THE BROOKINGS INSTITUTION

OBAMA'S INFRASTRUCTURE AGENDA:
UNDERSTANDING THE PILLARS

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PARTICIPANTS:

Welcome:

BRUCE KATZ
Vice President and Director, Metropolitan Policy Program
The Brookings Institution

Panel Discussion:

ROBERT PUENTES, Moderator
Senior Fellow
The Brookings Institution

POLLY TROTTENBERG
Assistant Secretary for Transportation Policy
U.S. Department of Transportation

MICHAEL GREENSTONE
Senior Fellow and Director, The Hamilton Project
The Brookings Institution

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P R O C E E D I N G S

MR. KATZ: Good morning, everyone. I'm Bruce Katz. I'm vice president of Brookings, head of the Metropolitan and Policy Program. We are in a small room today because there's a large forum going on around foreign policy. Maybe that says something about the infrastructure agenda, I don't know.

But we're here to talk about "Obama's Infrastructure Agenda: Understanding the Pillars." We're obviously here because on Labor Day, the President announced his support for a $50 billion infrastructure program to invest in our roads, or our rails, our runways. And it's absolutely no accident that that announcement came on Labor Day, because there's a recognition that investment in infrastructure generally, and transport infrastructure specifically, is a recipe for short-term job creation, but also long-term economic growth.

I don't need to talk about the short-term issues much because we all know that we may be out of a recession, but we're in a jobless recovery. And we all know the unemployment numbers generally, but also the unemployment numbers in the construction industry. But I think what we also need to focus on is the longer term issues. The recession was very much the product of a failed economy and an excessive focus on consumption and financial engineering.

And I think the vision for many of us at Brookings is to focus on a different kind of growth model in the United States, one that is more expert oriented, low carbon, innovation fueled, opportunity rich, a vision where the country exports more, we waste less, we innovate in what matters, we produce and deploy more of what we invent. Infrastructure is really at the heart of that vision. And metropolitan areas, in many respects, are at the heart of the vision, because those are the places in the United States that form the core of our economy and have the infrastructure and the institutions to move us forward.

To achieve the vision of the next economy, and to move on infrastructure in a multilayered way, we're going to have to do several things, all of which we're going to talk about this morning. First, we're going to have to reform policies, the multilayered policies that effect infrastructure in its many different aspects. And I think what probably got less attention in some of the President's announcement on Labor Day is the reform agenda that has to take forward, not just regard with the traditional highway and transit programs, but with other forms of infrastructure, as well. The second key thing that we're going to have to do is create and capitalize new kinds of institutions that are more market-oriented, that are more nimble, that are more evidence-driven, that are more performance-measured to deliver the kind of investments we need on infrastructure.

A lot of focus has been placed on the notion of an infrastructure bank or a development bank, both at the national level, but potentially also at the state level, and we have a representative from Virginia here. So it's not just about policy reform, it's about institution building.

The last piece we have to think about, given that metros really are the core of the national economy, is how we think about the growth and governance of metropolitan areas in the context of infrastructure.

And this administration, really going back to the Recovery Act, and the development and now implementation of the Sustainable Communities Initiative, but also the TIGER Grants and some other initiatives, understand that it's not just infrastructure generally that has to be invested in and delivered in the United States, but it's infrastructure in particular kinds of places. And so it's the effect on the built environment and the connection of the built environment maximizing the efficiency of infrastructure.

We obviously are in Washington, D.C., it's a challenging environment, it's an intensely political environment, but this may be one of the few issues on which we can find bipartisan common ground if not this year, in some of the years going forward.

A lot of our focus at the Metropolitan Policy Program that people know is not just on federal action, but federalist engagement. Post midterms, we're going to see a lot of new governors in the country; we're going to see governors coming up from the local level, whether they've been elected officials or whether they are participating in public/private partnerships.

If the feds don't act initially, I think what we're going to see is the emergence of something like a pragmatic caucus in 5 or 7 or 10 states that will move themselves on infrastructure. And many of the ideas that have already been seeded at the federal level will begin to take root, and there will be more innovation at the state and local level. So that's the broad frame here. We're here, obviously, to talk about not just an announcement that was made on Labor Day, but a lot of progress that has been made in a very short period of time to put infrastructure at the center of the national narrative about rebalancing the economy, restructuring the economy, short-term job creation, but also long-term growth.

I'm going to turn it over to Rob Puentes. Rob, as many of you know, is a senior fellow at Brookings. He heads up our Metropolitan Infrastructure Initiative. He will moderate the panel, introduce the panel. This is a terrific line-up. Thank you all for participating today.

MR. PUENTES: Well, thanks, Bruce, and thank you all, everybody, for being here today navigating. I know there's some traffic and transit issues we have here in Washington today, always a good setup for a panel like this.

Well, as Bruce mentioned, I mean, there's no doubt that the announcement on Labor Day ramped up this conversation about infrastructure and transportation infrastructure in the U.S. in a big way. And I think that a lot of us in the room kind of feel that this conversation was languishing for a bit. We have these kind of spasms of activity that pop up every once in a while, but there was this kind of churning and languishing particularly over the summer. So this announcement, and the proposals I think that are captured in the President's plan, you know, didn't just come out of the blue. And for the past several years there has been this really robust conversation and a meaningful conversation about transportation infrastructure, again, led by the folks here on the -- up here in the room.

So after Labor Day, I think many of us expected, or at least I think many of us hoped that we were going to be able to get much more specific about some of the details about how we're going to more transportation and infrastructure agenda, and that all that would result, and we'd be much further along as the result of this, and I think that that's happened, you know, to some extent.

I think there was a lot of attention that's being given to the tangible parts of the President's proposals, the 4,000 miles of new railways, the 150,000 miles of rebuilt roadways, the 150 miles of rehabilitated runways, and all that alliteration I think makes a lot of sense. These are the physical investments that are on the ground. People can point to them, they can see them, and they can understand what these things are. They also represent I think probably what may be best suited to respond to the intense short-term pressure that we have now on job growth and things that Bruce talked about in his opening comments.

But buried in the proposal is something that many of us have called for, for a long time, and that's really about reforming the way that we make decisions about infrastructure and about transportation investments in the U.S. today.

Specifically, the President called for the creation, again, of a national infrastructure bank, to make project decisions based on justifiable merit, a competitive discretionary program to link transportation up with other areas of domestic policy that we all know it's fundamentally connected to, housing, energy, environment, et cetera, an incentive program to compel meaningful reforms on the state level.

Now, I know all that sounds kind of vague, and that's because it kind of is right now. There weren't a whole lot of details, there weren't a ton of details in the President's speech, and I think it did raise a lot of questions, maybe more questions than answers. First and foremost is how all this does dovetail with the reauthorization of the multi year surface transportation law that expires -- now expires at the end of this year. The President called for 50 billion. Is that just for an infrastructure bank? Is that the front-loaded part of this multi-year law? Is it both? What is this infrastructure bank anyway? What are these discretionary programs? How do those things work? Is it the second stimulus? Is it the (inaudible) stimulus? What's the role of the states, the metro areas? How are we going to pay for all of this?

The President talked about this being deficit neutral. And in the end of the day, can we really get any of this stuff done given kind of the concerns I think that a lot of folks have here in Washington today?

These are the kind of questions I think that have emerged. As we take infrastructure out of the back rooms, folks like Governor Rendell, Governor

Schwarzenegger, Mayor Bloomberg talk about this stuff. As we take it out of the back rooms and push it to the forefront of American policy discourse, these are the kind of questions I think that start to emerge.

So that's why we pulled together this event in the first place, not to take a side or to endorse one plan over another, but to get into the details and to really try to do what we can to help move this conversation forward, because as Bruce mentioned, infrastructure is too important to let languish today. It's fundamentally connected to the economic rebirth of this country and we're going to have to talk about it.

Now, I don't suspect that we're going to nail all the answers to these questions today. I know we don't have all the details that we need, but again, the hope is for a bit more clarity I think, and that by the end of the day, hopefully some understanding about how all these pieces fit together and how they're connected, if at all, through the economic future of this country.

So as we demystify the current proposals that are in front of us, we're really going to try to crack the code of the future. So we pulled together an esteemed panel to help us do just that. Let me just introduce them very quickly.

