Testimony before the Senate Committee on Banking, Housing, and Urban Affairs

Hearing on the Condition on the Nation's Infrastructure and Proposals for Needed Improvements

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Chairman Dodd, Senator Shelby, and members of the Committee, good morning, and thank you for the opportunity to appear before you today. My name is Tracy Wolstencroft. I am a Managing Director at Goldman Sachs, and head of its Public Sector and Infrastructure business. I am pleased to share with you my perspective on the condition of the nation's infrastructure and proposals for needed improvements.

During my 22 years at Goldman Sachs, I have had the opportunity to live and work in markets around the world, and I have seen the commitment other countries have made to infrastructure. In mature industrial countries such as the United States, it is all too easy to take for granted our vast physical infrastructure. Today, the infrastructure investment deficit in the United States is among the largest in the world – estimated in the findings of the Dodd-Hagel bill at more than $4 trillion for highway, transit, water, and housing alone.

Closing this deficit will not be easy, and it will not happen quickly. Governments at every level must play a major role in providing revenue streams and financing capacity – as in many ways they already do. For example, the federal government provides $40 to 50 billion each year for transportation, funded largely by the 18 cents-per-gallon gas tax. State and local governments primarily finance their needs through the tax-exempt bond market, which currently has about $2 trillion dollars of outstanding obligations. But closing the infrastructure deficit will require tapping *all* available sources of capital: tax-exempt debt, federal government funding tools, *and* private sector funds.

Take for example the Capital Beltway, which is less than ten miles from where we are this morning. Every day more than a hundred thousand drivers use the Beltway, totaling approximately 20 million hours per year – often in slow-moving or bumper-to-bumper traffic. This congestion harms the region's economy, its environment, and its quality of life. But in December, the Commonwealth of Virginia finalized an agreement with a private consortium to construct two additional lanes in each direction along a 14-mile segment, together with other significant improvements and two High Occupancy Toll, or HOT, lanes. This massive construction effort will create more than 4,000 jobs each of the next five years, providing a much-needed economic stimulus.

This almost $2 billion project – like many others – could not have been financed through one source alone. It underscores the need for diverse capital sources, and shows how local governments, the federal government, and the private sector can pool their efforts to offer the most efficient financing. In this case, the Commonwealth of Virginia is providing more than $400 million in grants, the federal government through the U.S. Department of Transportation is facilitating financing of about $600 million, the municipal bond market is providing an additional $600 million, and the private joint venture of Fluor Corporation and Transurban Group is contributing $350 million of equity.

This is just one example of why we at Goldman Sachs believe that, where appropriate, partnerships with the private sector can play an important role in supplementing taxpayer dollars. The Capital Beltway also illustrates the power of using market-based mechanisms supported by new technology such as open-road tolling and dynamic pricing to generate funding. Tolls paid to use the optional HOT lanes will provide the revenue stream necessary to build and maintain the improvements. As states grapple with fiscal pressures, it will in some cases be not only appropriate, but also necessary to rely on such tools.

Already, an increasing number of states are following the lead of nations such as the UK and Canada in leveraging user fees such as tolls or water charges to support tax-exempt and private financings, much as utility fees help to finance new, clean power plants. When it comes to generating the revenues needed to pay for the massive upfront costs of infrastructure, there is no free lunch. This nation needs the political will to make revenue decisions that may be unpopular, including in some instances instituting or increasing user fees such as tolls. And if governments are able to identify those revenues, they will be able to tap into huge pools of private capital, possibly leveraging State and local pension funds such as the California Public Employees' Retirement System, or CALPERS, which recently announced a pilot $2.5 billion allocation to infrastructure to "take advantage of major investment opportunities in the construction of roads, bridges, airports, utilities, water systems and other projects."

As we explore creative ways for the private and public sectors to work together, so too there should be more innovation *within* the public sector. It is clear to me that initiatives along the lines of a federally-sponsored bank such as that proposed in the Dodd-Hagel National Infrastructure Bank Act could act as an important catalyst. In addition to the tangible benefits of the Dodd-Hagel approach, I believe this bill also provides an important statement that our national leaders recognize the urgency of our infrastructure deficit, and are prepared to make the issue a national priority.

To touch briefly on S1926, we believe that the concept of a federally sponsored Infrastructure Bank can serve as a catalyst in four ways. First, pursuant to Section 203 of the bill, the Bank would offer various tools to help project sponsors obtain a competitive and often lower overall cost of financing. Second, as a government entity, the Bank can provide a reliable source of financing when it is most needed: in times of market dislocation and economic stress.

Third, per Section 202, the Bank can bring greater discipline to the process of selecting which infrastructure investments to fund, and in so doing better allocate scarce resources to projects of greatest national or regional significance. Fourth, the Bank could use the inducement of federal financing to encourage innovation in infrastructure funding. Fifth, and perhaps most important, the Bank could serve the constructive purpose of drawing greater public and private attention to this area of pressing need.

Notwithstanding these benefits, we should be mindful of the critical role of risk management to the Bank, including the possibility that it could suffer from adverse selection, or in other words, that it could attract a disproportionate share of applications from projects with weak funding support. It is imperative that the management and directors have extensive experience in credit due diligence, in order to ensure that the Bank is a careful steward of the responsibility that accompanies the grant of the federal government's full faith and credit.

We at Goldman Sachs believe that there are a variety of approaches – including but certainly not limited to private sector participation – that must be combined if we are to close our infrastructure deficit. But importantly there are also a wide variety of benefits, including higher productivity, better quality of life, a cleaner environment, and of course job creation – which is especially important in the current economic environment.

I would like to conclude by thanking Chairman Dodd, Senator Shelby, Senator Hagel and the members of this committee not only for inviting me to testify, but more importantly, for taking this progressive step toward helping the United States and its infrastructure deficit.