Testimony of

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"Using Innovative Financing To Deliver Highway And Transit Projects"

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Good morning Chairman DeFazio, Ranking Member Duncan and members of the Transportation and Infrastructure Committee's Subcommittee on Highways and Transit. On behalf of the Los Angeles County Metropolitan Transportation Authority (MTA), I appreciate the opportunity to share my thoughts with you on using innovative financing to deliver highway and transit projects.

The topic of this hearing is timely. The MTA and more broadly, Southern California, has a rich and long history of delivering transportation projects using new financial tools. I believe there are some important lessons we have learned that will help positively guide Federal policy for the authorization of our Nation's highway and transit programs.

Before delivering my testimony, allow me to very briefly describe the agency I serve.

The MTA is the third largest public transportation agency in the United States. We are responsible for transportation planning, coordination, design, construction and operation of bus, subway, light rail and Bus Rapid Transit (BRT) services for the 10 million residents of Los Angeles County. We also have strategic partnerships with Caltrans and Metrolink that helps support an extensive HOV and commuter rail network. We fund highway and street construction, bike paths, fund the freeway service patrol, among a number of other projects and services. The MTA serves a 1,433 square mile service area with approximately 200 bus routes, over 75 miles of rail lines, and over 400 miles of carpool lanes that crisscross Los Angeles County. We have over 9,000 dedicated employees and an annual budget of approximately $3.5 billion.

Prior to highlighting a number of innovative financial tools the MTA and our region have used to deliver transit and highway projects – on time and on budget – I think it would be worthwhile to frame the issue in a broader sense.

The greatest financial innovation that we – the MTA – have taken to deliver transit and highway projects is the fact that our voters in Los Angeles County have made the tough choice to tax themselves to create more mobility for them, their families and their community. I believe this is an extremely important characteristic of our region and it sets us apart from most of the rest of the country and it should be appropriately recognized in Federal policy; I will have more to say on that in a moment.

In 1980, Los Angeles County voters elected to support a half-cent sales tax on retail sales in the County. This was repeated in 1990. And most recently, in the middle of our current recession, Los Angeles County residents – by a two-thirds margin – voted in November of 2008 to authorize an additional half-cent sales tax to fund specific transit and highway projects.

Taken together, these funds will amount to approximately $1.5 billion this year. This means that worthwhile transit and highway projects identified by our Board of Directors can move from the drawing board to reality in our county. Being a self-help county, to be frank, is among the most innovative steps our agency, or any other agency, can take in accelerating the delivery of good transportation projects.

As you are aware, Southern California has tried varying examples of innovative financing using private equity and public-private partnerships; these efforts have yielded a wealth of knowledge and experience that I believe can help guide future Federal policy in this area.

The first of three projects in Southern California that are exceptional examples of the power of innovative financing is the Alameda Corridor.

The Alameda Corridor has served as national model for innovative financing. In the mid-1990's the MTA was a planning and funding partner with the Alameda Corridor Transportation Authority (ACTA). Established under California state law as a Joint Powers Authority (JPA), ACTA was responsible for the construction of a 20 mile trade corridor, which removed over 200 grade separations, consolidated rail lines operating from the San Pedro Bay Ports (Los Angeles and Long Beach), and increased container rail operating speeds from an average of 15 mph to over 40 mph. As a member of the ACTA JPA, my agency was involved in the development and implementation of an innovative financing plan for the Corridor project, which included over $340 million of MTA generated revenue (14% of the total funding). These local funds were instrumental in leveraging a precedent setting Federal loan guarantee for the Corridor project, totaling $400 million (16% of the total funding). This Federal loan guarantee was secured by a unique container fee collected by ACTA on all cargo moving through the Corridor, and we are told served as a policy template for the U.S. Department of Transportation's TIFIA loan program.

