

**NATIONAL ACADEMY OF
PUBLIC ADMINISTRATION**

Transforming Infrastructure Investment for America's 21st Century Economy:

***Creating a Financial Market for Infrastructure Buildout Called-
"Partnership for Investing in America"
(PIA)***

April 2017

Credits

The program suggestions described above have been generated by Intergovernmental Panel of NAPA and includes input from The Infrastructure Finance Education Working Group that participated in the Intergovernmental Panel.

Introduction

There is political consensus around the need to renew and rebuild America's infrastructure, and President Trump has identified this as an Administration goal. But America lacks both the funding and the governance mechanisms to meet the challenge. This proposal offers a new framework to supplement the current convoluted maze of appropriated infrastructure funding, public-private partnerships, and other sources. The new approach provides the path to creating a market with sustained "deal flow" for large-scale private-sector funding of infrastructure. It is not predicated on a national infrastructure program but rather is driven from the bottom up relying on those public and private stakeholders at the local and regional level to "bring to market" fundable and politically viable projects. Developing a new partnership among federal, state and local governments and business creates the marketplace.

GENERATING \$1 TRILLION

The proposal as designed could generate slightly more than the \$1 trillion the President has called for over the next ten years. The cost of the proposal over ten years is \$75 billion to be expended in the early years so that the employment of 13.3 million direct jobs and 25 million jobs generated by this proposal can be realized. For every dollar of federal expenditure there will be over thirteen dollars of direct infrastructure investment; the multiplier and growth effect on the nation's economy and the taxes generated would offset the reduction in dollars to the federal budget.

Even more important, the increase in economic activity and the improvements in the nation's competitive advantage gained by the reinvigorating and building the supply chain regions, primarily rural, could regenerate the nation's economy and alter the growth rate of the country.

ADVANTAGES OF OUR PLAN

- Effectively links the much-needed funding/project deal flow, efficiently generated at the regional level, with the federal financing provisions described earlier.
- While 78% of infrastructure projects are planned, permitted and financed at the local level, this establishes a unified national infrastructure market place with regional coordination, new technology, competition and innovation and risk transfer.
- Standardizes and pools projects across sectors and creates larger, recurring, predictable deal flow.
- Attracts capital on a larger scale— from infrastructure (pension) investors interested in long-term, yield oriented, low- inflation risk, performance based assets.
- Lowers financing costs by reducing financial friction/increasing efficiency.

- Balances Federal oversight with new technology, competition, regional innovation, and priorities - bottom-up vs top-down approach.
- Requires a comparator process to determine optimum financing methodology, time value of money.
- A unified infrastructure financing market enables the Federal government to work with State and Local authorities in partnership.

A NEW RELATIONSHIP WITH THE FEDERAL GOVERNMENT

- Rather than the hierarchy of the past intergovernmental system, this new partnership would call for federal participation as an investment participant to increase the financial viability of the investment program capacity to accomplish desired public goals as opposed to director of activity in a hierarchical structure. This change in stance will assist, enhance and encourage investment programs to come forth and create a pipeline of investment opportunities.

LEVERAGING FEDERAL FUNDING

- Private sector funding, to supplement appropriated monies and existing public-private partnerships, is available to satisfy much of the unmet funding requirement for a U.S. infrastructure renovation, from private, pension and insurance sources, provided the investments can generate reasonable rates of return and address real priorities in the local and regional economies they serve.
- Existing Federal Programs require state, regional and local entities to prepare plans and programs to be prepared for use of federal and state funds. Altering this approach will enable financially viable procurements to be developed. Changes include providing **performance incentive grants** to prepare business plans that demonstrate how existing programs and new beneficial use funding streams can be used, involving pricing and value capture from development activities.
- Changing procurement approaches for **federal assets (e.g., FAA NextGen Air Traffic Control; Army Corps Water Resource Projects, GSA Buildings; etc.)** will streamline how these assets are developed but will also enable them to become partners in the investment strategies of the PFA's instead of separate and at times disjointed activities.
- Certain projects with large spillover effects in both rural and urban areas will need additional support than tax credits, credit enhancements to be viable. **Qualified tax credit bonds** that are strategically utilized and leveraged will enable business plans with large spillover effects to become viable.

