# Mechanism Work

Kevin, Aron, Samantha

## BABs Good

### Squo Bad

#### BAB expiration reduces borrowing supply and demand – reduces investment levels

Posner 11 – Director of Municipal Market Advisors (Matt, 5/17/11, Testimony to the Committee on Senate Finance, “FINANCING 21ST CENTURY INFRASTRUCTURE; COMMITTEE: SENATE FINANCE” CQ Congressional)

In response to the worldwide financial crisis, President Obama signed into law the America Recovery and Reinvestment Act of 2009 that included a set of provisions aimed at stabilizing the municipal market, stimulating infrastructure spending and promoting job growth. The most effective provision was the creation of the Build America Bond (BAB) program.

Build America Bonds are a taxable municipal security that the Federal government pays a 35% subsidy of the coupon to either the issuer or a tax-credit to the investor. The purpose of the program was to reduce borrowing costs for state and local governments and to expand the investor base of the municipal market to the larger spectrum of taxable investors. From the first issue in April 2009 to the expiration of the program in 2010, roughly $186 billion BABs were issued. Borrowing rates decreased significantly for issuers because of the 35% subsidy and issuers utilized the program to a higher degree than many expected. As shown in the chart below, MMA estimates the cost of the BAB program to be $98 billion over the life of the bonds assuming no taxes collected. The extent to which the Federal Government will recover the $98 billion in interest subsidies is dependent on the ownership of the bonds of which there is no public data. Using the industry consensus range of estimates of an effective tax rate (actual taxes collected from owners of the BABs) between 7% and 15%, the actual lifetime coast to the Federal Government of the BABs is between $79 and $57 billion.

With the 35% subsidy, many infrastructure deals that were scheduled to come as tax-exempt issues instead came as BABs. An unintended consequence of the program was that with so many deals being moved into the taxable realm, the supply of tax-exempt issues decreased enough to shift the supply/demand balance for tax-exempts. As a result, we also saw tax-exempt borrowing rates decrease, which aided many issuers that decided not to utilize the BAB option. This phenomenon is similar to today's current market environment where the speculation of the elimination of the tax-exempt and reduced issuance has contributed 10-year benchmark municipal yields falling nearly 1.00% in 2011.

The expiration of the BABs program was one of two central themes as we entered this year. The fourth quarter of 2010 saw a surge of BABs issuance as issuers took advantage of the program before it expired. This led to a dearth of issuance in January and February of 2011. As we've entered the second quarter of 2011, issuance has remained very low compared to the last 10-years. In fact, through April of 2011, roughly $62 billion bonds have been sold. In 2010 we saw $131 billion (of which $33.9 billion were BABs) during these first four months of the year, a drop of over 50%.

We must re-examine why issuers are not utilizing the tax-exempt market. Borrowing rates for issuers stand at the lows of the year and have remained relatively low to historical standards. With borrowing rates at or near the year lows, many market participants expect an uptick in issuance as issuers normally look to capture advantageous borrowing rates when they can - but thus far it has not happened. MMA attributes the lack of issuance to the pervasive anti-borrowing climate that has entered the current political arena across the country. Aside from issuer austerity, borrowing is down because of the end of bond insurance, the lack of VRDO derivatives and to an extent limited leveraged demand that persisted during the TOB era mentioned above. These three influences will not so forcibly impact the market as they did in the mid 2000's and are affecting issuer's access to the market.

### Solves Infrastructure Investment

#### Congress should restart the BAB program – jumpstarts infrastructure investment, boosting the economy

Eizenga and Hanlon, 11 - Eizenga is a Policy Analyst with the Economic Policy team at the Center for American Progress AND Hanlon is the Director of Fiscal Reform for CAP’s Doing What Works project (Jordan Eizenga and Seth Hanlon, April 2011 “Bring Back BABs A Proposal to Strengthen the Municipal Bond Market with Build America Bonds” http://www.americanprogress.org/issues/2011/04/pdf/build\_america\_bonds.pdf)//KX

These critiques are based on a meaningless accounting distinction between direct government spending and indirect-government spending done through the tax code. It makes no difference to the federal treasury whether Congress spends money by collecting taxes and then writing a check, or by forfeiting tax revenue it otherwise would have collected. Money spent and money distributed through tax breaks for specific activities are both a form of government “spending.” Tax-exempt bonds and Build America Bonds are both spending programs that commit federal resources to state and local governments, and involve the federal government in supporting state and local infrastructure. Build America Bonds just deliver the federal subsidy more efficiently.

Build America Bonds critics also noted that underwriting fees were typically higher for direct-subsidy issuances than for comparable tax-exempt bond issuances. To be sure, fees were higher at the outset as underwriters took on the additional risk and effort involved in offering a new product. Since May of 2010, the fees declined steadily in line with underwriting fees for tax-exempt bonds. Had the program been extended, underwriting fees would have likely been pushed down by more competition among underwriters and an expanding market for the bonds.

A return to muni-bond turmoil

The expiration of the Build America Bonds program has not only restored the inefficient market for tax-exempt bonds, it has contributed to distress in the municipal bond market generally.

Tax-exempt yields are at their highest in a year. Twenty-year general obligation tax-exempt bonds rose 31 basis points in the first week alone after the program’s expiration at the end of December. The municipal market “has basically lost its training wheels, and now it has to learn how to ride a bike all over again,” said Michael Pietronico, chief executive officer of Miller Tabak Asset Management in January. “That means higher yields.”

At a time when most states face budget shortfalls, states are now paying up to two-thirds more to borrow than when they issued Build America Bonds in 2010. Others will simply choose not to finance projects because the borrowing costs will be too high. That will mean fewer new investments, with immediate impacts on job creation and long-term ramifications for economic growth. For deficit-wracked state and local governments, the demise of the Build America Bonds program could not have come at a worse time.

In the next section, we argue that Congress should strengthen the municipal bond market by reviving Build America Bonds. We describe some of the benefits of reviving Build America Bonds and propose a potential way for Congress to manage the depth of the federal subsidy for state and local finance.

A proposal to bring back BABs

Congress should revive the Build America Bonds program, broaden the projects it is permitted to finance, and make it a permanent feature of the municipal bond market.

The reintroduction of Build America Bonds will again expand the municipal bond market to new investors who tend to purchase bonds at longer maturities. That should add much needed demand to a currently volatile municipal bond market, as well as provide crucial support to state and local infrastructure investment.

This approach should also lower the borrowing costs of state and local government issuers. That will reduce pressures to increase taxes in order to finance important public projects. At a time of great financial distress in many state and local governments, such savings are all the more important.

BABs promote budget discipline

One of the major advantages of Build America Bonds is that they give Congress the ability to determine the amount of federal resources that go toward subsidizing state and local finance.

By contrast, the tax expenditure on tax-exempt bonds is not determined by Congress. For most federal programs that invest directly in infrastructure, such as federal highway spending, Congress sets its annual budget authority through the appropriations process. Tax-exempt bonds, by contrast, operate on autopilot. The cost to the U.S. Treasury from year to year is determined mainly by the aggregate volume and interest rates of tax-exempt bonds that state and local governments issue and have outstanding.

The fiscal cost is also determined by marginal tax rates, principally the top-marginal rate. The higher the top-marginal rates, the more attractive tax-exempt bonds are for investors in those brackets. Yet Congress must weigh innumerable other considerations in setting marginal tax rates other than the appropriate level of subsidy for state and local finance. Tethering that subsidy to increases or decreases in the top marginal tax rate is a strange way of setting national priorities. The point is that, as a matter of principle, the size of the federal subsidy should be the result of deliberate policy decisions concerning federal support for state and local infrastructure investment.

With Build America Bonds, Congress can choose the size of the subsidy simply by adjusting the subsidy rate. During their first two years of existence, Build America Bonds paid a 35 percent subsidy rate. That is, the federal government covered 35 percent of issuers’ interest costs. But Congress could choose to renew Build America Bonds at a lower subsidy rate. Different economic conditions in future years might call for a less- or more-generous subsidy.

The Obama administration has proposed renewing Build America Bonds at a 28 percent subsidy rate. That is what the administration projects as the “revenue neutral” subsidy rate, or the rate at which the cost of the Build America Bond subsidy is naturally offset by a reduction in forfeited revenue from fewer tax-exempt bond issuances. Others in Congress have proposed reviving Build America Bonds at a 32 percent subsidy rate.

Congress could even offer varying subsidy rates for the Build America Bonds that fund different types of investments, better targeting federal funds toward desired purposes. And to ensure that Build America Bonds become a greater share of the municipal bond market, Congress could expand its eligible uses to include refunding and other activities that they were not permitted in its original incarnation.

#### BABs solve infrastructure investment – leverage more funding and save state money

Eizenga and Hanlon, 11 - Eizenga is a Policy Analyst with the Economic Policy team at the Center for American Progress AND Hanlon is the Director of Fiscal Reform for CAP’s Doing What Works project (Jordan Eizenga and Seth Hanlon, April 2011 “Bring Back BABs A Proposal to Strengthen the Municipal Bond Market with Build America Bonds” http://www.americanprogress.org/issues/2011/04/pdf/build\_america\_bonds.pdf)//KX

The birth and premature death of Build America Bonds

The financial crisis that began in the sub-prime mortgage market had by 2008 infected the municipal bond market. Foreclosure rates had spiked, causing state and local property tax revenue to plummet. The credit markets were contracting and the underwriters and insurers that traditionally supported the municipal bond market were in dire straits. Municipal bond insurers were being downgraded, driving up interest rates on the bonds they backed. Investors were fleeing the market as a whole. For some, it was, “the worst crisis in bond market history.”

The municipal bond market problems threatened to worsen the economy-wide recession. But they also presented an opportunity for experimentation in state and local finance. In the American Recovery and Reinvestment Act of 2009, Congress created an alternative to tax-exempt bonds, called Build America Bonds. Under this program, state and local governments could issue taxable bonds to finance infrastructure investment, but have the federal government pay part of the interest cost. This subsidy was set at 35 percent of the interest costs for 2009 and 2010. That means the direct subsidy on a Build America Bond was equal to the implicit federal subsidy on a tax-exempt bond purchased by an investor in the 35 percent tax bracket.

By making direct payments to the issuer, the federal government eliminated the windfall to high-income investors, ensuring instead that 100 percent of the federal subsidy benefited state and local governments. Build America Bonds promised to be a far more efficient way to subsidize state and local governments than tax-exempt bonds.

Indeed, the Treasury Department estimates that state and local governments saved over $20 billion in net present value by issuing Build America Bonds. Lower borrowing costs, in turn, mean states pay less for public projects and pass less of the cost of the project onto taxpayers. The program also helped expand the market for municipal bonds at a time when individual retail investors were fleeing the tax-exempt market. That’s because Build America Bonds were attractive to buyers who aren’t helped by the municipal bond tax exemption, such as pension funds, foreign investors, and life insurance companies. By appealing to a broader array of investors, the direct subsidy bonds accessed untapped demand in the market. “[T]he BAB program has succeeded in opening up the municipal market to nontaxable and other non-traditional investors,” wrote Andrew Ang, Vineer Bhansali, and Yuhang Xing in what was the first independent report of the Build America Bonds program.

Build America Bonds also had salutary effects on the tax-exempt market. “The availability of Build America Bonds has enabled state and local governments to issue fewer tax exempt bonds, which has lowered their borrowing costs in the tax exempt market,” wrote Alan Krueger, former assistant Treasury secretary for economic policy, in December. With Build America Bonds available as an alternative, state and local governments could opt to issue tax-exempt bonds only when low yields made them attractive.

In the six months following the creation of the Build America Bonds program, yields on long-term tax-exempt bonds dropped by about 20 to 30 basis.

More tellingly, the spread between tax-exempt bond yields and taxable Treasury bond yields narrowed significantly over the life of the program. (See Figure 4) When tax-exempt bond yields approach Treasury yields, that’s a sign that the market for tax-exempt bonds is becoming more efficient.

Another positive outcome of the Build America Bonds program was its ability to stimulate critical infrastructure investment. Infrastructure projects typically demand longer-maturity financing because of the longer economic life of projects. Tax exempt bonds have traditionally been issued at shorter maturities, reflecting the preference for short-term debt of the retail investors they attract. This preference created a mismatch between the needs of issuers and the demands of investors.

But Build America Bonds could be issued at longer maturities because they catered also to long-term institutional investors. The independent study of the Build America Bond program by Ang, Bhansali, and Xing noted that 54 percent of Build America Bonds have maturities longer than 10 years, compared to just 34 percent for tax-exempt bonds.

 “[Build America Bonds] are the latest mechanism that can efficiently and materially mitigate the structural inefficiencies in the long end of the tax-exempt curve,” wrote JP Morgan municipal market analysts Chris Holmes and Alex Roever in Bond Buyer in November, referring to Build America Bond’s ability to attract buyers with longer investment horizons. Build America Bonds, in being issued at longer maturities, helped stimulate investment in infrastructure at a time when such investment was badly needed.

All in all, the Build America Bonds experiment was successful: It strengthened the municipal market, reduced inefficient returns to high income bond buyers, and brought about long-overdue investment in infrastructure at the state and local level. It did so at a time when broader financial markets were fragile and the economy was struggling out of the deepest recession in two generations. And yet, Congress failed to extend the program beyond its expiration on December 31, 2010. Why was that?

#### Build America Bonds empirically has many benefits- increased investment, decrease costs, created jobs, and boosted the transportation sector and overall economy

Selway and McGrail, 10 [William, Bloomberg News Reporter, Brenden A., Bloomberg News Reporter, December 10, <http://www.bloomberg.com/news/2010-12-10/build-america-bonds-program-s-end-poised-to-batter-municipal-debt-market.html>, “Build America Bonds Program’s End Poised To Batter Municipal-Debt Market”, Accessed July 10, //SH]

The looming end of the federally subsidized Build America Bonds program may push up yields in the $2.8 trillion municipal securities market and put more financial pressure on cash-strapped states and cities, investors said. Senate Democrats backing the subsidy, which has helped finance bridges, roads and other public works, fell short in a bid to get the program added to a bill extending the 2001 and 2003 income-tax cuts. That failure was the latest in efforts to keep the Build America program alive beyond its scheduled end on Dec. 31. The securities, which carry taxable interest rates similar to corporate debt, have allowed state and local governments to access investors abroad and others who don’t buy traditional tax-exempt bonds. That has eased the supply of tax-exempt bonds and buoyed prices, which move inversely to yields, a trend that may reverse next year if the program is killed. “It could get pretty ugly,” said Rob Novembre, managing director at Arbor Research & Trading Inc. in New York, who runs the company’s municipal-trading operation. “Whoever owns munis could potentially experience some pain.” Build Americas were created under President Barack Obama’s stimulus legislation as a means of driving down borrowing costs for localities and funneling money to job-stoking construction projects. More than $179 billion of the securities have been sold since April 2009, funding clean-water projects in Ohio, highways in Kansas, dormitories at Rutgers University in New Jersey and a new bridge spanning the San Francisco Bay. ‘Great Success Story’ “The BABs program has been a great success story,” California Treasurer Bill Lockyer said in a statement today. “If Congress lets it expire, it will damage our economic recovery and inflict a multibillion-dollar injury on taxpayers, not just in California but in every state in the nation.” California and local issuers in the state have sold about $36 billion of the taxable debt, he said. In an interview today on Bloomberg Television’s “InBusiness With Margaret Brennan,” Lockyer said the Build America program has helped create “tens of thousands of jobs.”

#### BABs critical to our economic recovery and competitiveness

Donmoyer and Selway, 10 [Ryan, Bloomberg reporter, William, Bloomberg reporter, December 7, <http://www.bloomberg.com/news/2010-12-07/build-americas-left-out-of-deal-to-extend-bush-era-tax-cuts-officials-say.html>, “Build Americas Left Out Of Deal To Extend Bush-Era Tax Cuts, Officials Say”, Accessed July 11, //SH]

Brian Turmail, spokesman for the Arlington, Virginia-based Associated General Contractors of America, said the bonds are crucial to the nation’s recovery from the longest recession since the Great Depression. “That we would make it harder for private-sector dollars to flow into infrastructure projects just astounds the mind,” he said in a telephone interview. “This is a key part of addressing what we consider to be pretty significant infrastructure challenges that our nation is facing and will, long-term, undermine our economic competitiveness.”

#### BAB’s boosted the economy; created jobs

Gandel, 9 [Stephen, Senior writer for TIME, November 17, [http://www.time.com/time/business/article/0,8599,1939720,00.html](http://www.time.com/time/business/article/0%2C8599%2C1939720%2C00.html), “A Stimulus Success: Build America Bonds are Working”, Accessed July 9, //SH]

When Congress wrote the Build America Bond program into February's $787 billion economic-stimulus bill, many predicted a flop. Nine months later, the municipal-bond program, which provides a federal subsidy to help states and other local governments raise funds, looks to be one of the economic recovery effort's biggest successes. Earlier this month, the volume of BABs, as they have come to be called, crossed the $50 billion mark."People originally said it would eliminate the issuance of municipal bonds," says John Cummings, who is head of muni-bond investments at money-management firm PIMCO. "Instead they have stabilized the market and helped to create jobs." (See the top 10 financial-crisis buzzwords.) Observers say Build America Bonds have lowered borrowing costs for states and other local governments. The bonds have renewed and expanded investor interest in the muni-bond sector. And by getting money into the hands of cash-strapped local governments, the bond program has saved or even boosted jobs, stimulating the economy. Many investors are already lobbying to extend the program, which is not expected to close until the end of 2010.

### Solves State Budgets

#### Reinstating BABs solves state budget shortfalls and boosts the municipal bond market

Eizenga and Hanlon, 11 - Eizenga is a Policy Analyst with the Economic Policy team at the Center for American Progress AND Hanlon is the Director of Fiscal Reform for CAP’s Doing What Works project (Jordan Eizenga and Seth Hanlon, April 2011 “Bring Back BABs A Proposal to Strengthen the Municipal Bond Market with Build America Bonds” http://www.americanprogress.org/issues/2011/04/pdf/build\_america\_bonds.pdf)//KX

Advisers recommended that state and local governments delay issuing new debt because of high yields and weak demand. But pressing financial and infrastructure needs meant that state and local governments often could not just wait out the crisis. The turmoil in the municipal bond market threatened to worsen the nation’s plunge into recession.

The municipal bond crisis presented an opportunity for federal lawmakers to not only strengthen the municipal market, but to respond to a longstanding problem in the way state and local tax-exempt bonds are structured. In 2009, the Obama administration and Congress created the Build America Bonds program. Build America Bonds were taxable state and local government bonds for which a portion of the interest costs were subsidized by the federal government.

The subsidized bonds were an innovative financing mechanism that would prove to strengthen the municipal debt market. Over the past two years, these subsidized bonds financed much-needed infrastructure investment at the state and local government level while making the tax-exempt municipal bond market stronger and more efficient. Perhaps most importantly, the program also lowered the borrowing costs for state and local governments.

Despite the success of this program, Congress failed to reach agreement to extend the program at the end of the 111th Congress and it expired on December 31, 2010. The opposition to Build America Bonds stemmed largely from an antipathy to federal spending. But, as we show, Build America Bonds do not necessarily increase the size of the federal government; the program simply makes the federal government more efficient in how it invests taxpayer funds. Build America Bonds provided a streamlined alternative to an existing federal subsidy program: The tax exclusion for municipal bonds.

