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Los Angeles, CA 90012-2952213.922.2000 Tel
metro.net**EXECUTIVE MANAGEMENT COMMITTEE
OCTOBER 18, 2012****SUBJECT: AMERICA FAST FORWARD TRANSPORTATION BONDS****ACTION: APPROVE FEDERAL LEGISLATIVE STRATEGY****RECOMMENDATION**

Advance the second policy proposal embedded in America Fast Forward, the creation of a new class of qualified tax credit bonds for transportation projects. These qualified tax credit bonds would be referred to as America Fast Forward Transportation Bonds.

ISSUE

One of the two major policy proposals in our agency's America Fast Forward initiative, the dramatic expansion of the Transportation Infrastructure Finance and Innovation Act (TIFIA) program was achieved in the 112th Congress with the adoption of MAP-21, America's new surface transportation bill. Specifically, MAP-21 includes an innovative finance title (America Fast Forward) that dramatically expands TIFIA's lending powers. The nearly ten-fold increase in TIFIA made possible by the America Fast Forward provision in MAP-21 will result in about \$20 billion in TIFIA lending over the approximately two-year period covered by MAP-21.

The portion of America Fast Forward that was not adopted into law in MAP-21 was our policy proposal to create a new class of qualified tax credit bonds for transportation projects, both highway and transit. This proposal faced a series of challenges in the U.S. Congress, especially from those officials in the U.S. House and Senate who were skeptical of creating a new sixth class of qualified tax credit bonds. Staff is eager to advance, the idea of establishing and funding an America Fast Forward Transportation Bonds program during the anticipated lame-duck session of the 112th Congress this November and in the coming 113th Congress.

DISCUSSION

With Congress continuing to struggle to maintain the solvency of the Highway Trust Fund, lawmakers and transportation stakeholders are continuing to search for new ways to sustain highway and transit programs and projects across America with sustainable revenue streams. Recently, the widely respected Fitch Ratings Service concluded that the Highway Trust Fund is on an "unsustainable trajectory because its expenditures have exceeded receipts for several years." Given the financial weakness of the

Highway Trust Fund and the continuing demand for America to rebuild its transportation infrastructure, the America Fast Forward Transportation Bonds proposal offers a fresh and practical proposal that, like the America Fast Forward TIFIA initiative, provides the anecdote to a Highway Trust Fund that is, according to the Congressional Budget Office, nearing insolvency.

Mark Zandi, the chief economist of Moody's Analytics, has provided one of the more forceful arguments in support of a federal role with respect to transportation bonds, similar to the America Fast Forward Transportation Bonds being proposed in this Board Report. Dr. Zandi, who previously served as the chief economic advisor for the presidential campaign of Senator John McCain in 2008, authored a piece last year entitled, "Doing Infrastructure The Right Way." In that article, Dr. Zandi shared that, "Arguably nothing the government spends money on produces a higher long-run return than infrastructure (except perhaps defense). Nearly any infrastructure project seriously being considered today will return more than the 2% the U.S. Treasury is paying on 10-year bonds. As with any business that borrows to invest in machine tools or computers, or a household that borrows to purchase a home or car, it makes sense for government to borrow to invest in an infrastructure asset that will provide returns for years."

To date, Congress has authorized qualified tax credit bond programs totaling in excess of \$35 billion for forestry, conservation, renewable energy projects, energy conservation, qualified zone academies and new school construction. The creation of an America Fast Forward Transportation Bond program would represent a sixth class of qualified tax credit bonds. In 2010, Congress authorized issuers of most types of tax credit bonds to elect to receive refundable tax credits that they could present to the U.S. Treasury Department for cash. This feature allows the bonds to be sold as interest-bearing obligations to new classes of investors, such as pension funds, substantially enhancing their marketability over bonds paying investors interest in the form of tax credits.

America Fast Forward Transportation Bonds would be created by amending section 54 of the Internal Revenue Code to establish a new category of qualified tax credit bonds for surface transportation projects. The new bond program would be national in scope, with a proposition that the U.S. Congress authorize \$45 billion for America Fast Forward Transportation Bonds over the next decade, with a stipulation that the bonds be allocated evenly at \$4.5 billion annually. Various proposals could be considered with respect to the allocation of America Fast Forward Transportation Bonds, including the concept of having minimum set-asides annually for mega-projects (over \$1 billion in cost), for rural states and a possible formula to guarantee that a portion of the national volume cap be apportioned evenly to states based on their population.

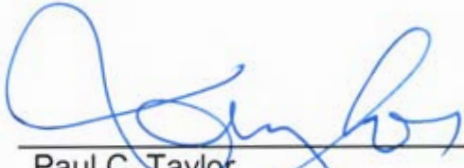
DETERMINATION OF SAFETY IMPACT

Staff has determined that approval of this recommendation will not impact of the safety of Metro's patrons or employees.

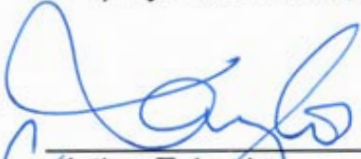
NEXT STEPS

Metro staff will, pending Board approval, advance the concept of creating, in federal law, an America Fast Forward Transportation Bond program. Similar to our America Fast Forward TIFIA initiative, the goal of creating an America Fast Forward Transportation Bond program would be created by reaffirming the broad based and bi-partisan national coalition of mayors, chambers of commerce and other major transportation stakeholders in support of our America Fast Forward proposal. Further, we would seek congressional sponsors of this proposal among those Members of Congress, both in Los Angeles County and nationwide, with a strong interest in addressing the funding shortfalls facing the Highway Trust Fund and those who serve on committees with jurisdiction over matters related to bonds in Congress.

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