

Written Statement by David Seltzer, Principal  
Mercator Advisors LLC

before the  
House Panel on 21<sup>st</sup> Century Freight Transportation  
Hearing on Funding the Nation's Freight System

“The Role of Innovative Finance Tools”

October 10, 2013



1629 Locust Street Philadelphia, Pennsylvania 19103

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**The Role of Innovative Finance Tools**

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Chairman Duncan and Ranking Member Nadler, thank you for inviting me to testify this afternoon on “The Role of Innovative Finance Tools” in freight transportation. My name is David Seltzer, and I am a Principal at Mercator Advisors, a Philadelphia-based financial consulting firm that works with governmental, private and nonprofit entities seeking to finance major transportation projects and programs. We also advise transportation industry groups on Federal policy initiatives that could stimulate infrastructure investment.

My personal background includes over 35 years in arranging financing for infrastructure projects, including 20 years in public finance investment banking, three years at the Federal Highway Administration as special advisor to the Administrator on innovative finance, and the last dozen years as a co-founder and principal at Mercator Advisors. Aside from my current “day job”, I also serve as chairman of the Philadelphia Gas Works—the nation’s largest municipally-owned gas utility—which is in the midst of a privatization process, giving me a special appreciation of the opportunities and challenges in seeking to deliver essential infrastructure services.

You have heard expert testimony today from the other witnesses concerning the *funding issues* confronting America’s freight transportation system. I would like to briefly share with you an overview of some *financing tools* that are being used—and indicate what types of Federal policy initiatives, in my view, could be most effective in helping advance major freight capital investments.

Although the terms “funding” and “financing” are often used interchangeably, it is important to recognize the distinction between the two concepts: *Funding* refers to the underlying cash flows derived from user charges, fees or taxes associated with a project or program, whereas *financing* refers to the instruments or techniques used to “monetize” (obtain upfront resources from) the revenue streams needed to construct the project. Financing tools include debt obligations such as long-term taxable, tax-exempt or tax credit bonds, as well as equity investments and contributed public (and private) capital.

### Capital Investment in Freight Infrastructure

Freight transportation encompasses a wide array of services, facilities and operating entities supporting goods movement by land, air and sea. While we think of freight shipments as being primarily a private sector responsibility, the capital investment in infrastructure in many cases involves both governmental (Federal, state and local) resources as well as business-generated resources, as shown in Table 1 below:

**Table 1: Summary of Freight Transportation Infrastructure ownership & Responsibilities**

| Freight Mode    | Connectors/Corridors<br>("Rights of Way") | Hubs<br>(Intermodal &<br>Intramodal<br>Terminals) | Carriers |
|-----------------|-------------------------------------------|---------------------------------------------------|----------|
| <b>Trucking</b> | Highways—<br>Generally Public             | Distribution centers--<br>Private                 | Private  |
| <b>Rail</b>     | Railways*--<br>Private                    | Railyards—<br>Private                             | Private  |
| <b>Marine</b>   | Waterways/Harbors—<br>Public              | Marine Terminals—<br>Public and Private           | Private  |
| <b>Aviation</b> | Airways—<br>Public                        | Airports—<br>Generally Public**                   | Private  |

\* A small percentage of rail right-of-way and terminals are under public ownership.

\*\* A small percentage of airports are privately owned.

Of course, many freight terminal facilities are intermodal in nature, with goods transfers from ship-to-rail, rail-to-truck or truck-to-ship. These hubs and the local surface connectors accessing them (“last mile,” or “first mile”, depending on your perspective) are critical junctures in the goods movement network, and frequently are the source of congestion and delays that affect shippers, carriers and the general public. Accordingly, I would like to focus my remarks on these intermodal facilities. Large intermodal projects often have high capital costs, can involve multiple jurisdictions, and generate substantial non-market effects (spillover costs/benefits or externalities). As a result, they are among the most challenging types of projects to finance.