To my immediate right is Congresswoman Rosa DeLauro who's currently serving her tenth term for Connecticut's 3d Congressional District. Next is Michael Greenstone, the 3M Professor of Economics at MIT, director of the Hamilton Project, and a senior fellow at the Brookings Economic Studies Program. Next to Michael is Polly Trottenberg, the Assistant Secretary for Transportation Policy at the U.S. Department of Transportation. And next to Polly is Matt Strader, Assistant Secretary for Transportation, the great Commonwealth of Virginia.

Bios for all the panelists, I think they're on the registration table;

hopefully, you got them when you came in. I want to make sure we maximize our time here today. We only have a little bit of time, but we're going to try to pack a lot in. So let's go ahead and kind of jump into it.

The plan is to start off with one question for each of the panelists, then we'll get into a moderated conversation. But I do want to make sure we try to keep this kind of conversation. We are trying to explore some issues here, so we're going to go to the audience, you know, kind of quickly, so have your questions ready, we'll see if we can keep away from speechifying, which tends to happen here sometimes, but we'll try to get to some of these questions.

So Representative DeLauro, I'd like to start with you, if I can. As we said, on Labor Day, the President reiterated his support for this national infrastructure bank, that seems to be kind of the centerpiece of a lot of this discussion today. This is something he's talked about before, it was in the budget proposal, he talked about it at the Job Summit a year ago during the campaign. But there weren't a lot of specifics, and I think there seems to be a lot of confusion about what this is, exactly what it's going to do, you know, how do we put this thing together.

You've been an articulate and an effective spokesperson for such a bank, and indeed, I think the only pending legislation that's out now, the National Infrastructure Development Bank Act, which was introduced in 2009, we put these remarks together and had 58 co-sponsors, I think you have 59.

CONGRESSWOMAN DeLAURO: Sixty.

MR. PUENTES: Sixty, it keeps going up. So this obviously has to go on real time. So please go ahead and tell us about the bank, how does that fit in with this discussion we're having?

CONGRESSWOMAN DeLAURO: Well, first of all, thank you so much, Rob, I'm delighted to be here, and I thank Bruce and Brookings and the Metro Project. And to be on a panel with Michael and Polly and Matt, it really is an honor, and also a very, very exciting moment. And I was very enthusiastic as someone who has looked at creating an infrastructure bank back to 1994, which is when I first introduced the legislation on a National Infrastructure Development Bank. I want to emphasize how much I appreciate the President and the administration coming forward, renewing, expanding transportation infrastructure, particularly calling for an infrastructure bank.

This is an important moment, I believe, which is why I think we have such a large audience here, for the concept of infrastructure investment and the ways in which we go about trying to finance it.

And you're right about not very specifics, but, quite frankly, the legislation is very specific as to how we ought to try to move forward. A little bit of a context, two big dynamics pushing us down the road. First, scale of the federal deficit and the inability to finance public investment through conventional means.

The second is a growing demand for a national growth strategy. I think one of the concerns of the current economy is that what we need to have is a serious debate and discourse about what is our growth strategy for the future. We're not talking about stimulus one, two, son of, sister of, et cetera, or a recovery, quite frankly. This is about whether America can grow, whether we can create jobs, whether we can compete with economic power centers around the world. This means for us how do we create middle-class jobs and middle-class income for people to make their way to economic security?

A point which I'm going to make, it's obvious to everyone, everyone is focused on the election right now, but whatever happens in November, we're going to need to find a way forward on a growth strategy.

I believe, I sincerely believe that an infrastructure bank can be the centerpiece of action on the economy next year. We've got progressives who are interested, you've got Republican mayors, governors, the President is interested. So I think it can be a real center of activity on the future economy come next year.

I believe my legislation is the direction that we ought to go in, as you would expect. It's modeled after the European Investment Bank, it enjoys support from business investment, a labor spectrum across the board, so -- but let me just say this, that any version of the bank we create should include certain fundamental components, and let me just tick those off quickly for you. One, it should be an independent entity. In order to become less reliant on the spending system of earmarks, of formula grants, allocated more by geography and politics than demonstrated value, it's critical that the bank be established as an independent entity.

And I don't want to step on my friends from the Department of Transportation, but it shouldn't be housed in the Department of Transportation. To depoliticize infrastructure investment decisions and ensure that funding is objectively provided to projects, both regional, national significance, that have clear economic, environmental, social benefits, the bank should be established as a wholly owned government corporation with an independent board of directors that's overseeing operations and making investment decisions, that has risk management, audit committees, everything that can oversee the soundness of the institution.

Second, the bank should have strong financing capability. There are a whole lot of institutional investors today who want to invest. And Matt and I were at a meeting last week where we sat with investors, and Rob was there, as well, but folks are sitting on the sideline or they're investing overseas. So in order to be able to leverage private capital from pension funds, the bank simply cannot be another credit program similar to those that already exist at the federal government. The bank in my legislation has the ability to issue 30+ year federal bonds. That would be attractive to investors who are looking at stability, that are looking at long term, looking at low-risk returns. I believe it's critical if we're going to leverage the private dollars and get those into the U.S. infrastructure development market.

Third, any bank that we create should have broad infrastructure range. We have to do this, we've got to change the way we invest in infrastructure, we have to do what the President is suggesting, streamline, modernize our approach while taking an overall view of what U.S. infrastructure, the state of this at the moment.

One of the benefits of the infrastructure bank that I'm proposing is that it funds a range of projects, transportation, environmental infrastructure, energy infrastructure, water, telecommunications, that is the way it's laid out in the bill, it gives states and localities one place to turn to fund wide ranging projects while also looking at the creation of a diversity of revenue streams, location and -- types that are involved in the bank, the bank activities. So I will just make a couple of just concluding points. The bank, as we have laid it out, as I have just laid it out, enjoys broad support. It is democrats, republicans, labor, business. The U.S. Chamber is supportive of this, as well as labor unions. We've got the civil engineers, the Association of General Contractors, the National Governors Association, people of the caliber of Ambassador Felix Roatan, who has some knowledge of infrastructure financing, is very supportive.

You saw maybe in the *Financial Times* this week, Bernard Schwartz's article on infrastructure bank. Ambassador Roatan was in the *Wall Street Journal* in the last couple of days.

So the principals are laid down, but most importantly, there's also -- if you're interesting in polling data, the American people, it's about what 94 percent -- Building America's Future, which is the organization that Governor Rendell, Governor Schwarzenegger and Mayor Bloomberg head up, have polling data that says 94 percent of Americans support increased infrastructure investment.

Whatever, as I said, happens in the coming election, this is something that we can get done and we've got to get it done right. It's bold, it's thinking outside the box, it looks at how we foster long-term economic growth; it is a way of coupling public investment with private investment, which is what we have done in the past, to be able to get things done, to have our recovery last for years to come.

I always say this, and I believe it to be true, historically, this is a nation that has been built on bricks and mortar and fiber optics, and I think we have to get back to building things and not just consuming as a nation, and I think an infrastructure bank is the direction that we ought to go in.

I applaud the President. He knows, the Treasury knows, Transportation knows, ready to sit down and work out the details on how we can try to get this done.

Thank you very much.

MR. PUENTES: Thank you. I think that the real value of what you talked about, and again, these things I think are lost in the large -- is that it does represent this large based decision-making, which is a complete new direction for how we're talking about transportation, so --

CONGRESSWOMAN DeLAURO: Absolutely. It depoliticizes it, which is critical in this environment.

MR. PUENTES: And that's the other challenging thing. I know we're going to get into that in a bit.

CONGRESSWOMAN DeLAURO: Okay.

MR. PUENTES: But, Polly, let's build off that. Again, the promise of the infrastructure bank really is it's connected to this larger growth strategy, which I think is also critical, but it is the promise for better projects. It really is -- it is a (inaudible) project, which is good. But I think there's also a need to shift this emphasis from projects, or in addition to projects, to talk about programmatic outcomes, particularly on the state level.

And again, this national growth strategy is important. How that works with state investments, we need to talk about. But one of the ideas the President discussed on Labor Day was using this kind of Race to the Top style competitive pressures to incentivize some likely reforms on the state level.

I think the analogy appears to be, as in its name, the Education Department's program. Can you give us a little bit more details on what kind of reforms we're talking about, maybe what kind of lessons we can learn from the Education Department, and what would the desired impact of something like this really be?