The yields on tax-exempt bonds have since risen dramatically, with many market analysts attributing the turmoil to the demise of Build America Bonds. State and local governments are already facing severe budget shortfalls, and higher borrowing costs will exacerbate these problems, threatening needed services and investment.

Fortunately, Congress can still revive the Build America Bonds program and make it a permanent feature of the municipal bond market. In this paper, we propose to strengthen the municipal market as a whole through a permanent Build America Bonds program that improves the way the federal government promotes important public investments at the state and local level, and lowers their cost of capital. Specifically, we recommend to expand the Build America Bonds market and to place an annual ceiling on the number of tax-exempt issuances. In so doing, we allow Congress to better manage federal support of state and local finance—a particularly important outcome as our country simultaneously confronts large structural budget deficits and long overdue infrastructure investment.

#### Federal action in the bond market is crucial to restore investor confidence and alleviate state budget concerns

Posner 11 – Director of Municipal Market Advisors (Matt, 5/17/11, Testimony to the Committee on Senate Finance, “FINANCING 21ST CENTURY INFRASTRUCTURE; COMMITTEE: SENATE FINANCE” CQ Congressional)

The decline in new-issuance this year is reflective of the prudent fiscal strategist adopted by issuers. This does not necessarily mean that infrastructure projects have been tabled forever, but clearly many are getting postponed because of the current dynamic. It is hard to conceive a $3 billion Municipal Electric Authority of Georgia nuclear deal getting financed in the current tax-exempt market while it was so easily facilitated in the BAB market in 2010. Large issues over $1 billion are having difficulty coming to market in the current environment. In fact we have only seen 5 tax-exempt deals come to market over this threshold in 2011. This creates a problem for financing new projects or maintaining major infrastructure.

The dearth of new issuance this year has created a lack of secondary liquidity and less price transparency for tax-exempts. If we were to see a surge in issuance in this current environment, we expect the tax-exempt market to experience a sharp rise in yields until investors recognized the value in the opportunity. This lack of secondary activity also makes the market much more prone to headline risk, such as a major credit event of a large state or city.

This type of volatility would be harmful to both investors and issuers.

MMA forecasts 2011 issuance of tax-exempt debt to be $217 billion, a large step down from the $433 billion issued last year or the $409 billion issued in 2009. We do expect the market to continue to struggle with price discovery and as a result volatility should remain high. Individual investors are likely to remain fluid in shifting their investments between fixed-income, commodities, equities and cash. The ongoing ambiguity regarding the health of the U.S. and global economy remains the dominant theme for the balance of the year. Specific to the municipal bond market, individual investors are migrating from the mutual funds to individual managers in order to have more direct access to information regarding the credits that they own, which is so difficult to access given current disclosure standards. Macro economic uncertainty, municipally-specific credit concern, a lack of price transparency and the lack of bond financing tools should lead to continued difficulty in accessing the municipal market to finance infrastructure. Because states have to balance their budgets annually, the planning of infrastructure projects is contingent on future revenues and states are more apt to be more receptive to Federal assistance for critical projects that are not line items expenditures of their annual budgets.

#### BABs actually create responsible state fiscal actions, and more efficiently

Hanlon, 10 [Seth, Director of Fiscal Reform, Center for American Progress, November 19, <http://www.americanprogress.org/issues/2010/11/bab_myth_fact.html>, “Myth vs. Fact: The Build America Bond”, Accessed July 10, //SH]

Myth: Build America Bonds provide incentives to states to be fiscally reckless Grassley claims Build America Bonds provide the biggest subsidies to states and local governments that have been fiscally irresponsible. The Journal’s Reilly echoes this argument, saying, “State and local governments need incentives to get their financial houses in order, as painful as that might be. By subsidizing the cost of borrowing with this program, the federal government reduces the incentive to do so.” The critics’ argument is that spendthrift states pay higher interest rates on their debt due to poor credit ratings. Because Build America Bonds subsidize a portion of the interest payments, so the argument goes, states with poor credit get bigger federal subsidies. Their argument doesn’t hold water. Fact: Build America Bonds give states strong incentives to maintain healthy credit ratings The argument that Build America Bonds reward fiscal irresponsibility is wrong because it ignores two critical points. First, only a portion of states’ overall borrowing costs are subsidized, so powerful incentives remain for states to maintain strong credit ratings. Second, and more fundamentally, the critics are again ignoring the federal tax exemption for municipal bonds, which has been a permanent fixture of the tax code since 1913. As with Build America Bonds, the value of a municipal bond exemption subsidy is a function of the amount of interest a state pays. Both bonds “reward” states basically the same way, though Build America Bonds do so more efficiently.

#### BABs help municipal borrowers --- lowers costs and creates new markets

Scott, 5/7/12 [Mitchel A, Department of Economics, Stanford University, <http://economics.stanford.edu/files/MitchelScottHonorsThesis2012.pdf>, “The Build America Bonds Program: Savings Opportunities and

Efficiency Improvements from Subsidizing Taxable Municipal Debt”, Accessed July 10, //SH]

As a result of the 2008-2010 financial crisis, municipal borrowers (state and local governments, school districts, transit agencies, water utilities, etc.) faced increased borrowing costs and a risk-averse investor base that made it difficult to finance continued public spending, let alone fiscal stimulus. The Build America Bonds program was touted as a means to ease the credit crunch faced by municipal issuers through Federal interest subsidies on taxable municipal debt, providing an additional borrowing instrument alongside traditional tax-exempt municipal bonds. By allowing municipal borrowers subsidized access to taxable debt markets, the program was designed to lower borrowing costs, and draw new groups of investors (such as pension funds and 401(k) accounts) to municipal bonds that would not be attracted by the tax exemption structures of traditional municipal debt. This paper finds that the program met its objectives of lowering borrowing costs, as seen by an average yield savings of 69 basis points versus issuing in the tax exempt market, and attracting non-traditional investors, as indicated by low marginal tax rates for BAB investors. This paper argues that the Build America Bonds program was a success, and worthy of extension as a long-term alternative to tax exemption, although the subsidy proposed in President Obama’s 2013 Budget is overgenerous.

#### BAB’s give power to the states, and do so efficiently

Hanlon, 10 [Seth, Director of Fiscal Reform, Center for American Progress, November 19, <http://www.americanprogress.org/issues/2010/11/bab_myth_fact.html>, “Myth vs. Fact: The Build America Bond”, Accessed July 10, //SH]

Myth: Build America Bonds increase the size of the federal government Grassley’s office said the Build America Bonds program “increases the size of the already-bloated federal government, because it takes what used to be a tax-cutting program, namely municipal bonds, and convert that into Build America Bonds.” That’s not true. Fact: Build America Bonds don’t grow government—they make it more efficient Grassley’s statement ignores how tax breaks really work. There is no meaningful difference between a “direct” spending program and a spending program that delivers money to people by allowing them to avoid taxes everyone else has to pay. That’s why economists call tax breaks “tax expenditures.” Build America Bonds provide federal support directly to states. Tax-exempt municipal bonds redirect federal revenues to bond investors. Both programs subsidize state and local finances at a cost to the federal treasury. The only real difference is that Build America Bonds does so more efficiently.

### Lowers Costs

#### BAB’s lower costs

Gandel, 9 [Stephen, Senior writer for TIME, November 17, [http://www.time.com/time/business/article/0,8599,1939720,00.html](http://www.time.com/time/business/article/0%2C8599%2C1939720%2C00.html), “A Stimulus Success: Build America Bonds are Working”, Accessed July 9, //SH]

The only question about BABs is the cost. So far local governments have issued just over $50 billion in BABs with an average yield of just under 6%. That means the federal government is paying just over 2% interest on that debt a year, or about $1 billion. Many estimate that the volume of BABs could triple over the next year. What's more, most of these bonds are issued with a term of 15 or 30 years. That means by the end of 2010 the federal government could end up being on the hook for as much as $90 billion during the life of the bonds. It's likely however the program won't cost nearly that much. First of all, some of the people buying BABs are individuals, who will owe taxes, though not all of them are in the highest tax bracket. What's more, BABs are bringing down the yields of all muni bonds, not just BABs. That is lowering the borrowing costs of local governments in general. That lower expense should save taxpayers money when it comes to paying their state and local taxes, even if it increases the money being shelled out by the federal government.

#### BABs lower costs --- critics misrepresent the program

Hanlon, 10 [Seth, Director of Fiscal Reform, Center for American Progress, November 19, <http://www.americanprogress.org/issues/2010/11/bab_myth_fact.html>, “Myth vs. Fact: The Build America Bond”, Accessed July 10, //SH]

Opponents of the Build America Bonds program are stepping up their attacks on this innovative public-works financing tool, hoping Congress will let it expire at the end of the year. That would be a shame. The reason: These federally subsidized bonds are proving to be a breakthrough innovation in municipal finance, one that helps states and cities fund thousands of job-creating infrastructure projects at lower costs than traditional tax-exempt municipal bonds. Critics such as Sen. Charles Grassley (R-IA) misrepresent the Build America Bonds program, created in 2009 as part of the American Recovery and Reinvestment Act. They inaccurately claim it’s a bailout program that bloats the size of state and local governments and rewards fiscal irresponsibility. In fact, this program radically improves the way federal support for local projects is delivered, helps taxpayers by lowering state borrowing costs, and reduces back-door subsidies for high-income buyers of municipal bonds. This is why Congress should extend the Build America Bonds program before year-end. To prove our point, we address some of the dominant myths coming from misinformed critics of Build America Bonds and then deliver up the facts.

#### Build America bonds are beneficial for multiple reasons

Hanlon, 10 [Seth, Director of Fiscal Reform, Center for American Progress, November 19, <http://www.americanprogress.org/issues/2010/11/bab_myth_fact.html>, “Myth vs. Fact: The Build America Bond”, Accessed July 10, //SH]

The upshot? Taxpayers benefit across the board because Build America Bonds save money, are more efficient and more transparent than tax-exempt municipal bonds, and encourage state and local governments to be fiscally responsible. This is why the 111th Congress needs to take up a proposal from Sen. Max Baucus (D-MT) to continue this essential program for at least another year.

#### Build America Bonds results in more investors and lower costs

Wolf and Keane, 10 [Carol, Bloomberg writer, Angela Greiling, Reporter for Bloomberg News, December 17, <http://www.bloomberg.com/news/2010-12-17/build-america-bond-program-poised-for-a-reincarnation-house-s-mica-says.html>, “Build America Bonds To See ‘Reincarnation’, Mica Says”, Accessed July 11, //SH]

New York City Comptroller John Liu said Build America has allowed the city to raise money from investors who wouldn’t buy tax-exempt bonds. “It has allowed us to get favorable financing and allowed us to build roads, schools, bridges, hospitals,” he said in an interview on Bloomberg Television.By paying 35 percent of the interest cost on the taxable bonds, the U.S. government may have saved borrowers at least $24 billion in today’s dollars compared with traditional tax-exempt debt, based on an April Treasury Department report.

### Transparent

#### BAB programs are more transparent

Hanlon, 10 [Seth, Director of Fiscal Reform, Center for American Progress, November 19, <http://www.americanprogress.org/issues/2010/11/bab_myth_fact.html>, “Myth vs. Fact: The Build America Bond”, Accessed July 10, //SH]

Myth: Build America Bonds lack “transparency” “There’s been very little transparency about this program,” Grassley says. He calls Build America Bonds a “disguised spending program run through the tax code.” In fact, it’s just the opposite. Fact: The costs and beneficiaries of Build America Bonds are far more transparent than tax-exempt municipal bonds Under the Build America Bonds program, taxpayers know precisely who the beneficiaries of this federal subsidy are: states and localities. There are no windfalls to anonymous investors. The direct payments to states appear in the federal budget as an outlay, just like other federal spending programs. In contrast, the cost of the municipal bond exemption does not appear in the budget even though it costs taxpayers about $30 billion per year. The cost of tax-exempt bonds is tracked only in a list of tax expenditures prepared annually by Office of Management and Budget and the Joint Committee on Taxation.

### BABs > MuniBonds

#### BABs are comparatively better than municipal bonds – more efficient

Eizenga and Hanlon, 11 - Eizenga is a Policy Analyst with the Economic Policy team at the Center for American Progress AND Hanlon is the Director of Fiscal Reform for CAP’s Doing What Works project (Jordan Eizenga and Seth Hanlon, April 2011 “Bring Back BABs A Proposal to Strengthen the Municipal Bond Market with Build America Bonds” http://www.americanprogress.org/issues/2011/04/pdf/build\_america\_bonds.pdf)//KX

Why tax-exempt bonds are inefficient

Tax-exempt municipal bonds lower the borrowing costs for state and local governments, but they are an inefficient and costly federal subsidy. That’s because a significant portion of the subsidy intended for the governments is instead captured by bond buyers in the top income tax brackets.

Understanding how this windfall happens is key to understanding why direct-subsidy bonds like Build America Bonds are a fairer and less expensive way for the federal government to subsidize local capital projects.

The main point to keep in mind is that the tax exemption on municipal bond interest, like any income tax exemption, is most valuable for buyers in the top income tax brackets. A muni bondholder in the 35 percent bracket pays $35 less in taxes for every $100 in interest income he receives, while a buyer in the 10 percent bracket saves just $10. That explains why people in the top income tax bracket, the wealthiest Americans, are the most willing buyers of tax-exempt bonds.

If state and local governments sold bonds exclusively to these top-bracket investors, the governments could, in theory, issue bonds paying a 35 percent lower yield than comparable taxable bonds. At that yield, top-bracket investors would find the tax-exempt and taxable bonds equally attractive.

The problem is that the appetite for muni bonds among people in the top tax bracket is insufficient to meet state and local governments’ need for financing. The municipal issuers, therefore, must also sell bonds to people with lower incomes who are taxed at lower rates. And that means the bond issuers have to offer higher rates to all investors, giving the bond buyers in the highest income tax brackets a windfall.

To see how this happens, let’s return to John, our $500,000-a-year accountant:

John, who is in the 35 percent income tax bracket, decides to buy $20,000 of taxable 20-year Treasury bonds yielding 4.3 percent annually. That gives him an after-tax annual return of $559, equivalent to a 2.8 percent yield on a comparable tax-exempt municipal bond.

John’s friend, Stan, is an engineer whose salary is $125,000, which puts him in the 28 percent income tax bracket. Stan also invests $20,000 in taxable 20-year Treasury bonds paying 4.3 percent a year. That gives Stan an aftertax annual return of $619, equivalent to a 3.1 percent yield on a comparable tax-exempt muni bond.

While a tax-exempt muni bond issuer would have to pay 2.8 percent to entice John to purchase its bonds, it must offer a yield of at least 3.1 percent to make it worth Stan’s while. If not enough top-bracket investors like John buy all the municipal bonds available, the issuers must offer a yield that will also attract investors like Stan.

And that’s exactly what happens, generating a windfall for John. The muni issuer competing for Stan’s business has to pay a 3.1 percent interest but John gets that rate as well, giving him $60 more in after-tax returns than what should be needed to motivate him to buy the bond.

That’s good for John, but not for the issuer, whose borrowing costs have gone up and who therefore isn’t receiving the full value of the federal subsidy. In theory, the issuer should be able to borrow $20,000 a year for just $559 in annual interest payments. But because part of the subsidy has leaked to John, the issuer is actually paying $619 in interest payments—and John is pocketing the difference.

To be sure, this is a simplified example that ignores the many other factors that governments and investors consider when selling and buying bonds. But the evidence shows that the general dynamic is real: Lower-bracket buyers push up the yield on municipal bonds above what a buyer in the top bracket would demand to buy the bonds. As a result, local governments offering tax-exempt bonds pay higher interest-rate payments than necessary to attract top-bracket investors.

None of this is the fault of high-income tax-exempt bond buyers. They’re just buying the bonds that offer the best after-tax yield. The fault lies with an imperfect federal subsidy delivered to states through the tax code.

The Treasury Department estimates that 10 percent to 20 percent of the subsidy, intended solely for state and local government issuers, is captured by bond buyers in higher tax brackets. The tax expenditure for municipal bonds, therefore, constitutes “a federal transfer to bondholders in higher tax brackets.”

The cost of this inefficiency is not trivial. With 10 percent to 20 percent of the subsidy leaking to bond buyers, the cost of the inefficiency to U.S. taxpayers in unnecessary foregone revenue could be greater than $6 billion per year. Ultimately, the reduction in interest costs for state and local governments is less than the federal tax expenditure. That is, the federal government forfeits one dollar in tax revenue under the deduction, but state and local governments save only eighty cents.

A Congressional Budget Office-Joint Committee on Taxation study found that “A direct appropriation of funds would purchase more infrastructure on a dollar-for-dollar basis.” That is, the federal government would get more bang for its buck if it simply gave money to state and local governments to spend on capital investments.

Functionally, that’s what Build America Bonds do and it’s why they offer a distinct advantage over tax-exempt municipal bonds.

#### BABs comparatively better than tax-exempt bonds- more efficient and reliable

Hanlon, 10 [Seth, Director of Fiscal Reform, Center for American Progress, November 19, <http://www.americanprogress.org/issues/2010/11/bab_myth_fact.html>, “Myth vs. Fact: The Build America Bond”, Accessed July 10, //SH]

Myth: Build America Bonds are a “bailout” of state governments Columnist David Reilly of The Wall Street Journal on Tuesday called Build America Bonds a state budget “bailout” that should be scrapped. Grassley that same day called for a Government Accountability Office audit, saying the program provides a “richer subsidy at a much higher cost to U.S. taxpayers.” They are wrong on both counts. Fact: Build America Bonds save taxpayer dollars. Build America Bonds are no more a “bailout” of local governments than are tax-exempt municipal bonds, which Grassley seems to support, and which Reilly fails to even mention. For nearly 100 years, interest on municipal bonds has been exempt from federal income taxes. That makes them attractive to investors and allows local governments to issue lower cost debt. But it comes at a cost to the federal treasury in the form of income taxes that would otherwise be collected from these investors. The tax exemption, therefore, is a federal subsidy—and a highly inefficient one. Instead of the entire subsidy going to the local governments, 20 percent of it ends up in the pockets of the wealthiest bond investors, according to the Treasury Department. (To understand how and why that happens, read this detailed explanation.) Build America Bonds eliminate this windfall to high-income investors by funneling the federal subsidy directly to states rather than to states and rich people through the tax code. Here’s how it works. The bonds issued under the program are taxable, meaning the interest they pay out is considered ordinary income by the Internal Revenue Service, just like the interest on any corporate or federal bond. Once they’re issued, however, the federal government covers a portion of the interest payments made by states. This is a far more efficient way of using federal resources to reduce state borrowing costs. The Treasury estimates that, even after underwriting fees, state and local governments have saved more than $12 billion by issuing Build America Bonds rather than tax-exempt bonds. The savings are achieved largely by eliminating the windfall to high-income investors.

