

Congressional Staff Forum Notes
January 29, 2010

Wendy Franklin, Director of Finance Programs for the AASHTO Center for Excellence in Project Finance (CEPF) gave welcoming remarks and thanked everyone for coming.

Jack Basso, Director of CEPF, gave introductory remarks. He noted that the Center for Excellence in Project Finance was created in SAFETEA-LU to be operated under AASHTO's guidance. The forum was organized because AASHTO and USDOT get many questions on many aspects of program project finance from Congress, and we are happy to answer those questions. Given the depth of those issues, national experts were brought in to help answer those questions. He noted that this was not advocating for any policy, it was a technical assistance seminar. The first objective of the session was to give impartial information that would be useful to congressional staff. The second objective was to deal with some of the cutting edge issues, such as a national infrastructure bank. Another objective is it fulfills part of the Center's responsibility, as a center, to provide training and technical assistance to states and federal government employees.

Polly Trottenberg, Assistant Secretary for Transportation Policy for USDOT, discussed TIFIA. She noted that the thinking of TIFIA when it first came out did not include much about the outcomes side. One of the things they are trying to do now at USDOT is trying to find ways to get money into transportation and leverage private dollars, but they want to leverage those dollars to kinds of projects that will move the country forward and achieve the outcomes they are interested in, such as economic competitiveness and sustainability. She discussed the listening session at USDOT on February 12, as a possible event for congressional staff to attend.

Session 1: Industry Leadership Perspectives on Financial Resources

John Fischer, Specialist in Transportation Policy at Congressional Research Service, noted that the Highway Trust Fund had a good long run from 1956 until a few years ago and was a solid source of funding for all the transportation programs we have today, but certain things happened in the last few years that caused the Highway Trust Fund to go broke, one of which is not raising the gas tax since 1993. He noted that going forward, people would like to spend a lot more money than we are currently, but the Congressional Budget Office has pointed out that we cannot even spend what we think we should be spending from the current bill. According to their most recent estimate, at the end of this fiscal year, there would be a balance of \$3 billion in the highway account and \$2.9 billion in the transit account, which means in real terms that before the program ever got to the end of the year, the Federal Highway Administration would have to slow down its paying off debts to the states as that \$3 billion is less than a month of spending. The questions that come out of this are whether we are going to

find more money, what the source of that money will be, and if there is not more money, how are we going to deal with the scarcity?

Pete Rahn, Director of Missouri DOT, said that in the business world, one of the worst things that can happen is that your service or product becomes a commodity. One of the worst things that can happen in government is that your service or product becomes a utility, when people don't realize how important it is until it is not functioning. The tools in the toolbox are simply being used up. Right now, the states are under tremendous stress. The uncertainty of both federal and state revenues makes it extremely difficult for the states to do the planning they need to do. Right now, certain states do not have protections, either statutory or constitutional. Protections of their road funds are being traded to pay for other services at the state level. Those that even do have those protections, such as Missouri have seen their revenues in decline for the past two years. It is very difficult to then compound that with not knowing where or when the federal dollars are going to arrive. He noted that stimulus dollars cannot replace a core program. You need to have a core program that will allow you to make long-term decisions. Debt can be a great tool, but it should not be a life preserver, which is the way it has been used now for several years. His view is that we have to align the use of debt with the department's and the public's overall desire for service.