MS. TROTTENBERG: Sure, and I want to say thank you to Brookings for setting up this terrific event and having one of our greatest champions, Congresswoman DeLauro, here. I think I'll sort of speak a bit to the USDOT TIGER experience, where, you know, it was sort of a prototype effort at doing merit-based selection and competition, not quite in the Race to the Top model, but in a project-by-project model.

I think we learned a lot of important lessons doing TIGER and that's made us think more about the Race to the Top model, which is, you know, the way we did TIGER was somewhat reactive, we allowed states, transit agencies to come to us with their projects, we looked them all over and picked the best of the bunch.

And, you know, we sort of see some of the limits with that approach. For example, a product that probably a lot of you are familiar with is the 3010 proposal in L.A. The County of L.A. has come up with a very comprehensive transportation program, building out a bunch of light rail lines, doing some pricing, road building, they're taxing themselves in the effort, and it's a huge multibillion-dollar, 30-year plan. And the mayor has made a strong push for having the federal government find a way to help them do it in 10 years. And when we look at sort of the tools in our toolkit, which is really TIFIA loans and TIGER, those programs are very project by project. They don't speak to helping a region put together a bigger vision, let alone a state.

And so we sort of realized, as much as we like TIGER, we needed to migrate into something that's less reactive and more proactive and more reform-minded. You know, we've learned some lessons looking at Race to the Top, which, you know, I mean, a lot of what they did there is really quite mind-blowing.

I mean, they got state legislatures basically to take on their teachers unions and do all kinds of reforms before they even got the money, just basically to give them sort of the right to apply.

They created I think the ultimately politically insulated process. They used outside peer reviewers to look at all the applications, point system, everything online. As we all know from the New Jersey example, they videotaped the interviews and put those online. The interesting thing is, if you look at the results, you know, I think in the transportation context, you know, when you look at TIGER and other programs that we do, there's often -- Congress puts in a requirement that we have geographic diversity, urban/rural balance, I think that's important in our, you know, in our area. I think we want to nurture, change and reform all over the country, and different places in the country are in different stages of reform. And, you know, just the thought of some of the areas, I mean, you all probably could think of a list of 1,000 things. At DOT, we have some of our DOT folks here, we've already thought of a list of 1,000 things.

And the working title of our Race to the Top is "We Own the Sky," but that one may not stick. And we tried to do it looking at some of our, you know, for starters, looking at some of our priority areas and DOT safety. You know, you might want to -- to apply, you might give states points for doing some of the safety things you can see.

Primary seatbelt laws, how are they enforcing them, distracted driving, you know, you can think of a whole list of things there that you, you know, helmet -- motorcycle helmet laws, et cetera. On the environmental and planning side, you can think of a bunch of things you might want to incentivize states to do. So I think we can all come up with a big list of things we want to do. I think the challenge, and you see this in Race to the Top on the education side, is coming up with a good list that gives everybody a chance to compete and does not get so large and complicated that, you know, it overwhelms a state's capacity to make a good application. And, you know, I said we've started our thinking about this, we're very excited. You know, in education, they've had waves of -- my husband actually works on the House, Education and Labor Committee, so at home we talk education and transportation a lot. He gets bored before I do.

And, you know, education, there are waves and waves of reform, and they're kind of used to it in that field. I think in transportation we've had fewer waves and waves of reforms, but obviously, Rob, you've been one of the leaders in this, and a lot of the people in this room, I think we're going to have a big wave of reform, so we're thinking about it at DOT, but I'm also hoping, you know, you rightly point out that the President's announcement, as exciting as it was, it wasn't big on details.

And, you know, I think part of what we want to do in the coming months is, we have a lot of details we're working on at DOT, but we want to flush those out with everybody else. I mean we want this to be, you know, a somewhat open process, we don't just want to do it all in our little bunker in the DOT and then spring it on the world. I think we are hoping to get a lot of input from this.

MR. PUENTES: That's great. The frame I think around the real serious reform I think is the right one to be looking at. We do have a gloss over that with the need I think for investments, particularly new investments. A change the way we do business I think is particularly important.

And your point about the fact that the -- this is a big country, 50 states, 300+ metro areas, and there is different stages of reform. There is no one-size-fits-all model, and I think recognizing that on the national level is particularly important.

So, Matt, let's try to tie those things together. I mean, as Polly kind of hinted to, I mean, the states really are where the rubber hits the road, so to speak. I'd like to get your sense of what kind of reforms that you think are necessary on the federal level. What do you think needs to happen nationally to help you and the work you're doing in Virginia? And then talk a little bit about Governor McDonald's recent ideas about infusing state funding to capitalize the state transportation infrastructure bank, tell us a little bit more about that proposal. There does seem to be, as Bruce mentioned, a lot of ideas that are bubbling up from the state level, and we have a bunch of new governors coming in in November and January. McDonald has been there for four years. So tell us a little bit about the stuff you have going now.

MR. STRADER: Thanks, Bob. It's a pleasure to be here. I can't say it was a pleasure getting here. It's kind of ironic sitting in traffic going to a forum on transportation and financing. Governor McDonald, during his campaign, made a real commitment to reforming how Virginia addresses transportation issues. As part of that, over the last several months we have been looking at a number of things, at the state level, with the state code and some of our administrative regulations.

However, we've also looked at some things that we'd like to see happen potentially at the federal level. There's kind of two broad categories. The first one would be just more flexibility, particularly in how we can use federal dollars.

A specific example would be the secretary and I were out in Southwest Virginia fairly recently, and, as many of you, I'm sure are aware, Southwest Virginia is pretty much a rural area for the most part, outside of Roanoke. And time and time again we were asked, you know, where is our money for secondary roads? Where is our money for secondary roads? The Commonwealth is one of only four states that still maintains and constructs secondary roads. And the example I'm using, basically a lot of the secondary road projects don't qualify for federal funding, so the federal money that we get each year, we can't use on those projects. And at the state level, we don't have the state funds to put into those projects either right now.

Other areas of flexibility would be, you know, more ability to toll on our own and then streamlining some of the NEPA processes. And then with the state infrastructure bank, one of the proposals Governor McDonald came up with for funding transportation is privatizing the state's ABC stores. The Commonwealth is one of only eight states that are still involved in the actual retail sale of distilled spirits. We estimate that privatizing ABC could generate approximately $450 million for transportation.

In looking at how to use that money, we looked at potentially putting it to fund some of our maintenance issues, putting it towards specific projects, but then we kind of hit on -- and the state infrastructure bank idea. And we are basically going to I think model the state infrastructure bank after the TIFIA Direct Loan Program, providing direct loans at lower than market interest rates to local governments, board of supervisors, private sector partners, and transportation infrastructure projects, et cetera, with the maturity of 20 to 30 years. Eligible projects would include pretty much anything from new roads to bridges to new rail lines, acquiring new buses for transit systems, pretty much the broad spectrum of transportation.

And we're also looking at whether or not to sell bonds and back those bonds with the money in the infrastructure bank so that then we could have more than that potentially $450 million up front. And our real main goal is to use this money to help leverage private sector assets, because as the representative said, there is a lot of interest in investing in transportation infrastructure right now. And in Virginia, we have just countless projects that we could use private investment on and just more state funding.

MR. PUENTES: That's great. What's your reaction to all this then, Michael? I mean, the Hamilton Project is a major initiative to promote economic -- an economic strategy for long-term prosperity. But as we kind of talked about, despite the comments from folks here on the panel, infrastructure and transportation particularly is always caught up in kind of the short-term plans for job growth. So what's your take on the President's infrastructure agenda in the context of Hamilton's work, particularly this balance between short-term job growth, the intense focus on that for obvious reasons, and then the long-term goals we have for economic health?

MR. GREENSTONE: Yeah, thanks for the question, and thank you for including me on such a distinguished panel. I'll try not to bring down the average too much. So I'll just start with I think two points that we all know, but it's probably worth reminding ourselves of, you know. And it's come up so far: infrastructure is a crucial component of long-run, broad-based growth. If you can't deliver the goods quickly, you're going to make less money, and businesses will do less well. So there's no question this is a central place for government.

The second thing that's probably worth keeping in mind is infrastructure does have this great future in the middle of a recession, which is, you have to hire people to do the work. And so in the current environment, there's a lot of reasons to be excited about doing infrastructure spending. I think two things are kind of brewing around here, and I think to this issue. I think there's two primary challenges for infrastructure policy.

