NATIONAL INFRASTRUCTURE BANK ACT OF 2007

Senator Christopher J. Dodd and Senator Chuck Hagel

OVERVIEW

The Dodd-Hagel National Infrastructure Bank Act of 2007 is a bipartisan measure that addresses the critical needs of our nation's major infrastructure systems. The legislation establishes a new method through which the Federal government can finance infrastructure projects of substantial regional or national significance more effectively with public and private capital.

THE PROBLEM

According to the American Society of Civil Engineers, the current condition of our nation's major infrastructure systems earns a grade point average of D and jeopardizes the prosperity and quality of life of all Americans.

According to the Federal Transit Administration, $21.8 billion is needed annually over the next 20 years to maintain and improve the operational capacity of transit systems.

According to the Department of Housing and Urban Development, there are 1.2 million units of public housing with critical capital needs totaling $18 billion.

According to the Texas Transportation Institute, the average traveler is delayed 51.5 hours annually due to traffic and infrastructure-related congestion in the nation's 20 largest metropolitan areas. The delays range from 93 hours in Los Angeles to 14 hours in Pittsburgh. Combined, these delays waste 1.78 billion gallons of fuel each year and waste almost $50.3 billion in congestion costs. Furthermore, the average delay in these metropolitan areas has increased by almost 35.3 hours since 1982.

According to the Federal Highway Administration, $131.7 billion and $9.4 billion is needed respectively every year over the next 20 years to repair deficient roads and bridges. The average age of bridges is 40 years.

According to the Environmental Protection Agency, $151 billion and $390 billion is needed respectively every year over the next 20 years to repair obsolete drinking water and wastewater systems. Drinking water and wastewater systems range in age from 50 to 100 years in age.

Current Federal financing methods do not adequately distribute funding based on an infrastructure project's size, location, cost, usage, or economic benefit to a region or the entire nation.

THE DODD-HAGEL SOLUTION

The Dodd-Hagel legislation establishes the National Infrastructure Bank, which as an independent entity of the government is tasked with evaluating and financing capacity-building infrastructure projects of substantial regional and national significance. Infrastructure projects that come under the Bank's consideration are publicly-owned mass transit systems, housing properties, roads, bridges, drinking water systems, and wastewater systems.

Modeled after the Federal Deposit Insurance Corporation, the Bank is led by a five member Board of Directors, each whom are appointed by the President and confirmed by the Senate.

The Bank's Board has flexibility to develop an organization of professional civil service staff to carry out the Bank's authorized activities. An Inspector General oversees the Bank's daily operations and reports on those operations to Congress.

Infrastructure projects with a potential Federal investment of at least $75 million are brought to the Bank's attention by a project sponsor (state, locality, tribe, infrastructure agency (e.g. transit agency), or a consortium of these entities.

To determine a level of Federal investment, the Bank uses a sliding scale method that incorporates conditions such as the type of infrastructure system or systems, project location, project cost, current and projected usage, non-Federal revenue, regional or national significance, promotion of economic growth and community development, reduction in traffic congestion, environmental benefits, land use policies that promote smart growth, and mobility improvements.

Once a level of investment is determined for a project, the Bank develops a financing package with full faith and credit from the government. The financing package could include direct subsidies, direct loan guarantees, long-term tax-credit general purpose bonds, and long-term tax-credit infrastructure project specific bonds. The initial ceiling to issue bonds is $60 billion.

The Bank is tasked to report annually to Congress on the projects it reviews and finances. A public database is created to catalog what projects were funded and what financing packages were provided. The Bank is also tasked to report every three years on the economic efficacy and transparency of all current Federal infrastructure financing methods, and how those methods could be improved. After five years, the Government Accountability Office would be tasked with evaluating the Bank's operations and efficacy.

The Bank does not displace existing formula grants and earmarks for infrastructure. It targets specifically large capacity-building projects that are not adequately served by current financing mechanisms.

CSIS

Center for Strategic & International Studies
Washington, DC

August 1, 2007

The Honorable Christopher J. Dodd
United States Senate
448 Russell Senate Office Building
Washington, DC 20515

The Honorable Chuck Hagel
United States Senate
248 Russell Senate Office Building
Washington, DC 20515

Dear Senator Dodd and Senator Hagel:

I am writing to commend you for your leadership in helping to restore America's deteriorating physical infrastructure. You both have demonstrated great foresight and vision in leading on this important issue.