- Similarly, some investment programs have high capital costs and are necessary investment programs that lower risk profiles or need to be combined with investments that receive preferential treatment under existing IRS rules. To level the playing field **an enhanced activity bond program** is suggested.
- These assists to incentivize locals and deal with investment strategies will assist in the development of investment programs. Once developed and business plans developed and efficient procurement tools, e.g. partnerships are utilized and securitized loans are brought to market, the sheer size of the financial request may cause concerns for the marketplace for these securities. **Strengthened Format for Federal Credit Enhancement are suggested** to deal with this issue. Experience to date has shown that without federal participation in financing take out on large projects either there is no interest or willingness of the market to participate, or the cost of capital becomes very high. Given the size of the investment portfolios that could be developed, this element of the program is essential. Furthermore, it provides the greatest leveraging of federal participation.

PUBLIC FINANCE AUTHORITIES – URBAN AND RURAL

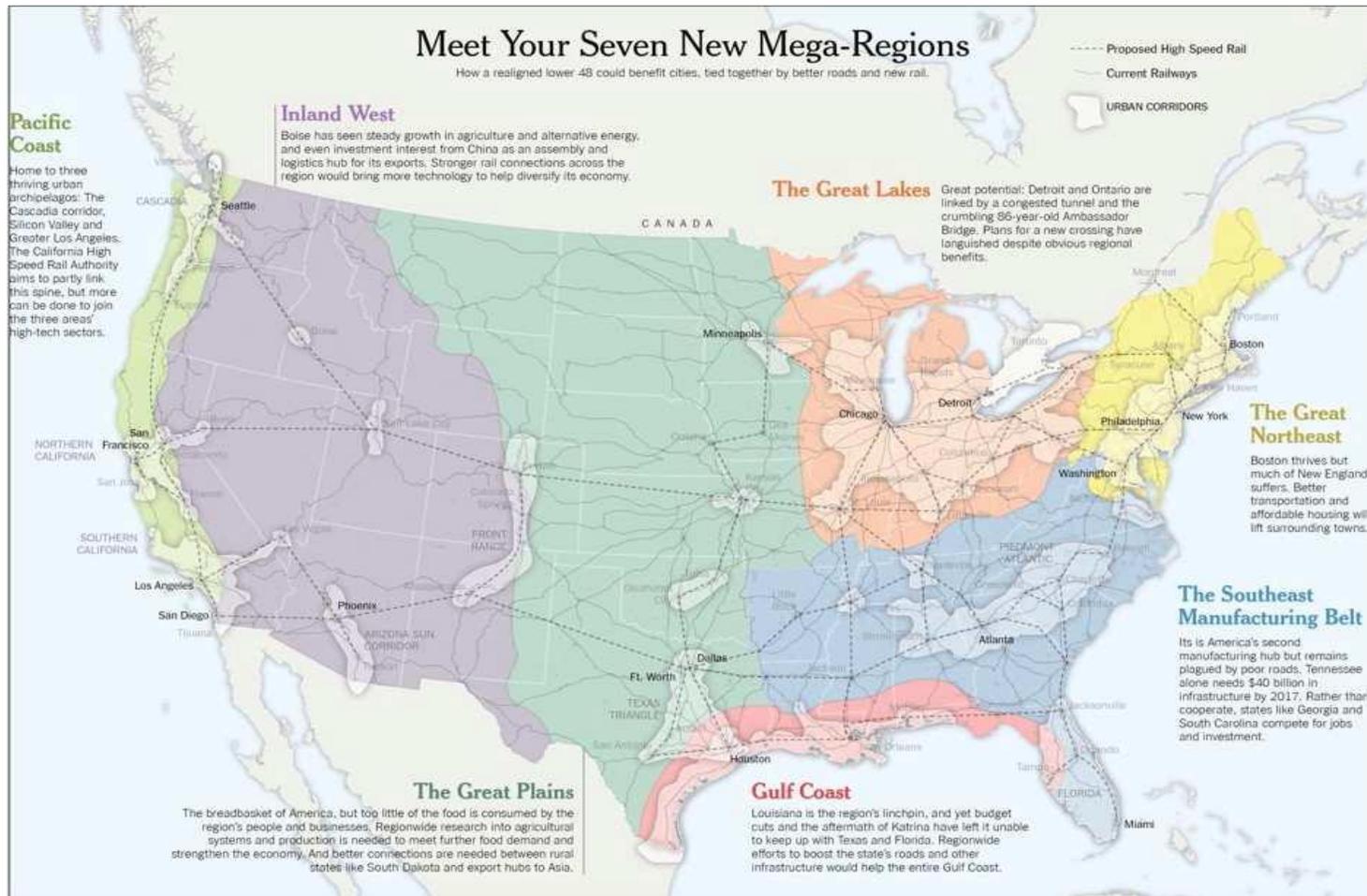
- Funding Streams generated by those who benefit from these investments, that are bundled and coupled with existing programs, used to pay the financiers of these investments -though innovative financing and procurement programs- is the essence of this program.
- The key is to incent the local, regional and state agencies in the country that can bring these funding streams to the table, including existing programs using availability payments, through bottom-up established Public Funding Authorities. Over the past decade over 32 states have created parts of the legal authority to do this, and California and New York have totally moved in this direction. PFA's have the authority to enter partnerships with the private sector to procure and implement these investment programs. This proposal takes what the innovators are doing and transforms them into a national effort..
- These PFA's can fund all infrastructure to support the economic growth and mitigation that supports economic growth in both urban and rural regions and increases wealth creation in the country and fund the mitigation needed to support growth which also increases values within our communities
- The approach of PFA's will be business plans with return on investment (ROI) calculations that show that benefits will generate the funding to pay the costs of achieving publicly established goals, including a consideration of the value of money over time. They have the capacity to sell securities in the marketplace and access the available and needed capital by issuing securities in capital markets. These efforts can be accelerated by the provisions of this proposal designed to incent these innovations and accelerate their deployment to achieve and exceed the goals established by the President.

