



# The QTIBs Provision

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

# 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.

## FINAL DRAFT OF 9/23/2010

### SEC. \_\_\_ QUALIFIED TRANSPORTATION IMPROVEMENT BONDS.

(a) IN GENERAL.—Subpart I of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986, is amended by adding at the end the following:

#### “SEC. 54G. QUALIFIED TRANSPORTATION IMPROVEMENT BONDS

“(a) DEFINITIONS.—In this section, the following definitions apply:

“(1) QUALIFIED ISSUER.—The term ‘qualified issuer’ means a State or local governmental body which is authorized to design and construct a qualified transportation improvement project.

“(2) QUALIFIED TRANSPORTATION IMPROVEMENT PROJECT.—The term ‘qualified transportation improvement project’ means a project or program of related projects that—

“(A) is eligible for assistance under title 23 or chapter 53 of title 49, United States Code;

“(B) satisfies the Federal requirements applicable to such assistance; and

“(C) has an estimated total capital cost of not less than \$10,000,000.

“(3) MEGA PUBLIC TRANSPORTATION PROJECT.—The term ‘mega public transportation project’ means a qualified transportation improvement project that—

“(A) is for the design, acquisition, construction, or rehabilitation of facilities for use in public transportation that significantly reduce emissions of greenhouse gases;

“(B) has an estimated total capital cost in excess of \$1,000,000,000; and

“(C) receives not more than 30 percent of its funding for capital costs from Federal grant funds made available under title 23 or chapter 53 of title 49, United States Code.

“(b) QUALIFIED TRANSPORTATION IMPROVEMENT BOND.—For purposes of this subchapter, the term ‘qualified transportation improvement bond’ means any bond issued as part of an issue if—

“(1) 100 percent of the available proceeds of such issue are to be used for qualified transportation improvement projects;

“(2) the bond is issued by a qualified issuer within the State in which such projects are located; and

“(3) the issuer designates such bond for purposes of this section.

“(c) LIMITATION ON AMOUNT OF BONDS DESIGNATED.—

“(1) NATIONAL LIMITATION.—There is a national qualified transportation improvement bond limitation of \$4,500,000,000 for each of calendar years 2011 through 2020, and, except as provided in subsection (f), zero after 2020.

“(2) ALLOCATION AMONG THE STATES. — The Secretary of Transportation shall allocate 35 percent of the national limitation under paragraph (1) for each calendar year among the States in proportion to their population as a percentage of all States’ population according to the most recent decennial census. The limitation amount allocated to a State under this paragraph shall be allocated by the State to qualified issuers for qualified transportation improvement projects in such State.

“(3) ALLOCATION FOR MEGA PUBLIC TRANSPORTATION PROJECTS. — The Secretary of Transportation shall allocate 65 percent of the national limitation under paragraph (1) for each calendar year among qualified issuers for mega public transportation projects with identified repayment sources in such manner as the Secretary determines appropriate. The Secretary may make an allocation for a mega public transportation project under this paragraph on a multi-year basis in accordance with the financing requirements of such project. In such a case, the Secretary shall identify the total amount of the intended allocation, and shall make a specific allocation for the initial calendar year and specify the intended allocations for future calendar years.

“(d) LIMITATION ON AMOUNT OF BONDS DESIGNATED.—The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (b)(3) by any qualified issuer shall not exceed the limitation amount allocated to such issuer under subsection (c) for that calendar year.

“(f) CARRYOVER OF UNUSED LIMITATION.—If:

(i) the amount of bond limitation allocated by the Secretary of Transportation to a State or a qualified issuer under subsection (c) for any calendar year exceeds

(ii) the amount of bonds issued by the State or qualified issuer during that calendar year which are designated under subsection (b)(3), the limitation amount under such subsection for such State or qualified issuer for the following calendar year shall be increased by the amount of such excess.” .

(b) CONFORMING AMENDMENTS.—

(1) CREDIT TO HOLDERS OF QUALIFIED TAX CREDIT BONDS.— Section 54A(d) of the Internal Revenue Code of 1986 is amended—

(A) in paragraph (1)—

(i) by striking “or” at the end of subparagraph (D);

(ii) by inserting “or” at the end of subparagraph (E); and

(iii) by inserting after subparagraph (E) the following:

“(F) a qualified transportation improvement bond,”.

(B) in subparagraph (C) of paragraph (2)—

(i) by striking “and” at the end of clause (iv);

(ii) by striking the period at the end of clause (v) and inserting “, and”; and

(iii) by adding at the end the following:

“(vi) in the case of a qualified transportation improvement bond, a purpose specified in section 54G(b).”.

(C) in subparagraph (B) of paragraph (5), by inserting before the period at the end of the second sentence “, except that for qualified transportation improvement bonds specified in section 54G (b)(1), the applicable percentage shall be 20 percent, but in no case shall the maximum term of such bonds exceed 35 years”.

(2) CLERICAL AMENDMENT.-- The analysis for subpart I of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986, is amended by adding at the end the following:

“Sec. 54G. Qualified transportation improvement bonds.”.

(4) Subparagraph (A) of Section 6431(f)(3) of the Internal Revenue Code of 1986 is amended by striking “or” at the end of clause (iii), by inserting “or” at the end of clause (iv), and by adding at the end the following new clause:

“(v) a qualified transportation improvement bond (as defined in section 54G(b)(1)).”.

(c) EFFECTIVE DATE.— The amendments made by this section shall apply to obligations issued after the date of the enactment of this Act.