



Creating a Financial Market for Infrastructure and Economic Development

“Partnership for Investing in America”

(PIA)

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[Introduction](#)

There is political consensus around the need to renew and rebuild America’s infrastructure, and President Trump has identified this as a goal. But America lacks both the funding and the governance mechanisms to meet the challenges. The proposed new approach of creating Urban and Rural Public Finance Authorities provides a path to creating a market with sustained “deal flow” for large-scale private-sector funding of infrastructure and economic development that can assist this effort. It creates a national program by relying on public and private stakeholders at the local, regional, state and interstate levels to bring to financially and politically viable projects made possible by governance structures and funding streams that bring organizations together in partnerships. Federal resources, programs and assets are used to incentivize and create these partnerships for infrastructure and economic investments to assist in meeting the needs of the nation. A (new partnership and funding streams, (developed by the proposals in this paper) among federal, state and local governments and business creates the marketplace. Even more important, the increase in economic activity and the improvements in the nation’s competitive advantage gained by reinvigorating and enhancing the supply chain regions (a combination of rural and urban states explained below), could regenerate the nation’s economy and alter the growth rate of the country.

A New Intergovernmental Approach- Creating Urban and Rural Public Finance Authorities

Funding Streams generated by those who benefit from these investments are bundled and coupled with existing federal programs, using availability payments structures-, pay the financiers of these investments (private and public) through innovative financing and procurement programs, are the essence of this program.

The economic benefits of creating urban and rural Public Finance Authorities will emerge by engaging the key commercial interests, at the local, regional, and state level, in choosing projects linked to business and employment in their 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 a reliance on the Federal level to drive the design and funding of projects.

- PFAs are authorities created by state or local agencies- cities, counties, special purpose districts, that create unified funding structures. They are financial and accountability governmental entities and not operating entities.
- PFAs, if implemented throughout the nation, can assist in funding the needed infrastructure and economic development investments that have a public purpose and the environmental mitigation needed to support the economic growth in both urban and rural regions of the nation.
- PFA's will create business plans with return on investment (ROI) calculations that show that benefits and increased value generated by the investments will generate the financial resources to cover the costs of achieving publicly established goals.
- They will access available capital, subject to a full risk analysis of the nature of this long term debt, by issuing securities in capital markets purchased by pensions, insurance companies and private equity investors.
- Rather than the pay-as-you-go grant programs of the past intergovernmental system, this new partnership would call for federal participation as an investment participant with PFAs to increase the financial viability of the investment programs to accomplish desired public goals. Many critical federal assets are currently precluded from being part of intergovernmental partners).
- A unified infrastructure financing market enables the federal government to work in a new partnership with State, Regional and Local authorities. This change will assist, enhance and encourage investment programs to come forth and create a pipeline of investment opportunities.
- Attracting new funding sources on a large scale requires a broader approach to infrastructure investment, considering the full economic benefits to the community including the value created by the investments.
- Infrastructure investments and economic development also increase wealth within our communities, which can be utilized to fund these investments through value capture provisions. Forty-nine states currently have some form of value capture funding authority. The size of the value capture funding streams is surprising large and could significantly assist in meeting our national funding shortfall.

- Planning methodologies need to be altered to include all beneficial use revenues including capturing value from development and infrastructure improvements; and by forming business plans that align investment decisions with state, regional and local priorities.
- To mobilize and accelerate these partnerships, the federal government would incentivize the local, regional, state and inter-state agencies in the country to attract funding streams. Over the past decade, all states have created parts of the legal authority to do this, and California and New York are examples of using this approach.
- PFAs have the authority to enter partnerships with the private sector to procure and implement these investment programs. *(This proposal takes what the innovators in our state experiments are doing and transforms them into a national effort.)*
- New technology and innovation which can reduce costs and solve existing problems, can be more easily introduced with the goal/outcome approach of investment strategies that are supported by business plans.
- To be eligible for federal credit enhancement and financial assistance, the investment partners will be required to participate in two concurrent processes. One, environmental streamlining efforts outlined by Congress and the Administration. Two, the use of performance criteria in their decision-making processes. The performance criteria 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, and maintenance funding (rainy day) set asides.
- This federal financial assistance needs to be evaluated against other forms of federal debt issuances on the basis of the greatest contribution to national interests and goals.