Three years ago, the Center for Strategic and International Studies launched a study effort under the leadership of former Ambassador Felix Rohatyn and former Senator Warren Rudman. The CSIS Commission on Public Infrastructure issued a declaration of guiding principles for the revitalization of our infrastructure. We were proud that you joined in that declaration. Signatories included senators, governors, and business leaders, all recognizing the need for action.

You have acted. While CSIS cannot endorse specific legislation, we can congratulate you as leaders. From the very first days of our republic, our national leaders saw the need for public investment in productive infrastructure. Public investment produced wealth-generating private sector activity, paying back the public investment many times over.

The commission also called for infrastructure investments made through a rigorous cost-benefit process. Too much public investment in recent years has been earmarked for projects that have not gone through an analytic justification. Your leadership here is also most welcome.

1800 K Street Northwest • Washington, DC 20006 • Telephone 202/887-0200 • FAX 202/775-3199 • www.csis.org

The Honorable Christopher J. Dodd and the Honorable Chuck Hagel
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I travel extensively and see how infrastructure investments are transforming the developing world. Faced by this competition, America needs to make public infrastructure a comparable priority as a national re-investment to ensure our future prosperity.

Thank you for your leadership. This is the kind of vision that built America to greatness in the past and will be our path to prosperity in the future.

Sincerely,

John Hamre

John J. Hamre
President and CEO

CSIS – *"Creating Strategic Insights and Solutions"*

January, 2007

Guiding Principles for Strengthening America's Infrastructure

America's economic well-being and physical security depend on safe and reliable public infrastructure. Roads, airports, railways, ports, and other public investments are instrumental in boosting America's productivity and global economic competitiveness. Facilities that manage water, waste, and energy are fundamental in sustaining our quality of life and health. But we are both under-investing in infrastructure and investing in the wrong projects: *new investments are critically needed, but we lack the policy structures to make the correct choices and investments.*

It is time to re-examine priorities for the nation's infrastructure. Based on our experience in the public and private sectors, these are the basic principles we believe should guide policy to strengthen the nation's infrastructure:

Underinvestment in Infrastructure Poses Unacceptable Risks

Rising demand combined with declining infrastructure threatens the nation's productivity, standard of living, and security. Demand for infrastructure services is growing rapidly. Aviation passenger traffic is projected to grow by more than 39 percent between 2006 and 2016. Freight tonnage is slated to increase by more than 50 percent by 2020. Severe highway bottlenecks have increased by 40 percent during the past five years. Americans spend 3.5 billion hours per year in traffic at a cost of $63.2 billion in wasted time and fuel. The cost of aviation delays to the U.S. economy is expected to rise from $9 billion in 2000 to more than $30 billion annually by 2015. More tragically, some 13,000 fatalities on highways each year result from inadequate maintenance of roadways.

The nation's infrastructure facilities are deteriorating at an alarming rate. For example: half of the 257 locks on the more than 12,000 miles of inland waterways operated by the Army Corps of Engineers are functionally obsolete; three-quarters of the nation's public school buildings fail to meet the basic needs of children; 27 percent of the 590,750 bridges nationwide are structurally deficient or obsolete; $11 billion annually is needed to replace aging drinking water facilities. The American Society for Civil Engineers (ASCE) estimates a five-year total investment need of $1.6 trillion, and grades the nation's overall infrastructure as a "D."

Curb Wasteful Spending Habits

Sound project selection and delivery are compromised by political interference. Infrastructure spending bills are increasingly encumbered with earmarks that benefit local development needs but neglect regional and national priorities. Thus, poor project selection results in poor returns on public investment.

The infrastructure trust funds are part of the problem. Dedicated financing streams, such as excise taxes on motor fuels, lie outside the competition inherent in the federal budget process. Furthermore, current fees and taxes fail to match actual patterns of use and implied cost. Resources for infrastructure investments should be more closely aligned with the benefits experienced by the users who enjoy them.

Identify New Priorities for America's Infrastructure

America's infrastructure programs were created to establish and build national networks for commerce and transportation. These fundamental goals have been realized. The challenge now is to maintain, upgrade, and replace infrastructure facilities in a manner that optimizes the return to public dollars. In the face of rising demand and aging facilities across the infrastructure modes—from highways to dams to wastewater systems—the federal government must set national priorities by stressing competition among investments in various infrastructure modes.