Let me add that another innovative element of the Corridor project was implementation of design-build as an essential delivery tool to keep the project on time and on budget. The Alameda Corridor has become the cornerstone of a Southern California trade corridor system, which extends beyond our metropolitan region into every area of the country. As the Subcommittee is aware, over 43% of all waterborne goods entering the United States are processed through the Port of Los Angeles and Port of Long Beach. The value of these goods exceeds $280 billion, creating over 3 million jobs, and generating over $30 billion in state and local tax revenues. Recently, the U.S. Department of Transportation issued a report entitled "America's Freight Transportation Gateways: Connecting Our Nation to Places and Markets Abroad" ranking our ports as the number one strategic gateway in the country, based on "value of shipments." We are pleased that the lessons learned from the Alameda Corridor experience has served as a model for National transportation policy.

The second example of employing innovative financing in Southern California that I would like to share with you concerns State Route 91 (SR 91). As the former CEO of the Orange County Transportation Authority, I worked closely to ensure the success of this innovative toll road. The Express Lanes, when they opened in 1995, represented the first privately financed toll road in our

Nation in more than 50 years. They were also the world's first fully-automated toll facility, and I believe the first application of value pricing in the United States.

Before being acquired by the Orange County Transportation Authority in January of 2003, the SR 91 was financed on a limited recourse basis with a private developer borrowing the necessary funds from capital market sources. The cost of the project, approximately $130 million, was fully paid for by the private sector.

Today, the SR-91 Express Lane Project is among the most successful examples of a toll road in America. Without the use of innovative financing, this project would have been difficult to build.

Now, while some people have pointed to this project as an example of the failures of private financing and ownership of a public-use facility, I beg to differ and offer up that the experience with SR-91 Express Lanes was instructive on the limitations of private ownership and provided an excellent learning experience for the development of future franchise agreements. It is noteworthy that under public ownership the SR-91 Express Lanes are producing the highest revenue, vehicle occupancy, and vehicle speed in the history of the project.

Much has been written and said about the restrictions contained in the original franchise agreement with the private operator, some of it before this very committee, and it has been offered up as an example of why private financing and ownership cannot be sustained for public-use facilities. I believe the conclusions some have drawn miss the vital lessons we take away from this particular experience. We learned from SR 91 two important perspectives: one, the view of a private concessionaire and their desire to protect a significant investment; and two, the view from a public sector policy standpoint and the limitations and incentives [specifically the desire for a non-compete clause] that can be tolerated by the traveling public in order to entice future private investment.

The third program that I would like to highlight is related to the innovative financing that our agency has successfully executed with respect to our joint development program. The MTA has smartly advanced our transit projects by actively promoting private sector investments utilizing a series of innovative financial tools such as ground leases of our park and ride lots, subway transit plazas and excess right of way to create transit oriented developments. These developments – fully paid for by the private sector - both provide substantial income to the agency in the form of ground rent as well as transit improvements such as bus layover facilities, commuter park-and-ride spaces, and attractive residential, retail and commercial spaces that facilitate and encourage use of public transportation.

Just one example of the more than 30 projects now built or underway utilizing these innovative financial tools and our transit system is the recently opened $600 million Hollywood and Vine project - built on a full city block above our subway facility and totally paid for by the private developer who also pays substantial ground rent to the agency. The facility includes a 300 room hotel, over 580 market rate and affordable residential units and over 30,000 square feet of retail shops and restaurants. Our bus layover facility for the area is situated beneath the structure at ground level as are bicycle storage and enhanced station entrance facilities – all paid for by the private developer as a credit against ground rent.

These projects, now approaching $3 billion in total private developer cost, also provide many construction and permanent jobs and are significant contributors to the economies of the areas in which they are located.

To conclude my remarks, I want to address an exciting new transportation proposal in Southern California that will depend – in part – on using innovative financing tools – to get hundreds of thousands of people back to work in our region.

As members of this Subcommittee may be aware, the Mayor of the City of Los Angeles has proposed accelerating the transit projects identified in the half cent sales tax adopted by Los Angeles County voters in November of 2008. Specifically, the Mayor is seeking federal support to permit these transit projects to be built within 10 years, not the 30 years outlined in Measure R, the half-cent sales measure.

