## Solvency Turns

### NIB undermines infrastructure 5 ways – special interest takeover, funding areas with lowest need, congestion, limited capacity due to non-competition, and undermining counter cyclical approaches to recovery

Megan McConville ‘9 – MA, city & regional planning 12-11-09 “National Infrastructure Bank: What’s the Deal?” http://thecityfix.com/blog/national-infrastructure-bank-whats-the-deal

The Economic Policy Institute yesterday released a briefing paper that outlines the proposal and describes its pros and cons. Here’s the summary: The NIB would be a federal financial entity designed to promote a more efficient level and mix of infrastructure investments by creating a funding mechanism outside the normal budgeting process. Since it is widely agreed upon that America’s transportation system is in need of modernization, and since transportation investment constitutes over 70% of current federal infrastructure investment, this proposal has serious implications for transportation planning (though some supporters advocate for a bank that also finances housing, energy, telecommunications, water, and other infrastructure). Various versions of an NIB have been proposed — by President Obama, Senators Chris Dodd (D-Connecticut) and Chuck Hagel (R-Nebraska), Representative Rosa DeLauro (D-Connecticut) and others — but these are similar in a few key respects. The NIB would finance big projects – those “of substantial regional and national importance” (Dodd-Hagel 2007) Most proposals allow the bank to offer direct subsidies, loans and loan guarantees. Some allow it to purchase infrastructure-related debt and equity securities issued by public and private entities, such as project-specific bonds (DeLauro 2009). The resulting loans would be repaid by the borrower (state/local governments or private entities), who would likely receive revenue from fees levied on users of the infrastructure or general tax revenue. The NIB would operate as a relatively independent agency, either a wholly owned government corporation (like the FDIC) or an independent entity within the U.S. Department of Transportation. It would be run by directors appointed by the President and confirmed by the Senate. The bank would derive its capital from an initial injection of government funds. Most proposals allow the bank to eventually capitalize itself by issuing bonds. Page 9 of the briefing paper includes a chart summarizing each proposal. The paper’s authors outline the following advantages of a NIB: The NIB leverages private capital, allowing government to avoid raising taxes to fund transportation investments. Higher levels of infrastructure investment could then be achieved in a more politically viable way. As an independent agency, the bank would avoid the politicization of the transportation funding process, and would allocate investment to the areas that need it most (often metropolitan areas.) The NIB would examine the investment returns for each proposed project, achieving a more efficient distribution of resources. These disadvantages are described: With political independence comes a loss of accountability. A bank that is not reliant on Congressional appropriations is not subject to the oversight of the executive or legislative branches. This vacuum could be filled by other influences, such as special interest lobbying or the preferences of the bond market. As a bank, the NIB would strive to maximize its own returns. This could mean that governments with wealthier jurisdictions would be favored for funding, as they would be able to offer more favorable terms to the NIB. Recipients of funding may also choose to convert the economic returns from a project into revenue returns that could be promised to creditors. But this would only work for certain types of projects, i.e. a bridge that can be tolled easily, as opposed to a highway where tolling would be more complex, which could create biased project selection in favor of certain projects. The needs of private investors could hamper good transportation planning and management. For example, private investors in a road project want to be guaranteed that future changes to the system do not devalue their investment, so contracts would set a range of acceptable toll prices. This would interfere with the operator’s ability to manage demand through congestion pricing. Similarly, private investors often demand non-compete or compensation clauses, which bar or discourage adding capacity to a system if it results in less ridership on the toll road in which they have invested. Infrastructure investment is often used as a counter-cyclical economic stimulus. Government invests during recessions, providing jobs and encouraging spending. As the economy recovers, fiscal policy should recede, making room for private spending. An NIB would not necessarily jive with this counter-cyclical idea, as private capital markets become more risk-averse during recessions. Overall, it seems that a National Infrastructure Bank would address some flaws in the transportation funding system but perhaps create others. One serious question is yet to be answered. Several panelists at yesterday’s Brookings discussion on infrastructure and economic development echoed a sentiment that has been expressed by countless transportation advocates: America needs a comprehensive new transportation vision. How would a National Infrastructure Bank, driven by profit motive and free from government accountability, help us build and carry out that vision?

