



The QTIBs Provision

Los Angeles County
Metropolitan Transportation Authority
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General Explanation of Qualified
Transportation Improvement
Bonds Provision



Metro

Qualified Transportation Improvement Bonds (QTIBs)

This provision would amend section 54 of the Internal Revenue Code to establish a new class of qualified tax credit bonds, called "Qualified Transportation Improvement Bonds" (QTIBs). Qualified tax credit bonds are taxable bonds issued by state, local or other eligible issuers where the federal government subsidizes most or all of the interest cost through granting investors annual tax credits in lieu of interest. 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 Treasury Department for cash. This feature allows the bonds to be sold to investors as interest-bearing obligations, substantially enhancing their marketability over bonds paying investors interest in the form of tax credits.

Congress to date has authorized qualified tax credit bond programs totaling in excess of \$36 billion for forestry conservation, renewable energy projects, energy conservation, qualified zone academies and new school construction. QTIBs would represent a sixth class of such bonds.

QTIBs would be authorized in the amount of \$4.5 billion per year from 2011-2020, or \$45 billion in total. Unissued amounts could be carried forward to a future year. Of the total, 65 percent would be allocable by the Secretary of Transportation for "mega public transportation projects," defined as public transportation improvements that:

- > Significantly reduce emissions of greenhouse gases;
- > Have capital costs in excess of \$1 billion; and
- > Receive no more than 30 percent of their funding from federal grants under title 23 or chapter 53 of title 49.

The remaining 35 percent could be used to finance any highway or transit project eligible under title 23 or chapter 53 of title 49 having a cost of \$10 million or more (qualified transportation improvement projects). This volume would be allocated among the States based on their share of the nation's population. Each State would select the projects to receive volume allocation from its portion of the national limitation.

The Treasury Department would set the maximum reimbursable rate for the bonds marketed each day, at a rate enabling the bonds to be sold at their face (par) amount, without interest cost to the issuer. Every month, the Treasury would establish the maximum permitted final maturity that would result in the discounted present value of the bonds equaling 20 percent of the maturity value (i.e., an effective 80 percent federal share, consistent with other federal surface transportation assistance programs) – provided in no case would the bond maturity extend beyond 35 years. While this is a deeper federal subsidy than the 50 percent level for other types of qualified tax credit bonds, it is justifiable based on the long-lived nature of transportation investments and their substantial public benefits (pollution reduction, energy conservation, job creation and economic development, etc.)

As proposed, QTIBs would allow issuers to finance more than twice the dollar value of capital improvements than is possible with traditional tax-exempt bonds for any given annual revenue stream. QTIBs should not only stimulate greater investment but also take pressure off of the conventional federal grant programs.