- To be eligible for Federal credit enhancement and financial assistance the investment partners will participate in environmental streamlining efforts outlined by the administration and use performance criteria in their decision-making processes. Criteria could include: transparency and consistency in value for money analysis, life cycle assessment of project risks and cost, asset management and maintenance schedules, multi-modal and multiple problem solving investments, multiple revenue streams including value capture, maintenance funding (rainy day) set aside.

FOCUS ON THE SUPPLE CHAIN TO SPUR GROWTH AND IMPROVE NATIONAL COMPETITIVENESS

- Attracting the new private funding sources on a large scale requires a different, broader approach to estimating the value of infrastructure investments, considering the full economic benefits to the community from the investment and working from business plans that align investment decisions with regional and local priorities.
- A critical issue in economic competitiveness is moving freight, i.e., simply moving product from one place to another over various types of infrastructure. When companies decide where to invest and hire – a long-term decision -- the quality of supply chain infrastructure plays a role in that decision. It can determine whether the U.S. firm can meet global prices and compete in the market. Supply chain operations are central to modern business strategy. Driven by considerations of supply chain speed and reliability, company decision makers are working in an area where defects in infrastructure cannot be easily or quickly corrected. Similarly, for governments interested in long-term planning to attract industry, the quality of supply chain infrastructure plays a critical role.
- As a general matter, the local companies and their suppliers in an area, know well where the problems in infrastructure occur, and they need to be engaged early in setting the priorities for infrastructure investment. By bringing these kinds of decisions and expertise into settings like PFAs, it is possible to make decisions that maximize the infrastructure investment's commercial benefits and ensure as well that the full range of community, development, quality of life, environment, and other interests in the community and region are included early in the process.
- The PFA concept enhances the value of the chosen investments by providing a path to secure broad public support for a project, backed by a business plan for the investment that links to commercially viable business plans focused on building a community's place in global supply chains.
- The economic benefits will be clearer for engaging the key commercial interests, at the local and regional level, in choosing projects linked to business and employment in the region. The process of setting priorities through a more open, locally driven process will reduce the project approval and implementation times by identifying key issues and finding solutions across the communities early in the process. Finally, the locally driven process provides a path in which there is more civic

engagement tailored to the needs of communities, rather than relying on the Federal level to drive the design and funding of projects.