### Sustainability guts solvency

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

All pending infrastructure bank proposals have the objective of increasing investment in infrastructure while maintaining financial self-sustainability. These two objectives may not be compatible. Traditional banks are self-sustaining because they borrow from depositors at a low rate (and typically short term) and lend at a higher rate (and typically long term). In addition, they impose fees and charge for a variety of services beyond lending. An infrastructure bank’s selfsustainability, in contrast, would depend almost exclusively on its capacity to lend at a higher rate than its cost of capital. If the infrastructure bank were to rely mainly on private capital (either equity or credit), it would have to provide those investors with a rate of return comparable to that available on investments with a similar risk and time profile to those in the bank’s portfolio. If the federal government bears some of the risk, then investors would not require as much compensation as they would if not for the federal guarantee. Federal budgeting rules, however, would require that the value of the risk shifted from the private sector to the federal government be accounted for in the federal budget.49 The other constraint on sustainability is the need to keep the nonfederal share of projects attractive to investors. Currently, state and local governments can finance infrastructure with relatively low-cost capital by issuing tax-exempt bonds. If the infrastructure bank must compensate investors to attract capital, and no federal tax advantages are conferred upon these investors, it seems unlikely that the bank will be able to match the low interest rates available with tax-exempt bonds. The infrastructure bank proposed in S. 652 and S. 1549 would be allowed to charge fees for loans and loan guarantees, which could move the bank closer to sustainability. However, the additional transaction fees or interest rate adjustments would make financing through the infrastructure bank more expensive. The higher these fees go, the less advantageous it will be for a project sponsor to seek infrastructure bank assistance.50

### NIB trades off with maintenance/preservation, which is a bigger internal link

Larry Ehl – WA State DoT 2012 “The Fantasy Solution of an Infrastructure Bank”. 4-16-12. <http://www.transportationissuesdaily.com/the-fantasy-solution-of-an-infrastructure-bank/>

When a new Congress or member proposes an infrastructure bank (learn more from Wikipedia), like clockwork I will hear from a couple of State DOT CFOs who say in frustration: “But that’s financing, not funding.” It’s great to have more financing tools and great to accelerate projects, my friends say, but financing rarely adds the additional new funding that is needed to address our long range needs and growing infrastructure deficit. The funding and projects deficit grows due to rising vehicle fuel efficiency, increased construction costs, inflation, and more roads reaching old age and needing preservation and maintenance. So my DOT friends will cheer this recent quote: Infrastructure banks have great potential to solve financing problems. But no one should think for a moment that financial innovation can address funding problems. We still need to face the fact that there’s no free lunch. So says Rohit T. Aggarwala in “Fiscal Games Can’t Hide True Costs of U.S. Roads” in Bloomberg. Aggarwala leads the environmental program at Bloomberg Philanthropies and is a visiting scholar at Stanford University. Infrastructure banks are in the news again because Chicago Mayor Rahm Emanuel recently announced the Chicago Infrastructure Trust, which will “help arrange private-investor financing of city projects, seeded with small amounts of government capital.” Chicago’s plan is worth paying attention to “because it is the first-of-its-kind established on the local level and it should profoundly inform the new thinking and ideas coming from the states,” notes Robert Puentes of Brookings in a good analysis of the proposal (“Transformative Investments, Chicago Style“) Aggarwala correctly notes that infrastructure banks offer a way around the political challenges of convincing elected officials and the public to raise the gas tax, and the pervasive myths (my words) of earmarks: “Private investors’ money multiplies limited public funds; those investors’ bankers help ensure that politicians don’t prioritize the wrong projects; and the projects themselves remain public — thus avoiding the downsides of true privatization.” That solves only the challenge of timing, not the challenge of wealth. Aggarwala describes how financing and infrastructure banks can solve the timing challenge: By definition, a financing problem is one of timing: a project built today creates value tomorrow, but the builder doesn’t have the cash today to get started. So an investor lends, the borrower builds and the two share the value created tomorrow. That’s finance. . . .Investment can unlock future revenue that can be shared with a lender. The problem is that much if not all of the public funds come from existing revenues. That in turn reduces the amount of funds available in the future for other needed maintenance, preservation and capacity improvements. In some cases, the public funds are new, such as tolling revenue. But tolling is an option on very few roads across the country. Further, there is strong opposition to tolling new roads and even stronger opposition to tolling an existing road for expansion and improvements. Aggarwala dissects the dilemma: “Unfortunately, America’s most dire infrastructure problems are . . . like Pennsylvania’s 6,000 structurally deficient bridges. Replacing these won’t create new value, serve new traffic or generate new economic development, so financing has to come from existing income. And that’s a problem not of timing, but of wealth. Even if a replacement bridge can be financed through an infrastructure bank, the debt service on the loan has to be paid back with existing wealth. Worse, most of America’s bridges are untolled, so even if their replacements were to carry more traffic, they wouldn’t yield new direct revenue. At best, through gasoline and other taxes, they would bring money into the federal Highway Trust Fund and into state and local governments. So what’s necessary to unlock financing is funding from increased future allocations from the Highway Trust Fund, or from state and local taxes. But that is the very problem an infrastructure bank tries to avoid.” I would quibble with his point about not generating new economic development. A new bridge or road can improve economic vitality but rarely enough to back private investment, which I think is Aggarwala’s point.