Infrastructure policy must do more than simply fund new construction projects. It should promote non-structural solutions for relieving congestion (such as congestion pricing on highways and in the skies). It must also articulate new missions to meet current realities. As a leading example, the federal government should address the deplorable state of the nation's public school buildings. It should also explore new kinds of public investments such as a nationwide broadband structure.

Allocate Costs and Financing More Fairly and Rationally

Infrastructure policy should require the fair allocation of costs among all levels of government and users. Federal investment in public infrastructure has declined substantially over the last three decades, so that state and local governments now spend nearly three times as much as their federal counterpart on infrastructure. (In the 1960s, federal and non-federal shares of infrastructure spending were nearly equal). The federal government should increase its investments in infrastructure, and do so in a way that addresses truly national priorities. At the same time, the infrastructure policy process should encourage cooperative planning among states for projects of regional value.

The division of infrastructure costs is too often dictated by set formulas that fail to reflect project risk or use. Users should pay a greater portion of infrastructure costs; the extent to which users are prepared to pay for the services they use is ultimately the best test of project viability.

Restructure the Federal Role

The federal portfolio of infrastructure projects is selected using widely disparate methodologies for calculating costs and benefits. A centralized infrastructure project approval process would force all infrastructure modes to be evaluated using common methods and parameters.

A national infrastructure financing facility is needed to serve as the window through which states and localities may obtain financing or grants for specific projects. A federal investment vehicle of this kind would address many wasteful tendencies in infrastructure provision and redirect policy towards promoting overall returns on investment. Centralizing infrastructure policy would also better allow us to superimpose other national policy objectives across all infrastructure modes, most immediately homeland security.

Make New, Long-Term Investments in Infrastructure

There is a fundamental difference between borrowing to support current consumption and borrowing to raise the future standard of living. Unlike expenditures for many other federal programs, infrastructure programs leave behind an asset on the federal government's balance sheet. While an entity as large as the federal government must have a cash budget, creating infrastructure assets with long-lived benefits should not be determined by short-term cash availability. Federal deficits sap our economic strength, and must inevitably be paid. But failing to support long-term growth could prove even more vexing.

Special-purpose, long duration bonds -- perhaps as long as 50 years – should be issued to finance infrastructure investments. The amortization of such bonds would provide the same information as a capital budget, allowing us to measure the level and trend of the value of infrastructure investments. A new infrastructure financing agency could draw funds from the existing infrastructure trust funds, and could be vested with the power to issue bonds in budgeted amounts. But whatever the means, it is imperative that we make new investments.

Invest in New Technologies

Technology creates new opportunities for project design, capacity expansion, user cost recovery, and peak-load management. Infrastructure management technologies enable non-structural solutions that increase efficiency and productivity. Variable message signs, real-time adaptable speed limit technology, and real-time parking systems can monitor traffic flow, detect incidents, and interact with users to reduce congestion. For example, advanced video and computer technology support congestion pricing systems that have reduced automobile traffic in London by a third. Bus lines now move twice as fast, carbon dioxide emissions have been reduced by 20 percent, and emissions of harmful particulates and nitrogen oxides have been reduced by 12 percent.

Partner with the Private Sector

Deeper capital markets and greater experience in infrastructure have dramatically improved the ability of the private sector to play a central role in infrastructure provision. The old public works dichotomy–the public sector buys and manages while the private sector builds–is being replaced by new types of public-private partnerships. Increased private sector activity will continue to improve the efficiency of infrastructure markets. Entrepreneurs should be encouraged to put their capital at risk in order to create infrastructure that meets the needs of users.

For more information, please contact John Schaus (jschaus@csis.org) at the Center for Strategic and International Studies.

August 1, 2007

As co-chairmen of the CSIS Commission on Public Infrastructure, we strongly support the National Infrastructure Bank Act of 2007.

Introduced by Senators Chris Dodd and Chuck Hagel, this bipartisan legislation will reverse decades of shortchanging our infrastructure and help restructure the federal role by allocating costs and financing more fairly and rationally. The legislation also will help ensure that infrastructure spending is unencumbered by political interference that neglects regional and national priorities. The Act will establish a policy structure for making infrastructure investments that meet our country's critical needs.

The Infrastructure Bank Act will stimulate new, long-term investments in infrastructure that will increase national productivity and improve our standard of living. The proposed Infrastructure Bank Act also will increase the ability of the private sector to play a central role in infrastructure provision and will report on the economic efficacy and transparency of all current federal financing methods. We urge that it be passed into law.