#### BAB’s offer higher returns and lower risk

Buckner, 10 [Gail, Fox Business, July 26, <http://www.foxbusiness.com/personal-finance/2010/07/26/build-america-bonds-safe-play-bondland/>, “Build America Bonds: Safe Play in Bondland?”, Accessed July 9, //SH]

Both managers assert that for investors who don’t need tax-exempt income, BABs offer a way to diversify bond holdings and potentially reduce your overall risk. Although T. Rowe Price doesn’t have a mutual fund specifically devoted to Build America Bonds, Mallas says they are held by some of the firm’s taxable bond funds. In addition, BABs might pay you higher income than a corporate bond with a similar risk rating. Brandon points to an A1-rated state of Illinois BAB issued last week with a yield of 7.11% and a maturity date of 2035. By comparison, an Abbot Labs corporate bond due in 2039 and trading in the secondary market has the same rating but a yield of just 5.16%.

### Alternate Mechanism

#### Setting caps on tax-exempt bonds and expanding BAB usage solves investment

Eizenga and Hanlon, 11 - Eizenga is a Policy Analyst with the Economic Policy team at the Center for American Progress AND Hanlon is the Director of Fiscal Reform for CAP’s Doing What Works project (Jordan Eizenga and Seth Hanlon, April 2011 “Bring Back BABs A Proposal to Strengthen the Municipal Bond Market with Build America Bonds” http://www.americanprogress.org/issues/2011/04/pdf/build\_america\_bonds.pdf)//KX

BABs can coexist with tax-exempt bonds

Earlier this year, Sens. Ron Wyden (D-OR) and Dan Coats (R-IN) proposed replacing tax-exempt bonds with tax-credit bonds. Erskine Bowles and former Sen. Alan Simpson, co-chairs of the President’s Commission on Fiscal Responsibility and Reform, in December 2010 proposed to achieve deficit reduction by simply eliminating the tax exemption for new issuances of municipal bonds.

While we believe Build America Bonds are superior to tax-exempt bonds, we think that the two financing vehicles can co-exist. The country’s recent experiment with Build America Bonds proves that their availability has salutary effects on the tax-exempt bond market by reducing supply pressures.

Of course, it might be argued that the immediate elimination of tax-exempt bonds could create turbulence in an already unstable market. According to the National Conference of State Legislatures, 35 states are expected to have budget gaps for state fiscal year 2012. An immediate and dramatic change to the municipal bond market might increase borrowing costs for state and local governments at a different time.

A sensible approach is to gradually reduce the supply of tax-exempt bonds while nurturing the taxable bond market through the Build America Bonds program.

To this end, Congress could reintroduce Build America Bonds with a high enough subsidy rate to draw more and more issuers away from issuing tax-exempt bonds. Of course, the higher the subsidy rate, the greater the cost to the federal treasury. Assuming the revenue-neutral subsidy rate on Build America Bonds is 28 percent, their reintroduction at a subsidy rate higher than 28 percent would be revenue-negative. That is, the cost of subsidizing Build America Bonds at a higher rate would outweigh the revenue gained from luring issuers away from tax-exempts.

But a subsidy rate lower than 28 percent is not necessarily correspondingly revenue-positive for the U.S. Treasury. It could result in fewer Build America Bonds, but also more tax-exempt issuances—which means a bigger tax expenditure for tax-exempt bonds.

A volume cap on tax-exempt bonds can control costs

Congress can overcome this challenge by setting a volume cap on public purpose tax-exempt bonds, similar to the volume caps that currently exist for private-activity bonds. Assuming demand for tax-exempt bonds stays constant, the reduction in their supply would decrease yields to the point at which state and local governments captured the entire federal subsidy, and leaked none of it to high-income investors.

This volume cap could be set periodically by Congress. Tax-exempt bonding authority could be allocated to states on the basis of population size; state bond commissions could in turn distribute bonding authority to local governments. Alternatively, the federal government could allocate bonding authority by auction: Those governments that offer to remit to the federal government the highest percentage of their interest proceeds on the bonds would win the right to issue them. As envisioned by Calvin Johnson, a law professor at the University of Texas at Austin: “The winners of the auction would be those entities that have a capital project that can pass the highest hurdles.” The bond issuers would receive the same subsidy that it would under the current tax-exempt bond system, but the “windfall” would be remitted to the federal Treasury rather than accruing to top-bracket investors.

Regardless of the method of allocation, the cap would help ensure that all buyers of newly issued tax-exempt bonds are in the top marginal-income tax bracket. This would mean that there would be no buyers from lower tax-brackets pushing up yields beyond what a top tax-bracket investor would demand—and therefore no unintended windfall to those top-bracket investors. And to prevent short-term disruption in the municipal bond market, the cap could be implemented over time with the ceiling on tax-exempt issuances set high at first and then gradually reduced.

By imposing a cap on tax-exempt issuances, Congress can eliminate the inefficiency, strengthen the tax-exempt bond market, and nurture the market for Build America Bonds—without spending more than it already does through the munibond tax expenditure.

It can do all this because both a volume limit on tax-exempt bonds and the subsidy rate for Build America Bonds would be under Congress’s control.

By wielding two policy levers—the subsidy rate for Build America Bonds and the volume cap for tax-exempt bonds— Congress can create a municipal finance subsidy that is simultaneously:

• More efficient: By reducing the supply of tax-exempt bonds, the windfall to investors in the top marginal-tax bracket is eliminated and borrowing costs for states are lowered.

• More fiscally responsible: The depth of the overall subsidy could be ratcheted up or down to address federal fiscal challenges and national priorities.

• More flexible: Congress can adjust the tax-exempt volume cap and the Build America Bonds subsidy rate for various types of projects and in response to changing economic conditions.

Conclusion

The municipal bond market appears poised for a troubling year ahead. Demand for tax-exempt bonds is weak and borrowing costs are increasing for municipal issuers. To further complicate matters, the municipal bond market in its current form is extremely inefficient and is far from the best way to subsidize important public investments. Billions of federal tax dollars, intended to subsidize state and local governments, are captured by bond buyers in higher-income tax brackets.

This is a troubling state of affairs for two principal reasons. First, municipal finance is critically important to our economy. It allows state and local governments to raise the money necessary to fund projects that benefit the public good, improve our quality of life, and strengthen communities. It helps finance the construction of bridges, roads, and sewer systems, and pay for essential services provided by police officers, nurses, and teachers.

Second, federal dollars are increasingly scarce at a time of structural budget deficits and serious long-term fiscal challenges. Federal lawmakers have begun to consider what to do with beleaguered state and local governments. The proposal outlined in this paper provides the 112th Congress with a viable way to stabilize the market in the short term, and strengthen the efficiency and potency of the municipal bond market in the long term. This proposal provides crucial support to state and local governments when they need it most.

The advantage of this proposal is that it is based on a Build America Bonds program that has been tested and shown to work. Given the immediate fiscal challenges facing all levels of government and the ongoing need for infrastructure investment, we should not let such a good idea go to waste.

### BABs Popular

#### Build America Bonds won’t be a tough battle in congress

Wolf and Keane, 10 [Carol, Bloomberg writer, Angela Greiling, Reporter for Bloomberg News, December 17, <http://www.bloomberg.com/news/2010-12-17/build-america-bond-program-poised-for-a-reincarnation-house-s-mica-says.html>, “Build America Bonds To See ‘Reincarnation’, Mica Says”, Accessed July 11, //SH]

Representative Dave Camp, the Republican who will take over the House Ways and Means committee in the next Congress, said yesterday that the securities were a relic of the “failed stimulus bill” that “subsidized state and local governments going deeper into debt.” Sage Eastman, a spokesman for Camp, said he had no further comment today. Senator Jon Kyl, the Arizona Republican who is the party’s second-highest leader in the chamber, has raised similar concerns. “It would be an uphill climb to successfully get Congress to revive the program,” said Michael Decker, a lobbyist for the Securities Industry and Financial Markets Association, the banking and investor trade group, in a telephone interview. The association has pressed to keep the subsidy in place.

#### BABs the only option for funding transportation infrastructure projects and will be bipartisan

Johnson, 11 [Fawn, Correspondent, National Journal, March 7, <http://transportation.nationaljournal.com/2011/03/build-america-bonds-for-transp.php>, “Build America Bonds for Transportation”, Accessed July 11, //SH]

You've got to give Sen. Ron Wyden, D-Ore., credit for trying. He wants to revive the administration's popular Build America Bonds program, which gave bond issuers generous tax credits and federal subsidies for infrastructure investments before it expired last year. Wyden has proposed limiting the bonds to transportation investments, thinking that a narrowly tailored program would garner bipartisan support and ease the pain of paying for a six-year surface transportation bill. He's gotten some interest from Sen. John Thune, R-S.D. Transportation Secretary Ray LaHood has said he will advocate for such a program with the administration. Reviving Build America Bonds is one of the only concrete ideas that has surfaced to help pay for a $300 billion to $500 billion highway bill. Yet everyone agrees that the highway trust fund's current receipts aren't going to cut it when it comes to road and bridge maintenance. LaHood hasn't offered any specific thoughts on revenue raisers except to say that a gas tax increase is off the table. Transportation and Infrastructure Committee Chairman John Mica, R-Fla., has posited that some $100 billion could be found in unused spending from previous funding bills, but there's no evidence to substantiate that claim.

## BABs Bad

### Deters Investment

#### Unsustainable BAB program deters investors

Forsyth, 10 [Randall W, Barron’s Magazine, August 10, <http://online.barrons.com/article/SB50001424052970203880104575420291762686092.html>, “Buy American, as in Build America Bonds”, Accessed July 9, //SH]

The higher yields on BABs reflect their lesser liquidity and amount outstanding, factors that make them less attractive to big institutional investors such as pension funds and insurance companies, the traditional stalwarts of the corporate bond market. In addition, the BABs program will expire at the end of the year without Congressional action, which also would make these taxable munis relatively scarce in the marketplace, and thus less liquid.

### Links to Federalism

#### BABs are a major threat to federalism

Dougherty, 10 [Carter, economic correspondent, New York Times, International Herald Tribune, June 17, <http://www.cbsnews.com/8301-505123_162-42540254/build-america-bonds-as-warren-buffett-suggests-a-dangerous-trap-for-the-feds/>, “Build America Bonds: As Warren Buffet Suggests, a Dangerous Trap for the Feds”, Accessed July 9, //SH]

Build America Bonds were created as part of the stimulus package in early 2009 to reliquify the municipal bond market. Instead of making the bonds tax-free, the federal government would subsidize a portion of the interest payments made by states and localities -- a step that jump-started the market to the tune of tens of billions of dollars. The Treasury Department has wanted to do this for years because tax-free bonds cost the federal government more in lost revenues than their subsidized cousins. That's a fair argument to extend the program, but there are others against it that haven't gotten a fair hearing. (Some Republicans oppose an extension, but it's not clear they want to do much more than whack President Obama politically.) The main issue in my mind: the threat to fiscal federalism. We have fiscal federalism -- i.e. states manage their own budgets -- for the same reason we have political federalism in this country: to ensure robust experimentation with what works and what does not. (Take a look at California to see what does not work.) Justice Louis Brandeisfamously called states the "laboratories of democracy," that that is a quality that has served this country well. For a look at what happens when the federal government starts subsididizing state and local bonds, take a look at Texas. The Lone Star State is wrangling with the feds over tax bills, and to get some leverage, the Treasury has withheld interest subsidies to Texas on the bonds. (Florida is staying away from the bond program as a result.) I have no idea who's right in this fight, but the fact is, Washington has a new weapon to use against states on fiscal matters. States are understandably worried about that. It's not hard to imagine that Washington will have other demands in exchange for interest subsidies in the future. After all, the reason we have a nationwide drinking age of 21 is because the feds threatened to withhold highway construction money from states unless they did so. I'll bet no one thought of that when President Dwight Eisenhower came up with the idea of an interstate highway system. But there's a reason the feds ought to think twice here as well. Richard Ciccarone, a munibond expert at McDonnell Investment Management, told me this about Build America Bonds a few months ago, and it is ringing more true now: Once you get the federal government in the business of subsidizing debt service, you increase the pressure to provide a bailout if there is a problem. It's a small crack in the door but it is a crack that threatens federalism as we know it. It erodes the self-reliance of [state and] municipal governments. And they are bound to shift from more conservatives to more liberal spending policies.

### Hurts Economy

#### BABs fail --- hurts economy and states and costs jobs

Maloney, 11 [CJ, Author, Blogger, Liberty and Power on the History News Network, DailyKos, April 22, <http://www.realclearmarkets.com/articles/2011/04/22/good_riddance_to_build_america_bonds_98979.html>, “Good Riddance to Build America Bonds”, Accessed July 9, //SH]

The mark of sound economic thinking is that one take into account also what is not seen, and by using deductive reasoning we can see that the BABs program did not "create" jobs, it merely moved them around. Since, as Frederick Engels told us in his The Role of Force In History "force, however, cannot make any money; at most it can only take away money that has already been made." The "public" funds used to power the BABs program must, by necessity, have first been taken out of private hands. For every union job "created" by the BABs program, there was at least one private sector job taken away elsewhere. At best it was a wash, and, judging by the historical inefficiency of government run programs, it likely cost more jobs than it created. BAB type programs have been tried before, without success, to "stimulate" an economy. Not surprising (as President Obama greatly admires FDR) infrastructure programs flourished under the New Deal, all to no avail. By 1939, Treasury Secretary Henry Morgenthau confided to his diary, "We have tried spending money. We are spending more than we have ever spent before and it does not work...we have never made good on our promises. I say after eight years of this administration, we have just as much unemployment as when we started. And enormous debt to boot."In a recent column in the Wall Street Journal David Reilly wrote, "Temporary government programs hatched during a crisis can easily become permanent. That is the danger with Build America Bonds." He is correct. The program was barely a year old when President Obama was already floating the idea of making it permanent.

 The New Deal was a series of "emergency" programs made permanent, and many exist to this day still. Do we need yet another one? BABs were a subsidy, and like all subsidies they distorted the market, pushed scarce capital where it otherwise would not have gone, and (in its worst effect) created a dependent relationship where none should ever exist. We should never lose sight over something more important than the mere dollars and cents of this issue - we need to take into account the effects of the BABs program on the political structure of our nation. For our safety we were specifically designed as a republic, each individual state, sovereign in its own right, is tasked to be a check on federal power.How much of a check can they be, though, when they are constantly sending emissaries to D.C., hat in hand, begging for money? For that reason alone, I am relieved that the Build America Bonds program has been relegated to history's dustbin, and I hope that's where it will stay.

#### BABs are destructive to the economy- creates more debt and shifts money away from the more productive private sector

Mitchell, 10 [Daniel J, CATO Institute, former senior fellow at the Heritage Foundation, former economist for the Senate Finance Committee, PHD in economics, December 11, <http://www.cato-at-liberty.org/killing-obamas-build-america-bonds-is-a-big-reason-to-like-the-tax-deal/>, “Killing Obama’s ‘Build America Bonds’ Is a Big Reason to Like the Tax Deal”, Accessed July 9, //SH]

Build America Bonds are a back-door handout for profligate state and local governments, allowing them to borrow more money while shifting some of the resulting interest costs to the federal government.

But states already are in deep trouble because of too much spending and debt, so encouraging more spending and debt with federal tax distortions was a very bizarre policy. Moreover, the policy also damaged the economy by creating an incentive for investors to allocate funds to state and local governments rather than private sector investments.That’s a very bad idea, unless you somehow think (notwithstanding all the evidence) that it is smart to make the public sector bigger at the expense of the private sector. In one fell swoop, Build America Bonds increased the burden of the federal government, encouraged a bigger burden of state and local government, and drained resources from the productive sector of the economy.

#### BAB’s help in the short term, but increase destructive borrowing in the long term

Gandel, 9 [Stephen, Senior writer for TIME, November 17, [http://www.time.com/time/business/article/0,8599,1939720,00.html](http://www.time.com/time/business/article/0%2C8599%2C1939720%2C00.html), “A Stimulus Success: Build America Bonds are Working”, Accessed July 9, //SH]

But if Build America Bonds have proved popular, they may also end up being costly. Already, the volume of bonds issued means the federal government is committed to spending a billion dollars in the first year of the program alone. The final price tag may end up reaching $90 billion."For municipalities, it's been good, but it raises some political-economy questions," says Vincent Reinhart, a resident scholar at the conservative think tank American Enterprise Institute and a former top Federal Reserve economist. "This might encourage even more expansion of government borrowing."

### AT Better than Munis

#### BAB’s not safer than other bonds

Buckner, 10 [Gail, Fox Business, July 26, <http://www.foxbusiness.com/personal-finance/2010/07/26/build-america-bonds-safe-play-bondland/>, “Build America Bonds: Safe Play in Bondland?”, Accessed July 9, //SH]

For one thing, just because the federal government is subsidizing the interest payments, don’t confuse a BAB with a Treasury bond.

“We’re hearing that retail investors think this is security guaranteed by the U.S. treasury or U.S. government,” says Mallas. “It’s not.” Neither the interest payments nor the return of principal are guaranteed, although he stresses that the municipal bond market has historically had a very low default rate.

Brandon maintains that, despite the fact that state and local governments are grappling with the worst budget shortfalls in history, it’s unlikely we’ll see a surge in defaults.

### BABs Unpopular

#### Conservatives hate BABs – perceived as wasteful spending

Eizenga and Hanlon, 11 - Eizenga is a Policy Analyst with the Economic Policy team at the Center for American Progress AND Hanlon is the Director of Fiscal Reform for CAP’s Doing What Works project (Jordan Eizenga and Seth Hanlon, April 2011 “Bring Back BABs A Proposal to Strengthen the Municipal Bond Market with Build America Bonds” http://www.americanprogress.org/issues/2011/04/pdf/build\_america\_bonds.pdf)//KX

The backlash against Build America Bonds

The Build America Bonds program provides federal payments to state and local governments to offset borrowing costs. Those subsidy payments appear as an outlay in the federal budget. Tax-exempt bonds, in contrast, involve no federal outlay because the equivalent government subsidy is delivered as a tax expenditure—or forfeited revenue. Since the Build America Bonds program generates a cost on the spending side of the ledger, it has drawn criticism from conservatives with an ideological aversion to spending.

Sen. Charles Grassley (R-IA) said the Build America Bonds program “increases the size of the already bloated federal government because it takes what used to be a tax-cutting program, namely, [tax-exempt] municipal bonds, and converts that into Build America Bonds.” Columnist David Reilly of The Wall Street Journal called the bonds a state budget “bailout” that should be scrapped.

#### BABs unpopular with Republicans; they’ll block

Selway and McGrail, 10 [William, Bloomberg News Reporter, Brenden A., Bloomberg News Reporter, December 10, <http://www.bloomberg.com/news/2010-12-10/build-america-bonds-program-s-end-poised-to-batter-municipal-debt-market.html>, “Build America Bonds Program’s End Poised To Batter Municipal-Debt Market”, Accessed July 10, //SH]

While Obama and Democrats have supported prolonging the program, they have run into opposition from Republicans critical of the stimulus package. Extensions have twice passed the Democratic-controlled House only to stall in the Senate, where the Republican minority has sufficient power to block legislation. The U.S. government pays 35 of the interest costs on Build America bonds.