### NIB displaces state DoT leverage, shifting funding toward cities – turn outweighs the link because cities have alternative financing in the SQ

Larry Ehl – WA State DoT 2012 “The Fantasy Solution of an Infrastructure Bank”. 4-16-12. <http://www.transportationissuesdaily.com/the-fantasy-solution-of-an-infrastructure-bank/>

There’s one aspect Aggarwala doesn’t mention, according to Joung Lee, Deputy Director of the AASHTO Center for Excellence in Project Finance. Congress, during its debates on a national infrastructure bank (NIB), has yet to reach “a full consensus on what exactly such an entity should do. So far the debate has exhibited qualities of a Rorschach test, where interested stakeholders project what they want to see in a NIB based on their varied interests. For example, Aggarwala takes it as a given that a NIB would extend loans to recipients that are selected through careful vetting based on sponsor creditworthiness and project risk. However, some supporters of the NIB have proposed activities that would include grant funding in addition to extending credit. Direct grant-making by a NIB would essentially displace state DOT and MPO decision-making with an entity that is much further removed from the transportation plans and projects to which such funds are applied. In addition, such activities would most likely reduce the purported ability of a NIB to efficiently leverage seed capital and bring discipline to project selection with minimal political interference.” So in the end, an infrastructure bank and financing tools are excellent additional tools which will help a few public agencies. They will help primarily with mega-projects at our ports and in our major cities – both of which are the economic engines of our country. Puentes comments that given “the absence of progress in Washington, cities like Chicago are showing the way forward. They are stepping up to devise new ways to conceive and finance a range of infrastructure projects as the physical means to an economy-shaping end, rather than end in itself.” But infrastructure banks and financing tools will do little to help the majority of smaller ports, and rural and suburban cities and counties who face overwhelming infrastructure needs and funding shortfalls. As Aggarwala notes, it is “fantasy” to believe we can “find a way other than taxes (on gasoline and property) or user fees (tolls and the like) to pay for infrastructure.”

### No solvency for 5 years

Ronald Utt, Senior fellow in economic policy Heritage Foundation 9-14-11 “UTT: Infrastructure ‘bank’ doomed to fail” Washington Times <http://www.washingtontimes.com/news/2011/sep/14/utt-infrastructure-bank-doomed-to-fail/>

The president’s fixation on an infrastructure bank as a means of salvation from the economic crisis at hand is — to be polite about it — a dangerous distraction and a waste of time. It also is a proposal that has been rejected consistently by bipartisan majorities in the House and Senate transportation and appropriations committees. Those rejections have occurred for good reason. Based on the ARRA’s dismal and remarkably untimely performance, an infrastructure bank likely would yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity. And whatever it did manage to spend would have to be borrowed, only adding to the deficit. That’s no way to meet the economic challenges confronting the nation.