In connection with some research we undertook for the Eno Center for Transportation, we surveyed a list of 35 freight projects identified as intermodal freight or cargo access investments in studies by the Federal Highway Administration and National Cooperative Highway Research Program.<sup>1</sup> The wide range of project types is summarized below:

**Table 2: Intermodal Freight Projects**

| Type of Project                 | Quantity  | Value<br>(\$ millions) |
|---------------------------------|-----------|------------------------|
| <b>Port Terminal</b>            | 3         | \$ 854                 |
| <b>Port Surface Access</b>      | 11        | 4,414                  |
| <b>Air Cargo Terminal</b>       | 3         | 142                    |
| <b>Air Cargo Surface Access</b> | 2         | 31                     |
| <b>Rail Truck Terminal</b>      | 6         | 1014                   |
| <b>Rail-Truck Access</b>        | 5         | 77                     |
| <b>Rail Capacity Expansion</b>  | 5         | 768                    |
| <b>TOTAL</b>                    | <b>35</b> | <b>\$ 7,300</b>        |

As might be expected, various financing strategies were used to advance this diverse group of projects. One of the key findings was that, unlike other types of infrastructure, there did not appear to be any consistent template in designing the financial plan for the projects; each one was custom-crafted, based on the nature of the project, its economics and its specific stakeholders. There are, however, several general findings that the data reveal. For example, for freight terminal projects, where the benefits of the investment are more squarely centered on the private business operators, the private sector generally assumed responsibility for the majority of the project costs. Less than 10 percent of the funding was derived from tax-based sources. In contrast, for the surface access projects, where there was a higher degree of public benefit (in terms of congestion relief, public safety, pollution reduction, etc.) on average only 37 percent of project costs were borne by the private sector; the majority of costs (63%) were publicly-supported, primarily from taxes. In addition, the majority of the projects relied on pay-as-you-go funding, using government grants, corporate contributions and current revenues.

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<sup>1</sup> Hoel, Lester A., Giuliano, Genevieve, and Meyer, Michael D., eds. *Intermodal Transportation: Moving Freight in a Global Economy*. Washington, DC: Eno Transportation Foundation, 2011. ISBN 978-0-9718175-5-5)

## “Innovative Project Finance” in Context

The current Federal funding support for freight is diffuse and under-capitalized. Only a small portion of USDOT’s grant funding significantly targets projects that facilitate goods movement. The existing grant support is supplemented by credit support and tax incentives that may be accessed through the TIFIA, RRIF and Private Activity Bond (PAB) programs. In addition, Congress over the last decade has authorized a Railroad Track Maintenance Tax Credit program (section 45g of the tax code) that currently extends through year-end. It allows short-line (Class 2 and 3) rail carriers to claim annual tax credits for up to \$3,500 per mile for 50% of the cost of maintaining track owned or leased by them. The scored cost has been approximately \$165 million per year.

There are a number of reasons why Federal grant funding to date for freight projects has been limited:

- Most state/local planning historically has been oriented to traditional public works, which have a broad political constituency compared with freight projects, whose direct beneficiaries may be much narrower.
- Much of the freight infrastructure (particularly freight rail) is privately-owned, and many states have legal and policy restrictions limiting the contribution of public funds to private beneficiaries.
- Projects are often intermodal in nature, and do not easily fit into existing Federal program structures that are modally-oriented.
- Many of the projects span multiple jurisdictions, hindering the formation of institutional entities to serve as comprehensive project sponsors and champions.
- The direct private benefits can be hard to monetize, and the non-market effects (spillover benefits) are difficult to quantify.

Using the lens of Federal policy tools, there are essentially four broad policy approaches the government can use to stimulate infrastructure investment: grants, regulatory streamlining, credit assistance and tax code incentives. *Grant funding* has been the traditional Federal tool for surface transportation, but as we are all acutely aware, fiscal limitations on both the Federal General Fund and the dedicated transportation trust funds make prospects for major increases in grant funds highly problematic in the near term.

*Regulatory reforms*, unlike grants, generally have little if any adverse fiscal impact, and can be very helpful in streamlining project delivery. Congress (most recently in reauthorizing Federal policies and programs in MAP-21) and the current and previous Administrations (through issuing Executive Orders) have directed Federal agencies to streamline the permitting and environmental review process. By way of example, the environmental clearance for the final

design of the \$3.9 billion Tappan Zee Bridge replacement was completed in less than a year. While accelerating projects can avoid cost inflation and bring transportation improvements online sooner, regulatory reforms may not provide a deep enough subsidy in and of themselves to stimulate major capital investment.