#### Republican opposition will block BABs

Dixon, 11 [Kim, Reuters Correspondent, February 11, <http://www.reuters.com/article/2011/02/11/us-municipals-buildamericabonds-idUSTRE71A5X220110211>, “Bill to revive Build America Bonds introduced”, Accessed July 11, //SH]

(Reuters) - A bill to revive Build America Bonds has been introduced in the U.S. House of Representatives, though the popular program faces steep hurdles for a comeback. Democratic Representative Gerald Connolly introduced the bill, which would renew the lapsed program for two years. President Barack Obama may also put forth a plan to bring BABs back when he unveils his budget on Monday. Taxable BABs were created in the 2009 economic stimulus bill, aimed at promoting infrastructure projects and job creation. BABs paid issuers federal rebates equal to 35 percent of interest costs, a subsidy so generous that the debt was a big hit with states and local governments, giving them sorely needed access to credit to pay for infrastructure improvements. Critics, including some Republicans, said the subsidy was too high and others objected to stimulus efforts in general. Connolly's bill would extend the program for 2011 and 2012 at a subsidy of 32 percent in 2011 and 31 percent for 2012. The Republican chairman of the House Transportation Committee, John Mica, has said a highway funding bill could include a financing program similar to BABs. Still, highway bills can take years to complete. In the Senate, Democrat Ron Wyden is gauging support for an attempted rebranding of the program for transportation projects, calling them Transportation and Regional Infrastructure Project Bonds, or TRIPs. He has circulated a proposal to provide $50 billion for the program, but in a political environment favoring spending cuts, its fate is unclear.

## TIFIA Expansion

### TIFIA Good

#### TIFIA is the best method of investment – incentivizes competitive bidding and provides an investment multiplier.

**Guilmino, ‘11** – (Brad, Chief Financial Consultant for HNBT, an employee-owned infrastructure firm serving public and private owners and contractors, “Leveraging Federal Credit Assistance,” [http://www.hntb.com/news-room/white-paper/leveraging-federal-credit-assistance,)//aberg](http://www.hntb.com/news-room/white-paper/leveraging-federal-credit-assistance%2C%29//aberg)

**Providing attractive financing opportunities**The Transportation Infrastructure Finance and Innovation Act established the TIFIA program in 1998 and allows the U.S. Department of Transportation to offer credit assistance to large projects of regional and national significance. The program was designed to leverage federal funds with local or private investment by offering attractive terms and the flexibility to more efficiently finance projects with unpredictable revenue streams (such as tolls). TIFIA credit assistance can be in the form of a direct loan (most common), a loan guarantee or a standby line of credit. TIFIA is not a grant program, rather a loan program that must be paid back with a distinct revenue source. TIFIA loans are awarded through a competitive application process for eligible projects and can be used in traditional public financings as well as P3s. Highway, transit, passenger rail, certain freight facilities and certain port projects may receive credit assistance through TIFIA. For projects not already utilizing federal funding, TIFIA would introduce additional federal requirements (such as completing environmental impact statements required under the National Environmental Policy Act). Each dollar of federal funds can provide up to $10 in TIFIA credit assistance — and leverage $30 in transportation infrastructure investment. *Source: Federal Highway Administration* TIFIA credit assistance can fund up to 33 percent of a project’s total development cost and contains a maximum term of 35 years from substantial completion of the project. The TIFIA loan rate is fixed at the 30-year U.S. Treasury State and Local Government Series rate and offers flexible repayment terms. The attractive loan rate combined with USDOT’s willingness to offer the TIFIA loan on a subordinate lien (project revenue bonds can occupy the senior lien and achieve higher ratings) provide for a greater amount of debt and upfront proceeds for a project. The federal government acts as a “patient lender” with regard to repayment terms and also allows for a deferral of interest for five years while a project matures and advances beyond the ramp-up period. Application processSince the demand for TIFIA credit assistance currently exceeds budget authority, USDOT is no longer utilizing an open application process where applications are accepted on a “first come, first serve” basis. It is now utilizing a periodic, fixed-date solicitations process that will establish a competitive group for evaluation. When funding is available, USDOT issues a Notice of Funding Availability in the Federal Register outlining the deadlines and funding amounts. USDOT closed its last TIFIA Letter of Interest solicitation period on March 1, 2010. The seven-step TIFIA application process is: 1. Letter of interest – Preliminary submission to USDOT describing the project, establishing its eligibility, and presenting the finance plan. USDOT will invite highly rated applicants to submit a formal application (Step 2). 2. Application – In-depth narrative, detailed financial plan, certification of requirements and 12 exhibits (traffic and revenue report, cost estimates, NEPA decision, indicative rating letter, etc.). 3. Project presentation – Oral presentation in Washington, D.C., to present the project to USDOT. Follow-up calls and requests likely will come during the USDOT’s subsequent review process. 4. Project evaluation – USDOT staff prepares evaluation and recommendation to the DOT Credit Council. 5. Project selection – DOT Credit Council in turn provides a recommendation to USDOT secretary (ultimate approval). 6. Term sheet issuance and funding obligation – USDOT issues basic terms and conditions of credit assistance. 7. Credit agreement and disbursements – Definitive agreement specifying all terms and disbursement. Applicant must satisfy all final requirements. Additionally, USDOT provided new language in its Federal Register notice of Dec. 3, 2009, clarifying use of the TIFIA selection criteria and incorporating explicit consideration of these policy objectives: livability, economic competitiveness, safety, sustainability and state of good repair. The Federal Register notice of April 26, 2010, provides additional guidance on USDOT’s evolving evaluation and selection criteria. USDOT will determine competitive projects based on the Letters of Interest submitted within each application cycle. The evaluation team will assess the strengths of the application according to eight selection criteria specified under the program. The department has assigned specific weights to the criteria: Significance (20 percent): The extent to which the project is nationally or regionally significant, including consideration of livability, economic competitiveness and safety. Private participation (20 percent): The extent to which assistance would foster innovative publicprivate partnerships and attract private debt or equity investment. Environment (20 percent): The extent to which the project helps maintain or protect the environment, including sustainability and state of good repair. Project acceleration (12.5 percent): The likelihood that assistance would enable the project to proceed at an earlier date than the project would otherwise be able. Creditworthiness (12.5 percent): The creditworthiness of the project, including a determination by the secretary of transportation that any financing for the project has appropriate protection features. Use of technology (5 percent): The extent to which the project uses new technologies, including intelligent transportation systems that enhance the efficiency of the project. Consumption of budget authority (5 percent): The amount of budget authority consumed in funding the requested federal credit instrument. Reduced federal grant assistance (5 percent): The extent to which assistance would reduce the contribution of federal grant assistance to the project. Current status of the programTIFIA’s recent success, the large demand for new TIFIA assistance and the introduction of Transportation Investment Generating Economic Recovery discretionary grants has changed the complexion of the program. In the Dec. 3, 2009, Federal Register notice, USDOT stated that TIFIA has approximately $110 million in budget authority available annually to provide credit subsidy support to projects and enable new TIFIA loans. In order for the Department of Transportation to execute a TIFIA loan, it does an internal risk assessment of the project and is required to deposit a “credit subsidy” with the Treasury to act as a loan loss reserve for the program. Although dependent on the individual risk profile of each loan, collectively this credit subsidy of approximately 10 percent of an individual loan amount represents approximately $1.1 billion in annual lending capacity ($110 million is 10 percent of $1.1 billion). Since the annual demand for loans is well above that amount, USDOT is considering a requirement that individual projects fund a portion of the credit subsidy. With the recent TIGER discretionary grants through the American Recovery and Reinvestment Act, several applicants were awarded small grants which was intended to cover the credit subsidy for a much larger TIFIA loan. The intense competition for TIFIA loans was further demonstrated by the large number of applicants for the latest Letter of Interest solicitation period. USDOT received 39 letters, but due to funding constraints they only invited seven applicants to present their projects in Washington, D.C. Of those seven, USDOT only formally invited four projects to submit applications for the 2010 fiscal year. The four applicants are the Goethals Bridge for the Port Authority of New York and New Jersey, the Eagle commuter rail project in Denver and two San Francisco projects, the Presidio Parkway and the Southeast Waterfront Transportation Improvements project. In order for TIFIA to meet its full potential, Congress will have to act to appropriate money for the program or include funding in a new federal reauthorization transportation bill.

### TIFIA Good – P3s

#### TIFIA key to PPPs – also is politically agreeable

**Guilmino, ‘11** – (Brad, Chief Financial Consultant for HNBT, an employee-owned infrastructure firm serving public and private owners and contractors, “Leveraging Federal Credit Assistance,” [http://www.hntb.com/news-room/white-paper/leveraging-federal-credit-assistance)](http://www.hntb.com/news-room/white-paper/leveraging-federal-credit-assistance%29)

According to the Federal Highway Administration, which handles the program, each dollar of federal funds can provide up to $10 in TIFIA credit assistance, and leverage $30 of overall investment in transportation infrastructure. In other words, annually the current program's $110 million of credit premium is turned into $1.1 billion of federally-support loans, and go a third of the way toward leveraging private loans.

TIFIA can provide an additional debt source to capital markets and offer flexible repayment terms and more favorable interest rates. Bonding and debt capacity are optimized. The cost of capital is measurably lower. This is particularly important at a time when money available for infrastructure investments has been in short supply. The credit and liquidity crisis has made it extremely difficult to obtain debt — the capital markets simply aren't as flexible as they used to be.

In fact, TIFIA has been crucial to the successful financing of almost all P3 projects brought to market in the United States since it was introduced. It provides "low cost" debt, eliminating or at least vastly reducing the public shortfall all complex transportation projects have. One recent example was a $418 million loan to help the North Texas Tollway Authority to pay for the construction of the final phase of Texas State Highway 161 in Dallas County.

Last November at an infrastructure investment forum hosted by the U.S. Chamber of Commerce, Virginia Secretary of Transportation Sean Connaughton emphatically endorsed the program. "We need TIFIA," he said. "In fact our Midtown Tunnel project would not have been able to move forward if it wasn't for TIFIA. And the same thing with the Beltway project, and the same thing, hopefully, on the 95 HOT Lanes project we're moving forward, as well."

TIFIA is so popular among transportation agencies that it's vastly oversubscribed. Demand for credit assistance regularly exceeds TIFIA's budget authority. In 2011, requests totaled $14 billion in loans, 14 times more than what the program could support.

At a time when the gas tax is in decline and available funds are dwarfed by the country's need for simple maintenance and repair projects, let alone new capacity, TIFIA must be expanded. And on this, if not the details, Congress and President Barack Obama agree.

### New TIFIA Funding Good

#### New TIFIA is less subjective – will clear the backlog in a few years

Poole 7/18/12 – Director of Transportation Studies at the Reason Foundation (Robert Poole, “Surface Transportation Newsletter #105” http://reason.org/news/show/surface-transportation-news-105)//KX

On PPPs, one positive is that the conference committee deleted all three anti-PPP amendments that were included in the Senate bill as a parting gift from retiring Sen. Jeff Bingaman (D, NM). The other good news is the large-scale expansion of the TIFIA subordinated loan program and the removal of most of the program’s subjective selection criteria. Going forward, projects that meet all the financial criteria should have a high likelihood of funding, especially with the big boost in budget authority for the program. Given the large backlog of good projects, I would not be surprised if most of those projects get funded during the next few years.

#### First come first served good – depoliticizes funding debates and is rigorous enough to prevent default

Poole 7/9/12 – Director of Transportation Studies at the Reason Foundation (Bob Poole, “TIFIA Changes Mostly Positive” http://transportation.nationaljournal.com/2012/07/lenders-remorse-in-the-highway.php)//KX

Various smart growth and transit groups are upset about the changes Congress made to the federal TIFIA program, in particular changing the criteria for TIFIA loans from a laundry list of factors (including livability and sustainability) to primarily financial feasibility. But these changes restore TIFIA to what it was originally intended to be—not an all-purpose transportation loan program but a way to leverage limited federal dollars to support big-ticket infrastructure improvements.

The large increase in TIFIA’s budget (from $122 million per year to $750 million next year and $1 billion the following year) is a response to demand from state DOTs greatly exceeding the program’s capacity in recent years. And the streamlined criteria will make U.S. DOT’s decisions about which projects to fund more straightforward and less subject to politicization based on inherently subjective factors introduced by the Obama administration that Congress has now deleted.

I had to laugh at the suggestion by Tri-State Transportation Campaign’s Steven Higashide that the reformed TIFIA program will likely fund “roads to nowhere.” Most state DOTs these days are so strapped for funding that they are hardly building any new roads. And the ones that they hope to build with TIFIA assistance are anything but boondoggles. That is thanks to the basic financial feasibility requirements that are unchanged in the expanded program. Specifically, a project can only qualify for a TIFIA loan if it has (1) a dedicated revenue stream, and (2) an investment-grade rating on its senior debt.

Most of the highway projects TIFIA is funding are either new toll roads or the addition of congestion-priced express toll lanes to existing expressways (such as those nearing completion on the Capital Beltway outside Washington, DC). The projected toll revenue stream is intended to pay back the investment-grade senior debt and the TIFIA loan, and (if there is any revenue beyond that) to provide a return to the equity investors in the project.

This kind of revenue-based financing is something of a revolution in highway funding, compared with the historic tax-and-grant system that is increasingly becoming unsustainable, as fuel tax revenues lag ever further behind the costs of building, maintaining, and modernizing highways. And TIFIA is now poised to spread this revolution, thanks to the increased budgetary authority Congress has provided.

#### TIFIA gets a massive funding and reform boost from MAP-21

Transportation for America, 12 (“Summary of MAP-21 Provisions” March 26, 2012 http://t4america.org/wp-content/uploads/2012/03/MAP-21-external-summary-FINAL-03-26-12.pdf)//KX

Under current law the TIFIA program is funded at $122M annually. With this amount DOT can provide around ~$1.2B in loans each year. TIFIA loans are required to repaid using a dedicated revenue source such as tolls or a local sales tax.

For each of the past three years applications have been selected using project selection criteria as requests have exceeded available revenues. MAP-21 significantly increases funding to $1B annually – increasing the total amount of loans that can be provided in a single year to ~$10B. In addition MAP-21 makes other changes to the TIFIA program:

• Project costs. MAP-21 continues the requirements that a project have a cost of at least the lesser of $50M or 1/3 of a stateʼs federal highway apportionment for the current fiscal year, or for ITS projects a cost of at least $15M. MAP-21 lowers the threshold for projects located in rural areas to $25M.

• Federal share of project costs. Under current law a TIFIA loan may only cover up to 1/3 of a projectʼs total cost, MAP-21 modifies this provision to allow a loan to cover up to 49% of a projects cost. MAP-21 allows a TIFIA loan to be used for any non-federal share of project costs required for federal highway or transit funds, provided the loan will be repaid from non-federal sources.

• Project selection. Under current law projects are selected through a competitive process with statutorily set selection criteria. MAP-21 proposes to change the program to a rolling application process with the funds distributed on a first come, first served basis. In the event a project applies for a TIFIA loan but the available TIFIA funding to support loans for the fiscal year has been exhausted then the project may enter into a master credit agreement – obtaining a commitment for a loan the following fiscal year.

• Master credit agreement. MAP-21 adds a new provision to the program that would allow applicants to request a series of loans for a program of projects. This would allow an applicant to lock down financing terms for a series of loans to advance a program of projects over time. In addition, a single project may request a master credit agreement in the event the available TIFIA funding to support loans for the fiscal year has been exhausted.

• Non-subordination. Under current law a TIFIA loan cannot be subordinate to any other debt. While this provision helps protect taxpayers for projects where the repayment of the loan is related to the performance of the projects like a toll road, it creates significant hurdles for transit agencies with dedicated local taxes. Often these agencies have other outstanding debt, which effectively prohibits their use of the TIFIA program. MAP-21 modifies the non-subordination provisions to allow a TIFIA loan to be subordinate to existing debt when the applicant is a public agency with a repayment source unrelated to the performance a of project like a sales tax, the loan will not cover more than 1/3 of the project costs and the project must have a high credit rating that is otherwise required for a typical TIFIA loan.

• Rural infrastructure projects. Under current law TIFIA provisions apply uniformly to all eligible projects. MAP-21 creates special provisions for rural infrastructure projects, defined as projects in areas with a population less than 250,000. At least 10% of TIFIA funds annually are set-aside for rural projects. In addition, rural projects have a lower cost threshold of $25M and are eligible for an interest rate that is half of the typical interest rate.

#### TIFIA and BABs solve investment while reducing federal spending – solves faster than a NIB

Strauss, 12 – associate director of Renewing America Publications at the Council on Foreign Relations (Rebecca Strauss, June 2012, “Road to Nowhere: Federal Transportation Infrastructure Policy” http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CG0QFjAD&url=http%3A%2F%2Fwww.cfr.org%2Fcontent%2Fpublications%2Fattachments%2FInfrastructure\_Progress\_Report.pdf&ei=nUH7T4LRMYfA8ASf\_NjGBg&usg=AFQjCNHXW3bl6XzKYMf4aAHZttjJ1XNU0Q&sig2=A3BUv-W7CdPdLTYHWIvWaA)//KX

Federal transportation loan programs are growing in popularity, though they remain small. The largest program, the Transportation Infrastructure Finance and Innovation Act (TIFIA), provides federal credit assistance (e.g., direct loans, loan guarantees, flexible terms, and low interest rates) totaling $120 million a year to leverage private capital and finance large-scale surface transportation projects undertaken by public or private entities. Since the program’s inception in 1998, twenty-three projects have participated, with only one bankruptcy. For every dollar contributed by the federal government, thirty dollars have been raised from the private sector and state and local governments. Both the Democratic and Republican versions of the pending Surface Transportation Reauthorization Bill would expand federal funding of TIFIA by nearly tenfold, to $1 billion. Other existing loan programs for different modes of transportation (e.g., rail, transit, and highways) will probably see their allocations increase as well.

The trend in federal infrastructure policy—which increasingly favors competitive grants, bond and loan programs, and the private sector—fits with the tight fiscal environment. Federal money is awarded more carefully and with more strings attached. Loans and BABs engage private capital and entities to fund and manage public works projects, reducing the burden on public budgets.

The president, most Democratic members of Congress, and some Republicans favor a new infrastructure bank. Like TIFIA, it would supply federal credit assistance and loan guarantees to help finance large-scale, interstate, and multimodal projects with leveraged private capital. An initial federal infusion of $10 billion could raise $100 billion to $200 billion from capital markets. Unlike TIFIA, the bank would finance all infrastructure projects, including transportation, water, energy, and technology. It would be an independent entity with an independent board.

The advantages are many, proponents argue. The bank would correct a market failure, meeting public infrastructure financing needs with the private capital market. Private investors would be guaranteed a conservative, long-term spread of returns. Public infrastructure would be paid for with fewer tax dollars. And the bank’s independence would free it from the political grip of Congress and the Department of Transportation.

But skeptics, who tend to be Republicans, question whether the solution to the country’s infrastructure woes is another government institution. It could take years to get up and running. If the bank would be a purely lending institution, they argue, why not instead expand existing federal lending programs like TIFIA?