NEXT STEPS

1. Governors should be encouraged to pass legislation in those states that do not have PPP laws and PFA legislation (New York and California could be used as templates for PFA's), so that all states and locals can take advantage of these provisions- **Public Interest Groups**.
2. States should be empowered by Congress to be able to establish multi-state regional project finance authorities that are authorized to receive federal incentive/planning grants and federal long term credit enhancement loans, matched with private capital, for regional investment grade rated projects. The pre-approval provision for a multi-state approval contained in the State Infrastructure Bank legislation if expanded and including the multi-state environmental streamlining of the FAST Act could be a point of departure for **Congress**.
3. **Federal departments and agencies** would continue to make planning/seed grants and provide project assistance under their existing programs. They would also help with developing credit enhancements for federal support. They would also conduct the streamlining of regulations and permitting provisions spelled out in the FAST Act. This would be a require step in obtaining credit enhancement spelled out next.
4. **Treasury** would be the credit enhancement/lending platform (Fund or Authority)-wholesaler and take the lead in creating "real deal flow" for infrastructure financing. Treasury would create a "loans to funders" for the PFA's like the "loans to lender" format for housing. Existing credit enhancement **Congressional** authorization and **Executive Order** clarification will be needed.
5. **Congressional** clarification and reauthorization of existing tax-credit bonds, private activity bonds and procurement provisions for federal assets.
6. Given the number of responsibilities throughout the intergovernmental system and across the sectors public, private and even non-profits, there needs to be a **point office within the Whitehouse** to co-ordinate this effort.

Performance Incentive Innovation (PII) Grants

Summary:	Discretionary capital grant program for P3 projects <i>(Like successful efforts in Canada and Australia.)</i>
Policy Rationale:	<ul style="list-style-type: none"> ▪ Need to reform procurement practices that currently favor low cost capital bid and instead encourage full life cycle perspective on capital, operations and maintenance costs. ▪ A performance Innovation Initiative (PII) will help build new capacities to leverage public benefits of risk transfer, accelerate project delivery, free up existing funds for other investments and (through pre-development grants) grow the pipeline of investible projects.
Program Design:	<ul style="list-style-type: none"> ▪ \$20 billion, made available at \$2B/year over a 10-year period. ▪ Designated federal agencies with innovative financing programs (or a national financing authority, if established) would make grant awards for up to 20% of project costs. ▪ 5-10% of funding (\$100-200 million/year) set aside for pre-development and business planning costs. ▪ Public Finance Authorities would be eligible so long as their proposals address life cycle performance criteria (to be developed by the National Academies/TRB and NAPA under their congressional charters).
Advantages:	<ul style="list-style-type: none"> ▪ Simple/straightforward to administer and understand. Successful precedent in Canada. ▪ Covers up to 20% of project costs, lowering required user charges or tax supported payments. ▪ Available for both governmental and P3 projects that use “best practices,” including benefit cost and value-for-money analyses. ▪ 5:1 leverage ratio, or greater.
Budget Impact:	<ul style="list-style-type: none"> ▪ Grants would require discretionary Budget Authority (BA) of \$2 billion/year.

Federal Procurement Approach for Critical Federal Assets

Summary:	<p>Authorize certain types of critically-needed federal assets to be procured as Design-Build-Finance P3s to accelerate acquisition and shift risks: Critical Asset Procurement Reform (“CAPR”) Program.</p> <p><i>(Examples: FAA NextGen Air Traffic Control; Army Corps Water Resource Projects; VA Hospitals; GSA Buildings)</i></p>
Policy Rationale:	<ul style="list-style-type: none"> ▪ Federal budget constraints (including lack of capital budgeting) delay procurement of key capital-intensive assets – resulting in short-term, less efficient federal asset acquisitions and deferring public benefits.
Program Design:	<ul style="list-style-type: none"> ▪ Pilot program would authorize a P3 approach to support up to \$60B of financing for designated large federal assets. Private partner would design, build, and finance the construction phase. Possibility of outsourcing ongoing asset maintenance for certain types of projects, with compensation tied to asset performance. ▪ Private construction loans would be retired by the procuring federal agency at project acceptance, using the proceeds of a Treasury loan to the federal agency. ▪ Annual debt service cost under CAPR—rather than the asset value—would be scored in the federal budget, along with any annual payments for asset maintenance and renewal predicated upon performance. ▪ Operations could be federal or out-sourced, depending upon program.
Advantages:	<ul style="list-style-type: none"> ▪ Significantly shifts project development risk and potentially long-term performance risk to private sector. ▪ Provides “capital budgeting” treatment for designated, critically-needed, large-scale assets that cannot be readily funded from participating agencies’ annual budgets. ▪ Minimizes incremental financing cost of P3 project delivery by confining private finance to the construction period. ▪ Retains longstanding OMB Operating Lease rules for “routine” federal asset acquisitions.
Budget Impact:	<ul style="list-style-type: none"> ▪ CAPR payments would be funded within agencies’ normal annual appropriations, so deficit-neutral. ▪ Would use special borrowing authority from Treasury to fund takeout of interim financing – the loan would not be scored as discretionary spending under current caps (like FCRA financing account transactions).