Felix G. Rohatyn　　　　Warren B. Rudman

ASCE®

American Society of Civil Engineers

Washington Office
101 Constitution Ave., N.W.
Suite 375 East
Washington, DC 20001
(202) 789-7850
Fax: (202) 789-7859
Web: http://www.asce.org

August 1, 2007

The Hon. Christopher J. Dodd
448 Russell Office Building
Washington, D.C. 20510

Dear Senator Dodd:

The Hon. Chuck Hagel
248 Russell Office Building
Washington, D.C. 20510

Dear Senator Hagel:

I am writing on behalf of the more than 140,000 members of the American Society of Civil Engineers (ASCE) to applaud your joint sponsorship of the **National Infrastructure Bank Act of 2007**. This legislation is a major step forward in providing meaningful financial assistance to the nation's failing infrastructure.

As you know, ASCE concluded in our <u>2005 Report Card for America's Infrastructure</u> that the nation's infrastructure deserved an overall grade of "D." We said then that America's aging and overburdened infrastructure threatens the economy and quality of life in every state, city, and town in the nation. In addition, we estimated that it will take an investment of $1.6 trillion over a five-year period to bring the nation's existing infrastructure into good working order. Little of significance has changed in the two years since we issued that dismal grade, and establishing a long-term development and maintenance plan remains a pressing national priority.

In creating the National Infrastructure Bank to evaluate and finance "capacity-building" infrastructure projects of substantial regional and national significance, the bill would prime the pump to begin meeting the staggering investment needs for our infrastructure. We believe the National Infrastructure Bank Act of 2007 will begin the process of replacing and maintaining economically vital infrastructure systems across the nation. This nation cannot afford to wait much longer to invest significant sums in its infrastructure, and your bill will lead the way.

Please do not hesitate to contract Brian Pallasch, ASCE Director of Government Relations, or Michael Charles, Senior Manager of Government Relations, of our Washington office if we can be of any assistance in passing this important legislation.

Sincerely yours,

Patrick J. Natale

Patrick J. Natale, P.E., F.ASCE
Executive Director

NCA
www.ncabuild.org

NATIONAL CONSTRUCTION ALLIANCE

905 16th Street, N.W. Washington DC. 20006 • Phone (202) 347-1660 • Fax (202) 347-1661

Laborers' International Union
of North America

International Union
of Operating Engineers

United Brotherhood
of Carpenters & Joiners
of America

Regional Office
100 East Corson Street
Suite 230
Pasadena, CA 91103
Phone (626) 229-9975
Fax (757) 299-9973

July 27, 2007

The Honorable Christopher J. Dodd
United States Senate
448 Russell Senate Office Building
Washington, DC 20510

The Honorable Chuck Hagel
United States Senate
248 Russell Senate Office Building
Washington, DC 20510

Dear Senators Dodd and Hagel:

The National Construction Alliance represents three of the largest construction unions, the Laborers' International Union of North America, the International Union of Operating Engineers, and the United Brotherhood of Carpenters and Joiners of America, representing over 1.7 million members.

We want to go on record in support of your National Infrastructure Bank Act of 2007.

We fully understand the need and responsibility we have to our nation and to our members to find a way to fund substantial regional and significant national infrastructure projects.

We look forward to working with you and your colleagues in making the Dodd/Hagel National Infrastructure Bank Act of 2007 a permanent part of the solution to funding our nation's most important infrastructure projects.

Sincerely,

Raymond J. Poupore
Executive Vice President

RJP/rj

Goldman, Sachs & Co. | 85 Broad Street | New York, New York 10004
Tel: 212-902-1015 | Fax: 212-902-3000 | e-mail: tracy.wolstencroft@gs.com

Tracy R. Wolstencroft
Managing Director

Goldman
Sachs

July 27, 2007

The Honorable Christopher J. Dodd
United States Senate
448 Russell Senate Office Building
Washington, DC 20510-0702

The Honorable Chuck Hagel
United States Senate
248 Russell Senate Office Building
Washington, DC 20510-2705

Dear Chairman Dodd and Senator Hagel:

Thank you for the opportunity to review your proposed National Infrastructure Bank Act of 2007. Goldman Sachs shares your concern about our nation's aging infrastructure and its negative effects on our economy and our environment, and we strongly agree with you about the need to encourage additional infrastructure investment. We believe enactment of your legislation would help spur significant new investment in this area and thereby help address this urgent national problem.

We support the National Infrastructure Bank Act of 2007 and thank you for your leadership on this critical issue.

Sincerely,

Tracy R. Wolstencroft