ANTONIO R. VILLARAIGOSA
MAYOR

Joint Field Hearing before the House Committee on Transportation and Infrastructure and the Senate Committee on Environment and Public Works

Written Testimony of Los Angeles Mayor Antonio R. Villaraigosa

February 23, 2011

Thank you Chairman Boxer, Chairman Mica, Ranking Member Inhofe, Ranking Member Rahall, and members of this joint committee for the opportunity to provide testimony at the "Improving and Reforming our Nation's Surface Transportation Programs to Support Job Creation and the Economy" hearing.

America continues to suffer from high unemployment, and unemployment here in Los Angeles is even higher. Simply put: Americans need jobs and cities and states across the nation need a federal partnership to help us put people back to work, which can be done through smart, innovative investments in our transportation infrastructure.

Los Angeles continues to be an economic engine for the U.S. The ports of Los Angeles and Long Beach handle 40% of the sea-borne containers entering the U.S. These goods are then moved to all 50 states via rail and truck. The gross domestic product of Los Angeles County alone is $718 billion, higher than all but four states (CA, TX, NY, and FL) and 5.5% of the nation's GDP.

Unfortunately, Los Angeles continues to lead the country in overall delay related to traffic congestion. This costs the local economy an estimated $12 billion in delay, wasted fuel, and truck congestion. Truck congestion alone accounts for $3.2 billion of the $12 billion cost. ("The 2010 Urban Mobility Report", Texas Transportation Institute, December 2010).

But like many cities and states across America, we are doing something about it. We are leading the nation with our investment in operational treatments to reduce traffic congestion on our streets and freeways. And we rank fourth (behind only New York, Chicago, and Washington, DC) in avoided delay associated with our growing investment in public transportation (ibid.).

We have done this with the support of the federal government and the state of California, but we also have made a massive local commitment to transportation infrastructure. Three times the voters of Los Angeles County have supported taxing themselves through a half-cent transportation sales tax (1.5% aggregate), most recently in 2008 through Measure R. In the current fiscal year (2010-2011), our voter-approved

taxes will generate $1.8 billion in revenue that we are using to build, operate, and maintain a multi-modal transportation system, including robust investments in both highways and public transit.

As you can see from our local commitment, we believe that one of the best ways to support job creation and the economy is through investment in transportation infrastructure. For example, soon after Measure R passed, we broke ground on a new busway extension, creating 2,300 new jobs. We then accelerated construction of one of our new light rail lines, creating another 6,900 jobs. Over the next two years, we will start construction on four more major rail lines, creating thousands more jobs.

With financing assistance we and other jurisdictions could accelerate our construction programs and create more jobs that both would stimulate the economy directly and create a more competitive national transportation infrastructure that would position the U.S. to prosper in the 21st century global economy.

We think this can be achieved through the creation of a National Innovative Finance Program for Transportation Infrastructure that creates jobs, brings in federal tax revenue, and leverage federal dollars through the construction of transportation infrastructure. Such a program would provide financing assistance to jurisdictions seeking to create jobs and build new highway, rail, and transit projects.

Part of proposal is an expansion and enhancement of the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. We are proposing six key changes to the current program that we believe will create jobs by leveraging federal dollars and getting more local and private investment in transportation infrastructure.

1. **Increase annual funding from $122 million (SAFETEA-LU authorization) to $375 million/year.** This would leverage up to $3.8 billion in loans annually and $7 billion in investment each year. It also could provide funding for partial interest rate subsidies (see below). Obviously, higher annual funding levels would leverage even more investment and job creation, which we would support.

2. **Increase the maximum TIFIA share from 33% to 49%.** While this reduces the leverage, it broadens the appeal of the program and makes it easier for more jurisdictions to participate.

3. **Broaden eligibility to include *programs* of related projects.** This lets jurisdictions engage in comprehensive, multi-modal planning and project delivery.

4. **Authorize USDOT to make upfront contingent credit commitments for certain large projects or programs.** This would mitigate financing risk for project sponsors

while enabling the federal government to establish rigorous criteria for what types of projects would qualify for upfront contingent credit commitments. The commitments and performance requirements could be memorialized in a "master credit agreement". By reducing risk, it will be easier to attract private capital and investment.