Qualified Tax Credit Bonds

<p>Summary:</p>	<p>New volume-capped state/local Qualified Tax Credit Bond program for transportation and water projects <i>(like Wyden-Hoeven proposed TRIP Bonds and LA Metro’s proposed America Fast Forward Bonds; could also include P3 projects.)</i></p>
<p>Policy Rationale:</p>	<ul style="list-style-type: none"> ▪ Certain high priority projects with large public “spillover” benefits require a deeper subsidy than tax-exemption or TIFIA/WIFIA federal credit assistance to be financeable. ▪ Uses annual tax credits under the tax code to generate a 50%+ PV benefit to borrower/project sponsor.
<p>Program Design:</p>	<ul style="list-style-type: none"> ▪ \$10 billion/year of volume cap over 10 years (\$100 billion total program). ▪ Federal government effectively pays most or all the interest on bonds via an annual nonrefundable tax credit; issuer uses local sources (dedicated taxes, user charges, etc.) to repay the principal. ▪ Allocation: <ul style="list-style-type: none"> ○ Volume cap would be allocated to transportation projects and to drinking water / wastewater projects (based on assessment of national investment needs and financing capacity). ○ Part of volume in each sector would be <i>discretionary allocation</i> by designated federal agencies (or National Infrastructure Fund) for major projects of national / regional significance. ○ Balance of volume would be <i>formula allocation</i> to the states for state/local projects. ▪ Marketability would be enhanced by allowing tax credits to be applied against <i>non-FICA</i> withholding tax on wages and retirement benefits (which should attract pension funds and life insurance companies).
<p>Advantages:</p>	<ul style="list-style-type: none"> ▪ Bonds could finance both governmental and P3 projects. ▪ Treasury, not bond underwriter, determines the interest subsidy level (tax credit rate); intended to allow bonds to be sold at face value, without requiring issuer to supplement with cash interest. ▪ No contingent liability to the Federal Government if project defaults, unlike federal credit. ▪ Fiscal cost is known at outset due to volume cap (unlike Build America Bonds).
<p>Budget Impact:</p>	<ul style="list-style-type: none"> ▪ Program needs to be volume capped to limit tax expenditures (estimated at ~20% of face amount of bonds, or ~\$20 billion for the proposed \$100 billion program).

Enhanced Private Activity Bonds

Summary:	Unlimited tax-exempt debt volume for P3 “public use” infrastructure <i>(Like proposed Qualified Public Infrastructure Bonds-QPIBs proposed in FY 2017 Budget Revenue Measures / Treasury “Green Book.)</i>
Policy Rationale:	<ul style="list-style-type: none"> ▪ P3 projects offer benefits of risk transfer and project acceleration, but have higher cost of debt capital. This program helps “level the playing field.” ▪ Program would homogenize the patchwork of different IRS rules today for various projects that qualify for PAB categories (airports, seaports, highways, transit, water, etc.).
Program Design:	<ul style="list-style-type: none"> ▪ Projects must be governmentally-owned but would use P3 procurement. ▪ State and local agencies could serve as conduit issuers of debt for projects with private participation (management, equity investment, etc.) with no federal volume cap limitation. ▪ Bonds would not be subject to Alternative Minimum Tax (AMT).
Advantages:	<ul style="list-style-type: none"> ▪ No need for federal involvement in authorizing project debt. ▪ No federal exposure to credit risk.
Budget Impact:	<ul style="list-style-type: none"> ▪ 10-year scored cost is modest, perhaps \$5 billion in tax expenditures for uncapped volume, based on Joint Committee on Taxation (JCT) budget analysis of QPIBs (JCX-50-15). ▪ Implied issuance volume (projected by JCT) of ~\$10 billion/year.