SUPPLY CHAIN FOCUS TO SPUR GROWTH AND IMPROVE NATIONAL COMPETITIVENESS

A critical issue in economic competitiveness is moving freight, i.e., simply moving product and sales from one place to another over various types of infrastructure that supports the innovation of “just in time” production and marketing. Supply chain operations are central to modern business strategy for production and marketing. When companies are making long-term decisions about where to invest and hire, the quality of supply chain infrastructure plays a role in that decision. It can determine whether a U.S. firm can meet global prices and compete in the market. 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, particularly inter-state supply chain regions, 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

- Federal Legislation which enables states to establish interstate PFA's if they bring forward investment programs and business plans that fund the investments would provide a framework to address this national problem. California's PFA legislation could be used as a template for this legislation.



ADVANTAGES OF THIS GOVERNANCE APPROACH:

- Attracts capital on a larger scale from investors: pension plans both public and private, insurance, private equity and debt and international funding interests that are interested in long-term, yield oriented, low- inflation risk, or performance based assets.
- Effectively links the much-needed funding with project deal flow, efficiently generated at the local, regional and state(s) level.
- Establishes a unified national infrastructure market place linking 78% of infrastructure projects that are currently planned, permitted and financed at the sub-national level with federally financed programs, assets and lands.
- Standardizes and pools projects across sectors and currently separated programs, and creates larger, recurring, predictable deal flow.
- Lowers financing costs.
- Balances federal involvement with new technology, competition, regional innovation, and priorities using a bottom-up approach.
- Requires a performance based evaluation process to determine optimum financing methodology that looks at the time value of money and utilizes performance based decision-making processes.

A NEW RELATIONSHIP WITH THE FEDERAL GOVERNMENT

Existing Federal Programs require state, regional and local entities to prepare plans and programs to be prepared for use of federal and state funds. These programs and capacity will be complemented with this new initiative by altering the planning and decision-making of the existing processes by introducing business plans where benefits are calculated as revenue streams that will amortize life cycle costs. Adopting this approach will enable financially viable procurements to be developed.

Congressional Actions:

- Alter existing planning and programs to include **performance incentive grants** to prepare business plans that demonstrate how existing programs and new beneficial use funding streams can be used, including pricing and value capture from development activities.
- Alter procurement approaches for **federal assets (e.g., FAA NextGen Air Traffic Control; Army Corps Water Resource Projects, GSA Buildings)**, enabling them to become partners in the investment strategies instead of separate and at times disjointed activities. Additionally, the budgeting and scoring provision would be altered to allow them to be part of financing structures.
- Certain projects with large spillover effects in both rural and urban areas will need additional federal support. Existing authorized **Qualified tax credit bonds** that are strategically utilized 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.
- Experience to date has shown that without **federal participation in financing**, take out financing on large projects will have low market interest and 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. A **Strengthened Format for Federal Credit Enhancement is suggested** that would enable the eight existing programs to be coordinated, allowing integration and an enhanced administrative process.
- States should be empowered by Congress to be able to **establish multi-state regional project finance authorities (PFAs)** 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.

Executive Actions:

- Federal departments and agencies would continue to make **planning/seed grants** and provide project assistance under their existing programs. Additionally, they would utilize the suggested tools to incentivize states), regions and locals to create PFAs. 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 PFAs), so that all states and localities can take advantage of these provisions.
- Governors would conduct the **streamlining of regulations and permitting** provisions spelled out in the FAST Act enhancement.
- The **Department of the 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 PFAs like the “loans to lender” format for housing. Congressional authorization and Executive Order clarification will be needed for existing programs.

(Attached is a more detailed explanation of the program components developed by the Performance Infrastructure Review Committee that participated with our Intergovernmental Standing Panel.) These financing structures should be evaluated against several criteria that addresses impact on national debt, existing capital markets where a hybrid instrument might drive investor uncertainty, the Treasury bond/bill market issuance requirements and an assessment of the best approach to align use of federal instruments with achieving national goals and objectives.