The first I kind of think was a paradox. There's some research by Cliff Winston, who's here at Brookings, has really a surprising finding, because on the one hand, the American Society of Civil Engineers and several other groups, we have to spend $2 trillion over the next 5 years just to keep the infrastructure up. So that's on the one hand, it seems like there's a desperate need.

On the other hand, Cliff Winston's research suggests that the returns on infrastructure spending are actually quite low. His research found that in the 1970s, the return on a dollar spending was about 17 percent. That's a great investment; everyone should want to do that investment.

By the 1980s, using the same methodology that was down to 5 percent.

It's beginning to not look like such a hot investment. And in the 1990s, again, based on his research, it was down to a 1 percent rate of return. So how can it be that our infrastructure is crumbling and we also aren't doing -- we have very low rates of return. And I think -- I don't know that all the answer lies in this, but I think part of the answer lies in our system's allocation, which I think is represented below. Proposal is partially intended to address.

So most spending is done through formulas or earmarks, and those systems do not -- they're not even really designed to produce spending that's going to have a high rate of return.

And I think we have to be honest that that's a major impediment to infrastructure producing the long-run growth that we all think is an important component to a long-run growth strategy.

I should mention, on the discretionary side, I think that there are some real bright spots. The TIGER program I think was a real winner. I think the infrastructure bank, which has performance metrics, it's a proposal, but it has performance metrics, is a fantastic idea.

But the point I want to make is, there are some real shining lights on the discretionary side, but I think the vast majority of spending still goes through formulas and goes through states. And to the extent that that system is not reformed along with the discretionary side, I think we are at risk of continuing to have the low rates of return. Also, with my academic hat on, I think it's also worth saying we don't have a great formula for figuring out what the rates of return are or how to do a cost-benefit analysis in infrastructure spending.

And I think one thing that the DOT or the federal government generally could do is, try and do some capacity building on that, both by seeding states with the capacity to do that better, and I think also convening some kind of federal group.

And, you know, one of the power to the Race to the Top is, the goal was really, really clear. You know, at some level they just wanted to raise educational -- the productivity of the educational system.

And I think trying to achieve multiple goals, which we often do, you know, recognizing -- we try to achieve too many goals through infrastructure. I think a more narrow focus on rates of return and monetizing the benefits would have lots of payoff.

The second -- so I think that's the first primary challenge for infrastructure policy. The second primary challenge I think is, we don't really -- we don't currently use our existing infrastructure efficiently. I think everyone here has made some comment about what a pain it was to get here this morning. And, you know, I didn't time this myself last night, but I thought about it, trying to time how long it would take me to drive from Brookings to the Beltway on Connecticut Avenue at midnight, and then to compare that to driving back here in the morning. And I'm going to guess it would have taken me 10 minutes last night and it would have taken an hour this morning.

I think one important thing is, and I know it's quite challenging politically, is to find ways to use our infrastructure more efficiently. And at the end of the day, I think that involves recognizing that when I put my car on the road, I am actually slowing down Representative DeLauro, who's also trying to drive to work. Maybe she walks actually.

CONGRESSWOMAN DeLAURO: No.

MR. GREENSTONE: No. And I think congestion pricing or some other tolling system like that has got to be an important part. So I'm not saying that we should have an even number of cars on Connecticut Avenue at all hours of the day, but I think some of the cars, through a congestion pricing scheme, could be shifted to a different time of the day.

And just to underscore that, just because -- and so when people are sitting in traffic, those are real costs. They don't show up on the federal budget, and they don't show up on the state budget, but those are real costs that the inefficient use of the system are saddling the economy with. Those are costs that bakers can't deliver their cakes, those are costs that plumbers can't get to do jobs, and I think we have to try and find a way to make ourselves comfortable with that.

And obviously a very important part of that would be to address the distributional issues associated with that. And the Hamilton Project has a proposal on how to do that, and there are other ideas on -- other proposals out there. So I think this is an exciting time in infrastructure, and I think there are two real paths to reform.

And I thank you for including me on the panel.

MR. PUENTES: Thank you.

MS. TROTTENBERG: Mike, I'd just like to maybe just address some of what you said about the benefit-cost analysis. And I want to say for the record, I took the bus and the Red Line here today and got here 45 minutes early, so. I got a few applause on that one.

MR. GREENSTONE: I took the S Line.

MS. TROTTENBERG: On the benefit-cost analysis, and we talked about this back when you were at the CEA, we are definitely trying to do more with that. We required it in the TIGER program for projects above a certain size, and I think we found it to be a fascinating and eye-opening experience to see what the state of the art was, which was it wasn't very good.

You know, not surprisingly, most of the state DOT is in transit agencies around the country, they don't use as much, and we don't have a pretty widely agreed upon standardized way to do it, and so the quality of the benefit-cost analysis we got was all over the map.

But we have been at DOT doing I think what you're recommending. We've had our -- our chief economist has had a day long seminar on it, it's online. We've been reaching out to all the various transportation stakeholder groups and trying to help improve the state of the art. It is something we are very committed to and we're talking about how we do it in the future, how we at least perhaps start getting states and transit agencies to do more of it, you know, do it for all your big projects.

At first maybe it doesn't have any consequences, but it just helps us all take a look at the rates of returns on projects. I would say, and I haven't read the work of the economist you mentioned about the different -- you know, how the rate of returns or infrastructure investments is declining over time. I think one thing we sort of saw in TIGER, and it sort of perhaps confirms our suspicion, is that you can't lump all of infrastructure together.

Some areas we've probably tremendously over invested, and so the rates of return are pretty dwindling. Some areas, for example, we found with the freight projects we funded in TIGER, the rates of return were astonishing. And they did very good benefit-cost analysis, because these are big Class 1 railroads and they hired top economists to do, you know, very sophisticated analysis, and there was clearly a lot of economic low-hanging fruit.

You know, another area you saw in the President's proposal, we put next gen in there, and we can talk about the implications of that in a six-year bill, but that's another one where there's -- you know this, there's a big belief in the administration that those investments will produce, you know, outsized economic returns, that, you know, modernizing our radar system for the airports is long overdue, and we're going to unleash, you know, tremendous economic and environmental benefits. So I guess I want to defend the department that we're trying to get state of the art on it. We've made a lot of progress I think.

MR. PUENTES: It's hard to do. Congresswoman.

CONGRESSWOMAN DeLAURO: I just want to make the point, this is on rate of return, and I don't know if it's -- when you take a look at what the federal investment is in infrastructure, we've gone from about 8 percent to 2 percent. Take a look at China, you know, they're at 9 percent of gross domestic product in terms of their spending. India is moving in this way. Europeans are doing this. We have cut back substantially.

And I do believe, as I've said, that we have a fragmented program here so that we are not addressing -- we don't have a good grasp of what we need to do overall on infrastructure.

So once again, you're getting into what is traditionally a federal difficulty, is you've got silos. You're looking at transportation. Now we are, you know, energy, so you've got a whole bunch of energy projects there, you've got environmental infrastructure. There is no over arching plan to look forward to what it is that deals with a growth capacity in terms of economy.

And I submit, we just have truncated what we're spending here, and, therefore, we're looking at not the kinds of returns on the investment, because the investment is getting smaller and smaller rather than growing over time.

MR. PUENTES: How's that on the state level, Matt? I mean, Virginia has I think applied for some of these discretionary things. And I think Polly is right, we see this around the country, and this is hard to do, and there is no whole lot of experience. How does a state who's really on the hook for doing this stuff respond to this?

MR. STRADER: Well, I think that's one of the problems that we found when we came into office back in January, was that while there are different prioritization processes and cost-benefit analysis systems that the Commonwealth has used, particularly the Virginia Department of Transportation, there really isn't one standardized process, there really isn't one way that we prioritize our projects to determine which projects are the most beneficial, which are going to have, you know, the most efficient costs built into achieving a result.

And next week, I think next week, we'll be announcing the results of a major audit, and the results are pretty astounding. And I think that you really will see a move in the Commonwealth to a much more standardized process of prioritizing projects based on the cost and based on the benefits. One that we've already released the results of was of our PBTA process, or P3 process. And while Virginia has a very long history and a very good history in implementing PBTA projects, there's not a lot of standardization to the process, there's not a lot of prioritization of projects, and that was one of the recommendations in there. And we are currently working on coming up with a way to prioritize those projects and get the ones that make the most sense based on cost-benefit analysis and which will have the most impact on congestion and in any number of other factors done as quickly as possible.