### Encourages projects with selective benefit instead of society-wide

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Emphasizing a project’s financial returns in the funding process could result in other unfavorable outcomes. To illustrate this problem, imagine two proposed roads. The first road is in a regional center and would serve as the type of route duplication necessary to relieve congestion throughout the entire system. The second road is a highway spoke, extending from the current system into the exurbs that currently have minimal access to the system. Many of the benefits of the first road accrue to the users across the entire system—not just the users of that particular road—while the benefits of the second road primarily accrue to the road’s users. Assuming both roads cost the same amount and provide the same overall benefits, the second road might be favored because more of the road’s benefits can be captured, either through tolls, tax increment financing, or other methods. To this extent, the bank’s project selection process might be biased toward projects whose benefits are concentrated rather than diffuse, likely leading to inefficient results.

### No advantage UQ – SQ captures all the benefits

Aaron M. Renn, Urban Affairs Analyst 4-22-12 “What Exactly Does an Infrastructure Bank Do For Us Anyway?” <http://www.urbanophile.com/2012/04/22/what-exactly-does-an-infrastructure-bank-do-for-us-anyway/>

2. They might be a vehicle for pools of private funds to be invested in infrastructure. There are two items here: private funds and pooling. We already have many ways in which private funds can be invested in infrastructure. The first is called the bond market, which is a well established mechanism. The second is through more traditional public-private partnerships such as privatization transactions, development projects, etc. It’s hard to see how an infrastructure bank uniquely contributes here. There are already ample means for private funds to be channeled to infrastructure. An infrastructure bank also pools funds from various investors, which has value. But so to bank banks. And so do various purely private infrastructure funds of the type that already invest in toll roads, water systems, etc. It’s hard for me to see any unique value infrastructure banks bring here. 3. They might limit public risk. Potentially the repayment of the investors could be ring fenced to only the revenue streams of the project. For example, any tolls collected on a new toll road. This would be unlike general obligation bonds, which are backed by all the taxpayers of the city. There’s clearly value here, but there are also other traditional vehicles like revenue bonds that accomplish the same purpose. Revenue bonds may not be the easiest mechanism however, since they typically require a separate contracting entity like a utility or special purpose authority, and investors want to know that there are stable revenue streams to repay them, like sewer fees. An infrastructure bank might be good where some of these are not available. For example, the project Chicago has highlighted as an example of where to use its infrastructure bank is to retrofit buildings to make them more energy efficient. There may not be an easy way to use revenue bonds for this. Also, the exact energy savings might not be predictable. In these cases, the investment might look more like equity than debt, since the ability to get repaid is uncertain. I’ve often seen privatizing contracts in this light. They include a hedge against future risk. For example, when Indiana privatized the toll road, they hedged their risk against traffic declines, which in fact happened during the Great Recession. Of course, to get someone to take on your risk, you are going to have to compensate them. Thus the rates on this type of financing should be higher.

### Vagueness guts solvency

Samuel Staley Sr. Research Fellow, Reason Foundation 5-13-10 , 13 May 2010, http://reason.org/news/show/infrastructure-bank-testimony “A National Infrastructure Bank Can Provide Important Benefits If Mission and Scope Are Defined Narrowly”

Fourth, an unanticipated outcome of a NIB might be to weaken the authority of state and local governments in setting policy and investment priorities. This might be more likely if a NIB is established without a clear national or federal project mandate incorporated into its mission and purpose. Currently, states and local governments are given deference in funding since they are often in the best position to evaluate the potential benefits of infrastructure investments. A NIB that has wide discretionary authority over funding may well undermine this implicit recognition of the efficiencies provided by local knowledge of needs and requirements. While a national infrastructure bank has several potential benefits, policymakers run the risk of asking the bank to do "too much" or create a management organization that is simply incapable of efficiently and objectively evaluating the viability of projects or their public benefits. Infrastructure banks must have a clearly defined role and its activities must be directly tied to specific activities and projects that have measurable outcomes.