Republicans appear to be winning the debate. As of now, prospects for the new bank are dim. Obama’s Jobs Act, which included the proposal, was rejected by the Senate in October 2011. Both House and Senate versions of transportation authorization bills do not include provisions for an infrastructure bank.

#### Budget increases will clear the entire TIFIA backlog – solves investment

Guilmino, 12 – chief Financial Consultant HNTB Corporation, an architecture, civil engineering consulting and construction management firm (Brad, March 2012, “Making this TIFIA's time” http://www.hntb.com/news-room/viewpoints/making-this-tifias-time)//KX

Without the federal credit assistance provided by the Transportation Infrastructure Finance and Innovation Act program, some of the most significant transportation projects the last 14 years would have been delayed or deferred.

Simply put, today’s largest mega projects are so complex that individual states working alone may struggle with their sheer size, complexity or the uncertainty over the timing of forecasted revenues.

First enacted in 1998, TIFIA most often provides loans to help states pay for large, partially funded projects of regional and national significance. The assistance also can be in the form of a loan guarantee or a standby line of credit. This is not a grant. Rather, TIFIA-related loans must be paid back with a distinct revenue source. Often this comes in the form of user fees, such as tolls.

TIFIA leverages federal funds with local or private investment by offering attractive terms and the flexibility to more efficiently finance projects with unpredictable revenue streams. The federal government acts as a “patient lender” with regard to repayment terms and also allows for a deferral of interest for five years while a project matures and advances beyond the ramp-up period.

Funds are awarded through a competitive application process for eligible projects and can be used in traditional public financings as well as public-private partnerships. Highway, transit, passenger rail, certain freight facilities and certain port projects may receive credit assistance through TIFIA.

To date, 24 projects have received assistance, and federal assistance has totaled $8.7 billion with a total project investment of $33.1 billion. Five projects have fully repaid their TIFIA debt.

According to the Federal Highway Administration, which handles the program, each dollar of federal funds can provide up to $10 in TIFIA credit assistance, and leverage $30 of overall investment in transportation infrastructure. In other words, annually the current program’s $110 million of credit premium is turned into $1.1 billion of federally-support loans, and go a third of the way toward leveraging a project’s total development costs.

TIFIA can provide an additional debt source to capital markets and offer flexible repayment terms and more favorable interest rates. Bonding and debt capacity are optimized. The cost of capital is measurably lower. This is particularly important at a time when money available for infrastructure investments has been in short supply.

The credit and liquidity crisis has made it extremely difficult to obtain debt — the capital markets simply aren’t as flexible as they used to be.

In fact, TIFIA has been crucial to the successful financing of almost all P3 projects brought to market in the United States since it was introduced. It provides “low cost” debt, eliminating or at least vastly reducing the public shortfall all complex transportation projects have. One recent example was a $790 million loan to help the Texas Department of Transportation to pay for the construction of the LBJ-635 corridor in Dallas County.

It is so popular among transportation agencies that it’s vastly oversubscribed. Demand for credit assistance regularly exceeds TIFIA’s budget authority. In 2012, requests totaled $13 billion in loans, 13 times more than what the program could support.

At a time when the gas tax is in decline and available funds are dwarfed by the country’s need for simple maintenance and repair projects, let alone new capacity, TIFIA must be expanded. And on this, if not the details, Congress and President Barack Obama agree.

Both the Senate and the House of Representatives have proposed increasing TIFIA’s annual budget to $1 billion. In its most recent budget proposal, the Obama administration proposed a $500 million annual budget.

Such proposals need to culminate in increased funding, and soon. Even without a multi-year transportation bill, TIFIA is something elected officials, engaged voters and smart investors can all get behind. The United States must adopt — and expand — alternative financing solutions like TIFIA that aren’t costly to the government and allow greater participation by the private sector.

TIFIA is a proven winner. And it’s a safe bet for American taxpayers. To date — within a program that is intended to take on risk — 24 of 25 projects have remained solvent.

Expanding the program to $1 billion annually will unlock $10 billion in loans. The entire 2012 TIFIA request list — totaling more than 26 applications and $13 billion in projects — could be cleared in the first year. In addition, streamlining the program allows more money to flow to more projects more quickly, driving job creation and economic development.

It is important to remember not every project is right for TIFIA. It does “federalize” projects and subject them to additional union rules and environment reviews.

And, even with an expanded TIFIA program, state and federal governments cannot cover the current transportation funding shortfall, even to simply maintain the current transportation network. It’s not a panacea. A long-term, well funded transportation authorization that includes all modes, delivery and funding option is the only complete solution.

More tolls, taxes and user fees will be required. More support will need to come from local sources. But TIFIA can have a measurable, meaningful impact on significant, large scale projects that will move us to the 21st century multimodal transportation system the nation needs to be safe, secure and competitive.

#### New TIFIA reforms will enable future infrastructure projects

CNT 7/3/12 – non-profit organization committed to sustainable development and livable urban communities (Center for Neighborhood Technology, “Transportation Bill Passes: Here’s the Good and the Bad” http://www.cnt.org/news/2012/07/03/transportation-bill-passes-heres-the-good-and-the-bad/)//KX

The bill requires regions over 1 million people to develop a performance plan that outlines baseline conditions and targets for each of the performance measures developed by USDOT. It also requires a description of the projects funded and how such projects will help to meet the goal. Unfortunately, in increasing the TIFIA program (loans and credit enhancement for innovative finance or public-private partnerships) from the current $122 million per year to $750 million the first year and $1 billion the second, the bill eliminates current program objectives and makes this a first come, first served program, rather than performance based. This is immediately most useful to agencies that either have a proven source of dedicated revenues from future projects, such as ports, airports and toll highway authorities, and to a handful of regions that have passed or might soon pass a dedicated revenue source for mass transit investments.

### More Funding Key

#### Status quo is just lipservice – substantial increase in investment is key.

**Guilmino, ’12** – (Brad, Chief Financial Consultant for HNBT, an employee-owned infrastructure firm serving public and private owners and contractors, “Now it’s TIFIA’s Time,” [http://www.hntb.com/news-room/white-paper/now-is-tifias-time)//aberg](http://www.hntb.com/news-room/white-paper/now-is-tifias-time%29//aberg)

Few lenders, if any, are as patient as the United States government. In fact, without it some of the most significant transportation projects of the last 14 years would have been delayed or deferred due to their size, complexity or uncertainty over the timing of forecasted revenues. This is most true regarding the federal credit assistance provided by the Transportation Infrastructure Finance and Innovation Act program. First enacted in 1998, TIFIA most often provides loans to help states pay for large, partially funded projects of regional and national significance. The assistance also can be in the form of a loan guarantee or a standby line of credit. It most definitely is not a grant program. Rather, TIFIA is a loan program that must be paid back with a distinct revenue source. Often this comes in the form of user fees, such as tolls. Almost every recent toll road startup in the United States has benefited from the program. TIFIA was designed to leverage federal funds with local or private investment by offering attractive terms and the flexibility to more efficiently finance projects with unpredictable revenue streams. The federal government acts as a "patient lender" with regard to repayment terms and also allows for a deferral of interest for five years while a project matures and advances beyond the ramp-up period. The program can fund up to 33 percent of a project's total development cost and contains a maximum term of 35 years from substantial completion of the project. The TIFIA loan rate is fixed at the 30-year U.S. Treasury State and Local Government Series rate (3.4 percent as of Jan. 31, 2012). The attractive loan rate — combined with the U.S. Department of Transportation's willingness to offer the loan on a subordinate lien — provide for a greater amount of debt and upfront proceeds for a project. (Project revenue bonds can occupy the senior lien and achieve higher ratings.) Funds are awarded through a competitive application process for eligible projects and can be used in traditional public financings as well as public-private partnerships. Highway, transit, passenger rail, certain freight facilities and certain port projects may receive credit assistance through TIFIA. To date, 24 projects have received assistance, and federal assistance has totaled $8.7 billion with a total project investment of $33.1 billion. Five projects have fully repaid their TIFIA debt. "We need TIFIA" According to the Federal Highway Administration, which handles the program, each dollar of federal funds can provide up to $10 in TIFIA credit assistance, and leverage $30 of overall investment in transportation infrastructure. In other words, annually the current program's $110 million of credit premium is turned into $1.1 billion of federally-support loans, and go a third of the way toward leveraging private loans. TIFIA can provide an additional debt source to capital markets and offer flexible repayment terms and more favorable interest rates. Bonding and debt capacity are optimized. The cost of capital is measurably lower. This is particularly important at a time when money available for infrastructure investments has been in short supply. The credit and liquidity crisis has made it extremely difficult to obtain debt — the capital markets simply aren't as flexible as they used to be. In fact, TIFIA has been crucial to the successful financing of almost all P3 projects brought to market in the United States since it was introduced. It provides "low cost" debt, eliminating or at least vastly reducing the public shortfall all complex transportation projects have. One recent example was a $418 million loan to help the North Texas Tollway Authority to pay for the construction of the final phase of Texas State Highway 161 in Dallas County. Last November at an infrastructure investment forum hosted by the U.S. Chamber of Commerce, Virginia Secretary of Transportation Sean Connaughton emphatically endorsed the program. "We need TIFIA," he said. "In fact our Midtown Tunnel project would not have been able to move forward if it wasn't for TIFIA. And the same thing with the Beltway project, and the same thing, hopefully, on the 95 HOT Lanes project we're moving forward, as well." TIFIA is so popular among transportation agencies that it's vastly oversubscribed. Demand for credit assistance regularly exceeds TIFIA's budget authority. In 2011, requests totaled $14 billion in loans, 14 times more than what the program could support. At a time when the gas tax is in decline and available funds are dwarfed by the country's need for simple maintenance and repair projects, let alone new capacity, TIFIA must be expanded. And on this, if not the details, Congress and President Barack Obama agree.

### TIFIA Bad – Localities

#### New TIFIA reforms hurt smaller municipalities – crowded out by larger cities

National Journal 7/9/12 (“Lender's Remorse in the Highway Deal?” http://transportation.nationaljournal.com/2012/07/lenders-remorse-in-the-highway.php)//KX

After months of congressional wrangling, President Obama signed the $105 billion compromise transportation bill on Friday. And while the road to reauthorization was long and winding, there was one provision that was never really at risk. It was in the Senate bill and some form would have made it into the House version, too. It extends loan financing for infrastructure projects and was championed by Los Angeles Mayor Antonio Villaraigosa and Sen. Barbara Boxer, D-Calif., who both pushed for the provision and was a key architect of the bill.

The measure--America Fast Forward--expands the Transportation Infrastructure Finance and Innovation Act funding from $122 million a year to $750 million in fiscal year 2013 and $1 billion in fiscal year 2014. That's more than double the amount proposed by the Bipartisan Policy Center last year. It's been touted as letting a handful of major projects move forward, including New York's Tappan Zee Bridge replacement project and a set of projects in Los Angeles.

But even the expanded TIFIA program has its critics. Steven Higashide at the Tri-State Transportation Campaign, for example, criticized lawmakers for having "removed most of the criteria for judging applications to the program (these criteria had included environmental sustainability, project significance, use of public-private partnerships, and more), turning it into a rolling application program instead." The main remaining criterion would be creditworthiness, Streetsblog reported.

It may be easy for big cities like New York and L.A. to prove their good for it, but many (smaller) cities have lately faced the threat of credit downgrades. Is TIFIA a gift only for cities with good credit? Or is it, as its champions like to characterize it, a perfect short-term solution for a system in dire need of reform? Did the compromise hurt its effectiveness? Or is it an example of Congress actually getting something right?

### TIFIA Bad – Fewer Projects

#### New TIFIA funding reforms will reduce the number of potential projects

Walsh and Magrini 7/11/12 – Walsh is the Practice Leader of the P3/Infrastructure Group, Magini is an associate in the Public Finance Department of Ballard Spahr LLP (Brian Walsh amd Kimberly D. Magrini, “Obama Signs Transportation Bill” http://www.ballardspahr.com/alertspublications/legalalerts/2012-07-11-obama-signs-transportation-bill.aspx)//KX

The bill also authorizes $750 million in fiscal 2013 and $1 billion in fiscal 2014 for the Transportation Infrastructure Finance and Innovation Act (TIFIA) program, and simplifies the eligibility criteria for TIFIA applicants compared to prior TIFIA standards. The bill increases the maximum share of project costs that can be financed by TIFIA loans from 33 percent to 49 percent. This increase in financing capacity may help projects achieve feasibility and reduce federal aid funds use; however, it may also reduce the number of projects that could be assisted by TIFIA loans because the increase in the percentage of maximum project cost share means less funds available to spread across additional projects

### TIFIA Bad – Sprawl

#### TIFIA can’t fund mass transit or innovation – incentivizes road sprawl

Snyder 7/3/12 – Washington editor for Streets Blog (Tanya Snyder, “Under New Bill, America’s Transpo Loan Program Ignores National Goals” http://dc.streetsblog.org/2012/07/03/americas-transpo-loan-program-to-reward-punctuality-not-innovation/)//KX

Besides, a complex and detailed application like TIFIA’s may not be well-suited to a first-come-first-served system, which essentially becomes a race. The premium on the speed with which an agency can put together an application can handicap transit, especially for small agencies that may not have specialized staff who can easily whip the application together.

“The consequence is that you may see a lot of straightforward road projects in places like North Carolina and Indiana get funded from this program,” said Steven Higashide, federal advocate at the Tri-State Transportation Campaign. “Those are simple projects, so it’ll be easy to complete those applications. They’ll be first in line. Transit projects and sustainable projects might miss out because of that.”

A project needs to cost at least $50 million total to be eligible for a TIFIA loan in most cases, with a lower bar only for technology-based projects. This high total cost requirement can also present a barrier to transit systems, especially small ones.

“It seems like it makes it easier to build sprawl roads or ‘roads to nowhere’ as long as you can pay the federal agency back,” Higashide said. “There’s not really any judgment on what’s a wise project or one that a state or region needs.”

One change to the TIFIA program could help transit agencies, however. U.S. DOT will now allow TIFIA loans to be subordinated to pre-existing debt in some cases. That means other creditors would get paid back first in the case of bankruptcy. This exposes the federal government – and the taxpayer — to more risk. But it makes it easier to attract private capital for the matching dollars, a change which could help transit agencies compete.

Another change is the increase in the federal share from 33 to 49 percent, meaning applicants have less work to do to find the rest of the money. “If the federal government is taking on more of a share of the burden, then this really might not be right time to get be getting rid of those evaluation criteria,” said Robert Puentes of the Brookings Institution. “If this bill was really about the economy, you would have kept those in.”

However, Puentes questions how much the other criteria were ever a serious factor in choosing TIFIA loan recipients. The list of TIFIA awardees never looked like a list of TIGER winners – it’s always been more slanted toward road projects.

“The projects that are approved through the [TIFIA] program do not specifically have to address livability or sustainability goals, unlike TIGER projects,” said Yonah Freemark of The Transport Politic in an interview about TIFIA several months ago. “In fact, many of the projects approved for TIFIA have been very highway-oriented, in a way that TIGER projects have not.”

### TIFIA Bad – No Criteria

#### Reauthorized TIFIA will fail to achieve federal transportation goals – MAP-21 gutted project criteria

Snyder 7/3/12 – Washington editor for Streets Blog (Tanya Snyder, “Under New Bill, America’s Transpo Loan Program Ignores National Goals” http://dc.streetsblog.org/2012/07/03/americas-transpo-loan-program-to-reward-punctuality-not-innovation/)//KX

In the highly polarized and antagonistic transportation bill negotiations, dragged out over the course of almost a year, there was one thing that Democrats and Republicans could agree on: vastly expanding the TIFIA loan program. The Transportation Infrastructure Finance and Innovation Act (TIFIA) program has, since 1998, provided federal credit assistance at favorable interest rates to surface transportation projects of national and regional significance.

Under the new bill, however, it appears any old highway plan will do.

MAP-21, the transportation bill that is now on its way to the president for his signature, turned TIFIA from a $122 million program to a $1 billion program – and at the same time, made it completely useless as an instrument to reward and enable innovation.

The bill eliminated all project selection criteria from the TIFIA program. It’s now first-come-first-served.

“By removing those selection criteria, they’ve basically turned the federal government into a bank,” said Sarah Kline, director of policy for Reconnecting America, “instead of an entity with national policy in mind.”

TIFIA used to employ the following criteria to evaluate potential loan recipients:

national or regional significance (including livability, economic competitiveness, and safety) — 20 percent

private participation — 20 percent

environmental sustainability and state of good repair — 20 percent

whether the loan would help accelerate project delivery — 12.5 percent

creditworthiness — 12.5 percent

use of technology — 5 percent

consumption of budget authority — 5 percent

whether the loan would reduce the need for federal grants — 5 percent

Under the new bill, creditworthiness now accounts for pretty much the full 100 percent.

Projects will still need to be approved by the U.S. DOT credit council. “They’re not rubberstamping things that come through,” said Kerry O’Hare, vice president of Building America’s Future and a former FHWA administrator. “There’s a real financial analysis that’s done. People don’t just willy-nilly say, ‘We’re going to sign off on this.’”

But the credit council is looking only at the ability to repay loans. Not sustainability, not significance, not economic competitiveness.

“The federal government essentially has no control over what kind of projects get built,” Kline said. “As long as you come in with an application that is technically eligible and meets the credit-worthiness, it’s not clear to me that the federal government can say, ‘No, this is not the kind of project we want to fund; we’re looking for things that are innovative; this is not innovative.’”

The change to TIFIA is consistent with other elements in the transportation bill that the House insisted on. The removal of Congressional earmarks toughened the Republicans’ resolve to eliminate “administration earmarks,” as they call discretionary programs. They considered any subjective criteria — like innovation — too much leeway for the executive branch.

Now that TIFIA has a billion dollars to work with, watchdogs think some projects in the pipeline might not even meet the creditworthiness standard. The Bipartisan Policy Center last year suggested expanding TIFIA to a more modest $450 million instead of $1 billion, after looking at the pool of applicants and their creditworthiness. Erich Zimmerman of Taxpayers for Common Sense told reporters last week that there’s never been a default on a TIFIA loan, but with an expansion this large, it’s likely to happen.

And even if the projects are determined not to pose an undue financial risk to taxpayers, casting such a wide net could too easily pull in projects that just don’t make for good transportation policy.

#### TIFIA reform will cause premature applications

Kessler and Denton 7/6/12 – Kessler is a nationally recognized leader in the field of public-private partnerships and special counsel for TxDOT's PPP program, Denton is a consultant at Nossaman's Infrastructure Practice Group (Fredric W. Kessler and Peter W. Denton, “Surface Transportation Reauthorization Ushers in Significant Changes to TIFIA” http://www.nossaman.com/SignificantChangestoTIFIA)//KX

On June 29, 2012 Congress passed the Moving Ahead for Progress in the 21st Century Act (MAP-21), a compromise measure to reauthorize transportation funding through the end of 2014. A bipartisan and bicameral measure, MAP-21 contains meaningful reforms that, although marred by some missed opportunities, collectively represent a significant improvement in federal surface transportation law.