Ron Epstein, Chief Financial Officer of New York DOT, mentioned that ISTEA contained a preamble that discussed the federal role in surface transportation. His sense is that we have moved far away from what at the time was probably an altruistic view of a transportation network to a point where we're just devolved into a point where we ask how much money we get. His first objective was that we need to return to a national vision for surface transportation, which includes not only highways, but also transit and rail. His second objective is 41 states currently have a cumulative deficit of \$180 billion, and resources for transportation fall way down in the list when it comes to competing for resources, and at the same time, our needs continue to grow. If the money is not there, what are some of the things we can do to ensure that our system is safe? The first thing we need to do is invest in those programs, the core programs in the highway bill, the transit bill, etc, that ensure the safety of the traveling public. In his perspective, we have gotten away from preservation of core assets. We need to use proven asset management strategies to keep our good bridges good, and do not create federal policy that says invest in the worst first, as there is then no incentive to maintain good bridges. Another thing that needs to be done is we need to invest in the future. He thinks that we should not be wedded to any one particular user fee or revenue, but that we should diversify. He also noted that he thinks we need to align our transportation policy with climate change, we need to reward investments that have low energy consumption, and we need flexibility, as one size cannot fit all. He noted that the cost of maintaining a bridge is about \$5,000, but the cost of replacing a bridge can range from \$250,000 to \$4,000,000.

Phillip Washington, General Manager of Regional Transportation District – Denver, said that Denver is involved in the largest voter-approved transit expansion program in the country now called FasTracks, and they are moving forward with that even with challenges. He noted that Denver has a local sales tax that funds their base system as well as FasTracks. Embedded in the FasTracks program is a public-private partnership, and what they have tried to do is look at alternative sources of funding. He said that in managing transit and transportation systems, the ground is always moving, with things such as sales tax shortfalls, and the question is what you do about it. In terms of partnerships, in addition to the PPP discussed earlier, he also feels they as a transit system have a great partnership with the highway in Denver. He noted that for the next TEA bill, it is known what is wanted from it, but it needs a champion, for which he used General Marshall as an example. He brought up the aging infrastructure in addition to the 10% unemployment rate, and that both can be fixed with a national plan and putting people back to work in terms of job creation.

Ron Kirby, Director of Transportation Planning of the Metropolitan Washington Council of Governments, said that in the metropolitan Washington region, federal funding amounts to about 20% of the total funding for transportation, with the rest coming from state and local governments and the private sector. His experience is that there are three clear purposes of the federal role in transportation in the region. The first is the rehabilitation and safety of the existing system and that federal help is needed to maintain the transportation system. He said that a pay-as-you-go approach is reasonable when rehabilitation is being discussed. For things such as the gas tax and VMT fees, if they are allocated primarily to maintenance and operation of the existing system, that the case can be made that they are user fees as opposed to taxes. The second objective is to deal with metropolitan congestion and mobility issues, and there could be consolidating and streamlining of the federal structure to help with those programs. The third objective is new capacity, and for that, he said he thinks we need an explicit federal program focused on multimodal capacity increases.

John Fischer then asked the panelists, in terms of the existing federal programs that exist, to give one clear strength or weakness. Ron Kirby stated that a weakness is that there is too much difficulty putting together multimodal projects. Phillip Washington said that the process of a project takes too long. The example of a strength that Mr. Washington gave was that there is great cooperation among committees. Ron Epstein said there is a lot of flexibility in the funding sources, whether it is multimodal the public do not care, so if there is a way to sequence the projects so that the money from the different modes works out at the end and they should be allowed to build out the projects using the other sources. Pete Rahn said that a strength was the desire to increase funding to the states, but that an associated weakness was that it was not totally funded. Another point he gave was that while there was more flexibility with SAFETEA-LU, there were 108 different funding categories and some of them were for very small programs, and when at a state level as you are trying to manage a program

and trying to fund projects, when you need to deal with criteria associated with 108 different categories, it is very difficult.

One audience member stated that there is not really a consensus as to how the financing gap is going to be bridged, and asked the panel to give their best opportunity to make that happen. Pete Rahn used his example of transportation as a utility, and that built within state laws are mechanisms and a guarantee that a utility should have a positive return on its investment, and it can go to a public service commission and have its rates adjusted, and that is the problem with transportation being that there is no public service commission to adjust the rates. He said that the gas tax needs to be increased, at least indexed so that it stays up with inflation. Ron Epstein said that there is a diminishing of trust between departments of transportation and the public in terms of delivering what the departments said they were going to deliver in infrastructure, and hopefully through the stimulus, some of that trust will be gained back. He said the most cost-effective way of generating revenue needs to be figured out, and the gas tax begins to fill that role, but it needs to be balanced with things such as sales taxes, container fees, etc. Phillip Washington said that he thinks it is a combination of a number of things, and that injecting private funding is very helpful, and that more of that should be done. Ron Kirby said that we need to try as hard as we can to tie revenue sources to beneficiaries, with the gas tax certainly being one, tolling being another. The gas tax is large, but there needs to be other sources.

