HARNESS PRIVATE SECTOR INVESTMENT POTENTIAL

Improve Federal Infrastructure Financing Programs

Most infrastructure in the United States is financed by private investors. The most common financing mechanism is tax-exempt debt issued by states, cities, counties, and other public authorities. Because the interest earned on that debt is exempt from federal taxation, it is attractive to investors who have tax liabilities. This form of private investment in infrastructure remains a vital part of solving America's infrastructure challenge.

But private capital is diverse. Investors have different characteristics in terms of risk tolerance, tax status, and expected return. Recognizing this, the federal government supplements tax-exempt bonds with a variety of other financing programs. These options bring additional investors to the table, generating more capital for infrastructure. Yet, with some improvements, they could be doing even more.

Financing is different than funding. ***Funding*** *does not need to be repaid. Financing must be repaid with interest in the future.* ***Financing*** *allows projects to be completed faster and spreads the payments for an infrastructure asset over the life of the asset.*

Federal Infrastructure Financing Programs

TIFIA/WIFIA. The Transportation Infrastructure Finance and Innovation Act (TIFIA) offers loans, loan guarantees, and letters of credit to surface transportation projects, and its water counterpart, WIFIA, finances clean water and drinking water projects. Both programs offer assistance at favorable interest rates with deferred repayment, flexibility which can be essential for infrastructure projects but is not typically available in the private market. They can finance only up to 49 percent of a project's cost, so their loans are used in combination with other public or private financing. According to USDOT, each $1 Congress provides for TIFIA yields up to $14 in credit assistance and supports up to $40 in infrastructure investment.[1]

Private Activity Bonds. Private activity bonds (PABs) complement the tax-exempt bond market by extending favorable tax treatment to bonds issued for private entities, including public-private partnerships. Unlike traditional tax-exempt debt, interest on PABs is subject to the alternative minimum tax (AMT), which lessens the benefit of the tax exemption. PABs can currently be used for transportation, water, affordable housing, and other types of infrastructure with a public purpose, but the amount of PABs that can be issued is limited by state volume caps; PABs for transportation projects are limited by a national volume cap.

Direct Payment Bonds (currently expired). Direct payment bonds, such as the Build America Bond (BAB) program authorized from 2009-10, offer a taxable bond for which the issuer receives a direct payment from the federal government or the buyer receives a federal tax credit. Unlike traditional tax-exempt debt, direct payment bonds are attractive to investors who do not have federal tax

1 U.S. Department of Transportation, "2016 TIFIA Report to Congress," August 2016. Available at: https://cms.dot.gov/policy-initiatives/tifia/2016-tifia-report-congress.

liability, such as pension funds. However, the short-term nature of the BAB program made it difficult for projects that were not already well-developed to use them, and the fact that BABs were affected by the sequester undermined investor confidence.

Infrastructure Tax Credits (proposed). In recent years there have been several proposals for infrastructure tax credits, including from the Obama administration and the campaign of then-candidate Trump. Like direct payment bonds, these proposals are intended to attract investment from private entities with federal tax liability. While there are limited examples of federal tax credits for infrastructure, a well-utilized federal tax credit to support low-income housing has been very successful at increasing investment in affordable homes.

Project Examples:

- TIFIA loans allowed Colorado's US 36 managed lanes project to be completed 20 years sooner than with conventional financing.
- TIFIA loans are saving the Rail to Dulles project $2.3 billion in financing costs.
- Private activity bonds coupled with traditional tax-exempt bonds saved millions in financing costs for San Diego's Carlsbad Desalination Plant.

Sources: USDOT 2016 TIFIA Report to Congress, San Diego County Water Authority Presentation, 1/24/13

What Can the Federal Government Do?

In addition to ensuring robust and stable federal infrastructure funding, Congress can expand the utility of existing financing programs and provide new options to attract more private capital for infrastructure. These options can be stand-alone programs, or combined into a single infrastructure financing authority, as Rep. John Delaney (D-MD) and others have proposed.

- Enable TIFIA and WIFIA to support more projects.
    - Increase authorizations for TIFIA and WIFIA.
    - Improve access for rural and economically-distressed communities by allowing TIFIA/WIFIA financing to cover a larger portion of project costs, extending the repayment period, and waiving fees and other requirements that may be burdensome for smaller projects.
    - Align budget scoring with actual experience. TIFIA is currently scored as more costly than it is, given its strong record of high-performing loans. Aligning scoring with the true cost of the program would expand lending capacity without increasing the cost to the federal balance sheet.
- Authorize direct payment bonds for conventional projects as well as public-private partnerships to attract the widest variety of private investors and support the greatest number of projects. This program would complement the existing tax-exempt debt market and should be exempt from any future sequester.
- Raise the cap on PABs and exempt them from the AMT, as proposed in S. 1229, the Move America Act, introduced by Sens. John Hoeven (R-ND) and Ron Wyden (D-OR).
- Authorize infrastructure tax credits, either as a stand-alone program or by allowing states to convert PABs into tax credits, as proposed in the Move America Act.