MR. PUENTES: So go on into the PBTA program or about the program overall.

MR. STRADER: Well, right now we have four separate audits. We have the audit of -- like I said, the governor is very committed to reform. We have an audit of the Virginia Transportation Research Council. Those results were recently announced. And they do a ton of great work; it's located up in Charlottesville at UVA. However, we found that a lot of the research, VDOT is just not implementing some of these ideas. So we're going to work on trying to take advantage of the research and all the great work they're doing up there. The PBTA audit was released earlier this year. We're currently in phase two, which is implementing the recommendations. One of those recommendations, as I said, was moving towards a more standardized process so that we can get these projects moving faster.

Another one was creating a separate kind of multi modal PBTA office within not so much just the Department of Transportation, but within the Secretary's office, so that all modes are encompassed.

Then there is the -- the principal audit is the one we're getting ready to announce last week, and that is basically all of VDOT's operations and programs, and the results are pretty astounding, and I think it'll bring a lot -- bring about a lot of really good change to how we go about transportation in Virginia.

MR. PUENTES: And this issue of project selection and project conception, that's part of --

MR. STRADER: Yeah.

MR. PUENTES: Mike.

MR. GREENSTONE: Yes, I just wanted to pick up on some of the important themes that have come up here. So I couldn't, you know, in the Hamilton

Project, one of our visions is, there's a central role for government in producing broad based growth, and infrastructure is clearly at the heart of that.

And as Representative DeLauro just said, other countries are finding ways to invest significant amounts of money on that. And I think the point that I want to make, and that I think the Department of Transportation has really made incredible strides on and reforms are, is that when we think about these projects, some are going to be in energy, some are going to be in traditional roads, some will be in airports, at the end of the day, as a society, what we care about is the rate of return.

We don't care how much we spend on a particular category; we want to seek out the places that are going to benefit Americans the most. And that's the benefit, that's the real strength of trying to put everything on an even playing field and looking for the highest rate of return. And maybe most of it will be in energy one year or for one -- for a five-year period, and then maybe most of it will be in highways in a different period. And I think we have to make ourselves comfortable with that, and that's especially so in the current fiscal environment, where I think all programs are going to be confronted with, well, what are you actually delivering in exchange for these resources.

MR. PUENTES: I want to make sure we go to questions soon so folks can sort of --

CONGRESSWOMAN DeLAURO: Can I make a comment about the L.A. project? Because I think that that's both for your purposes at Department of Transportation in terms of the bank. And Mayor Villaraigosa has really been a pioneer in this effort. And there was a referendum, a half-cent sales tax in order to finance the transit project, but it is a 30-year, I guess, $40 billion project. And when I take a look at that, this is the kind of an effort that the bank could do. It could do it probably in 10 years, which would by -- in and of itself lower the cost of the effort.

MS. TROTTENBERG: Lower it significantly.

CONGRESSWOMAN DeLAURO: Lower it significantly because we know what happens over the years with the costs of these projects. And then there is a dedicated revenue stream to pay back, so that -- that's the kind of, I think, impetus and growth and rate of return that I think that we want to try to see in this context.

MS. TROTTENBERG: But it is a huge change, though, from the way we do -- I mean, if you look at the TIFIA program, we don't consider plans. We consider individual projects and the particular economics of those individual -- in fact, we almost don't even ask about anything else related to the project.

So to design an infrastructure bank in the way you're speaking about, it's a real change from the way we do business, which is to not focus on every detail of one little project at a time, but in some cases, in a region that's really come together with a big plan to say we're ready to invest in the bigger picture, and, you know, for DOT, that's, you know, that will be a real evolution for us and one that's very much needed.

CONGRESSWOMAN DeLAURO: And the other piece of that is to get the investor skin in the game. I mean, that is -- but the point is -- and you've got some of the pieces where you do have, you know, institutional investors, but it is the amount of capital that can -- we can get hold of in order to begin to leverage.

When we talk about the infrastructure bank, we're talking about the potential, and it's conservative, we're not talking 30-to-1 leveraging like what's happened in the past. We're talking about 2-1/2-to-1 based on the European model. And, you know, if you've got $5 billion a year for 5 years from the federal government as an initial capital, you have it under the Treasury -- capital, another $225 billion, you can loan up to

$625 billion or thereabouts in terms of trying to, you know, to look at where the problems are and how we can address them. A substantial amount of money, especially when you've got the engineers talking about, you know, $2 trillion are where we need to try to go. That's the scale I think that we have to try to reach.

MR. GREENSTONE: I think that vehicle of using -- involving the private sector and what that does is it essentially seeks out the hyper term projects, and I think that's the power of that idea.

MR. PUENTES: So is that how to deal with this problem? Because there's a tension clearly between the desire from analysts and economists to look -- to put more analytics around projects, we've got to get smarter, we've got to evaluate it, got to do cost-benefit, between the tension that Matt raised, which is not unique to Virginia, about project acceleration, these things take too long, they're -- red tape, how do we deal with that kind of tension? I mean involving the private sector maybe one way, because there's kind of a clearer path, but I mean is there a tension? These things have to co-exist, right?

CONGRESSWOMAN DeLAURO: I mean, my point is that the L.A. project for me is one of the best examples. You can move more quickly if you can, you know, you can work with them and you could take it down to 10 years instead of 30 years.

MR. PUENTES: Right, that wasn't about streamlining, that's about getting the financing --

CONGRESSWOMAN DeLAURO: That's right, getting the financing to move, and that's one of the critical pieces of putting the financing together. And so if that happens at the State Department of Transportation in Connecticut, my god, the project goes from, you know, $8 million to $70 million because it's, you know, 10 years later, whatever it is, and that's -- you have to bear the burden.

MS. TROTTENBERG: We are talking a lot at DOT actually about both sets of issues, I mean, certainly about how we do better analytics and benefit-cost analysis, but also, you know, we are very keenly aware of the problems in getting projects done quickly, highways, transit, you name it. And, you know, Matt talked about NEPA, and there are a bunch of different things that people point to. I think some of them are DOT-specific, some of them are our own bureaucratic processes, some are statutory, some of the things that the states do, there's a whole universe of things that are out there. But I think -- I would just say we are really thinking hard about how to tackle that problem, because, again, delay is making all these projects prohibitively expensive, and that's a crisis for all of us.

You know, particularly federal highways has gotten a good jump start on that. They've created a program called Everyday Counts, where they are really trying to figure out how to improve project delivery and get projects done faster and hopefully save money in the process.

I think on the -- does doing benefit-cost analysis slow you down a lot? I hope not. I mean, I think it's incumbent upon us to try and help come up with a standardized way to do it, and we feel pretty strongly that we want to help states and transit agencies do it without having to hire incredibly expensive consultants. You know, it's better if it's a simpler process that they can do and own themselves, because part of the point of it is so that they get a flavor as they're investing not only federal dollars, but their own state dollars, and what are the best things to spend our money on? And, you know, there's been a trend, this is particularly something that's happened in the new start side of transit agencies hiring outside consultants for a lot of money to do the complicated things we were making them do, and I think no one thinks that that's the best solution.

MR. PUENTES: I think this is a lesson we learned from the UK, where the national government was looking at these projects broadly, and they were doing the cost-benefit analysis anyway, they had the history and years of doing this, and so it was easier for them to move to something that was more -- because they had the history.

MS. TROTTENBERG: And it's the difference, you know, I think it's the difference of a trust fund way of doing things, what they sort of call in the UK the hypothecation way of doing things, which is, they hypothecate for their next dollar where best should it go. As Michael was saying, it could be anywhere. Whereas in a trust fund model, you have a certain amount of money going to each mode. It just goes. You don't have to sort of put it in the context of comparing it against investments and other areas. So, yeah, it sort of came more naturally to them than it does to us.

MR. PUENTES: We've done a lot of work on the formulas; we know how to do those. We haven't done a lot of work on the other stuff.

Let's see if there are questions here from the audience. Go ahead and raise your hand. They're going to run a microphone around to you. We have two down here in the front. If you can, state your name and your organization and see if you can direct it towards a question.

MS. SNYDER: Sure, thanks so much. I'm Tanya Snyder with Street Slug. I just wanted to hear more about the funding mechanisms for all this and the politics around that and what you're expecting in the debate about how to actually make this happen.

