Public Works Financing

Published monthly since 1988
by William G. Reinhardt, Editor/Publisher
Westfield, NJ

www.PWFinance.net
PWFinance@aol.com

Reprinted from January, 2010

Transportation Policy Review

The National Infrastructure Bank, Revisited

By Robert W. Poole, Jr., Director of Transportation Studies, Reason Foundation

In recent weeks, the idea of a National Infrastructure Bank (NIB) has gained new momentum. It's been endorsed in a Wall Street Journal op-ed by the president's Economic Recovery Advisory Board. The group Building America's Future assembled several dozen people for a January 20th news conference to endorse the idea (though not a specific proposal). Taking part were prominent elected officials, transportation groups (AASHTO, APTA, T4America), think tanks (Bipartisan Policy Center, Brookings, Center for National Policy, Reason Foundation), construction interests (ARTBA, US Steelworkers, ACEC), and others.

Eighteen months ago in this space, I wrote a rather skeptical assessment of the NIB idea, as incorporated in what seemed to be poorly thought out legislation. With more-detailed proposals emerging since then, it's time for another look.

Proponents of an NIB present it as a solution to two major problems: insufficient investment in transportation (and other) infrastructure and poorly targeted (politicized) infrastructure spending. It's plausible that some version of an NIB could help to address both problems.

Today, America pays for most public sector transportation infrastructure (e.g., highways) out of current cash flow. Shifting to a model that finances that investment would be a way to do a large one-time catch-up, even if there were no significant increase in the ongoing cash flow. But if the investment were in major projects that generated net new revenues (e.g., from tolls or other new user fees), then total investment would increase, in addition to being front-loaded.

Second, if the NIB were set up as a genuine bank, operated on commercial principles, it would fund only projects that met pretty rigorous investment criteria, including well-documented revenues that would repay the bank's investment. That way the NIB would be a going concern, like state revolving loan funds for infrastructure. As a national entity, the bank should be chartered to concentrate on projects too large to be readily funded by a state DOT, projects involving multi-state corridors, etc. So this whole set of factors would target the investments to projects with high ratios of benefits to costs.

How would such an entity be structured? One interesting model was proposed in October 2008 by Everett Ehrlich and Felix Rohatyn. In their version, most of the existing federal infrastructure money (they estimate $60 billion/year) would go to the NIB instead of being parceled out as airport, highway, transit, and waterway grants, and would be used only for high-priority projects of national significance that come with their own revenue sources—in most cases new user fees. With an expert board and professional staff, this NIB would prioritize all proposed projects and fund the most viable ones. By requiring at least 3:1 leverage, the $60 billion/year could capitalize close to $250 billion per year, they state.

You may well share my skepticism that Congress could ever be persuaded to turn over control of $60 billion per year in current user-tax revenues to an NIB that it didn't control—yet independence from political control in project selection is the essence of all serious NIB proposals (at least those that originate outside the halls of Congress). On the other hand, a less radical version would leave the existing funding and programs alone, focusing the NIB on large projects of national significance that are currently going unfunded. Fluor's Bob Prieto proposed this in the Autumn 2009 issue of Tollways. That NIB would issue its own bonds, based on its future stream of loan repayments from commercially viable revenue-generating projects developed by state agencies and the private sector.

Yet even that less ambitious proposal is a far cry from some of what has been proposed in Congress under the name "National Infrastructure Bank." Rather than concentrating on infrastructure that can repay loans out of new user-fee revenue streams, some bills have included non-revenue-producers such as schools, public housing, and mass transit systems in their list of eligible project categories. And instead of only offering loans and credit enhancement (like TIFIA), the 2008 Dodd/Hagel bill would have included direct grants and general-obligation bonds among its financing tools. And rather than a board made up of recognized experts, most legislative proposals have called for the usual boards of political appointees. One House proposal had the NIB's existence limited to 15 years, hardly enough time for repaying long-term infrastructure loans (and essentially a confession that it would be primarily a vehicle for handing out money, not an ongoing Rohatyn-type financial institution).

So what are those of us to do, who are genuinely concerned about both increasing the level of infrastructure investment and targeting it toward truly value-added projects? I have two suggestions.

First, we can support proposals for a real NIB, but that support should be conditional on this bank being set up as a truly independent entity, with an expert board and professional staff, and operating with complete autonomy from Congress in terms of project selection. The bank must be limited to helping finance projects above a high dollar threshold that are truly of national importance and that produce a credible financing plan, based principally on net new user-fee revenues. NIB credit support should provide no more than a set fraction of project budgets (such as one-third), to ensure its funding is leveraged. Note that such an NIB would be inherently multi-modal (or even multi-sectoral—e.g., electricity, water, broadband, as well as transportation) without violating the user-pays principle, since each individual project would be user-funded (but with federal financing help).

Second, however, we should be ready with Plan B when the above proves incapable of generating sufficient support in Congress. The fallback position should be a careful expansion and generalization of current federal credit support for transportation infrastructure, in the form of PABs, TIFIA, and possibly other forms of credit assistance. A good outline for this was provided by the Infrastructure Financing Commission, on pp. 184-187 of its final report, Paying Our Way: A New Framework for Transportation Finance.

In other words, a real National Infrastructure Bank would be nice if we could get it, but is highly unlikely, in my view. So we need to be ready to kill a so-called NIB that is a disguised vehicle for continued politicized funding, and to support modest but useful alternatives that build on the success of state revolving funds, TIFIA and PABs.