Testimony of
The Honorable Don Knabe
Chairman
Los Angeles County Metropolitan Transportation Authority
Joint Hearing Of The
U.S. Senate Committee on Environment and Public Works
U.S. House Committee on Transportation & Infrastructure
"Improving and Reforming our Nation's Surface Transportation Programs
To Support Job Creation and the Economy."
February 23, 2011

Good morning Chairman Boxer and Chairman Mica.

On behalf of the Los Angeles County Metropolitan Transportation Authority (Metro), I appreciate the opportunity to join you today at this historic hearing to outline our agency's perspective on our nation's next surface transportation bill.

Before delivering my testimony, allow me to very briefly describe the agency for which I serve as Chairman. Metro is the third largest public transportation agency in the United States. We are responsible for transportation planning, coordination, design, construction and operation of bus, subway, light rail and Bus Rapid Transit (BRT) services for the 10 million residents of Los Angeles County. We are also partners with Caltrans and Metrolink and Metro helps to support an extensive HOV and commuter rail network. We are also undertaking major improvements to our region's highway system. Our highways form the backbone of our economy and are an important part of the nation's goods movement system. Metro also funds street construction, bike paths, manages the freeway service patrol, among a number of other projects and services. Metro serves a 1,433 square mile service area with approximately 200 bus routes, over 75 miles of rail lines, and over 400 miles of carpool lanes that crisscross Los Angeles County. We have over 9,000 dedicated employees and an annual budget that exceeds $3.5 billion.

Today we are at an important crossroads on federal transportation policy. The solutions designed more than 60 years ago are no longer sufficient to meet our needs. The federal program for surface transportation funding no longer works to solve the many transportation challenges we face as a nation and no other region demonstrates that as well as the Los Angeles metropolitan area. The bottom line is that our transportation network is the engine of our economy and our ability to compete worldwide will depend on our ability to move goods and people with greater efficiency - both in terms of cost and speed.

There are several points I would like to share with you today that I believe are important considerations for future policy.

1) Local Leadership

We need to recognize the importance of non-federal investments in transportation - state, local, and private.

The voters of Los Angeles County have made the choice, on three occasions, to tax themselves to create more mobility for themselves, their families and their broader community. These three sale taxes, taken together, amount to approximately $1.5 billion annually. To date, the Federal Government has largely turned a blind eye to the local leadership shown by our agency and local taxpayers, along with others like us across the nation. The current federal surface transportation program neither recognizes this nor rewards this, nor do the current policies incentivize other metropolitan areas to do the same.

2) Leveraging Local Leadership

Metro has been advancing two innovative financial concepts to effectively leverage local transportation dollars with what I would like to refer as "smart federal dollars." I say "smart federal dollars" because these funds – coming in an era of a financially stressed Highway Trust Fund – make the most of existing dollars.

We strongly believe that smart, targeted, and innovative financing mechanisms can achieve two major national priorities: minimize impacts on the Federal budget and maximize the generation of new private sector jobs, particularly in the small business sector.

A new Federal approach to financing incorporated in the next surface transportation bill, which leverages transportation projects at the state and local levels can achieve both of these national priorities. Metro is proposing two specific legislative financing proposals: (1) Qualified Transportation Improvement Bonds (QTIBs); and (2) Enhanced Transportation Infrastructure Finance and Innovation Act Program (TIFIA).

Our proposal relative to bonds seeks to amend section 54 of the Internal Revenue Code to establish a new class of qualified tax credit bonds, called "Qualified Transportation Improvement Bonds" (QTIBs). These qualified tax credit bonds are taxable rate bonds issued by state, local or other eligible issuers where the federal government subsidizes most or all of the interest cost through granting investors annual tax credits in lieu of interest. Our initiative envisions that these bonds would be authorized in the amount of $4.5 billion per year over the next ten years, or $45 billion in total. As we have proposed, QTIBs would allow issuers to finance more than twice the dollar value of capital improvements than is possible with traditional tax-exempt bonds for any given annual revenue stream. QTIBs will not only stimulate greater investment, but they will also take pressure off conventional federal grant programs.

Our proposal with respect to TIFIA seeks to modify the program's structure to authorize the U.S. Department of Transportation to make upfront conditional credit commitments for certain large projects or programs of related projects that satisfy national infrastructure investment goals. We are also seeking to significantly increase funding for the TIFIA program and raise the credit limits for projects receiving assistance. From my recent dialogue with several Members of Congress in Washington, DC, I believe that there exists a strong bi-partisan majority to significantly enhance the annual funding provided for the TIFIA program.

Taken together, our bond and TIFIA proposals hold the promise of reinvigorating our nation's infrastructure, creating a large number of good paying private sector jobs, all without burdening the Federal government with a large bill. We believe this is a sound approach and that the fundamentals of our proposal offer a reasonable and prudent path for federal policymakers who, like all of you, are struggling to craft a strong and meaningful surface transportation bill in a demanding fiscal environment.

3) Federal Transportation Investments Create Broad Economic Benefits

It is difficult to outsource a construction job for a transportation project in America. Whether that project is a light or heavy rail project in Southern California or a highway improvement in Montana, the Federal Government's investment in transportation projects is an investment in America.

Metro has developed an innovative bond and TIFIA proposal that will accelerate the construction of highway and transit projects not only in Los Angeles County, but across the nation. We believe this plan will generate sustained job creation, new state, local and national tax revenues, and promote overall economic growth. Recently, Metro requested the Los Angeles County Economic Development Corporation (LAEDC) to project the benefits of our innovative financial approach on a nationwide basis.

The LAEDC concluded that $67.8 billion of investments in transportation infrastructure utilizing the innovative financing mechanisms Metro is proposing for the next federal surface transportation bill will yield $157.6 billion in economic activity over the course of the investment and generate 918,300 annual private sector jobs with total private sector labor income of $50.8 billion. The economic activity generated by the leveraged financing Metro is proposing will generate between $11.1 billion in tax revenues under the QTIBs program and $5.3 billion under the expanded TIFIA program, approximately one-third of which will be directed to state and local authorities and two-thirds to the Federal treasury. This type of innovative transportation related financial leveraging, if implemented would be unprecedented.

4) Conclusion

As Congress prepares to craft a new surface transportation bill and reform what needs to be reformed, I believe both the House and Senate should be mindful not to discard programs with a proven track record. Programs such as the New Starts Program have assisted many jurisdictions, like Los Angeles County, to address growing congestion and environmental problems while demanding a significant non- federal investment. If you are looking for a model for the future, this is it. We should not be talking of eliminating this program, we should be discussing creative ways to expand its approach and how that can serve as a model for other parts of the federal program.

We need to use the power of the federal government to help leverage federal and non federal sources of money. In the 1950s states did not have the wherewithal to finance and build an Interstate highway system. Today, states and local governments are much more sophisticated but find themselves in similar circumstances where financing is again the critical element. This time however, the federal government is not paying the lion's share of the cost but must assume the important role of assisting with the financing.

And let's be clear, I am not saying we need a new federal program for loaning money, or a new federal infrastructure bank. With all due respect to the President's proposal, we here in Los Angeles County do not need a federal bureaucracy picking winners and losers. We need flexibility, self-determination and the power to access federally-subsidized financing to make these projects possible.

Lastly, I want to make it crystal clear that our strong and sustained support for leveraging local dollars does not in any way mean that we want to diminish existing federal assistance.

Thank you for inviting me to testify before this historic joint hearing and I welcome the opportunity to answer any questions you may have.