In our series of E-alerts on MAP-21, we elucidate four topics important to transportation financing and development of large transportation projects: (1) TIFIA (the Transportation Infrastructure Finance and Innovation Act at 23 U.S.C. §§ 601 et seq), (2) environmental streamlining, (3) tolling and (4) public-private partnerships. This E-Alert initiates our series and focuses on the the significant positive reforms to the TIFIA program. Nossaman has been a constant advocate for many of these reforms, and commends Congress on this achievement.

We foresee continued heavy demand for TIFIA credit assistance, particularly given the more attractive features of the reenacted TIFIA program. We have some concern that the combination of the increase in coverage from 33% to 49%, the significant simplification of eligibility criteria, the removal of FHWA discretionary selection authority, the rolling application process, the availability of master credit agreements to obtain early conditional commitments, and the fairly forgiving project readiness eligibility requirement will result in a race to submit applications prematurely. Government sponsors of large transportation development projects will need to develop timely, proactive strategies to take advantage of the new TIFIA program.

#### More reforms are key – current project readiness criteria is insufficient

Kessler and Denton 7/6/12 – Kessler is a nationally recognized leader in the field of public-private partnerships and special counsel for TxDOT's PPP program, Denton is a consultant at Nossaman's Infrastructure Practice Group (Fredric W. Kessler and Peter W. Denton, “Surface Transportation Reauthorization Ushers in Significant Changes to TIFIA” http://www.nossaman.com/SignificantChangestoTIFIA)//KX

Missed Opportunities:

Eligibility Criteria / Project Readiness. As a threshold eligibility requirement, the bill will require an applicant to demonstrate a reasonable expectation that "the contracting process for construction of the project can commence by not later than 90 days after the date on which a Federal credit instrument is obligated for the project . . . ." § 602(a)(10). We understand that the drafters' intent is to assure that the obligation of budget authority (which occurs upon execution of a term sheet) occurs no sooner than 90 days before the start of the process to procure a construction contract for the TIFIA-financed project. A project readiness eligibility standard is a good thing to prevent tying up budget authority prematurely. We had hoped, however, that this would be tied to the commencement of a procurement following submission of the application, not the obligation date. The provision as written could allow applications and resulting conditional credit commitments excessively far in advance of when closing of TIFIA funding will actually be needed for the project, perhaps even well before it is evident that a project will indeed successfully proceed into and through procurement.

No Right to Subsidize. Except in the narrow case of highly rated TIFIA loans that will remain subordinated after bankruptcy of the borrower, the bill lacks an express right of applicants to pay a subsidy where budget authority is unavailable. The USDOT's recent policy has been to disallow offers of subsidy.

NEPA. The bill provides that no funding shall be obligated for a project that has not received an environmental categorical exclusion, a finding of no significant impact, or a record of decision under NEPA. This will preclude financial close and access to TIFIA funds for projects under contract, preliminary design and right of way acquisition prior to completion of NEPA action on the project, activities permitted under existing law and the bill. Project owners will have to find other funding sources if they wish to move forward with preliminary design and right of way acquisition before NEPA action is completed.

Development Phase Costs. The definition of Eligible Costs ties the costs to those incurred by or for the account of the obligor. Where the TIFIA obligor will be a private party to a public-private partnership, development phase costs incurred before the TIFIA credit assistance is closed will be incurred by the project owner rather than this obligor. The bill unfortunately does not clarify that these pre-financing owner-incurred costs can be reimbursed with TIFIA loan proceeds.

Funding. Beginning in FY 2014, if the cumulative unobligated and uncommitted balance of funding available as of April 1 exceeds 75 percent of the amount made available to the TIFIA program for that fiscal year, the TIFIA program must distribute to the States any excess funds and associated obligation authority. Current TIFIA demand makes this scenario unlikely.

#### Reinstating a competitive TIFIA process is key to program effectiveness

Nichols, 12 – fiscal analyst for the Metropolitan Planning Council, member of the Association for Public Policy Analysis and Management (Chrissy Mancini Nichols, 6/29/12, “Talking Transit: TIFIA plays a critical role in funding transit” http://www.metroplanning.org/news-events/article/6448)//KX

Regrettably what was the greatest strength of the TIFIA program, its strong project selection criteria, has been eliminated under the new federal transportation reauthorization. TIFIA loans will now be available on a first-come, first-served basis instead of through a competitive process. Prior to the new law, loans were given only to the most viable projects of national or regional significance, backed by a dedicated revenue stream capable of repaying the original investment, and senior debts had to gain an investment-grade rating. It is not unclear why this change was made, but given the success of the current TIFIA prioritization process, it should be reinstated.

The new law also increases the percent of TIFIA financing that may cover total projects costs from 33 to 49 percent. This change still will require public agencies to come up with significant funds from other confident investors, ensuring only projects of the highest merit will advance.

The TIFIA program offers state and local governments additional financing options to meet America’s growing transportation demands. As consumers continue to choose fuel-efficient vehicles, the current basis for funding transportation – the gas tax – is unsustainable. With Congress unlikely to index the motor fuel tax, innovative programs such as TIFIA must be expanded. In the face of shrinking public resources, TIFIA provides critical financing options for transportation investments that will improve quality of life, air quality, and the economy.

#### First-come-first-served destroys effective transportation and kills public support

**Baxandall 7/10** – (Phineas, Senior analyst at United States Public Interest Research Group, “New TIFIA Bias Will Hurt Public,” response to “[Lender's Remorse in the Highway Deal?](http://transportation.nationaljournal.com/2012/07/lenders-remorse-in-the-highway.php)” http://transportation.nationaljournal.com/2012/07/lenders-remorse-in-the-highway.php)//aberg

Turning TIFIA into a first-come-first-served funding pool means it will no longer prioritize projects that provide the most public benefits. TIFIA has been vastly oversubscribed in past years, mostly with applications from private toll roads. Many of these applications, previously rejected because they couldn’t compete based on broader performance criteria, can now be quickly resubmitted. Newly eligible transit systems like LA’s, by contrast, must navigate new rules for public revenue sources and grouped project applications, and may wind up being too late to receive a penny. When next year’s project list is announced, TIFIA may come to stand for “Tolling Is Faster In Applications.” There are downsides to converting TIFIA into a financing pool for the first applications that show they can generate a profit. Transportation systems are interconnected and create externalities that aren’t reflected in the bottom line of each individual project. The benefits of the FasTracks light rail system in Denver, for instance, include encouraging more efficient compact development and reducing the number of cars on the road at peak commuting hours. That added value is nowhere expressed on the ledger of its credit worthiness. A new toll road, while generating profits, may also generate more pollution and asthma. It may leave poorer drivers who can’t pay higher tolls stranded. A new toll highway in Seattle will [reportedly](http://seattletimes.nwsource.com/html/localnews/2018544988_99tolls28m.html) divert large volumes of toll-avoiding traffic onto overburdened downtown streets. The point isn’t that new toll roads are necessarily bad – they’re not – but that none of the externalized costs or benefits will be considered under the new rules. A program that ignores externalized costs and benefits will be biased toward projects that impose their true costs on the general public. Projects that include public benefits that can’t be monetized and transferred to creditors will be at a disadvantage. It is a win for the investment banks and law firms that lobbied for these provisions, but a loss for the public interest.

### TIFIA Bad – Defaults

#### Expansion of TIFIA funding mitigates effectiveness – causes defaults

Laing 7/6/12 (Keith “Obama Signs Highway Bill” [http://www.mympo.org/PDF/News/news.pdf)//KX](http://www.mympo.org/PDF/News/news.pdf%29//KX)

TIFIA. Over the last few years, the TIFIA loan program has gotten 12 to 14 times more applications than it can fund for infrastructure projects around the country. TIFIA leverages private investment and local dollars, historically making $1 billion in loans with its $122 million annual budget. Both the House and the Senate, cheered on by advocates like Los Angeles Mayor Antonio Villaraigosa, expanded TIFIA’s budget from $122 million to $1 billion. Experts from Taxpayers for Common Sense and the Bipartisan Policy Center have urged caution, saying that this might actually be too high a level. They worry that there aren’t enough creditworthy projects in the TIFIA pool to use up all that money and that lowering the bar too much could expose U.S. taxpayers to debt if those projects default. Somewhat tangentially, the bill also expands tolling authority – not to existing roadways, but to more highway expansions than were previously allowed.

### TIFIA Bad – Toll Rates/Car Usage

#### MAP-21 TIFIA reform incentivizes high toll rates – hurts the middle class

Hall 7/2/12 – citizen activist and founder of the San Antonio Toll Party and Texans Uniting for Reform and Freedom (Terri Hall, “Congress passes new federal highway bill” http://blog.mysanantonio.com/terrihall/2012/07/congress-passes-new-federal-highway-bill/)//KX

MAP-21 increases the TIFIA loan program from $100 million/year to $1 billion/year. TIFIA loans go almost exclusively to toll roads. So it’s a form of taxpayer subsidy to toll projects that cannot pay for themselves by the toll users alone — in other words, it’s a way to build ill-conceived toll projects that aren’t toll viable by putting taxpayers on the hook for the losses. It also means the private sector gets a lower interest rate so it lowers the financing costs to the private toll entities.

Additionally, MAP-21 continues the Private Activity Bond (PAB) program that are bonds provided by the federal government exclusively for private toll interests to get favorable depreciation rates on their taxes for the financing of toll projects. Instead of putting the private entity’s own money at risk, it puts taxpayers on the hook for the losses on these toll projects.

The federal government is a more patient lender than the private sector, so by utilizing TIFIA and PAB mechanisms, the private sector gets paid back before the taxpayers. Let’s not forget that the first TIFIA loan went to a private consortium for the South Bay Expressway tollway in San Diego, and it went bankrupt in less than three years. The taxpayers lost nearly $80 million on the deal and yet your federal government just expanded this program to $1 billion a year! It’ll encourage states to toll everything that moves to get access to this new slush fund. So expect your cost to travel to explode. There can be no doubt, MAP-21 is a war on cars and a war on the middle class.

#### TIFIA changes disproportionately favor toll projects – wastes money

Hall 7/13/12 - citizen activist and founder of the San Antonio Toll Party and Texans Uniting for Reform and Freedom (Terri Hall, “So what’s in the new federal highway bill anyway? NAFTA superhighways” http://www.examiner.com/article/so-what-s-the-new-federal-highway-bill-anyway-nafta-superhighways)//KX

The Transportation Infrastructure Finance and Innovation Act (TIFIA) federal loan program will be expanded by nearly ten times, eventually up to $1 billion/year. What used to be a competitive program has now been changed to easy credit for any project, with special emphasis given to freight movement, ie - the NAFTA corridors. The Ports to Plains Alliance lobbied for and got special reduced TIFIA interest rates for rural corridors like Ports to Plains.

Taxpayer-backed TIFIA loans can also go to directly fund a private facility if the private facility provides a “public benefit for highway users by way of direct freight interchange between highway and rail carriers.” Another boon for freight-intensive NAFTA corridors.

There is no dedicated tax revenue that funds the TIFIA program (unlike the highway system which is largely funded by gas taxes), so it’s primarily going to be funded through yet more federal borrowing of money we don’t have. TIFIA can also use pensions or other government plans to capitalize the fund, which is scary considering retirees depend on this money and the first project to ever receive a TIFIA loan went bankrupt -- a P3 toll project in San Diego called the South Bay Expressway declared bankruptcy in less than three years after opening. The traffic projections were off by nearly 40,000 cars a day. The taxpayers took nearly an $80 million loss on that TIFIA loan. This can hardly be considered a successful program, yet Congress just increased it almost tenfold and made it even easier to get one.

The TIFIA program has become a slush fund to finance P3s where private toll operators can easily snag public money to subsidize their losses on projects that have no business being built in the first place. Congress lets them exploit taxpayers this way by hiding behind the broad term ‘public benefit.’

#### Specifically, MAP-21 forces bare-bones eligibility that forces TIFIA to focus only on road tolls

**Goldman 11** – (Ben, editer for Streetsblog Capital Hill, city planner, “Senate’s Changes to TIFIA Could Mean More Toll Roads, Less Transit,” http://dc.streetsblog.org/2011/12/21/senates-changes-to-tifia-could-mean-more-toll-roads-less-transit/)//aberg

When the Senate Environment and Public Works Committee unanimously passed a two-year transportation reauthorization bill last month, it quickly became clear that bipartisan support was coming at a price. First, we learned that the Transportation Enhancements bike/ped programs would lose their dedicated funding. Now, we learn that Transportation Infrastructure Finance and Innovation Act (TIFIA) loans will no longer hold applicants to as high an environmental standard — or any standard, really. TIFIA is a popular program, receiving $14 billion in loan requests despite only being able to loan about $1 billion in total this year. And under current law, the extent to which the project “helps maintain or protect the environment” makes up 20 percent of a project’s evaluation. In the EPW bill, the program is expanded by a factor of nine, but most evaluation criteria — including environmental protection — are omitted. As Matt Sledge wrote in the Huffington Post: Phineas Baxandall, a senior analyst at U.S. PIRG, said he thinks [EPW Chair Senator Barbara] Boxer may have cut a bad deal. He argues that doing away with TIFIA’s selection criteria means the U.S. Department of Transportation will be forced to give money to any transportation project that meets bare-bones financial eligibility requirements [...] Toll roads, backed by private investors looking to make a buck off of “public-private partnerships,” will be first in line, he argued, since they have plans that are “just ready to go off the shelf.” [...] Los Angeles hopes it will get some of that TIFIA money. Not so fast, Baxandall said. “Places like Atlanta and L.A. are hoping that the new bounty of TIFIA will allow them to finance public transit expansions, but they are likely to find the money already claimed by private toll road projects in places like Florida and Texas.” An LA Metro spokesperson told HuffPo he’s still “pretty confident” they’ll get TIFIA funds. It’s hard not to see this as a step backwards, despite the funding increase. It wasn’t long ago that transit advocates were celebrating an end to the Bush-era’s “cost-effectiveness-above-all-else” rule in the Federal Transit Authority’s New Starts program. Now, Baxandall says, “at a time when the nation’s transportation system is starved for funds and there is a consensus that dollars need to be spent more wisely, it is outrageous that the one program that would be massively increased would no longer try to deliver the best bang for each buck.”

### TIFIA Bad – Mass Transit

#### Lack of TIFIA criteria will kill mass transit programs – they’ll be forced to compete with toll projects

Baxandall 7/10/12 – senior analyst for tax and budgetary policy at US PIRG, the federal of state Public Interest Research Groups (Phineas Baxandall, “NEW TIFIA RULES WILL HURT THE PUBLIC” http://www.uspirg.org/blogs/blog/usp/new-tifia-rules-will-hurt-public)//KX

The one major transportation program that was significantly expanded in last week's new surface transportation bill was TIFIA, the federal loan program meant to complement other forms of financing for major transportation projects. Funding for this loan pool was increased from $122 million annually to $750 million in the first year and $1 billion in the second. But in expanding the program, Congress also transformed the program from one in which performance critieria were used to select which proposals most deserved tax dollars into a first-come-first-served pool that will no longer prioritize projects that provide the most public benefits.

In past years TIFIA has had far more applications for funds than were available, especially because of billions of dollars in eligible applications seeking to build private toll roads. Many of these applications, previously rejected because they couldn’t compete based on broader performance criteria, can now be quickly resubmitted. Newly eligible transit systems like LA’s, by contrast, must navigate new rules for public revenue sources and grouped project applications, and may wind up being too late to receive a penny. When next year’s project list is announced, TIFIA may come to stand for “Tolling Is Faster In Applications.”

There are downsides to converting TIFIA into a financing pool for the first applications that show they can generate a profit. Transportation systems are interconnected and create externalities that aren’t reflected in the bottom line of each individual project. The benefits of the FasTracks light rail system in Denver, for instance, include encouraging more efficient compact development and reducing the number of cars on the road at peak commuting hours. That added value is nowhere expressed on the ledger of its credit worthiness. A new toll road, while generating profits, may also generate more pollution and asthma. It may leave poorer drivers who can’t pay higher tolls stranded. A new toll highway in Seattle will reportedly divert large volumes of toll-avoiding traffic onto overburdened downtown streets. The point isn’t that new toll roads are necessarily bad – they’re not – but that none of the externalized costs or benefits will be considered under the new rules.

A program that ignores externalized costs and benefits will be biased toward projects that impose their true costs on the general public. Projects that include public benefits that can’t be monetized and transferred to creditors will be at a disadvantage. It is a win for the investment banks and law firms that lobbied for these provisions, but a loss for the public interest.

### TIFIA Bad – National Strategy

#### Changes to TIFIA kill innovation and causes incoherent national strategy

Slone 7/3/12 – Senior Transportation Policy Analyst at the Council of State Governments (Sean Slone, “Surface Transportation Authorization Bill Winners & Losers” http://knowledgecenter.csg.org/drupal/content/surface-transportation-authorization-bill-winners-losers)//KX

Winner: TIFIA

Loser: National Goals, Innovation

The TIFIA (Transportation Infrastructure Finance and Innovation Act) Federal credit assistance program has been hugely popular with states and heavily oversubscribed considering the limited amount of funding that has been available (it’s dedicated to “nationally or regionally significant” transportation projects, including highway, transit and rail). It has historically leveraged its $122 million annual budget into $1 billion for loans. Now the program will have $750 million in year one and $1 billion in year two to start with under an expanded program now called America Fast Forward. The program can now also be used to finance up to 49 percent of a project’s costs, up from 33 percent.

But Streetsblog editor Tanya Snyder points out that the revamped TIFIA eliminates all project selection criteria, which had been used to evaluate potential loan recipients. That, Snyder contends, makes it “completely useless as an instrument to reward and enable innovation.” TIFIA is turned into a bank with creditworthiness as the sole criteria for projects to qualify for loans and national policy goals no longer entering into the equation, Snyder writes.

#### New TIFIA process prioritizes older projects at the expense of innovative development

Goldberg 7/13/12 – Transportation For America (David, “Ten key things to know about the new transportation law” http://t4america.org/blog/2012/07/13/ten-key-things-to-know-about-the-new-transportation-law/)//KX

While the bill did not reauthorize the popular and over-subscribed TIGER grant program or establish a national infrastructure bank, it does include two expanded national infrastructure programs.

The TIFIA loan program provides low-cost loans – not grants — for highway, transit and intermodal projects that must be repaid. The program, which subsidizes low interest rates and provides federal guarantees, has been expanded from $122 million per year today to $1 billion in FY14, allowing U.S. DOT to support more than $10 billion in loans each year. (The program can support around $10 in loans for each dollar in funding.)

The expansion is good news to many places looking a way to make local dollars go farther, but the program has changed from merit-based allocation to first come, first served. The first creditworthy applications in the door — no matter what kind of project — will get the funding, skewing winners toward those with the biggest administrative departments (like state DOTs). That could mean that more complicated and innovative projects will go wanting after a long line of older “off the shelf” projects consume the available loans.

#### First-come first-served reform backfires

Snyder, 11 - editor of Streetblog (Tanya, 10/28/11, “Why Create an Infrastructure Bank When We Could Just Expand TIFIA?” http://dc.streetsblog.org/2011/10/28/why-create-an-infrastructure-bank-when-we-could-just-expand-tifia/)//KX

Geoffrey Yarema of Nossaman LLP (a law firm specializing in public-private partnerships for infrastructure projects) told Duncan TIFIA wasn’t perfect but that it did have 12 years of solid experience. He suggested it be “right-sized” by adding staff and he wants to “change it from a discretionary decision-making process that has the potential for being politicized – and some would say the reality of being politicized – to a first-come-first-served program.”