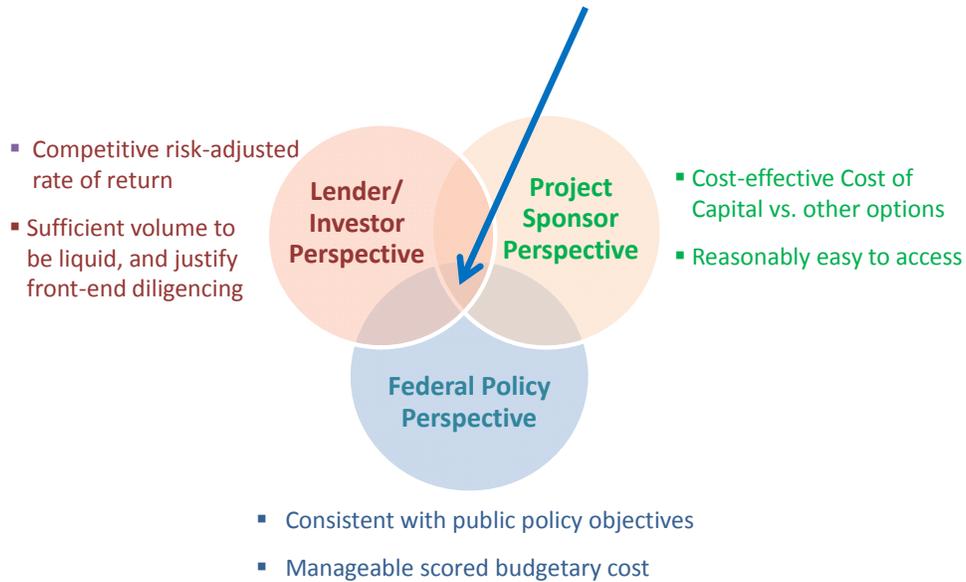
The last two Federal policy categories—*credit assistance* and *tax code incentives*—are financing approaches that may offer more investment promise in the current fiscal environment because they can:

- Induce state and local governments to identify new revenue streams to repay loans;
- Bring the market discipline of private co-investment to improve project selection; and
- Avoid the high scored budgetary cost associated with traditional grant funding.

In order to be successful, any Federal financing proposal must address the requirements of three principal stakeholder groups. First, from the perspective of the **project sponsor** (which could be a state or local entity, a private corporation in the freight sector, or a public-private partnership), the new tool has to represent a *cost-effective source of capital*, compared to other existing approaches. Second, from the perspective of the **investors** or lenders (which could be public entities, like state infrastructure banks and public pension funds, or private entities, such as individual investors and financial institutions), the financing tool must offer a *competitive risk-adjusted rate of return*. And finally, from the perspective of the **Federal government**, the tool has to be both *fiscally affordable and consistent with public policy objectives*. The most effective innovative finance tools therefore will be those that are able to successfully address the respective requirements of these three classes of stakeholders, as illustrated in the chart below:

[See next page]

## Ideal Design of Federal “Innovative Finance” Policy Tools



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Summarized below are several Federal e finance tools that have been used to advance freight projects to date, including a brief description of their impact from the perspectives of the project sponsor, investor and Federal policymaker. I also suggest some other new innovative finance tools that could play an important role in the future.

### Private Activity Bonds for Intermodal Projects

The Internal Revenue Code generally prohibits tax-exempt financing of facilities benefiting private businesses, necessitating more costly taxable rate financing. However, Congress has identified approximately a dozen categories of private activity purposes that *may* be financed on a tax-exempt basis (airports, docks and wharves, multi-family housing, redevelopment projects, etc.). These are called Private Activity Bonds (PABs).