Another audience question was whether Chairman Oberstar's bill goes far enough in regards to project delivery time, or what additional things need to be done. Pete Rahn said that sometimes projects are just sitting in programs because there is no funding, and that aspect is a big part of the number that's out there for project delivery time. His biggest concern with the concept 'project expediting' was that if the process needs to be reported for every project, he sees that as an additional hindrance rather than an expediting process.

Session 2: Tools in The Toolbox: Tax Incentives Targeted to Surface Transportation

Nathan Musick, Principal Analyst at the Congressional Budget Office, mentioned that tax preferences for financing infrastructure investment provide a federal subsidy that lowers the cost of spending on infrastructure, with the goal being that they induce spending that offers broad public benefits and that otherwise would not take place. He mentioned the joint study that had been done between the Congressional Budget Office and the Joint Committee on Taxation 'Subsidizing Infrastructure Investment with Tax-Preferred Bonds', and encouraged those interested to look into it as it provides great detail. He then discussed tax-exempt bonds. He stated that tax-exempt bonds are issued by state and local governments for public and (in some cases) private purposes. There are two types of tax-exempt bonds: governmental bonds, which municipalities themselves make primary use of the bond proceeds, and they repay that debt, and then qualified private activity bonds (QPABs), which private entities can use to finance certain

projects, as specified by the Tax Code. Governmental bonds make up about 75% of issuance, with QPABs making up the other quarter. He stated that they lower the cost of financing infrastructure because interest income is exempt from federal income tax, although QPABs are subject in many cases to the Alternative Minimum Tax. These types of bonds lower the cost of borrowing, as bond buyers do not need to be compensated for taxes on interest payments to them. He stated that there are two types of tax-credit bonds, those that were authorized prior to the American Recovery and Investment Act (ARRA), and those authorized by ARRA. For those authorized before, bond holders receive a taxable credit that can be applied against their federal income tax and the AMT. For those authorized by ARRA, municipalities that borrow can opt to receive the credit directly. Tax-credit bonds lower the cost of borrowing in one of two ways: if bond buyers claim the credit, they can reduce their tax liability and are consequently willing to accept a lower rate of interest to purchase that debt, or if municipalities claim the credit (paid to them from the U.S. Treasury), they can reduce the net amount they pay in interest. He stated that the amount of subsidy varies significantly across different tax-credit bonds. Pre-ARRA bonds typically offer a large subsidy to borrowers, approaching 100 percent of interest costs. Bonds authorized by the ARRA apply a 35 or 45 percent credit to the interest payment on the bond (for Build America Bonds or Recovery Zone Economic Development Bonds, respectively). He stated that, in principle, tax-credit bonds are more efficient than tax-exempt bonds as they are more cost-effective, and less regressive. He then discussed investment tax credits, and that private entities that spend on certain types of infrastructure can claim a credit against their tax liability. Tax credits can apply to all relevant spending or only to those expenditures above some base amount.

Nancy Clawson, Managing Director at Bank of America Merrill Lynch, discussed the growth of the municipal market and that over the last ten years, the volume of the market has more than doubled, and is expected to continue to grow in 2010 to \$435 billion, so it is a very crucial part of the market. There was an issuance of \$64 billion in Build America Bonds (BABs), in nine months of 2009, and are expected to grow by 17% in 2010 to \$75 billion, which she thinks could be an underestimation. She stated that the investment tax credits are a very small portion of the market. Revenue bonds had a bigger allocation in 2009 than general obligation bonds, and the 62% allocation for revenue bonds is around what the average of the last ten years has been. New money financings equaled 61% compared to refunding or combined. Fixed-rate had 90% allocation compared to variable rate, which was an anomaly compared to the average. Tax-exempt bonds equaled 79% allocation vs. taxable and AMT, which is down a little from the ten-year average as a result of the BABs. The transportation sector represented an average 11% of market volume from 2000 to 2009, a number that stayed pretty steady. \$48.8 billion, or 12 percent, was issued in 2009 to fund transportation projects.

