

Statement of Morteza Farajian, Ph.D., Executive Director, Build America Bureau,
U.S. Department of Transportation

Before the United States Senate Committee on Appropriations Subcommittee on
Transportation, Housing and Urban Development, and Related Agencies

Financing Programs to Further Transit-Oriented
Development for Affordable Housing

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Thank you, Chair Schatz, Ranking Member Hyde-Smith, and Members of the Subcommittee for the opportunity to discuss Build America Bureau (Bureau) financing and transit-oriented development (TOD). In my testimony today, I will highlight the Bureau's TOD authority, activities, and remaining challenges.

First, I will summarize what we do. The Build America Bureau (also called the National Surface Transportation and Innovative Finance Bureau) advances investment in America's infrastructure by lending federal funds at below market rates under favorable terms to qualified borrowers while protecting taxpayers; clearing roadblocks for creditworthy projects; and encouraging use of best practices in project planning, financing, and delivery.

- The Bureau currently has 115 Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation and Improvement Financing (RRIF) program loans and loan tranches to 71 distinct borrowers from 23 states and the District of Columbia that are in construction or operations, totaling just over \$31 billion in credit extended.
- With the FY 2025 budget proposal to repurpose balances in support of the National Infrastructure Investment Grant Program, the Bureau continues to have substantial capacity for new lending: TIFIA will have over a billion in available credit subsidy budget authority, with up to 15 percent of TIFIA's annual funding available for TOD projects; RRIF has traditionally relied upon borrower-paid credit risk premiums to pay the subsidy cost of its loans, and has \$35 billion in overall lending capacity.

The Bureau also administers four grant programs to expand the public sector's capacity to finance and deliver infrastructure. The Regional Infrastructure Accelerator Program helps public entities develop priorities and financing strategies to accelerate projects eligible for TIFIA credit assistance. The Thriving Communities Program provides technical assistance, planning, and capacity building support to smaller and under-resourced communities through Capacity Builders—technical assistance providers that support groups of communities based on their common needs. The Bipartisan Infrastructure Law (BIL) established the Rural and Tribal Assistance Pilot Program, which funds pre-construction and pre-development studies for rural

and tribal communities, and the Innovative Finance and Asset Concession Program, which provides grants to public entities to facilitate and evaluate public-private partnerships. We also offer customized direct technical assistance, for projects of all sizes and project sponsors with different experience levels. Finally, the Bureau administers private activity bonds allocated by USDOT for qualified highway or surface freight transfer facilities.

The Fixing America's Surface Transportation (FAST) Act authorized the Bureau to offer TOD projects. TOD projects include public infrastructure or economic development projects (including affordable and workforce housing and commercial development) located near or physically or functionally related to transit, passenger rail, or multimodal stations. TOD projects can transform underperforming and underutilized assets, increase transit and passenger rail ridership and revenue, facilitate office-to-residential conversions, and support affordable, equitable, multimodal access to opportunities and services. I am proud to say that in April 2024, the Bureau closed USDOT's first TOD loan—up to \$26.8 million for the Mount Vernon (Washington) Library Commons Project, now under construction. Our financing will save the community at least \$3 million compared to other financing options.

Building and implementing the TOD authorities Congress gave us has been incremental and steady. We published TOD guidance and a policy statement on our website. We held 5 webinars in the past year for more than 500 participants. We also participated in webinars with the White House and with the U.S. Department of Housing and Urban Development (HUD) and presentations at the U.S. Housing and Community Development Conference, National Housing and Rehabilitation Association, and Urban Land Institute. We hosted in-person technical workshops in Austin, Kansas City, Los Angeles, Chicago, and Jacksonville. To make our financing more accessible and attractive, USDOT announced it would provide transit and TOD projects TIFIA financing for up to 49 percent of project costs, the TIFIA statutory limit since 2012. USDOT typically limits TIFIA loans to 33 percent of project costs by policy.

Even with this progress, prospective borrowers have communicated encountering challenges in utilizing TIFIA or RRIF for TOD projects, the most significant of which are the following:

- TIFIA's legislation requires investment grade ratings. While this level of rating protects taxpayers from defaults, it can be unattainable for certain TOD projects (e.g., those pledging project revenues as the repayment source). Typically, rating agencies do not rate real estate deals that have both construction and long-term financing elements, as these are not common practice in the market. The Bureau has consulted with rating agencies, several of whom are now developing rating approaches for TOD projects. Some rating agencies have told me they might have a hard time making the economics work to rate smaller projects. Consequently, for some small projects the cost to obtain a rating offsets the benefits TIFIA offers, making TIFIA less attractive for those projects.

- A range of federal requirements apply to TIFIA and RRIF borrowers, including compliance with the National Environmental Policy Act (NEPA), Buy America, Davis-Bacon wage rates, and others. Some prospective borrowers have told the Bureau they are not familiar with federal requirements and have a learning curve in both understanding how to comply and structuring compliant projects that are financially viable. To address this obstacle, the Bureau has had one-on-one meetings to educate potential borrowers on federal requirements and to assist project sponsors in developing complete and quality applications.
- Project sponsors are used to the timeline commercial banks use for short-term construction loans. TIFIA and RRIF loans typically have 40-year or longer maturities, meaning they have both short-term construction risk and long-term revenue risk. This combination complicates—and lengthens—the underwriting process. The Bureau has explored innovative approaches, such as teaming with short-term lenders and other federal agencies, and collaboration with HUD and other federal agencies to develop effective products and to streamline the process. As our program matures and we close a few more TOD loans, we should be able to standardize our process and procedures and develop template documents that could further streamline the process.

In early 2021, we had no TOD projects in the Bureau’s active pipeline, even though the authority had been in place since late 2015. Today, interest in the TOD pipeline is robust, with over 20 TOD projects engaging with the Bureau on utilizing its financing programs. We anticipate our TOD pipeline and portfolio will continue growing quickly and welcome any opportunity to improve our programs and deliver quality customer experiences that achieve the intended program outcomes.

Thank you, Chairman Schatz and Ranking Member Hyde-Smith. I would be happy to answer any questions you might have.

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