SAFETEA-LU established a new class of “exempt facility” PABS under the tax code for “qualified highway or surface freight transfer facilities”. To be eligible, the project must be for either a title 23 purpose, an international bridge or tunnel, or an intermodal rail-truck transfer facility. A national limit of \$15 billion is currently authorized under the program, which is allocated by the Secretary of Transportation on a discretionary basis.<sup>2</sup> The PABs are Federally tax-exempt

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<sup>2</sup> This volume ceiling is in addition to each state’s annual private activity bond limitation under current law--the greater of \$95 per capita or \$295 million per year

but generally are subject to the alternative minimum tax (AMT), which currently adds about 0.35% to the required market yield compared to other governmental tax-exempt bonds.

To date, USDOT reports that \$3.8 billion of PABs have been issued for nine separate projects, and allocations have been made for another eight projects totaling \$4.4 billion. However, only four of the 17 authorized or financed projects are specifically for intermodal freight projects—all part of CenterPoint Intermodal's Midwest real estate portfolio. (These intermodal freight terminals have received PAB allocations totaling nearly \$1.8 billion, or 22 percent of the total commitments to date.) The remaining 11 allocations are for toll roads (seven of which are passenger car express toll lanes) and one passenger rail facility.

Project Sponsor Perspective: Up until the Great Recession, there had been a significant cost savings in being able to borrow on a tax-exempt basis. However, today, due to limited demand for long-term tax-exempt bonds, and the effect of AMT liability on PAB investors, the net benefit vs. taxable financing is estimated to be only about 0.25% per year, or 2.5% of the amount borrowed, in present value terms. If the AMT yield penalty were eliminated, the rate savings would be closer to 0.60% per year.

Investor Perspective: The lender/bondholder receives a risk-adjusted tax-free rate of return of perhaps 5.25% for a 30-year bond with a mid-investment grade bond rating. This return compares to *fully taxable* yields of 3.75% on long-term Treasury bonds and approximately 5.40% on similarly-rated long-term taxable municipal bonds

Federal Perspective: The program subsidizes investment in intermodal connections that will expedite goods movement and stimulate economic development. The scored cost of the program represents the “tax expenditures” (foregone income tax to the Treasury) associated with a private corporation borrowing on a tax-exempt basis. The Treasury scored the cost of the Administration's proposed expansion of this program by \$4 billion in its FY2014 Revenue Proposal at \$515 million over the ten-year budget window (representing about 13 percent of the face amount of new PABs authorized).

### **Transportation Infrastructure Finance and Innovation Act (TIFIA) Federal Credit Program**

The TIFIA program was enacted in 1998 as part of TEA-21, extended in SAFETEA-LU, and expanded significantly in MAP-21. It provides credit assistance to major surface transportation investments (\$50 million and more) in the form of direct loans, loan guarantees, and lines of credit.<sup>3</sup> TIFIA assistance is available for projects eligible for Federal assistance under title 23

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<sup>3</sup> Virtually all TIFIA participants have opted for direct loans because of the lower borrowing rates and greater payment flexibility.

(highways) or chapter 53 of title 49 (transit), international bridges or tunnels, intercity passenger bus or rail facilities and vehicles, public freight rail facilities, intermodal freight transfer facilities, and surface access projects to freight facilities. If the project is located within the boundaries of a port terminal, TIFIA eligibility is limited to surface transportation infrastructure modifications that are necessary to facilitate intermodal transfers and access into and out of the port.

TIFIA assistance legally may cover up to 49 percent of eligible project costs, but in practice USDOT continues to adhere to a 33 percent limit.<sup>4</sup> The TIFIA loan may be subordinated to other debt obligations, except in the case of a bankruptcy-related event, and the payment schedule may be deferred. The “subsidy cost” (loss reserve) associated with each loan is funded through contract authority from the Highway Trust Fund. The scored cost is essentially the same for a direct loan from the Federal government at the Treasury rate or a Federal loan guarantee on a loan funded by a third-party lender, since both tools measure budgetary cost based on expected losses from borrower defaults.

There currently are outstanding 29 TIFIA loans with an initial principal amount of \$10.2 billion. Another seven loans totaling \$1.6 billion have been fully repaid. Only two of the loans under TIFIA—Reno Transportation Rail Access Corridor and Port of Miami Tunnel—are for principally freight transportation purposes. That means that just over three percent of the TIFIA program’s total loan commitments to date (about \$390 million out of \$11.8 billion) have supported projects that are primarily freight-oriented.