MR. PUENTES: Maybe not directed to anybody in particular. Does anybody want to jump on that one?

MS. TROTTENBERG: I mean, I'll jump first. I don't think my answer will be particularly satisfying, Tanya. You know, obviously, when the President made this announcement on Labor Day, he talked about particularly for the -- what we would consider to be the front-loaded part of a six-year bill, these oil and gas loopholes which, you know, subsequent commentary -- I think actually Ken had something about it -- we'll see. It's been a tough fight in Congress on that one.

We are now in the process in the administration, I think, of consulting with the leaders in Congress to talk about how we're going to pay for something bigger going forward. I mean, I think, as Rob said, the President is committed to having this bill paid for, but he's also committed to this being a six-year bill that is going to have greater resources than just the status quo that we're humming along at now. That's, unfortunately, all I can say at the moment.

CONGRESSWOMAN DeLAURO: With regard to the financing of the bank, there have been legislation that I have and the Senate, Senators Dodd and Hagel had a bill in 2007. The then-Senator Obama was supportive of the infrastructure bank concept, went through the campaign with that. And, quite frankly, in the first budget, the first budget year, there was the capitalization of the bank at $5 billion a year for 5 years, which is what the legislation calls for. And in my own view, it wasn't in the second budget, but it was the $4 billion fund that was under transportation, and I spoke out about that, because I think we need to get to an independent entity in the bank, but it's a question and an issue. There was only $2 billion in that first budget year that was appropriated for this concept, which, quite frankly, didn't go anywhere. But I think that we're getting to a new time and a new place and a new environment, and what the

President has come forward now with -- and he didn't parse that $50 billion, so as do we know, you know, what happened, but I think it was significant movement on saying that we are going to move forward, try to move forward on an infrastructure bank and that we will capitalize it at what it needs to make the, you know, the most happen.

Just this last point. I think there is really significant support for an infrastructure bank and the public-private capitalizing of it that needs to be brought to bear on the Congress. I think earlier on when Bruce spoke, et cetera, about what's happening with governors, et cetera, what's happening in Virginia, there are a number of state infrastructure banks, South Carolina, California, you heard about Virginia, we've got good models internationally. So that I think it's coming into its own. And I think, therefore, we need to really -- we're bringing Congress along on this issue in terms of the financing of this bank.

MR. STRADER: Just to add one thing, I think when you look at how we're going to fund transportation moving forward, whether it's at the state level, whether it's at the federal level, I think that you really have to look towards innovation.

I think we're getting to the point now where we can't just say, okay, we need new revenues. And I'm not at all trying to be partisan here, so let's just, you know, raise this tax or get rid of this exemption or whatnot. I think down the road realistically that's going to have to be part of it, but you also have to look at, you know, reform, consolidate, privatize, things like that, because when you go back in and you look and take a deep look, it can oftentimes be pretty amazing, the amount of money that you can find and then reinvest that money back into the system.

MR. PUENTES: I mean, clearly, the financing and funding issues; you got a 900-pound gorilla in the room. We have the governors and the states that are facing their big problems. The federal trust fund, we know of those problems. The general revenue, we've had to infuse in that over the last 2 years, I think up to 60 billion if you include some of the stimulus stuff. We have the Deficit Commission and all that deficit conversation, which we know is getting ready to happen in a big, big way here in this town come December, so all of this is kind of circling. And I think we're going to have -- these are the questions we're going to have to deal with I think very soon.

A question right up here.

MR. DAVIS: Jeff Davis, *Transportation Weekly*. A week ago today, the most brilliant essay I've read on transportation all year, on the front page of the *New York Times* by Matt Bye talked about the fact that the long-term investment was bundled in with the short-term stimulus money and the stimulus bill and the entire public debate was about short-term job creation and how -- he makes the case that that has made it much harder to politically justify going into debt for a long-term infrastructure investment because the entire focus of success or failure was the short-term job creation and not the billing of the infrastructure itself in a cost-effective manner.

So in general, you'll remember that Congress authorized state infrastructure banks 15 years ago, and it died on the vine because no one could agree if Davis-Bacon would apply to subsequent rounds of funding or not. You know, the question of creating, as Ms. DeLauro said, middle-class jobs and middle-class income versus more bang for the buck on the project. And there's been infrastructure bank for wastewater that have been passed by committees several times in the last five years, won't go into the Senate because of Davis-Bacon.

So, in general, from everybody, if you have to pick what's the top priority here, building infrastructure for 50 years in the most cost-effective manner possible or short-term middle-class job creation, and specifically from Ms. Trottenberg and Ms. DeLauro, is full Davis-Bacon applicability a non-negotiable starting point for any infrastructure bank at the state or federal level?

MS. TROTTENBERG: I'll -- Congresswoman on that one.

CONGRESSWOMAN DeLAURO: Quite frankly, I've been talking about an infrastructure bank not in terms of short-term projects, though I understand and understood the need for what was done in an economic recovery program. And quite frankly, with the economists sitting around the table providing advice to members of Congress, people who had -- and they shall be nameless, who for years have fought the concept of infrastructure because of its long-term nature, began to very clearly talk about short-term shovel-ready projects for infrastructure. My own view of that is, and I'm supportive of it, and yes, we move forward, but I've always looked at the long term in terms of the infrastructure bank. Again, did that almost 15 years ago, and to say this is our strategy for the long term, and that's what we have to do in order to grow, that's what we've done in the past.

Also, the jobs are not -- we don't outsource these jobs, as well, which has been, you know, a particular mark of what's happened with jobs in the U.S. over the years. So I believe we should have been having the long-term growth discussion and debate a lot earlier or to make a real distinction between the two so that, in fact, the public would have clear in its mind what we were trying to do. Has the water been muddied on that? Absolutely.

I also say this about infrastructure. We have to learn to be able to talk about infrastructure. And I think Michael talked about it's -- you're describing to a person what is -- they don't know what it is. And particularly women say that that's not a job for me, if you're looking for jobs, because they associate it with, you know -- and we begin only to associate infrastructure with roads and bridges. I'm talking telecommunications, which is telemedicine, which is teleconferencing, which is education. So that when you begin to describe to people what the benefit is and the public interest as a result of this, you get more interest in the direction we're trying to go, which would have been helpful in terms of understanding more long term where this economy could go.

The second part of your question is my bill is -- you know, puts into place Davis-Bacon. I don't think we ought to start at the (inaudible). I think labor is a big issue. I was with people last week from around the country, around the world, who talked about sitting down -- and I've got, you know, overwhelming support from the labor unit. I've got overwhelming support from the U.S. Chamber on this piece of legislation.

If we at the outset start to pit people against each other as we move down this road, then we put ourselves in the same trap we are in now, where we can't move forward. There are very legitimate issues on the labor side, legitimate issues on how we move forward on the private side, we can get that accomplished, I believe that, but if you start now to say then you have immediately written off people who support your need in order to get this done.

MR. PUENTES: And I think this is the key thing, we talk about the short-term job pressures clearly are important. You can dig a hole and fill it back up again, create a job. Have you really create a value? I think kind of what we're getting into a little bit is that through maybe a growth strategy, through some more analytics, through some careful thinking, you can create a job, but also create some long-lasting (inaudible). These have to be talked about together.

There was a question right here.

MR. DOVE: My name is Robert Dove. I represent probably the private sector here inasmuch as I head up an infrastructure fund at Carlisle, which is a substantial private equity firm here in Washington, D.C. And I have raised over a billion dollars to invest in infrastructure. And I commend Representative DeLauro for what you're doing, because this is exactly what is needed to get things going.

If you look at the EIB example, I'm very pleased that you used that in your opening remarks, I mean, that is a method by which infrastructure projects like the ones in Los Angeles get done, because it takes away some of the risk. You have an institution like the EIB providing long-term capital, 40-year capital, at very reasonable rates which allows private sector people to come in, put in equity, and indeed, other banks to come in and put a layer of capital on top and get a project done which otherwise would not be done. It is disappointing to someone who's not a native of this country to find that this great country has not invested as much in the infrastructure as where I come from back in England.

And now there's huge opportunities. I think Virginia is an exception, although I worry now that I live in Potomac, Maryland, what's going to happen when they build this fantastic road system around the Beltway and we all come to the bridge and it narrows down and we have to go into Maryland. That's a separate problem.