James Bass, Chief Financial Officer of Texas Department of Transportation, stated that all debt programs do not generate revenue. He said that 'public-private partnerships' is

a broad umbrella term that includes simple design-build projects that could include availability payments where a state is pledging their gas tax over time; it does not have to be a toll road. He discussed private activity bonds, which were utilized in Texas on the North Tarrant Express project, which was a public-private partnership concession. Its cost is roughly \$2 billion overall. \$400 million of private activity bonds were issued for this project, the equity from private partners was about \$430 million, with a key element in the project being a TIFIA loan for \$650 million. The private activity bonds allow the equity portion to be higher than it otherwise would have been because it is a cheaper cost. One of the challenges in the process is that it is not the developer that goes out into the market and issues, it is a tax-exempt sponsor, in this case being the Department of Transportation. The Department is getting the proceeds, loaning them to the developer, and they are repaying that loan solely from toll revenue, and if the toll revenue is not sufficient, the state of Texas and the Department is not on the hook. There were questions about the private activity bonds, with the state of Texas being the issuer, and then they get money back during revenue sharing, and that brings up arbitrage issues, and that was a challenge as they went through that process. Mr. Bass then moved on to discussing BABs. A few years ago, Texas' state legislature developed a new program called the Texas Mobility Fund, which took transportation-related fees in the state that used to go to general government purposes instead of the highway fund and changed that to give those fees to transportation. As the private activity bond program came into place, it allowed government, municipal issuers who normally enter the tax-exempt market to enter the taxable market, which saves basis points.

Cherian George, Managing Director of the Global Infrastructure and Project Finance Group at Fitch Ratings, gave the perspective from a credit rating agency. When they evaluate, part of the evaluation is the willingness to pay debt. They look at revenues and expenses, and managing the amount of debt and how you pay that debt is important to the rating. The lower the cost of debt is equals a higher rating. Tax-exempt and tax incentive instruments generally lower the amount of debt and allow more debt to be issued for the same credit rating. He brought up hearing a number of people talk about DOTs and transit agencies not having money, and because of that, why the ratings are what they are, and they are all revenue-constrained, but their willingness to pay debt and how they manage debt is very well-done, hence the higher credit rating.

Dan Keen, Assistant VP-Policy Analysis at the Association of American Railroads, discussed freight rail funding. Freight railroads have very large capital requirements. The average U.S. manufacturer spends about 3% of their revenue on capital expenditures, about \$20 billion every year. It is not true that the freight railroad system has no public support, but the vast majority is self-financed. Passenger investments are both an opportunity and a challenge. The years of 2006-'08 had large net income, which equaled large spending per mile. Mr. Keen brought up the question of why the public should invest in rail networks, and he said that it enables win-win combinations for both public and private interests, and allows projects to be undertaken sooner. He brought up a

proposal that exists, H.R. 1806, that would provide a 25% tax credit for projects that expand rail capacity and help fund positive train control.

Will Mallett asked the panelists what these types of instruments mean for the transportation system. James Bass said that for private activity bonds, it is more of a market-based decision in a lot of cases, such as the fact that a toll road would not be built in an area without much vehicle traffic.

An audience member asked Mr. Bass and Mr. George about uncertainty, and that both of them made statements as though we know certain things that we don't know, ex. the statement was made that there is public benefit at times when we invest in private industries like rail and the appropriate amount for the public participation should be related to the public benefit, and it seems to him as time goes on, the ability to estimate what the public benefit will be is becoming less as the uncertainty about the demand for services becomes greater, and with respect to ratings, the value of public investment in toll roads and backing highway instruments with gas tax revenues, the uncertainties related to that are becoming greater, and he asked those panelists to comment on how that has built into the processes talked about. Mr. Bass agreed with him. Mr. George said that the uncertainty associated with the gas tax is reflected in credit ratings' general analysis of the economic and legal factors. Given that, if you just look at tax-exempt, tax credit bonds, and BABs, they increase capacity.