Project Sponsor Perspective: Obtaining long-term loans at the Treasury’s own cost of capital—today, approximately 3.75%—represents a substantial reduction in borrowing rates for most state/local issuers compared to tax-exempt borrowing through the municipal bond market. For example, a project with a Single A rating could save at least 1% in interest expense—the equivalent of 12+ percent savings for the amount borrowed, in present value terms. For a P3 borrower lacking access to the tax-exempt bond market, the savings are even greater—nearly 20 percent in present value terms. In addition, the TIFIA program offers other advantages, such as the ability to lock in the interest rate well in advance of drawing down funds, the right to prepay the loan at any time without penalty, and the *potential* willingness of USDOT to accept more flexible terms, such as back-loaded debt service schedules and a junior claim on project revenues.

Investor Perspective: From the viewpoint of other lenders to the project, having TIFIA financing that may be structured on a functionally subordinate basis and that is conditioned upon the

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<sup>4</sup> While MAP-21 increased the legally-permissible TIFIA share of eligible project costs from 33% to 49%, USDOT has stated as a practical matter that applicants should not assume a share greater than 33%, due to demand for the program and other policy considerations.

senior debt receiving an investment grade bond rating strengthens the overall plan of finance—especially for lower-rated borrowers that otherwise might not have ready access to the capital markets.

Federal Perspective: TIFIA credit assistance is extended pursuant to the Federal Credit Reform Act, where the scored budgetary cost is based on a risk assessment of the estimated losses to the Federal government resulting from any unrecovered payment defaults or interest rate subsidies. The average risk-score to date under the TIFIA program has been approximately 10 percent of the face or par amount of loans made; in some cases the project-specific loan subsidy cost has been under 1 percent. This makes it a highly effective leveraging tool from a Federal budgetary perspective. Under an assumed 10 percent risk-score, the implied volume of the TIFIA program as authorized for FFY 2013 and 2014 by MAP-21 is approximately \$17 billion.

### **Railroad Rehabilitation and Improvement Financing (RRIF) Federal Credit Program**

The RRIF program was enacted in 1998 as part of TEA-21 as a \$3.5 billion program, and subsequently reauthorized and expanded to \$35 billion under SAFETEA-LU in 2005. RRIF provides credit assistance to state and local governments, railroads, government-sponsored authorities and joint ventures that include a railroad partner. The direct loans (and potentially loan guarantees) may be used to acquire, improve, or rehabilitate intermodal or rail equipment or facilities.<sup>5</sup>

RRIF also can be used to refinance debt previously incurred for these purposes (such as a recent loan to Alameda Corridor Transportation Authority) and to establish new intermodal or railroad facilities. Unlike TIFIA, which is limited to 49 percent of eligible costs, RRIF can provide loans for up to 100 percent of a railroad project with repayment terms of up to 35 years and interest rates equal to the cost of borrowing to the Federal Government.

Project Sponsor Perspective: The RRIF program is similar to TIFIA in its ability to offer long-term loans at the U.S. Treasury rate (~3.75% today) for rail-related projects. Because many of the projects for freight railroads may not otherwise be eligible for tax-exempt financing, borrowing at the Treasury rate represents a reduction of 2.5% or more compared to conventional taxable financing (20 percent in present value terms). However, in contrast to TIFIA, RRIF has not received any appropriations from Congress to pay the “subsidy cost” (loss reserve), and the borrower is required to make an upfront cash contribution at financial close. The amount of the risk premium payment depends on the credit-worthiness of the loan, and has reportedly ranged between one and five percent of the face amount of the loan, based on substantial

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<sup>5</sup> As with TIFIA, RRIF borrowers prefer the lower rates and more flexible payment structure of direct loans versus loan guarantees.

over-collateralization of the loans in most cases. The payment of the upfront premium is a direct reduction to the present-value benefit that otherwise would be provided by the subsidized (Treasury-rate) loan. Therefore, in cases where a project (such as a freight rail transfer facility) is eligible for both the RRIF and TIFIA programs, the TIFIA program may provide a slightly lower effective borrowing rate.

