

EXECUTIVE SUMMARY

> Policy Issue

A new tax-preferred debt financing program is being proposed that would reduce the interest expense of long-term borrowing. The tax incentive would be obtained by modifying the Internal Revenue Code to establish “America Fast Forward Transportation Bonds,” which would be eligible for annual federal tax credits. This would provide a much deeper federal subsidy than traditional tax-exempt bonds, which are issuable today for transportation purposes but are insufficient for accelerating the construction of highway and transit projects across the nation. While Congress recently has enacted tax credit bond subsidies for other sectors, no such program currently exists for large-scale transportation investments.

> Policy Precedent

Since 1997, Congress has enacted half a dozen separate programs authorizing state and local governments to issue tax-preferred debt at or near zero percent. These programs, totaling in excess of \$36 billion, are for purposes such as public education, clean renewable energy, forestry conservation and energy conservation. The interest subsidies are designed to provide federal buy-downs of 70 percent to 100 percent of borrowers’ interest expense. Each program has a volume cap and maturity limitation associated with it.

> Policy Rationale

Given the substantial “spillover” benefits of major transportation investments—environmental protection, energy self-sufficiency, safety and “livability” in addition to mobility—a strong argument can be made for providing a new zero-interest long-term bond program for transformational transportation investments.

Major transportation projects are long-lived assets, and those that are debt-financed typically issue bonds with maturities of 30 years or more. The existing 100 percent tax credit bond programs generally are for smaller projects. Current tax law sets a maximum bond term today of approximately 20-25 years, which limits the present-value of the federal subsidy to 50 percent of debt-financed project costs. However, the long useful life of transportation improvements and their substantial positive spillover benefits warrant a longer bond maturity and corresponding higher effective subsidy. It is proposed that the maximum maturity of AFF Bonds be 35 years, similar to many long-term tax-exempt bonds as well as TIFIA loans.

America Fast Forward Transportation Bonds

CREATING JOBS THE RIGHT WAY



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AMERICA FAST FORWARD TRANSPORTATION BONDS WILL:

- **create jobs right now** by empowering states, cities and transportation agencies to build and renew America's infrastructure
- **reduce** the federal government's share of funding major capital projects by entering into a fair and equitable cost sharing partnership with states, cities and transportation agencies
- **leverage private capital** to create private sector infrastructure jobs nationwide
- **generate** over 500,000 good paying American engineering and construction jobs that cannot be outsourced
- **jump-start** construction of major capital projects to take advantage of historically competitive pricing in construction projects
- **bolster** America's transportation network by providing a new financial tool supporting construction of new state and local transportation projects

AMERICA FAST FORWARD TRANSPORTATION BONDS CORE PRINCIPLES:

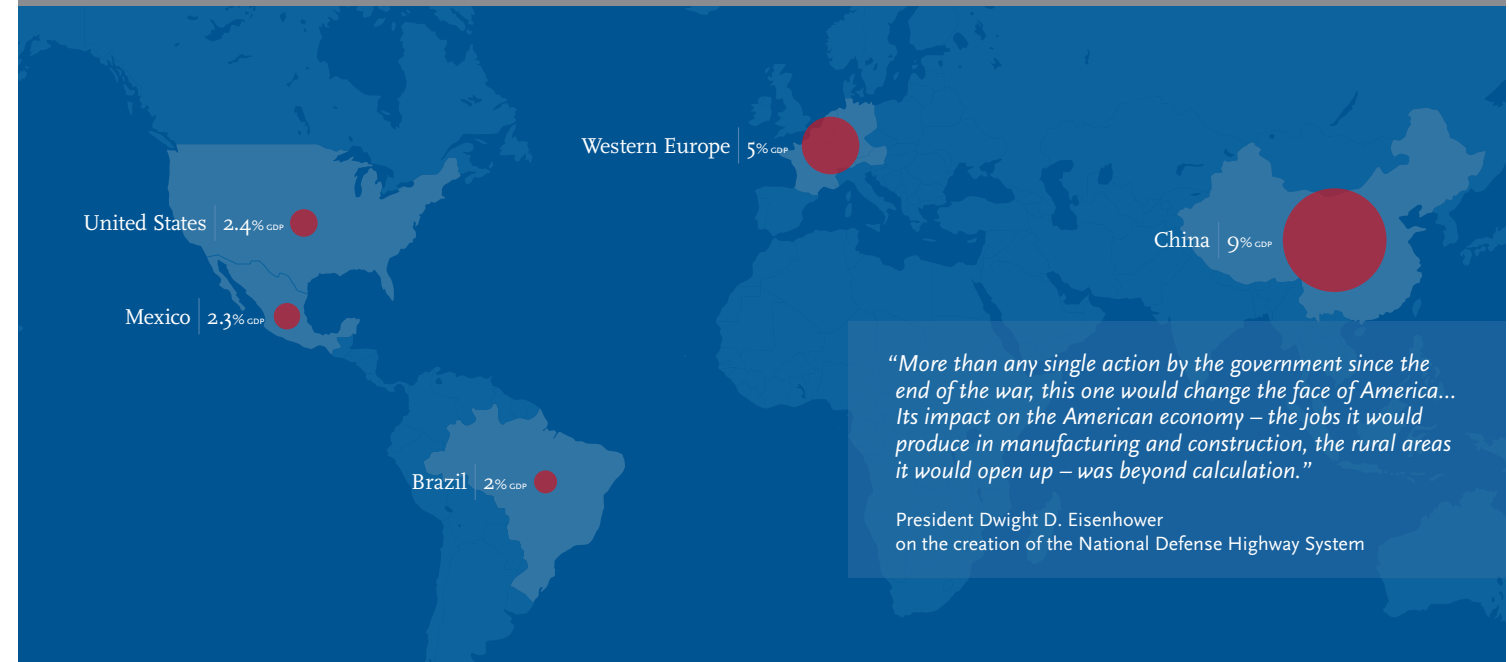
- 1 AMERICA FAST FORWARD** allows states, cities and transportation agencies to issue AFF Transportation Bonds to create private sector jobs spurred by borrowing capital on favorable terms.
- 2 AMERICA FAST FORWARD** will dramatically leverage federal tax incentives to create over 500,000 jobs and incentivize states, cities and transportation agencies to invest their funds – in partnership with AFF Transportation Bonds – towards the construction of major capital projects.



"Arguably nothing the government spends money on produces a higher long-run return than infrastructure (except perhaps defense). Nearly any infrastructure project seriously being considered today will return more than the 2% the U.S. Treasury is paying on 10-year bonds. As with any business that borrows to invest in machine tools or computers, or a household that borrows to purchase a home or car, it makes sense for government to borrow to invest in an infrastructure asset that will provide returns for years."

Dr. Mark Zandi
Moody's Analytics, Chief Economist

American Investment is Falling Behind (TRANSPORTATION INFRASTRUCTURE INVESTING, INCLUDING WATER) AS A % OF GDP



America Fast Forward

America Fast Forward Transportation Bonds would amend section 54 of the Internal Revenue Code to establish a new class of qualified tax credit bonds. Qualified tax credit bonds are taxable bonds issued by state, local or other eligible issuers where the federal government subsidizes most or all of the interest cost through granting investors annual tax credits in lieu of interest payments.

The U.S. Congress to date has authorized qualified tax credit bond programs totaling in excess of \$36 billion for forestry conservation, renewable energy projects, energy conservation, qualified zone academies and new school construction. America Fast Forward Transportation Bonds would represent a sixth class of such bonds.

America Fast Forward Transportation Bonds would be authorized in the amount of \$4.5 billion annually from 2013 – 2023 in total. The proceeds would be distributed by formula to eligible issuers. Unissued amounts could be carried forward to a future year.

How America Fast Forward Transportation Bonds Would Work

The U.S. Treasury Department would set the maximum reimbursable rate for the bonds marketed each day, at yield enabling the bonds to be sold at their face (par) amount, without interest cost to the issuer. Every month, the Treasury Department would establish the maximum permitted final maturity that would result in the discounted present value of the bonds equaling 20 percent of the maturity value, provided in no case would the bond maturity extend beyond 35 years. While this is a deeper federal subsidy than the 50 percent present value subsidy for other types of qualified tax credit bonds, it is justifiable based on the long-lived nature of transportation investments and their substantial public benefits (including pollution reduction, energy conservation, job creation and economic development).

As proposed, America Fast Forward Transportation Bonds would allow issuers to finance more than *twice* the dollar value of capital improvements than is possible with traditional tax-exempt bonds for any given annual revenue stream. America Fast Forward Transportation Bonds should not only stimulate greater investment but also take pressure off of the conventional federal grant programs.

A Small Investment Yields Big Results

(NATIONAL INVESTMENT LEVERAGING ASSUMING 10-YEAR PROGRAM)

America Fast Forward Transportation Bonds