The point is that there is equity here which is looking to be put into infrastructure business. And by the way, that equity has got a lot of institutional investors from the United States involved in the fund, including unions.

One union said to me, I'm going to invest with you because if you can achieve this, my members will have more jobs, and if I wait around, I don't know that Congress is going to ever get me more jobs. So I applaud you, and I'm sorry if it was a speech. It's not really a question, but I'm endorsing what you're trying to do.

CONGRESSWOMAN DeLAURO: Union pension funds, they're interested in being institutional investors in this effort. We can't leave that aside.

MR. PUENTES: So this doesn't squash private investment. I think that this is the theme I've seen since the announcements, folks that have reacted saying, well, is this some kind of big -- is this a Fannie Mae/Freddie Mac? Is this something that's going to take over and squash some of --?

CONGRESSWOMAN DeLAURO: That would be suicide, you know, to do that. It's absolutely totally different. You've got revenue streams here, you've got -- this is not a for-profit effort. It's an independent entity. It is, in fact, dealing with credible investors, and with, you know, defined costs, and just totally different than what a Fannie Mae was all about. We couldn't today, you know, nor should we suggest that we should move in that direction. The model you've got to use here is, as I said on the international level, you've got European bank, you've got the Asian Development Bank, Brazil has one, Germany has one, in the U.S., we have, you know, several that are there, but it's a -- it really is a much, much different concept and one that has built in guarantees. We're not talking about leveraging at 30-to-1, as I said earlier. It's conservative, it's transparent, and there is accountability.

MR. PUENTES: So the private sector --

CONGRESSWOMAN DeLAURO: None of which existed, you know, with Fannie Mae.

MR. PUENTES: The private sector purchases the bonds in your case?

CONGRESSWOMAN DeLAURO: That's right.

MR. PUENTES: Or they're part of the project proposal, that's how the private sector interacts?

CONGRESSWOMAN DeLAURO: Yeah, that's right, there's public benefit bonds of 30+ years, as I understand it. And I think I'm -- this is -- I'm not an investment person. The fact is that there aren't really that, you know, bond to that duration right now at the federal level, it's issued to private investors, loans, loan guarantees, in order to move forward on the projects in a broad range of issues. I need to go back to what is not only transportation, it's water, it's environment, it's telecommunications. You can even have a partnership with the locality, with the region, and the private investor to borrow so that they're both -- they're in the business of borrowing and spending here, as well. And then you've got a toll, yes, you have a user fee, some of these -- water, some of the environmental efforts, et cetera; all have user fees attached to them. There is tolls, you know. Los Angeles, the 1 percent, the half-percent sales tax. The revenue stream --

MR. PUENTES: And the private sector consults on the project, too.

CONGRESSWOMAN DeLAURO: They consult on the projects. And in addition to that, then you've got the loans repaid back and the investor has a return, and they determine the amount of interest, you know, where that goes. So it's very, very much different than what we have seen in the past when the government sponsor it.

MR. PUENTES: Matt, are you still seeing this on this interest from the private -- we hear this all the time, that there's this palpable interest, private folks are ready to invest, the money is out there, we just need direction, we need guidance. I mean, Virginia has a long history.

MR. STRADER: Yeah, there's still a lot of interest. It seems like almost every week there's another fund, another infrastructure investment group coming and wanting to talk to us about investing in Virginia. And I think one of the things that we're really going to try and focus using the money on the bank for -- in the bank for is to help fund this PBTA type projects, because right now Virginia doesn't have a dedicated source of funding for the public subsidy portion of the PBTA.

And, you know, we have a laundry list of projects that we'd like to get moving on. You know, first off, 460, we just received three bids for the 460 project last week. We'd also like to look at adding another tunnel to HRBT -- the Hampton Roads Bay Bridge Tunnel -- a third crossing, 66 hot lanes, winding I-64, just any number of projects that are in the pipeline down the road that we really see using this bank to help, you know, fund up-front subsidy -- or not really subsidies, but as another option for the private sector to get money to help pay for these projects.

MR. PUENTES: So these are projects the state is -- or somebody on the state level is conceiving, and it's you're determining whether there's private interest in those projects? These aren't being sold to you by private (inaudible)?

MR. STRADER: No, these are all projects that have been on the state's radar for a long time. And, you know, like I said, we just started moving on 460. Once we get 460 going and once we can find a dedicated source of funding, you know, the governor is very intent on moving forward with some of these other projects, as well.

MR. PUENTES: It's a range of experience I think on the country. I think there's a question right here.

MR. MICHAEL: John Michael with Siemens Corporation. Back to the 800 -- 900-pound gorilla. I would -- I applaud everything you're talking about there, and if you put it in place today, I'm not sure the world would be much different, because I don't think the loan application line would be very long, because those people can't repay the loan because they have no dedicated source of new revenue.

I don't believe the governor ran on increasing tolls or increasing state gas tax. I don't believe the mayor of Los Angeles probably ran on increasing that transit tax. All the smart people have smoothed out the process, figured out the best rate of return, figured out the best project, gotten into efficiency, gotten into capitalization and equity, all which is great, but nobody has helped the politician raise the user fee, the gas tax, the vehicle miles driven, the toll roads. All of that has to happen before any of this happens, I believe. States are broke, feds are broke. People are throwing people out of office for increasing public debt. Why aren't you working on that problem to help the politicians?

CONGRESSWOMAN DeLAURO: Well, the fact of the matter is, as I was interested to know that, and, in fact, the Hamilton Project has done some work on looking at this. You know, this isn't free, this is not free, but the mayor of Los Angeles went to the public. It wasn't the mayor who determined the half-cent; it was the people of Los Angeles that said, yes. They were willing to spend a half-cent more on a sales tax in order for them to get the benefit of this very visionary transit program for Los Angeles. I don't think anybody has had more difficulty.

They're waiting hours in traffic. They see a cost-benefit to them of the half-cent. That is what has to be described here, and that's what you have to talk to people about. This is no walk in the park, you know, and we are trying to figure those pieces out.

You have to look at various ways in which you can provide the revenue streams already there are with water projects, wastewater projects, there are user fees which people are paying to do that, to have clean water, to have clean drinking water. So this is not pie in the sky, it is happening in some areas. But do we have to figure out congesting pricing, vehicle miles traveled, all these efforts, yeah, so that it is -- the public understanding of this, which will help to bring the politicians along, as well. We need real public education on this issue of what infrastructure means to you personally. If you are in a rural community, and you have no internet connection, and we can do something with broad band that helps to provide you with information, education, potentially health, a job, you might think about what that would mean to you.

If you just -- you're for infrastructure or not for infrastructure, but when you describe what you're doing, you get a better response. And we have to look at how we can provide revenue streams for these efforts. Nobody is walking away from that, it's critical to how this moves forward.

MR. GREENSTONE: I just had two comments. One, I think if there's greater confidence that the money was being spent on the high pay-out projects, I think that would loosen some of the political support for funding these. And so right now the primary vehicle is through the gas tax, and it goes to a highway trust fund and then it goes on formula. That's -- I don't think that's a recipe for finding high rates of return projects, so I think that's part of the problem.

A second thing, where there could be more -- another source of revenue, which I think should be explored, and the Hamilton Project has written a paper on this, is -- and I mentioned before, when I drive, and poor Representative DeLauro is trying to get to work every day, I'm slowing her down by being an extra car on the road. And that's -- in economics we call it an externality. And so I'm not taking account of the behavior -- or of the time costs I'm imposing on Representative DeLauro.

The solution to that is simple. The solution to that is congestion fees, and the great thing about congestion fees is, would use -- we would use our infrastructure more -- the existing infrastructure more efficiently, and in addition, it would raise money, and that money could be invested back into infrastructure. So if you're looking for a way to raise revenue for infrastructure, I think that would be a good way.

MR. PUENTES: How popular has that been?

MR. GREENSTONE: You know, it's been challenging. I think Mayor Bloomberg could probably speak to that more authoritatively than I can. On the other hand, it exists. It exists in London, it exists on toll roads, it exists in day-to-day life. And there might be an education problem. You know, movies don't charge the same price in the middle of the day as in the evening when everyone else wants to go. And I think trying to communicate that in a -- trying to communicate that basic idea, that this is just using the resources more efficiently, is one way to do that.