Investor Perspective: To the extent that RRIF provides a majority or even all of the financing for a rail project, the investor perspective is not relevant. Otherwise, Federal financing through RRIF provides the same credit enhancement to the project's plan of finance as is conferred through TIFIA.

Federal Perspective: There is no scored budgetary cost for the loan activity, since the borrower pays a risk premium to cover the cost of the credit subsidy to obtain financing. As of September, 2013, RRIF loan agreements had been executed for 33 projects with an aggregate loan amount of \$1.7 billion. Approximately \$827 million (48 percent of the volume) was for 27 different freight rail projects, with the balance for passenger rail projects. The total freight and passenger loan volume thus far represents about five percent of the total authorized volume under the RRIF program.

### State Infrastructure Banks

State Infrastructure Banks (SIBs) were first authorized by the NHS Designation Act of 1995 as a pilot program authorizing ten states to establish loan revolving funds for highway and transit projects. Congress in 1996 broadened the program to allow additional states to participate, and provided \$150 million of General Fund resources as seed capital. SAFETEA-LU further expanded the program, authorizing all states and U.S. territories to establish revolving funds eligible to be capitalized with Federal transportation funds apportioned in fiscal years 2005-2009.

SIBs are authorized to provide direct loans, loan guarantees, interest rate subsidies and other forms of financial assistance to state and local transportation projects. In most cases, SIB assistance takes the form of low-interest (1%-3%) loans. SIBs capitalized with Federal grants are required to establish separate accounts for highway, transit and rail purposes. To date, only Colorado and Pennsylvania have reportedly made loans for freight rail purposes; the volume has been small. For example, Pennsylvania's SIB annual report indicates that it has made \$107 million in total loans to 159 separate projects, but only five loans (totaling \$2.3 million) were for freight rail purposes.

Borrower Perspective: A SIB loan at 2% would be at least 1.5% lower than TIFIA or RRIF financing. However, SIBs are constrained in the amount of lendable funds they have.

Nationwide, it is believed that the 32 states (plus Puerto Rico) with Federally-authorized SIBS have capitalized their banks with approximately \$950 million of Federal and matching funds. Moreover, many of the loans are for shorter terms (e.g. 10 years) which may not be attractive for larger, longer-lived freight capital investments. Federal law does not authorize states to use their current Federal funds to continue capitalizing their SIBs. But even when they could do so, states historically have opted not to deposit limited Federal-aid grants into their SIBs, when they have so many other projects facing immediate funding needs. There were no reported state deposits of Federal-aid to any SIBS during the term of SAFETEA-LU (FFY 2005-2009)

Lender Perspective: If a SIB were willing to lend on a subordinate basis to senior lenders, it would help strengthen the creditworthiness of the senior loan, much in the same way a junior TIFIA loan could help attract senior lenders/debt investors.

Federal Perspective. Aside from the initial round of \$150 million of Federal capitalization grants initially made available in 1996, SIBs have not received any specific Federal funding. Rather, states must decide if they wish to direct a portion of their available Federal funds to deposit into the SIB. SIBs therefore entail no incremental scored budgetary cost beyond the general cost of Federal spending from the Highway Trust Fund.

## Looking Ahead

Because of continuing constraints on government spending, it will be challenging to establish a large dedicated Federal grant program to assist freight infrastructure projects. Instead, I believe that finance subsidies through credit and tax code incentives may offer a more viable means of providing significant levels of assistance to major projects.

Credit program such as TIFIA and RRIF clearly can play a valuable role in facilitating financing for freight projects and programs. But many observers believe that Federal credit assistance could be provided more effectively if there were a stronger institutional platform, such as an independent government corporation. This special purpose entity would have an expert board of directors and staff drawn from industry whose *sole* purpose would be to evaluate, extend—and manage—credit assistance to those projects of national and regional significance providing the highest economic return to the nation.

The entity could operate under the Federal Credit Reform Act (FCRA), providing loans and loan guarantees similar to the current TIFIA and RRIF programs. It would have the staff resources, expertise and institutional focus to prudently yet expeditiously extend credit to major projects with public benefits. Because many goods movement projects span state lines, a national-level corporation would be much more effective than trying to establish bi-state or multi-state compacts to assist each freight initiative.