Another audience member asked the panelists how efficient it is to fund the program (if there was a national infrastructure bank) to fund it through Treasuries versus trying to build a new type of thing that has tax-exempt instruments. Mr. George said that when there is local responsibility for something, at the end of the day, to deliver it tends to be more focused and more efficiently delivered.

Keynote Address on Build America Bonds

Senator Ron Wyden gave the keynote address. Mr. Wyden stated that about six to seven years ago, as the country began to have a big need for infrastructure, it became clear to him that what was needed was some new sources of revenue, on top of the existing sources of funding, and a way to do this that was critically viable needed to be found. When an issuer (ex. a city, a state, a non-profit) is being discussed, the federal subsidy goes so that the issuers can issue a higher interest rate. What Mr. Wyden found is that out of this climate, with people looking for things that are going to work, is that they were given a two-year window to get things done. If BABs were issued at \$4 or \$5 billion per year over that two-year period, Mr. Wyden would be able to go back to the Finance Committee with a good progress report, and BABs would be extended. The first-year tally for BABs was \$63.4 billion, and it has been projected that by the end of the year that \$130 billion will have been issued. Mr. Wyden said that he feels BABs are successful because it is very much in line with the public's mood: being non-partisan, common sense, and gives a practical way for things to get done. He said that in Oregon's

Dayton school district, they have used BABs to employ 150 people in building and remodeling classrooms, and by their calculations have been able to save \$1.2 million in interest costs. Mr. Wyden brought up the Congressional Budget Office/Joint Tax Committee (CBO/JCT) report as something that has been very helpful in the BABs process. He stated that the report states in their judgment that BABs or tax credit bonds are more cost-effective than tax-exempt bonds, and more attractive to investors. Mr. Wyden stated that it seems to him that bonds that at least offer the tax credit option or a federal subsidy, what is being done is another tool is being put in the toolbox. What they are attempting to do is to have a tool that allows for when there is a question on whether an infrastructure project comes to fruition or not, BABs can make the difference. He said that he feels that BABs will get extended in the jobs bill.

An audience member asked if there is an aggregate economic limit on BABs or simply a time limit. Mr. Wyden responded that it is a time limit.

Another audience member said performance and accountability are two of the things that have been talked about in reauthorization with the formula funds, and asked Mr. Wyden if he saw accountability and performance of projects that go forward as something that needs to be addressed. Mr. Wyden stated 'of course' and that is why the CBO/JCT report is so compelling. He stated that the American public wants to see the government getting out of some things ex. owning a bank, car company, etc. and to see approaches that are targeted and practical.

Another audience member asked how the process of building public support for infrastructure should progress, given that it does not have too much appeal. Mr. Wyden responded that he thinks there is an awareness that "you cannot have big league quality of life with little league transportation suspects." He said the more the terms can be broken down into real language of what increased spending on infrastructure will mean for economic growth and what it will mean for quality of life the better.

Another audience member, regarding BABs, asked whether there is an emphasis on those projects that will have more efficient development to ease congestion. Mr. Wyden said that in the bill, it does not mandate that BABs in some way should do X, Y and Z in terms of telling local communities they have to address certain factors. The judgment was that if you could give local communities and states the tools so that it would be more attractive to them to issue bonds for those types of projects that that would be another incentive for them to get the most value for their community.

Session 3: Examining Alternatives to the Gas Tax

Jack Basso introduced the panelists.