5. **Authorize USDOT to offer a limited interest rate hedge to a project sponsor receiving an upfront contingent credit commitment.** This also would mitigate financing risk, especially for programs with multiple projects and phased construction. Since an actual loan cannot be executed until all federal environmental work is complete, interest rates may rise between the time a master credit agreement is signed and the loan is executed. Again, by reducing risk, it will be easier to attract private capital and investment.

6. **Authorize USDOT to provide a loan with a fully subordinate lien on pledged revenues if certain conditions are met.** This would address a challenge with the current program whereby subordinate TIFIA loans "spring" to parity with other senior debt if there is a bankruptcy-related event. It is difficult or impossible to getting such a feature into a bond indenture. This is a barrier to getting private capital invested into projects through bonds.

Our proposal has multiple benefits to the federal government and meets many policy goals articulated by Congress.

- We can create real jobs for Americans. A national program will generate almost one million new jobs in the U.S. and $51 billion in income ("Federal Programs to Accelerate Highway and Transit Improvements", Los Angeles Economic Development Corporation, February 15, 2011). At a time of continuing high unemployment, nothing could be more important than putting Americans back to work.

- We will stimulate the economy. Our proposal will generate $158 billion in total economic output. Direct activity will be in the construction and professional, scientific, and technical services, but we also will see significant boosts to many sectors, including retail trade and manufacturing (ibid.).

- We will increase federal tax revenue by $10.6 billion and state tax revenue by $5.8 billion (ibid.). While the current federal scoring methodology does not consider new tax revenue, we argue that it should. At a minimum, Congress should recognize that by stimulating economic activity federal tax revenue also will grow. In effect, there will be a direct return on federal investment.

- Financing programs are not earmarks. They are tools that help jurisdictions seeking to create jobs and build their infrastructure do so faster. To make sure that nationally and regionally significant projects move forward, Congress can establish funding criteria to make sure that the best projects get help. Of course, direct federal investment and grant programs are still important and need to be continued.

- The program creates the conditions to bring private sector capital and investment to transportation infrastructure. Bond programs are advantageous to the federal government because 100% of the up-front money comes from private investors, not the U.S. Treasury. This means no appropriations or up-front cost to the federal government. This feature addresses near-term budgetary and spending challenges facing Congress today.

- The program also would create incentives for jurisdictions to raise their own revenue. Creating a program that requires a significant local match or repayment from a non-federal source encourages the development of local and state revenue sources. The federal government remains an important investment partner, but is not the principal investor.

- The program could be beneficial to jurisdictions with existing, funded long-term infrastructure programs. While there is an incentive to raise local revenue, even existing plans could be accelerated. Projects could be built sooner and Americans put back to work.

- Combining significant local revenue with federal investment results in more overall investment in the nation's transportation infrastructure. This means more jobs and better transportation systems to support business and commerce.

Our proposal has garnered growing support from a wide range of business, labor, and environmental leaders and groups. This includes support from national leaders such as Thomas Donohue, President and CEO of the U.S. Chamber of Commerce, and Richard Trumka, President of the American Federation of Labor and Congress of Industrial Organizations. Creating jobs and building transportation infrastructure can and should be a bipartisan issue.

Local jurisdictions also are supporting the call for a new federal partnership. The U.S. Conference of Mayors has adopted a support position on innovative financing and over 60 mayors – including both Republicans and Democrats – have signed on to a support letter for a national program.

We think the time is now for Congress to enact a National Innovative Finance Program for Transportation Infrastructure. It would be ideal if these ideas could be incorporated

into reauthorization, but Congress should pursue stand alone legislation if reauthorization does not occur this year.

Please do not hesitate to contact me directly or Deputy Mayor Jaime de la Vega at (213) 978-2360 or jaime.delavega@lacity.org before or after the hearing if you have any questions.

Finally, I want to express my thanks to Chairman Boxer and Chairman Mica for your interest and commitment to creating jobs and helping America build its transportation infrastructure. Your passion and leadership on these issues is just what America needs. We think that a National Innovative Finance Program for Transportation Infrastructure would be transformative for our nation and hope that Congress can establish such a program this year. I look forward to working with you both and your respective committees and am available to assist in any way that is helpful.

Attachment: "Federal Programs to Accelerate Highway and Transit Improvements", Los Angeles Economic Development Corporation, February 15, 2011