That change, however, would eliminate the part of TIFIA reformers like most: The fact that it has the power to encourage innovation and goal-oriented, performance-based strategic transportation planning.

### TIFIA CP – Municipal Bonds

#### Refocusing TIFIA towards municipal bond usage solves effective investment

Long 12 – financial analyst specializing in retail fixed income markets including municipal bonds (Cate Long, 5/10/12, “Infrastructure financing and the federal government” http://blogs.reuters.com/muniland/2012/05/10/infrastructure-financing-and-the-federal-government/)//KX

There is a general consensus that America needs both new infrastructure and more jobs. Where there’s disagreement is over what role the federal government should play in providing the necessary funding to jump-start new projects. In a recent webinar, Standard & Poor’s laid out the current types of financing available for surface transporation projects (page 3):

• General Obligation Bonds (Appropriation debt)

• Sales Tax Revenue Bonds

• Gas Tax Revenue Bonds

• Toll Revenue Bonds

• Federal Grant-Secured Obligations (GANs/GARVEEs)

• Transportation Infrastructure Finance and Innovation Act (TIFIA) loans

• Public Private Partnerships (P3)

The top five categories in the list above are types of municipal bonds, meaning that they require a local or state government to take on debt to fund infrastructure. At the level of federal financing, the U.S. Department of Transportation’s Federal Highway Administration gives out TIFIA loans to public-and-private infrastructure projects. For example, the Macquarie-owned public-private partnerships that are building the Midtown Tunnel in the Norfolk and Hampton Bays area of Virginia and the FasTracks rail project in Denver are using federal TIFIA loans in the funding pool.

I don’t really understand why the FHA’s TIFIA program favors private investment. Here’s what the FHA website says (emphasis mine):

The program’s fundamental goal is to leverage Federal funds by attracting substantial private and other non-Federal co-investment in critical improvements to the nation’s surface transportation system. TIFIA was created because state and local governments that sought to finance large-scale transportation projects with tolls and other forms of user-backed revenue often had difficulty obtaining financing at reasonable rates due to the uncertainties associated with these revenue streams.

I’m sure the FHA folks know about the $230 billion of transportation bonds outstanding (page 13). Many of these securities are repaid with tolls. In fact, the FHA’s own website lists public projects that are owned by municipal and state governments and repaid with toll fees. It’s no surprise that public toll roads charge users lower fees than do those involving private investors, but that is not an explicit program goal of the FHA, unfortunately.

The webinar highlighted a study S&P conducted about cash flows on publicly and privately owned toll roads (emphasis mine, page 13):

We compared pairs of similar publicly and privately operated toll roads in Denver, CO, Southern CA, Dulles VA, and Chicago, IL

• Roads were privatized over the last 15 years

• Roads compared were higher cost in terms of toll rate per mile than large, well-established statewide systems

• All had high usage of electronic toll collection, most above 75%

• Toll rate increases were greater than inflation, but the private roads were slightly higher

TIFIA could be an enormous engine for expanding American infrastructure and creating jobs if it shifted its focus from enabling the privatization of public assets to backstopping municipal governments that issue debt to fund transportation projects. The TIFIA program could reshape itself into a bond guarantor and stand between bond investors and municipal governments. There is certainly demand – as FHA has said, the program was oversubscribed for 2012 projects. For example the New York State Thruway Authority applied for $2 billion in TIFIA funds for the new Tappan Zee Bridge it hopes to build.

The United States is still a very rich country. We have the resources to improve our national assets. But it’s deeply disappointing that a federal program uses scarce resources to privatize public assets. Governments must retain as many of their revenues and assets as possible to fund future needs.

### TIFIA Popular

#### TIFIA is popular – GOP prefers pre-existing programs

Snyder, 11 - editor of Streetblog (Tanya, 10/28/11, “Why Create an Infrastructure Bank When We Could Just Expand TIFIA?” http://dc.streetsblog.org/2011/10/28/why-create-an-infrastructure-bank-when-we-could-just-expand-tifia/)//KX

“Is TIFIA the first perfect federal program?”

Nevertheless, Congressional Republicans have thrown their full support behind the program, mainly as a counterweight to the president’s proposed infrastructure bank. Consistent with their desire to limit the growth of the federal bureaucracy, they resist the idea of creating an entirely new entity, even though the bank would be independent from the government, a la the Export-Import Bank.

There are two competing infrastructure bank bills in the Senate and a new one introduced earlier this week in the House. The Senate is planning to vote next week on a bill to spend $50 billion on infrastructure with another $10 billion in seed money for a bank – pieces of President Obama’s jobs bill, which has been dismembered for separate votes. Next week’s bill isn’t expected to pass. Indeed, many members think TIFIA is the way to go.

At a House Transportation Committee hearing earlier this month, nearly every Republican present spoke out in favor of expanding TIFIA instead of creating a new bank. Chair John Mica asked why a bank was needed when “we have a successful example” in TIFIA.

Highways and Transit Subcommittee Chair John Duncan (R-TN) went as far as to ask, “Is TIFIA the first perfect federal program?” He noted, “Everyone has had glowing comments about TIFIA, and it’s a program that I support as well.”

#### Overwhelming consensus for TIFIA

**Guilmino, ’12** – (Brad, Chief Financial Consultant for HNBT, an employee-owned infrastructure firm serving public and private owners and contractors, “Now it’s TIFIA’s Time,” [http://www.hntb.com/news-room/white-paper/now-is-tifias-time)](http://www.hntb.com/news-room/white-paper/now-is-tifias-time%29//aberg)

TIFIA's ability to provide additional low-cost debt to projects lowers the public subsidy required to make such critical infrastructure facilities feasible.

Of course, with more money and a streamlined program, USDOT will need additional analysts to support the underwriting process. Current staff members are doing a great job, but they will need help to remain successful.

It's also important to remember not every project is right for TIFIA. It does "federalize" projects and subject them to additional union rules and environment reviews.

And, even with an expanded TIFIA program, state and federal governments cannot cover the current funding shortfall, even to simply maintain the current transportation network. It's not a panacea.

More tolls, taxes and user fees will be required. More support will need to come from local sources. But TIFIA can have a measurable, meaningful impact on significant, large scale projects that will move us to the 21st century multimodal transportation system the nation needs to be safe, secure and competitive.

Politicians of all stripes support expanding TIFIA. You just don’t see that kind of consensus today. Let's come together and make this TIFIA's time

### TIFIA Popular – Construction Industry

#### TIFIA policy is popular with the construction industry

Ichniowski 7/16/12 – reporter for Engineering News-Record (Tom, “MAP-21 Transportation Measure Goes on the Books” http://enr.construction.com/policy/washington\_observer/2012/0716-map-21-transportation-measure-goes-on-the-books.asp)//KX

The law also offers ways to stretch or supplement its base funding. It sharply increases the popular Transportation Infrastructure Finance and Innovation Act (TIFIA) program, which provides loans and loan guarantees to help fund major projects. MAP-21 hikes direct federal TIFIA subsidies to $750 million in 2013 and $1 billion in 2014, from $122 million in 2012. As large as it is, that boost will have an even bigger impact on projects because each subsidy dollar supports $10 in loan volume. Thus TIFIA loans could reach $10 billion in 2014

Cathy Connor, Parsons Brinckerhoff senior vice president for government affairs, says the TIFIA provision drew significant industry attention. With MAP-21 lacking a major overall funding increase, she says, "people are looking at innovative financing and other ways of doing projects." Still, Connor notes TIFIA aid comes in the form of loans, which states and other project sponsors must repay. "This is not grant money," she says

### TIFIA Popular – NIB

#### TIFIA is more popular than the NIB – empirics

Orski 7/18/12 – public policy consultant and former principal of the Urban Mobility Corporation (C. Kenneth Orski, “After the Dust Has Settled… Some Reflections on the New Transportation Law (MAP-21) Update” http://www.infrastructureusa.org/after-the-dust-has-settled-some-reflections-on-the-new-transportation-law-map-21-2/)

+ The Senate bill’s provision for a National Infrastructure Bank, a White House priority but opposed by House Republicans as creating a redundant financial bureaucracy. Instead, the bill retained a bipartisan provision to boost TIFIA program funding from $122 million/year to $750 million in FY 2013 and $1 billion for FY 2014; and to increase the maximum project cost share from 33% to 49%. The conference bill eliminated most of the discretionary selection criteria such as “sustainability.” An increase in TIFIA funding had been strongly promoted by the financial community.

### Performance-Based Criteria Popular

#### **Performance criteria is popular – perceived as innovative and strategic**

Snyder, 11 - editor of Streetblog (Tanya, 10/28/11, “Why Create an Infrastructure Bank When We Could Just Expand TIFIA?” http://dc.streetsblog.org/2011/10/28/why-create-an-infrastructure-bank-when-we-could-just-expand-tifia/)//KX

Geoffrey Yarema of Nossaman LLP (a law firm specializing in public-private partnerships for infrastructure projects) told Duncan TIFIA wasn’t perfect but that it did have 12 years of solid experience. He suggested it be “right-sized” by adding staff and he wants to “change it from a discretionary decision-making process that has the potential for being politicized – and some would say the reality of being politicized – to a first-come-first-served program.”

That change, however, would eliminate the part of TIFIA reformers like most: The fact that it has the power to encourage innovation and goal-oriented, performance-based strategic transportation planning.

### Obama Pushes

#### Obama pushes for TIFIA – empirics

**Guilmino, ’12** – (Brad, Chief Financial Consultant for HNBT, an employee-owned infrastructure firm serving public and private owners and contractors, “Now it’s TIFIA’s Time,” [http://www.hntb.com/news-room/white-paper/now-is-tifias-time)](http://www.hntb.com/news-room/white-paper/now-is-tifias-time%29//aberg)

**Expansion plans on the table**The Obama administration included expansion of the program in its proposed American Jobs Act last November. The act would have included $5 billion to be shared by the TIGER grant program and TIFIA. It also included an overhaul of the TIFIA funding application process, directing USDOT to shorten the application process for the 2012 round of TIFIA funding to "accelerate projects and put workers back on the job more quickly." The overall bill quickly went nowhere within a divided Congress. As it worked on a proposed two-year surface transportation authorization, the U.S. Senate Committee on Environment and Public Works included an "America Fast Forward" provision in its Moving Ahead for Progress in the 21st Century (MAP-21) bill. It would dramatically expand TIFIA by:

Increasing the program’s annual budget to $1 billion;

Increasing credit standards;

Increasing the maximum eligible project costs from 33 percent to 49 percent;

Eliminating nearly all selection criteria in favor of a simply eligibility process;

Adopting a rolling basis for applications and availability, ending the wait for annual notices; and

Providing more flexibility in regard to budget authority.

  Sen. Barbara Boxer, who chairs EPW, has said the committee has sent "a strong signal that we are serious about job creation and getting our economy back on track." Boxer also said the USDOT estimates such an expansion will create up to one million jobs. The bill awaits full consideration by the Senate, which needs to identify $12 billion in additional revenue. Meanwhile, the U.S. House of Representatives seems to favor a five-year authorization proposal. A full House bill was introduced by Transportation and Infrastructure Committee Chair Rep. John Mica, the "American Energy & Infrastructure Jobs Act." The act would dedicate $6 billion to the TIFIA program over five years, resulting in $60 billion in low interest loans to fund at least $120 billion in transportation projects. The proposal also states that while existing lanes on Interstate Highway System would remain tollfree, states would have the ability to toll new capacity on the system, and the bill would provide "greater flexibility" to toll non-Interstate highways.

## NIB

### NIB K2 Long TF Programs

#### Only a NIB can initiate long-term, national-level programs

Snyder, 11 - editor of Streetblog (Tanya, 10/28/11, “Why Create an Infrastructure Bank When We Could Just Expand TIFIA?” http://dc.streetsblog.org/2011/10/28/why-create-an-infrastructure-bank-when-we-could-just-expand-tifia/)//KX

A more persuasive argument for the necessity of an I-bank came this month from USDOT Under Secretary for Policy Roy Kienitz, who said at an infrastructure forum sponsored by the Washington Post that one problem with TIFIA funding – aside from the fact that it’s far too low – is that it’s released six weeks at a time, making it hard to do long-term planning.

But that’s not all. Kienitz’s answer to why TIFIA isn’t a substitute for an infrastructure bank was so dead-on and coherent it’s worth printing in its entirety.

One of the advantages of some more infrastructure-bank-like system is that some of the places that are innovating, at least some of them, are places like Denver, Salt Lake, LA, Seattle. In the transit world, what the federal government does is it says “show me the minimum operable segment for the transit line which you are currently considering.” And what communities want to do is say, “I have a future 25 years from now that looks very different than today and here’s all the pieces and parts. Here’s what I want to do with my freeways, here’s my HOT lanes, here’s my light rail, here’s my streetcar, here’s my traffic flow improvements. It all works together. I want to raise an amount of money to do this plan; who do I talk to in Washington?”

And the answer is, blecch, we don’t know how to do that. We’re sliced up into our own little slices.

One of the things that the infrastructure bank, or something like the infrastructure bank, can do is enter into long-term relationships with people who have decade-plus-long plans, about the pieces and the parts of that plan. They’re trying to finance a plan. What Washington knows how to do is finance a segment of a project. And that’s a conversation that needs to change.

The current TIFIA process does not allow us to do that. With more money, we could do more segments of more projects, and that would be a good thing. But I don’t think that’s the ultimate goal.

### ExIm Bank Mechanism/CP

#### Expanding the ExIm Bank solves the case – saves money and doesn’t link to politics

Snyder, 11 – editor of Streetblog (Tanya, 10/7/11, “Does the Elusive Infrastructure Bank Already Exist?” <http://dc.streetsblog.org/2011/10/07/does-the-infrastructure-bank-of-our-dreams-already-exist/#more-116670>)//KX

Last week, three Washington heavy-hitters brought a new contribution to the debate over a national infrastructure bank: They said we already have one.

Mark Alderman of the Obama-Biden transition team, former U.S. Senator Evan Bayh, and Howard Schweitzer, former vice president of the Export-Import Bank co-wrote an op-ed for the Washington Post saying that the Export-Import Bank was already authorized and organized to do exactly what an infrastructure bank is supposed to do:

Many of those pushing for an infrastructure bank say that public-private partnerships are part of the solution. This basic concept combines private capital with some form of public support to finance large projects. That is the Export-Import Bank’s bread and butter. Put another way, the United States already has a bank that knows how to balance investor return with lender (i.e., taxpayer) protection — often a major stumbling block to public-private deals.

They go on to say, “A newly expanded Export-Import Bank could facilitate private-sector investment in projects such as repairing roads and bridges, modernizing the energy grid, and maintaining our dams and levees — creating jobs while rebuilding the country.”

It’s a compelling argument, especially in the face of skepticism about creating a new quasi-government entity, especially in a political environment suspicious of Big Government. Some fear an I-bank will be too much like Fannie Mae and Freddie Mac; some would rather just stick with the TIFIA loan program; others want to encourage state infrastructure banks instead of a big national one. If making a few tweaks to an existing structure could yield the same benefits as a national infrastructure bank, isn’t that easier?

The Ex-Im bank has a similar financial model to the Kerry-Hutchison I-bank proposal (which the president has adopted) and a similar governing structure – an independent, though government-owned, corporation. Even better, the Ex-Im Bank makes money for the U.S., depositing money into the Treasury, not taking it.

“The Ex-Im bank already has some of that staff in place and an established history of success, fiscal responsibility, and a low risk to taxpayers,” said bank expert Scott Thomasson of the Progressive Policy Institute. “And there actually is a window to expand the mandate of the Ex-Im Bank if there is political support to do that.”

There’s not a lot of interest on Capitol Hill yet about this idea, but it could become the compromise that saves the whole I-bank concept. For now, some say, politicians that have been on the forefront of the bank idea would rather stick with their own idea (which they can then take credit for).

#### ExIm Bank expansion solves the entirety of case – is faster, politically popular, and budget-neutral

Schweitzer et al 11 – Howard Schweitzer, the first chief operating officer of the Treasury Department’s Troubled Assets Relief Program, was senior vice president and general counsel of the Export-Import Bank of the United States from 2005 to 2008. Mark L. Alderman was a member of the Obama-Biden presidential transition team. They are principals in Cozen O’Connor Public Strategies. Evan Bayh, a former U.S. senator from Indiana, is a senior adviser to Apollo Global Management (Howard Schweitzer, Mark L. Alderman and Evan Bayh, 9/29/11, “We already have the infrastructure bank we need” http://www.washingtonpost.com/opinions/we-already-have-the-infrastructure-bank-we-need/2011/09/27/gIQA59TI8K\_story.html)//KX

Yet even if the president’s proposal were enacted tomorrow, it would be years before such a new bank would be fully operational. While Congress and the administration debate the appropriate means of financing infrastructure, there is a way to begin financing projects and creating jobs today.

The Export-Import Bank of the United States, a self-funded government corporation that carries the full faith and credit of the United States, has been financing multibillion-dollar infrastructure projects and creating American jobs for more than 75 years. Why haven’t you heard of the bank? Because it finances these projects in Jakarta, Santo Domingo and Sofia, instead of in Chicago, Dallas and Boston.

The bank — known to many in Washington as the Ex-Im Bank — creates American jobs by financing U.S. exports when commercial financing is not available or when its support is necessary to level the playing field with foreign subsidized exports. The bank has underwritten and financed large projects involving the export of American products for projects such as the development of a toll road in Romania, an airport in Ecuador and a pipeline in Peru, to name just a few. Its loan-loss history over 75 years hovers at less than 2 percent. After years of watching the bank turn a profit for taxpayers, Congress passed legislation in 2007 that enabled the bank to fund its own loan-loss reserve and operations through the fees it charges borrowers, rather than through an annual congressional appropriation. Effectively, its operations since then have cost taxpayers nothing, with its earnings going to the U.S. Treasury’s general account.

Despite its name, as a matter of policy the Export-Import Bank finances only U.S. exports. The singularity of that mission and the bank’s apolitical approach have helped it build a bipartisan base of support in Congress. Yet the bank could do much more — and has the legal authority to do so. The bank’s congressional mandate gives it broad authority to operate “a general banking business,” meaning the institution can develop innovative financing solutions that combine public and private capital while protecting the taxpayer. A newly expanded Export-Import Bank could facilitate private-sector investment in projects such as repairing roads and bridges, modernizing the energy grid, and maintaining our dams and levees — creating jobs while rebuilding the country.

Many of those pushing for an infrastructure bank say that public-private partnerships are part of the solution. This basic concept combines private capital with some form of public support to finance large projects. That is the Export-Import Bank’s bread and butter. Put another way, the United States already has a bank that knows how to balance investor return with lender (i.e., taxpayer) protection — often a major stumbling block to public-private deals.

The Export-Import Bank also has in place the internal decision-making, credit and operational functions to execute a new, non-political mandate regarding domestic infrastructure finance. The bank is governed by a bipartisan board of directors, all presidential appointees confirmed by the Senate. It is overseen by a presidentially appointed inspector general and by the Senate Banking Committee, the House Financial Services Committee and appropriators in both houses of Congress.