David Ellis, Research Scientist at Texas Transportation Institute, presented a graph that showed the state lane miles increasing a noticeable amount less each year from 1970 to

2009 than population, registered vehicles and VMT. He said the fuel tax is being eroded by fuel efficiency and increased construction costs, and noted that it is different than a sales tax in that a sales tax is a tax on a price, which goes up with inflation, compared to the gas tax losing value with inflation. He stated that mobility problems cannot be solved when the gas tax is the revenue source. Over the course of the next 20 years, vehicle miles traveled are expected to increase by about 33 percent, but the fuel tax revenue is projected to decrease by about 23 percent.

Craig Lentzsch, member of the National Surface Transportation Infrastructure Financing Commission and former chairman of the American Bus Association, reminded everyone that the National Surface Transportation Infrastructure Financing Commission's report is available on the Commission site at financecommission.dot.gov. The framework for the discussion is who is paying now. The gas tax started out as a user fee, and it was a fairly direct and appropriate user fee in 1956, as there was not a wide variation in miles per gallon. The gas tax now is barely an indirect user fee. Highway users only pay around 60% of the cost of their using the highway. Heavy-duty vehicles are not paying anywhere near the impact that they cause on the highways. For new construction, the federal government pays around 40-45 percent, with state and local governments paying the remainder. On an aggregate all-cost basis, the federal government only pays about 25 percent of building, maintaining and operating the highway system. Transit users pay on average about 35 percent for their transit use. In trying to evaluate alternatives to the gas tax, the Commission used six guiding principles. The first is 'enhanced mobility of all system users'. Vehicle miles traveled (VMT) came out very highly rated by the Commission, as it is a mostly perfect user fee, with a negative being that it would be very expensive to implement. The vehicle registration fee is interesting, as it would be a relatively inexpensive tax to collect and it would be able to generate a good amount of dollars, but negatives are it is not a user fee at all and it is a current significant revenue generator for the states who are putting up the majority of the build-maintain-operate cost. General sales tax scored low. The public perception of VMT is not very good currently, but what they found is when the public knows where their transportation money is going, they are generally willing to pay for the infrastructure, so there has to be education of the public. The Commission was very supportive of the concept that the user should pay as much as is reasonably possible for their use of the system, and that a whole variety of alternatives could be looked at, all with pluses and minuses, and the ones that meet your own policy needs the best.

Martin Wachs, Director of RAND Corporation's Transportation, Space, and Technology Program, said the gas tax arose in about 1918, at which time the use of automobiles and trucks was growing more rapidly than at any other time in American history, so most states were building intercity roads for the first time and in many states the cost of building roads was about half the state's budget. The states were falling behind, as traffic was growing faster than roads, even with the high rate of expenditures out of general revenue. Oregon invented the idea of the user fee. The gas tax is collected at the wholesale distributors, and then passed forward, which is why it is so inexpensive to

collect. The adoption of VMT fees or electronic tolls in some form is not only a response to the growing inadequacy of the gas tax, but also a return to what was originally seen as a better mechanism. There has to be a new method other than the gas tax, as the country wants to reduce gasoline consumption and greenhouse gases, but more gasoline needs to be sold to raise the money needed, so there is a conflict. Since VMT is rising while gas tax revenue is falling, a revenue-neutral switch now would produce a substantial increase in revenues even without increasing the rates. The transition is very important, as much about building institutions as it is about technology. Issues are who will collect the money, for which there are several different proposals which could be tested on a reasonably large scale. Another is privacy concerns. Another is how the technology is phased in. They suggested that Congress should begin now writing portions of the next transportation bill that would provide substantial demonstrations that would enable testing on a reasonably large scale. If it is put off now and nothing is done for another seven or eight years, the problems will only worsen and the country won't have the information they need to address the complex issues of transportation.

An audience member asked about what the states are saying regarding transitioning to VMT. Craig Lentzsch said there are currently about five states actively investigating VMT and conceptually if the federal government took the lead, even though VMT is a moderately expensive way to collect revenue, the states would get to piggyback on the federal system. Martin Wachs said one possibility would be for the federal government to provide an open architecture, in which there would be standards or performance characteristics specified and then individual states as long as they work within that framework could have a choice among technologies.