An additional way to expand incentives for infrastructure investment would be to provide subsidies through the tax code. Tax incentives avoid having the government assume contingent liability for loan performance (as is the case for Federal credit programs). In addition, the tax code can provide a deeper Federal subsidy if desired for those types of projects deemed particularly important from a public policy perspective. The budgetary cost of tax measures takes the form of foregone revenues (“tax expenditures”) and effectively is supported by the General Fund. Given that many major freight investments confer substantial benefits to the general public that can’t be “captured” as project revenues, indirect General Fund support may be appropriate. Moreover, the scored cost of tax code measures does not affect the Federal discretionary budget, where grant and credit assistance programs are funded. Rather, the tax expenditures are accounted for in the scoring of the Federal mandatory budget.

As noted above, the Administration’s FY2014 Revenue Proposal seeks to expand the PAB volume cap for highway and intermodal freight facilities from \$15 billion to \$19 billion. But given the narrow spread between tax-exempt PAB rates and taxable rates today (0.25%), and the view held by some Federal policymakers that expanding tax-exemption is an inefficient form of Federal subsidy, it might be worth exploring whether the Administration’s subsidized taxable bond option proposal could be broadened to include *any* freight facilities conferring public benefits—not just facilities currently eligible for tax-exempt financing, as is proposed. Under the Administration’s proposal, project sponsors would issue taxable rate bonds but receive an interest subsidy of 28 percent. This would effectively allow private project sponsors to borrow at rates similar to non-AMT governmental tax-exempt issuers, while attracting a broader range of investors, including pension funds, endowments and foreign investors, none of whom generally purchase tax-exempt bonds because of their own tax status.

An even more effective way to induce capital investment in infrastructure would be to establish a new class of qualified tax credit bonds for surface transportation. Qualified tax credit bonds are taxable-yield state and local debt obligations that receive a Federal subsidy designed to cover up to 100 percent of interest expense. Congress has authorized approximately \$32 billion of such bonds in recent years for schools, conservation and clean renewable energy purposes. For a project sponsor issuing long-term debt, a full Federal subsidy of interest is tantamount to receiving a 60 to 70 percent outright grant, in present value terms. Two companion bills were introduced with bipartisan sponsorship in June to establish a \$50 billion transportation tax credit bond program—H.R. 2534 and S. 1250—The Transportation and Regional Infrastructure Project (TRIP) Bonds Act. Either of these bills could serve as a vehicle for a freight infrastructure program.

Providing a volume cap on the amount of private activity bonds and tax credit bonds would give Federal policymakers greater certainty as to the fiscal cost to the government of offering the tax incentives. Because freight projects tend to be “lumpy” investments and have varying

degrees of public vs. private benefits, a formula-based allocation of issuance authority among the states is likely to prove inefficient. It would be more effective if a merit-based discretionary allocation approach could be used. The special purpose entity could perform the role of allocating volume cap to qualified projects that meet certain size and “significance” thresholds, with the bonds being issued at the state or local level.

## Conclusion

In an era of constrained Federal budgetary resources, “innovative project finance” tools that draw upon a combination of credit and tax incentives can play an important role in advancing major freight transportation investments. Existing Federal credit programs such as TIFIA and RRIF might more effectively be offered through a stronger institutional platform, such as a new special purpose government corporation. The current PABs program perhaps could be made more cost-effective to borrowers as a taxable rate bond program with a 28 percent Federal interest subsidy. This program could be complemented by tax code measures such as TRIP Bonds or other similar proposals for qualified tax credit bonds, where the government provides tax credits to investors that cover most or all of the interest expense associated with long-term borrowing.

Collectively, these credit and tax enhancements could stimulate major new freight infrastructure investments with a relatively small Federal budgetary impact. At the same time, these new tools could remove pressure from existing Federal grant programs, which would continue to be focused on traditional and smaller transportation projects.

Thank you for the opportunity to appear before you. I would be happy to respond to any specific questions you may have.