Not only would adding domestic infrastructure projects to the bank’s mandate avoid the inevitable delay that would occur should Congress pass legislation creating a national infrastructure bank, but the federal government’s most recent attempt to create a government lender to finance large projects — the Energy Department loan guarantee program — has fallen far below expectations.

If the federal government is to play a role in addressing the country’s serious infrastructure needs, policymakers should decide whether they want to make a difference now. They can broaden the Export-Import Bank mission and put the bank to work in prudently but aggressively financing domestic infrastructure projects while Congress and the administration consider whether to create a new federal agency, or they can allow our infrastructure to further deteriorate while that debate takes place. The president should ask Congress simply to resolve to encourage Ex-Im to act now. This green light is all that’s needed to begin rebuilding America and creating jobs.

## TIGER

### Laundry List

#### Laundry list of reasons why TIGER is better than PRNS – metropolitan funding, port and freight projects, innovation

Goldberg 7/13/12 – Transportation For America (David, “Ten key things to know about the new transportation law” http://t4america.org/blog/2012/07/13/ten-key-things-to-know-about-the-new-transportation-law/)//KX

A reconstituted program called Projects of Regional and National Significance (PRNS) provides competitive grants for large highway, transit or intermodal projects typically with a total cost in excess of $500 million, or at least 50 percent of a state’s annual highway funding.

Though billed as a replacement for the popular TIGER program, it differs in critical ways, Unlike TIGER, local governments and metro areas cannot apply for the funding. Only states, transit agencies and tribal governments can apply, and port and freight rail projects are not eligible. TIGER was intended to fund innovative, cost-effective projects that were hard to fund under the previous transportation program — and they will be no easier to do under this new law.

This program is authorized for up to $500M in funding in 2013 and no funding in 2014, but like the New Starts program, it’s subject to the annual appropriations process, so it’s not guaranteed.

### Solves Freight

#### TIGER grants support freight – empirically proven

**Goldman, ’11** – (Bert, freelance writer and city planner served as Interim Editor of Streetsblog Capitol Hill, “TIGER III Will Boost Freight Transportation But Not Transform It,” December 21 2011 http://dc.streetsblog.org/2011/12/21/freight-did-well-in-tiger-iii-but-should-it-do-even-better/)//aberg

Of the 46 recently-announced TIGER grant recipients, 18 projects had at least a “substantial freight component,” according to the Coalition for America’s Gateways and Trade Corridors. Over $232 million — 45 percent — of this latest round of the popular transportation funding program will go to freight projects. That’s a very impressive share, considering that traditional federal funding mechanisms tend to neglect freight. “This type of competitive grant program can fulfill a need in transportation funding and planning that isn’t being met by other types of approaches — like straight-up formula programs,” said CAGTC Executive Director Leslie Blakey. “These projects won’t qualify on a typical Title 23 formula fund, partly because of their multimodal nature and partly because they are cross-jurisdictional.” Sure enough, CAGTC has [pointed out](http://www.tradecorridors.org/images/stories/news/freight_projects_compete_well_in_tiger_iii.pdf) that freight projects fared well in the first two rounds of the program as well. Over $1.3 billion – 49 percent of TIGER I and 53 percent of TIGER II — has gone to freight projects. However, even though freight and rail both [fared well](http://www.transportationissuesdaily.com/tiger-iii-rail-projects-are-big-winners/) in TIGER III, freight rail didn’t exactly win the day, netting only about a quarter of freight dollars, while the rest went to road, bridge, and port improvements. That’s too bad, especially since plenty of experts — including the [Government Accountability Office](http://dc.streetsblog.org/2011/03/01/gao-trucking-the-least-efficient-mode-of-freight-shipping/) and NAFTA’s [Commission for Environmental Cooperation](http://dc.streetsblog.org/2011/04/01/study-american-competitiveness-hinges-on-the-greening-of-freight/) — have gone on the record as saying that in order to reduce congestion, improve air quality, and protect the environment, a lot more freight should be moving by rail. TIGER is not the only pot of money with the potential to dramatically improve freight rail, but it may be the most successful to date. Other rail-specific programs like Railroad Rehabilitation and Improvement Financing (RRIF) loans are still comparatively [underutilized](http://dc.streetsblog.org/2011/12/21/2011/02/18/in-age-of-s%C2%ADpending-cuts-why-are-billions-of-federal-rail-dollars-going-unused/), while the TIGER program has had to turn applicants away. “They keep wanting more, clamoring for more,” said Blakey. “This is the way to meet certain kinds of needs that are hard to meet in the traditional format.” The $51 million in TIGER III freight rail grants will go to a dozen projects, varying from large port upgrades in Los Angeles and New Orleans to the rehabilitation of a rural freight line in Kansas, saving it from abandonment. Most of the projects would target the sort of “freight bottlenecks” identified by a 2008 Association of American Railroads study [[PDF](http://www.aar.org/~/media/aar/Files/natl_freight_capacity_study.ashx)]. Without targeting specific bottlenecks, the logic goes, railroads will be unable to meet rising demand for rail transportation. America’s freight rail system resides primarily in private hands — a fact that Republicans in Congress often [mention](http://thehill.com/special-reports/transportation-a-infrastructure-march-2010/86305-rail-re-regulation-may-be-catastrophic-public-policy-) in support of the system’s superiority over passenger rail. But railroad companies have been receiving plenty of federal funds as part of TIGER, and not just the largest railroads, either. Three Class II regional railroads — the Pan Am in Massachusetts, the Kyle in Kansas, and the Paducah & Louisville in Kentucky — will be TIGER III beneficiaries as well. This is a good sign, since every time a small railroad disappears, local customers are forced to either truck their cargo to the nearest rail depot or all the way to its eventual destination. With these TIGER grants, smaller railroads won’t face that threat, meaning less traffic congestion, lower road maintenance costs lower, and cleaner air.

### Solves Investment

#### TIGER programs catalyze investment by using a competitive application process and project oversight

**Department of Transportation no date** – (TIGER Discretionary Grant Program: Driven by Performance) [http://www.dot.gov/tiger/docs/Fact%20Sheet-%20Driven%20by%20Performance.pdf)//aberg](http://www.dot.gov/tiger/docs/Fact%20Sheet-%20Driven%20by%20Performance.pdf%29//aberg)

The Transportation Investment Generating Economic Recovery, or TIGER I and TIGER II Discretionary Grant programs, provide a unique opportunity for the U.S. Department of Transportation to invest in road, rail, transit and port projects that promise to achieve critical national objectives. Congress dedicated $1.5 billion for TIGER I and $600 million for TIGER II to fund projects that have a significant impact on the Nation, a region or a metropolitan area. TIGER’s highly competitive process, galvanized by tremendous applicant interest, allowed DOT to fund 51 innovative capital projects in TIGER I, and an additional 42 capital projects in TIGER II. Applications were evaluated through a competitive process by technical and professional experts at DOT, and project benefits were analyzed to ensure that limited funds were spent most effectively. The TIGER programs use rigorous, multi-modal selection criteria and the results of economic analysis to select projects and track the effectiveness of TIGER investments through focused project-specific performance measurement plans. Identifying Outcomes The TIGER programs enable DOT to examine a broad array of projects on their merits and compare the benefits of each. In fiscally constrained times, it’s especially important to ensure that taxpayers are getting value for every dollar invested. In both rounds of TIGER, DOT received hundreds of applications for worthy projects to build and repair critical pieces of our multi-modal freight and passenger transportation networks. Applicants were asked to detail the benefits their project would deliver for five primary long-term outcomes, safety, economic competitiveness, state of good repair, livability and environmental sustainability and were evaluated against these criteria. Applicants were also evaluated on contributions to economic recovery, a priority for DOT, as well as innovation and partnership. The competitive structure of the TIGER program and its broad eligibility allow DOT to avoid narrow, formula-based eligibility categories and fund large, multi-modal, multi-jurisdictional projects not funded through traditional DOT programs. The National Gateway Freight Rail Corridor project will increase the use of double-stack trains on a major CSX freight rail route connecting the Mid-Atlantic ports with markets in the Midwest through Ohio, Pennsylvania, West Virginia and Maryland. The project was highly rated under TIGER because of its potential to increase rail capacity, improve the effciency of freight movement, truck congestion, and reduce maintenance and safety costs on the region’s highway network. This project represents the kind of multi-modal, multi-jurisdictional publicprivate partnership that, while diffcult to fund through existing programmatic structures, can be funded through TIGER because of its promise to substantially improve our transportation network. The SW Moody Street project in Portland, OR, makes critical roadway improvements, adds double-track streetcar lines, enhances bicycle and pedestrian facilities and facilitates redevelopment in former industrial areas while utilizing innovative construction techniques to avoid disturbing capped “brownfield” hazardous materials. While a project of such wide scope can be diffcult to fund through DOT’s normal mode-specific formulas or might require funding from other Federal agencies, TIGER’s breadth of focus and multi-modal process enabled DOT to evaluate this project in its entirety. Measuring Performance In addition to focusing on outcomes in the project development process, the TIGER program has a strong focus on managing the performance of infrastructure investments during construction and tracking performance once the project opens for use. This focus is valuable for DOT, which is generally charged with monitoring compliance with eligibility and procedural requirements, rather than a project’s long term contributions to critical National objectives. For TIGER, each grantee collaborates with DOT in the development of a project-specific performance measurement plan, tracks and reports on the effectiveness of each investment in achieving the benefits promised in the application. For the SW Moody Street project, Portland will measure the automobile, transit, bicycle and pedestrian usage in the area before construction and then track the changes in traffc congestion and transit usage for three years after the project is completed. With detailed post-construction data, DOT can examine how Portland’s new roads, streetcars and bicycle and pedestrian facilities change the way people move – a key outcome supporting the economic competitiveness, livability and sustainability benefits promised by the project – and determine how best to use future funds. Freight projects like National Gateway track and report information about rail usage, truck traffc, and freight moved both before construction and then for three to five years after construction is completed. With detailed data about freight movements DOT can more effectively estimate the value of the project and target future investments to strengthen U.S. economic competitiveness. TIGER’s use of a competitive, merit-based project selection process and broad project eligibility enables DOT to select transformative projects and track the effectiveness of the investments to ensure that our scarce resources are used for their best effect.

#### TIGER sets up a competitive merit approach that overcomes any solvency deficit

Herr, 11- (Phillip, “Competitive Grant Programs Could Benefit from Increased Performance Focus and Better Documentation of Key Decisions,” <http://www.gao.gov/new.items/d11234.pdf>)

The TIGER program represented an important step toward investing in projects of regional and national significance on a merit-based, competitive basis. Allocating federal funding for surface transportation based on performance in general, and directing some portion of federal funds on a competitive basis to projects of national or regional significance in particular, is a direction we have recommended to more effectively address the nation’s surface transportation challenges. TIGER—and the TIGER II program that followed—was a novel approach to funding surface transportation in that it distributed funds across many modes of transportation and allowed projects like ports and freight railroads that rarely compete for existing federal transportation funds to participate. While Congress, when it enacted TIGER II, and the Administration have expressed an interest in this new approach, the role of discretionary grants in the funding the nation’s overall surface transportation program is evolving. Formula funding is—and will likely continue to be—the primary mechanism for distributing federal funds for surface transportation. Congress has struck a careful balance in formula programs to achieve equity among the states in how surface transportation funds—in particular, highway funds—are distributed and to allow states to select projects that reflect state and local priorities. There is a natural tension between providing funding based on merit and performance and providing funds on a formula basis to achieve equity among the states. Consequently, meritorious projects of national or regional significance, in particular those involving multiple modes of transportation or those that cross geographic boundaries, may not compete well at the state level for formula funds. Given that the Recovery Act was intended to create and preserve jobs and promote economic recovery nationwide, Congress believed it important that TIGER grant funding be geographically dispersed. In the future, however, surface transportation competitive grant programs provide Congress the opportunity to consider the appropriate balance between funding projects based on merit and performance and providing funds to achieve equity among the states. Conclusions TIGER was a new program for DOT, and the Recovery Act set short time frames for establishing and administering the program. DOT met these deadlines and developed a sound set of criteria to evaluate the merits of applications and select grants that would meet the goals of the program Furthermore, it maintained good documentation of the criteria-based evaluation conducted by its Evaluation Teams in the technical review and effectively communicated information about its criteria to applicants—an important step in promoting competition and fairness. By thoroughly documenting how its technical teams considered and applied the criteria, clearly communicating selection criteria to applicants, and publicly disclosing some information on the attributes of the projects that were selected, DOT took important steps to build the framework for future competitive programs and its institutional capacity to administer them. This foundation is important if there are going to be future rounds of TIGER or similarly structured programs. Congress needs to have the best information on how well the TIGER program has worked, and DOT needs to gain the confidence of Congress and the public so that it can fairly and expertly administer a multi-modal, multi-billion dollar discretionary program.

### Solves Competitiveness

#### TIGER fosters innovative financing structures that boost competitiveness, cooperates with TIFIA to ensure success, and private innovation.

**Department of Transportation no date –** (TIGER Discretionary Grant Program: Innovation and Project Delivery, http://www.dot.gov/tiger/docs/Fact%20Sheet-%20Innovation%20and%20Project%20Acceleration.pdf)//abergs

The Transportation Investment Generating Economic Recovery, or TIGER I and TIGER II Discretionary Grant programs, provide a unique opportunity for the U.S. Department of Transportation to invest in road, rail, transit and port projects that promise to achieve critical national objectives. Congress dedicated $1.5 billion for TIGER I and $600 million for TIGER II to fund projects that have a significant impact on the Nation, a region or a metropolitan area. TIGER’s highly competitive process, galvanized by tremendous applicant interest, allowed DOT to fund 51 innovative capital projects in TIGER I, and an additional 42 capital projects in TIGER II. Each project is multi-modal, multi-jurisdictional or otherwise challenging to fund through existing programs. Among the most significant achievements of the TIGER programs are the wide-ranging state, local and private partnerships leveraged by the Federal investment and the innovative financing and project delivery mechanisms facilitated and encouraged through the programs’ unique structures. Innovative Financing The TIGER programs encouraged applicants to develop robust and innovative financing structures to compete for Federal funds. DOT gives priority to projects that demonstrate significant partnership between State and local governments and private entities, including nonprofit and other non-traditional partners. The St. Paul, MN, Union Depot project joins a $35 million TIGER investment with $208 million in local, State and other Federal money to renovate the city’s historic Union Depot as a multi-modal transit hub linking rail, bus, light-rail, auto and bicycle trips. Similarly, the Tower 55 project in Fort Worth, TX, will use a $34 million TIGER II grant to complete a $91.2 million funding package for rail capacity enhancements at one of the most significant rail bottlenecks in the country, providing substantial benefits for the Nation and the local community. Like many of the projects funded through TIGER, this is a strong public-private partnership, with freight railroads funding a significant portion of the project’s costs. In the first round of TIGER, grantees matched each dollar of TIGER investment with more than two dollars from other sources. Through TIGER, DOT challenged grantees to make their funds go further, often in new and creative ways. The Colorado DOT was awarded a $10 million TIGER grant for the U.S. 36 Managed Lanes/BRT project, which will accommodate bus rapid transit, bikeways and congestion-reducing managed lanes between Denver and Boulder, CO. To better leverage these funds, the Department also offered Colorado the opportunity to use the $10 million to support a significantly more robust Transportation Infrastructure Finance and Innovation Act (TIFIA) loan which can cover up to a third of the project’s full cost. Together additional State and local money, the project sponsors currently expect to take advantage of the TIFIA loan to complete the project’s innovative financing package which is in the $160-260 million range. DOT will also provide a $546 million TIGER TIFIA loan to complete the $1.7 billion Crenshaw/LAX LightRail Transit Corridor project, an integral piece of Los Angeles’s 30/10 Initiative to build 12 city-transforming mass transit projects in 10 years rather than 30. Los Angeles’s broad vision, coupled with its willingness to dedicate significant local resources for the project through the voter-approved Measure R half cent sales tax, made this innovative financing proposal a good fit for the TIGER II competition; its success, and the success of the 30/10 Initiative generally, will provide new examples of innovative ways to think about financing local transportation priorities. Project Delivery In addition to financing, TIGER creates incentives for project sponsors to pursue innovation and best practices in the way transportation projects are delivered. TIGER encourages rigorous cost and schedule control through a statutory deadline for obligating funds (“use them or lose them”) and through fixed dollar awards that limit the funds provided through the TIGER program. These incentives have encouraged many grantees to execute design-build contracts and other arrangements that can accelerate project delivery and reduce costs. The MiltonMadison Bridge Project, which received a $20 million TIGER I grant to connect Milton, KY, and Madison, IN, is using a design-build contracting approach to deliver the $103 million project. The winning bid submitted for the design-build contract was 15 percent below the original estimate, and the bridge will be open to traffc on September 15, 2012 and reduce the bridge closure period from 1 year to just 10 days. Mike Hancock, the Kentucky Secretary of Transportation, called the project “a poster child for how to do things right.” Of the 13 TIGER I grants administered by the Federal Transit Administration, five projects are expected to use a design-build approach, as opposed to the more traditional design-bid-build, and three projects are expected to use a construction manager at risk or construction manager/ general contractor approach to contracting. Both methods require greater collaboration from construction managers to deliver projects on time and on schedule. DOT expects these contracting approaches to significantly enhance the grantees’ ability to control costs and schedules for the TIGER projects. The TIGER program provides DOT with a proving ground for new approaches to financing and delivering infrastructure projects. TIGER, through its encouragement of innovation and broad scope, has seen grantees create and foster important partnerships; make significant local public and private investments that will transform their communities; and explore methods to improve the speed and effectiveness of project delivery. Proven solutions for financing and accelerating project delivery can help DOT, States and local governments invest limited public funds most effectively.

### Solves Oil Dependence

#### TIGER promotes sustainability and lowers oil dependence

**Department of Transportation no date –** (TIGER Discretionary Grant Program: Livability and Sustainability, [http://www.dot.gov/tiger/docs/Fact%20Sheet-%20Livability%20and%20Sustainability.pdf)//aberg](http://www.dot.gov/tiger/docs/Fact%20Sheet-%20Livability%20and%20Sustainability.pdf%29//aberg)

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### TIGER Unpopular

#### Republicans don’t like TIGER – perceived as earmark spending

Orski 7/18/12 – public policy consultant and former principal of the Urban Mobility Corporation (C. Kenneth Orski, “After the Dust Has Settled… Some Reflections on the New Transportation Law (MAP-21) Update” http://www.infrastructureusa.org/after-the-dust-has-settled-some-reflections-on-the-new-transportation-law-map-21-2/)

+ The Senate bill’s provision to continue the TIGER grant program, a favorite of the Democrats but opposed by the Republicans as “executive earmarks” that are lacking transparency and are used to promote the Administration’s own priorities. In its place, the conference bill created a new program of Projects of Regional and National Significance ($500M in FY 2013) intended to fund competitive grants for large highway and transit projects. Unlike TIGER, which was open to local governments and metro areas, only states and transit agencies can apply.