010
Lyndon B Johnson Freeway Mgd Lanes P3
Denver Metro Eagle P3 Phase I
South Norfolk Jordan Toll Bridge BOO
2011
PR-22 and PR-5 Toll Roads P3
2012
Virginia Midtown Tunnel P3
Presidio Parkway P3
Interstate 95/395 HOV/Bus/HOT Lanes P3
Ohio State University Car Parks Concession
US Route 460 Corridor Improvements PPP
2013
Luis Munoz Marin International Airport PPP
Ohio River Bridges P3 - East End Crossing

It is clear from the data that P3s are a growing segment of the overall investment pool.

A NEXT STEP ADVANCING CONCEPTS SUCH AS THE BUILD LEGISLATIVE PROPOSAL

Several legislative proposals have been discussed in Congress and by the Administration to create new and enhanced financing vehicles. They include:

- Tax Credit Bond programs known as TRIP- Senators Wyden and Hoeven
- America Fast Forward Bonds –The Obama Administration

- The proposed Bridge Act- Senator Warner and others (Under development not yet introduced)

The goal of all of these financing tools are to expand investment in all forms of infrastructure highways ,transit, water, power, selected energy programs rail and airports

Focusing on the BRIDGE concept it would create an Infrastructure Financing Authority to make loans, loan guarantees and lines of credit. As I understand it would follow-the successful Export-Import Bank model. It would ultimately become fiscally self-sustaining. It would have broad authority to fund through credit instruments a vast array of infrastructure projects.

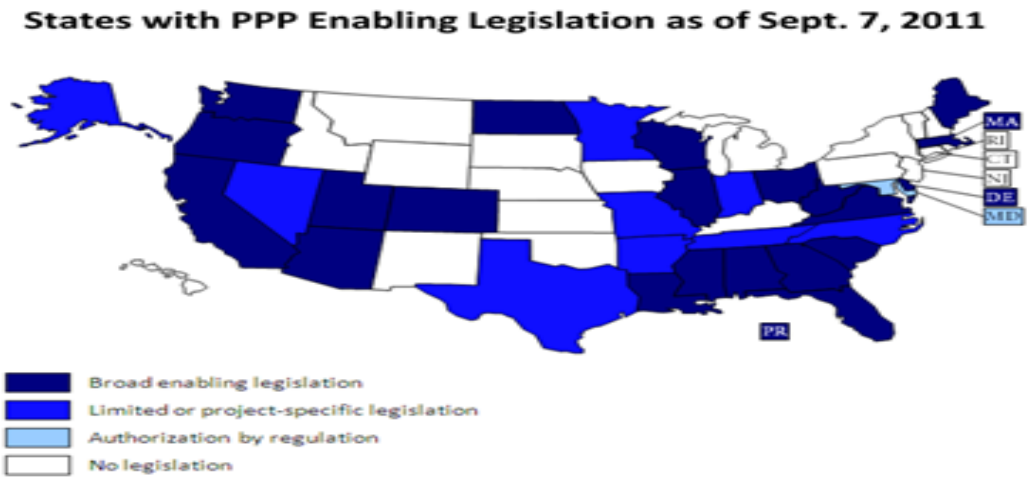
One of the key matters to address is the needs of rural America. Therefore as the legislation is drafted I urge that special consideration be given to those communities and provide for projects they can finance.

HOW EXPANDED FINANCING OPTIONS MAY BE VIEWED BY PUBLIC ENTITIES

Many states are moving to increase investment in particular transportation infrastructure by increasing the funding. A discussion follows of States that have moved to increase revenue. Almost every state has in some form studies or enactments of revenue measures that will lead to increased state investment.

Many states have also adopted various forms of P3 legislation and are looking to enhance their financing to leverage revenues to expand project activity.

The chart below shows the increasing activity in the states to adopt legislation to incorporate financing P3 options.



CONCLUSIONS

America is at a crossroad. We have fallen from third in the world in infrastructure investment to 25th. Our investment level which now totals around 2.3 percent of GDP is outranked by twenty-four other countries including notably China.

Federal tax rates to sustain the Federal Highway Trust Fund have not been increased in twenty years leading diminished real investment by as much as 50 percent due to inflation.

Funding is critical to address the needs but financing through innovative tools such as TIFIA, the introduction of budget infrastructure bank proposals and state actions to engage in P3s as well as private sector access to larger pools of capital is an essential ingredient to making significant progress in re ally expanding all areas of infrastructure **investment**.