

**Opening Statement Senator Charles Grassley**  
**Joint Hearing with EPW on Innovative Financing:**  
**Beyond the Highway Trust Fund**  
**September 25, 2002**

I would like to thank Chairmen Baucus and Jeffords for scheduling this joint hearing between the Senate Finance Committee and the Senate Environment and Public Works Committee. We are here to examine issues of highway finance in anticipation of the reauthorization of TEA 21. As Senator Baucus indicated, both Committees have an interest in providing adequate funding for our nation's transportation system whether it be through the traditional fuel tax regime or through other tax-based financing mechanisms. As I noted in our first hearing on the highway trust fund reauthorization in May, transportation issues are very important to Iowa. Accordingly, I look forward to working with Senators Baucus, Jeffords, and Smith in reauthorizing TEA 21 during the next Congress.

On May 9, the Finance Committee held its first hearing to begin evaluating the future health of the Highway Trust Fund. In that hearing, we focused largely on the flow of taxes into the trust fund and the continued ability of the highway trust fund to support transportation needs under reauthorized TEA 21.

We also began talking about the impact that alternative vehicles and alternative fuel sources will have on the trust fund in the years ahead. Finally, we began to consider how we would maintain the existing levels of trust revenue for transportation demands without raising taxes.

Today, we will not focus on trust fund revenue. Instead, we will shift our attention to various financing mechanisms that will supplement transportation needs beyond the dedicated revenues in the trust fund.

Historically, issuing state and local bonds (which are exempt from federal taxation) was the principal way states raised capital for transportation needs in excess of those currently available with highway trust fund resources. While this works well in some states, some including Iowa have decided against using bonds to finance infrastructure projects while others are constitutionally prohibited from doing so.

During the reauthorization of TEA 21, a concerted effort was made to begin using federal resources to encourage private investment in transportation projects. During the reauthorization, the drafters also attempted to expand and make more flexible the resources available to state transportation departments. A number of pilot programs were established to achieve those goals including (i) TIFIA Funding (named for the Transportation Infrastructure Finance and Innovation Act), (ii) SIBs (State Infrastructure Banks), (iii) GARVEES (Grant Anticipation Revenue Vehicles), and GANS (Transit Grant Anticipation Notes). Because many of these programs rely on state borrowing, they are not viable solutions for all states. In other circumstances, the programs may not have worked as intended.

Iowa, for example, is in the process of closing out its state infrastructure bank. Without the ability to use state and local bonds to increase SIB funding, it was difficult for Iowa to effectively use the concept. In addition, several shortline and regional railroads in my state have tried to use the railroad infrastructure fund administered by the federal railroad administration. The application process is extremely cumbersome and prevents many railroads from even considering the option. Those who have applied have had difficulty coming up with the required credit risk premium to access funds. The role of the state DOT in these projects has been limited to moral support – a problem that should clearly be fixed.

Evaluating the successes and failures of previously authorized programs is an important first step in the reauthorization process. I look forward to hearing from the witnesses today on how we may improve and further refine existing programs. We should particularly examine programs that involve public-private partnerships such as TIFIA. Many of the witnesses have commented on the operation of these programs in their testimony, and at least one of our witnesses has suggested program modifications. These types of comments are highly instructive, and I look forward to hearing additional witness views on these issues.

As we move into reauthorization, I know we will want to maintain the important goals of stretching available resources and inducing private investment into the transportation sector. This hearing should help us evaluate alternative financing mechanisms for achieving those goals. Specifically, I look forward to learning more about the bond proposals offered by the American Association of Highway and Transportation Officials (AASHTO) and Senator Baucus. Because these ideas are new to the transportation sector, we will want to consider carefully the details of those proposals. With respect to each new proposal, I would like to further consider whether additional funds should be raised for state apportionment (program finance) or for the benefit of specific projects (project-finance). In addition, I would like to further consider whether leveraged funds should be retired using tax-arbitraged escrow funds, repayments from the general fund, or project-specific revenue sources.

In closing, I would like to reiterate that I look forward to working with my colleagues on the reauthorization of TEA 21. I am anxious to hear from the witnesses on how to most effectively finance the important needs of our highway transportation system. Thank you, Mr. Chairmen.