Strengthened Platform for Federal Credit

<p>Summary:</p>	<p>Designate a single government entity to administer infrastructure credit assistance programs <i>(It could be either a newly-established National Infrastructure Authority or “Fund” – or a repurposed existing entity, such as the Federal Financing Bank within Treasury.)</i></p>
<p>Policy Rationale:</p>	<ul style="list-style-type: none"> ▪ Currently, each federal agency with a credit program separately manages its loan and loan guarantee portfolios (Agriculture, Energy, EPA, Transportation, etc.). <ul style="list-style-type: none"> ○ There is a lack of coordination, consistency and implementation of best practices. ○ Risk of “moral hazard” in having the federal agencies serve as both project promoters and credit providers. ○ A single, professionalized, comprehensive platform is needed to accommodate the different infrastructure sectors (one entity with multiple “lending windows”). ▪ Expert board of directors (not political appointees) would improve governance.
<p>Program Design:</p>	<ul style="list-style-type: none"> ▪ Entity would underwrite loans/guarantees for existing as well as any new federal credit programs. ▪ Professional staff and majority non-political independent board. ▪ Line Agencies (DOT/Build America Bureau, DOE/LPO, EPA, RUS, etc.) would continue to be responsible for assisting project applicants seeking credit assistance.
<p>Advantages:</p>	<ul style="list-style-type: none"> ▪ Credit review and surveillance would be autonomous from project advocates within federal agencies. ▪ Provides consistency and better accountability for credit programs; should be more cost-effective than the current fragmented structure.
<p>Budget Impact:</p>	<ul style="list-style-type: none"> ▪ \$25B over 10 years could support \$250B of loans assuming average loan subsidy costs of 10%, consistent with TIFIA. ▪ Should result in enhanced financial management, based on administrative cost efficiencies and improved risk management and underwriting practices.

Summary of Potential Program Activity over 10 Years: Billions

Proposal		Est. Budget Cost	Net Investment Effect	Description of Budget Cost and Investment Effect Assumptions
CAPR – Critical Asset Procurement Reform – Program	\$ 60	\$ 0	\$ 40 (net)	The estimated net investment effect of \$40 billion is lower than the \$60 billion authorized program size for 2 reasons: Part of the reduction reflects accumulated interest expense during construction that is taken out with permanent financing; the balance is attributable to the fact that participating Federal agencies will have to reduce pay-as-you-go capital outlays for other projects in later years to accommodate annual debt service payments. No incremental budget score is assigned because the cost (annual debt service and any annual performance payments) is assumed to be funded from within current annual spending levels of the participating agencies.
Tax Credit Bonds (AFF Bonds / TRIP Bonds)	100	20	100	This program would authorize \$10 billion per year of qualified tax credit bonds over 10 years for \$100 billion of projects that are assumed to be entirely debt-financed. The estimated budget cost represents tax credits (tax expenditures) granted over the first 10 years (budget window).
Performance Incentive Innovation (PII) Grants	20	20	90	This program would offer grants for P3 projects covering up to 20% of project costs to reduce the cost of capital differential between P3 and municipal projects. \$2 billion of grant funding would be made available each year for 10 years, with 5%-10% set aside to help fund project pre-development costs. No “investment effect is attributed to the planning grants.
Enhanced Private Activity Bonds (QPIBs)	100 (no formal volume cap)	5	70 (net)	Although there would be no federal volume cap on the program, we have conformed the program size estimate to assumptions used by the Joint Committee on Taxation in its analysis of QPIBs. The net investment activity is somewhat lower than the gross program volume, because a portion of the induced PAB volume is either reflected in the P3 Grants investment estimate above or is assumed to be a substitution for debt of projects that would have been financed by other means in any event.
Strengthened Platform for Federal Credit (NIF)	250	25	725 (net)	It is assumed that a new infrastructure fund (or “bank”) would receive \$10 billion of funding to support the credit subsidy costs of new federal lending to infrastructure projects over and above current federal credit program activity. Assuming a maximum federal share of 33% (like TIFIA), produces total capital investment of about \$750 billion. However, it is assumed that about \$25 billion of the fund’s activity would be associated with projects also receiving P3 Grants, reducing the net to \$725 billion.
Total	\$ 380	\$ 75	\$ 1,025	14:1 Blended Ratio of Net Investment Effect to Budgetary Cost Using the CEA metric of 13,000 job-years per billion spent on transportation investment, these measures could generate 13.3 million jobs over 10 years.