Similarly, I believe our highway projects identified in Measure R are ripe for innovative financing and public private partnerships that serve the public good and make economic sense.

Tomorrow, at a MTA Board subcommittee meeting back in Los Angeles, I will recommend to our full Board of Directors to support what has become known as the 30/10 plan. I believe the benefits we can realize from this plan will be great for the region and the nation and will demonstrate the importance of leveraging a strong local commitment with important federal support to accelerate the twelve transit projects identified in Measure R.

In testimony offered last month before the U.S. Senate Environment and Public Works Committee, the Mayor of Los Angeles cited the benefits of accelerating the transit Measure R's transit program – which included an annual reduction of over 568,000 pounds of mobile source emissions, 10.3 million fewer gallons of gasoline used, 77 million more transit boardings and 208 million fewer vehicle miles traveled annually.

In addition to the acceleration of transit projects, I also believe that accelerating the construction schedule of highway projects included Measure R is vital for our region.

According to a recent analysis conducted by the Los Angeles Economic Development Corporation (LAEDC), a well respected business leadership organization, Measure R's highway and transit projects could generate as much as $68.8 billion in economic output and create more than 500,000 jobs over a 30 year period. This is particularly important due to the significant impact it would have on the economy of California and the entire nation.

With double digit unemployment facing southern Californian's, the idea of accelerating, in a safe, operationally sound, and fiscally responsibly manner, transit projects that will benefit our region makes good common sense. And if this acceleration can occur by getting the federal government – through innovative financing – to spark a massive jobs spike in California – the question that begs an answer is – why not?

And likewise, if accelerating the construction of our highway projects identified in Measure R is feasible, we should take a careful look at how that can be achieved.

While our agency will certainly be seeking federal New Starts funds for two large projects and while we continue to effectively use federal funds from the highway formula program, there are three innovative financial tools that our region, and the Nation as a whole, could benefit from if Congress were to ensure their success. These tools could also be used to get a plan like 30/10 off the ground.

First, I believe the National Infrastructure Investment Finance Fund, as outlined by the President in his Fiscal Year 2011 Budget holds the promise of leveraging local dollars that self-help transportation agencies collect – to build our way out of this recession. If the NIIFF can offer flexible loan repayment at U.S. Treasury rates and guarantees, along with credit enhancements and commitments for financing – it can spur efforts like 30/10 that will build our economy without burdening our budget and negatively impacting our deficit.

Second, I believe that the Build America Bonds program can be modified to become more transit-specific. For example, setting aside a portion of Build America Bonds for massive transit projects – akin to the $10 billion plus transit investment envisioned in an accelerated 30/10 plan would encourage economic growth and get Americans back to work in a significant way.

Third, I believe Chairman Oberstar's proposal to create a Metropolitan Mobility Access Program in the next surface transportation bill would provide the type of innovative financing that would bolster efforts like 30/10 that seek to get our Nation's infrastructure in order – and spare us from becoming a third-world country when it comes to our roads and transit systems.

As a transportation professional, I can assure you that I cannot achieve my primary responsibility of moving people safely and efficiently throughout our region if Congress does not act to provide innovative financing tools.

Providing these tools, whether it is the NIIFF, transit focused Build America Bonds or the Metropolitan Mobility Access Program, holds the genuine promise of spurring efforts like 30/10 across the Nation.

Providing these innovative financial tools will, I believe, dramatically boost mobility in America and – and I emphasize this – at a relatively low cost to the Federal government.

It is my considered opinion that sparking an impressive growth in jobs in America by employing innovative financing for transportation projects is a sound course of action for Congress to pursue.

Chairman DeFazio, Ranking Member Duncan and members of the Subcommittee, thank you for the opportunity to testify before you today. I would welcome answering any questions you or your colleagues may have regarding my testimony.