Another audience member asked how VMT is reconciled with congestion pricing. Craig Lentzsch said that it basically can be a facilitator. A VMT system can be purely distance-related or it can be location-related, depending on the technology you choose and whether or not you have the need for the location-related technology.

A question was asked about falling into the same trap with VMT as the country is in with the gas tax, with getting it in place and not being able to raise it. David Ellis responded that he wouldn't disagree, but what is stopped with the VMT tax is losing ground every year. As the country has population growth and VMT growth, that growth is captured, as opposed to having it offset each year by increasing fuel efficiency.

Session 4: What Makes A Viable National Infrastructure Bank?

Emil Frankel, Director of Transportation Policy, National Transportation Policy Project, Bipartisan Policy Center, introduced the panelists.

Emilia Istrate, Senior Research Analyst, Metropolitan Policy Institute, Brookings Institute, stated that the objective of federal investment has to be made clear, with where the money will go. It is very important to differentiate that this is federally-

financed capital instead of national capital or federal capital, as most of the capital where the federal investment goes belongs to state and local governments, not federal governments. She stated that the most important limitation to federal investment in her point of view is the flawed selection process, one that is not based on merit but on other criteria. She said that the Brookings Institute released a paper last December on the issue of the federal investment process, and discussing the two alternatives: the federal capital budget and the national infrastructure bank (found at http://www.brookings.edu/reports/2009/1210_infrastructure_puentes.aspx). In both the 2010 budget proposal and the House bill introduced last year, a national infrastructure bank would be included in the federal budget, rather than other proposals which have a national infrastructure bank (NIB) as a shareholder corporation. In the budget proposal, the NIB was not specified with the leveraged capacity for itself, but the NIB House bill specified the entity would be able to issue its own bonds. It has to be kept in mind that a NIB is not a revenue source, just a financing mechanism. Also, a NIB is not the solution to the current federal problems, as it will have its own pot of money, its own projects, etc. It is not a replacement of the current federal funding.

David Seltzer, Principal of Mercator Advisors LLC, commended the Brookings report as a great tool. In the proposals that have been introduced by both the President and in Congress are discussing a sort of special-purpose governmental entity, but he said it is improper to think of a NIB as a commercial lending organization, especially if there is a grant component as is the case in the President's budget. As he has looked at the proposals, there appears to be two different schools of thought for capitalization: the first being that a NIB would raise capital by selling its own debt securities into the public credit markets; the second would raise capital through borrowing from the Treasury rather than the public. For the first approach, that has the advantage of providing an immediate infusion of cash up-front, would create an opportunity for certain institutional investors such as pension funds to purchase infrastructure securities, and could be structured as a revolving fund where loan repayments could be used to make a new generation of loans for additional projects. A disadvantage is it would be somewhat costly compared to the U.S. Treasury providing the financing and probably would require the NIB to have some spread between its cost of funds and the rate it re-lends. For the second approach, that would borrow all of its funds from the Treasury rather than public debt issuance by the entity. There would be the benefit of being able to re-lend at the lowest attainable rate in the taxable markets. It would be able to take advantage of the fractional scoring that the Federal Credit Reform Act provides. A negative is that it would not be a revolving fund.

Emil Frankel asked Jack Basso about what the policy goals of a NIB would be, and how the resources would be allocated. Jack Basso said that anything that is done of this nature is clearly going to require projects that have revenue streams, and that probably portends dealing with projects of national and regional significance. For the goals, Jack Basso said it should fill the niche that relieves the basic funding stream and makes a lot of additional infrastructure investment more possible.

David Seltzer responded to an audience question comparing a NIB to TIFIA by saying that there could be additional benefits: having a dedicated entity that was independent of a federal agency such as USDOT; that it could attract staff at whatever salaries were required; and that there would be a sole purpose of the Board and staff of making loans. Emilia Istrate added that it would be more competitive than the way it is currently done, along with hopefully a more transparent and merit-based selection process.