And, you know, I also want to come back to something I said earlier, the idea that the costs aren't real because they're not on the federal budget right now is false. Those costs are real.

CONGRESSWOMAN DeLAURO: If you do nothing, if you can't move, we're going to be in the same situation we are now, which is not cost-effective and it's not doing anybody any -- creating any benefit for anybody.

MR. PUENTES: And how do you think we're going to maintain the system? I mean, we do a good job at building new stuff. We have the gas pipe explosion, which was just kind of emblematic, I think, of a larger issue that we have, which is that we've got a lot of stuff we still need to fix in this country, and there's cost associated with that.

A question here? I'm sorry, I thought there was one right here. Let's go to the back.

MR. WEBSTER: Hi, Hank Webster with the American Road and Transportation Builders Association. And I'm really glad to hear all this talk about, you know, a variety of mechanisms from the private sector. At my association, I represent private investment, so it's encouraging to hear.

I think I heard, you know, mixed support, you know, for increasing user fees, especially on water projects. There are user fees on transportation projects, whether they be direct tolls or through the gas tax, which has been in place since the start of the interstate system, so over 50 years now.

Would there be support possibly for -- as part of the infrastructure bank bill that you have -- possibly including an increase in that user fee since there hasn't been one since 1993? And everything else in the world seems to have gone up except for that, and that's a big challenge for us. It's akin to fixing the room on a house while there's a sinkhole swallowing the whole thing.

I think there is a lot of potential in the infrastructure bank, but so far there's been opposition to a $4 billion, you know, level so far for that. I hope it goes up to 650, like you said. But the low-hanging fruit that we see, I think that would be one, as long as you do educate the public and show them there is going to be more return. So would there be possibly support for including that?

CONGRESSWOMAN DeLAURO: Well, you know, I think that this -- first of all, there are energy, there are water, and there are already telecommunications user fees that are on the books. I think you're going to move project by project is the way this is going to get determined. I don't think you set yourself in stone at the outset of what's going to happen. I think it's on a project-by-project basis. I think you need to take a look at what the project is and make that determination. But, again, the concept is already there that this exists, and then you make your case as to, you know, it's a benefit.

I think Michael made a good point of that if people understand -- you know, people are very skeptical of how we're spending money today. They don't believe it's transparent. They think it's based on politics. They -- and geography and it's not based on, you know, on some benefit, public interest, public benefit. I think that's why the system needs to change, and then we will, you know, sort out what those -- you know, what the best way to go is. And again, it will be project by project on which those fees are determined.

MR. PUENTES: And the hard thing with the bank is that it is -- as you mentioned several times, this is about all types of infrastructures.

CONGRESSWOMAN DeLAURO: It's about all kinds of infrastructure.

MR. PUENTES: (inaudible) the proposals in Virginia and DOT, which is more specific to transport, right, and that's the gas tax is kind of this elegant thing that we've had directed towards the transport program on the federal level for a lot -- but you're really talk about something, that is much broader. That's the hard thing to deal with.

Let's see, we've got I think time for two more questions. I can't see back there, let's go over here.

MR. NELSON: John Nelson with Wall Street Without Walls. In addition to the income streams being discussed for the bonds, you might also consider credit enhancing the deals by having under utilized or dead assets that are held by the federal government or the state governments, and this would allow both investors and social responsible investors, as well as even foundations with -- investments to come in, so you have a blended source of finance by utilizing under utilized assets. We're asking Treasury to do that for the CDFI fund, for example, using $400 million of financial assets that the Treasury holds. You basically lend them as basically extra collateral. So this is a way of having structured finance for good.

CONGRESSWOMAN DeLAURO: I'd love to talk to you about it. Thank you.

MR. PUENTES: In the back.

MR. LEINBERGER: One hundred years ago -- Chris Leinberger here at Brookings. One hundred years ago, most of the rail transit in this country was paid for by real estate developers and investors. They paid for it by the profits out of the land that went up in value when they provided rail transit to it. Have you given any thought to bringing the real estate community into this discussion because they are willing to be part of it?

And there's one example that is two miles from here, which is the New York Avenue Metro Station, where one-third of it was paid for by the private sector around that station. And the developers there tell you stories about the fact that they got 10 to 20 times return on their investment. They'd be pleased to do it again if they are only asked by the public sector.

MR. PUENTES: Matt, don't you have some kind of value capture or -- there's something that's in the state infrastructure bank proposal, is that right? Well, it's talked about anyway for some time.

MR. STRADER: We have TIF laws on the books, but it's not something that I think we've really utilized very much.

MR. PUENTES: This is a hard thing to do.

MS. TROTTENBERG: Yeah, I mean, I think at DOT, we are very, very interested in that, how we do that value capture. It is, at the moment, really sort of an alien idea for the way we evaluate projects. Again, in sort of our TIGER program, which is our prototype, we were able to do something we don't traditionally do when we evaluate transit projects, is to ask some of those questions, which if an applicant came in and said there's going to be a whole bunch of new development around this site, we could actually do our due diligence and see if that was true and determine, you know, to what extent the private sector was contributing to the project. But that was sort of a -- that program was kind of a unique program.

I think we're trying to grapple with how to create a model that can facilitate that better. And, obviously, through our livability program that we're doing with HUD and EPA, that's, you know, one of the big ideas we're trying to work on. I just want to take a second because I don't want Jeff to think that I ducked his question, because I remember actually -- if I remember about the Davis-Bacon the issue was that there's pretty broad agreement that with federal dollars, they're going to come some strings, the societal priorities of the time.

It could be environmental. They could be, you know, making sure prevailing wages are paid. And I think the issue was in these types of revolving funds is, once you took the federal dollars and you loaned them and then the project was built, generated its own revenues and paid those back, then those revenues that were paid back, were those still federal dollars?

So it's not that people were against Davis-Bacon in connection with federal dollars, it was more a debate about these new dollars, once they've circulated, what is the nature of them? And I --

MR. STRADER: The debate still killed the program.

MS. TROTTENBERG: It's a tough debate. I mean, I think, you know, we would side with Congresswoman DeLauro that if we're going to pass a big transportation bill and have the kind of resources that I think we all want to have, we're going to need broad support. But, you know, the issue there was a particular one about whether the dollars were federal, not whether there should be societal goals attached to federal dollars. I think there's actually a pretty broad consensus.

MR. PUENTES: I promised folks that we would wrap up at 11:00, particularly for the panelists, I know they have lots of other things to do today. This was a terrific discussion. I'm a horrible moderator because I wound up taking so many notes and trying to figure out how I'm going to take this going forward.

I learned a whole lot. I was trying to kind of pull out some common themes. I mean, at least at the beginning, we talked about -- I mean, this is really about changing the system. I mean, I think all the comments we had up here, maybe they're incremental, but we are really talking about doing something that is very different. It is about changing the system on the federal level, on the state level, on the private level, how we all kind of work together. I think that's clearly a big part of this.

But the kind of analysis that we're talking about, doing this kind of the benefit-cost stuff, really being more critical about how we choose projects, which I think we all agree we need to do, is hard. We don't have a lot of experience. We're starting out small, it's crawl before you walk, all those kind of phrases. I think we're starting to do that, but this is going to take some time. I did hear a lot of at least tacit kind of enthusiasm for tolling and pricing, that this is something that's going to be part and parcel of how we think about the system in the future. I think that's part of greater efficiencies.

As Michael mentioned, it's also part and parcel of getting the best bang for the buck.

But how to fund the system broadly, how to get beyond maybe some of the things we agreed about is hard. And these are going to be some tough decisions we're going to have to make. I don't think we have a whole lot of agreement about that, but that's obviously going to be critical going forward.

Labor is a big issue, privatization we talked about very specifically. I think this was really helpful. But clearly we're at a historic moment. Again, given what the President talked about, given the legislative things, we're just going to have to deal with that, a part of the calendar. Other big issues, again, the Debt and Deficit Commission, and how we wrap all this into remaking the American economy, I really think we have an historic moment to take transport, to take infrastructure out of its box and connect it to these big national priorities. We have a lot more details we still need to work out, clearly, there's no doubt about it. I think we made some progress on connecting the short-term priorities to the long-term agenda. That was very clear.

We're going to keep working on this. I know folk here on the dais and folks here in the room are going to keep working on this.

I want to thank you all for being here and thank you very much to the panelists.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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