## Solvency XT – 5 reasons / special interests

### NiB undermines accountability

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Less accountability. The benefit received from more political independence is not without its cost. Indeed, political independence cannot be achieved without a concomitant loss of accountability. Proposals to create the NIB outside of the DOT and not make it reliant on annual Congressional appropriations (either by allowing it to issue its own debt and/or initial capitalization) would reduce the oversight that the executive and legislative branches could exert on the NIB’s activities. This could invite waste, fraud, and abuse, and the vacuum created by the lack of top-down influence could be filled by other types of influence, such as special interest lobbying or the preferences of the bond market. Accountability and political independence are two sides of the same coin, and assessments on whether more independence and less accountability provides more or less net benefits depends to no small degree on the cynicism one feels toward the political system. Either way, the loss of accountability is a cost that should be weighed against the gross benefits of political independence.

## Solvency XT – 5 reasons / wealth bias

### Wealth shift turn - xt

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Undue influence of profit motive. The current federal financing system relies heavily on transportation grants. With the exception of a few programs like the Transportation Investment Generating Economic Recovery (TIGER) and High Speed Rail grants, most of the funds are distributed through formulas to state departments of transportation, which are given significant flexibility in which projects they chose to fund (more so for highway than transit projects). One benefit of the NIB is that it would examine more closely the investment returns for each proposed project, thus achieving a more efficient distribution of investment resources. But it is unclear to what extent the NIB would value economic returns as opposed to financial returns. The NIB, after all, is a bank, and in choosing which projects to fund it would strive to maximize its own returns, not just the returns to society. This could create problems of its own. If the recipients elect to pay back the financial obligation with general revenues, then it is possible that wealthier recipients—or governments with wealthy jurisdictions—would be favored, as they would be able to offer more favorable terms to the NIB and/or private co-financers.

### RPG turn

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

In a similar manner, the infrastructure bank could favor projects in wealthy over poor areas, thus exacerbating the socio-economic divide. Travelers with higher incomes have a higher ability to pay to use the transportation segment, and their lost wages due to congestion are higher on an hourly basis (because their hourly wages are higher), so they would have a higher willingness to pay to shorten their commutes. A transportation system that judges the worthiness of a project based on its future revenue stream thus might lead to inequitable outcomes as well.

### User fee shift

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

It is unclear how much new nonfederal investment would be encouraged by a national

infrastructure bank, beyond the additional budgetary resources Congress might choose to devote

to it. The bank may be able to improve resource allocation through a rigorous project selection

process, but this could have consequences that Congress might find undesirable, such as an

emphasis on projects that have the potential to generate revenue through user fees and a

corresponding de-emphasis on projects that generate broad public benefits that cannot easily be

captured through fees or taxes.

### NiB shifts from highways to bridges due to tolling paybacks

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Other recipients might elect to convert the economic returns from the transportation project into revenue returns that can be promised to creditors, either to the bank or to private co-financers. But the ease with which a recipient can translate those economic returns into a revenue stream varies with the type of project—a bridge, for example, can be tolled with relative ease, but a highway, especially one with many non-tolled substitutes, would be more difficult. This could bias the project selection process in favor of certain projects and away from others, independent of their relative economic benefits.

## Solvency XT – 5 reasons / Congestion

### Congestion management turn

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Finally, past experience in public-private infrastructure investment has shown that private investors must be guaranteed that future changes to the transportation system do not devalue their investment. To prevent tolls from being set too low for investors to recoup their costs, contracts would fix the level or range of acceptable toll prices for the road. This practice would interfere with the system operator’s ability to manage demand through congestion pricing, which should be tied to the marginal social cost of each trip taken, not to the cost of the road in question (Vickrey 1992).

## Solvency XT – 5 reasons / Capacity

### Capacity expansion turn

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Private investors would also demand non-compete or compensation clauses, which bar or discourage adding capacity to the transportation system if it results in less ridership on the tolled road.5 Even in the absence of a legal obligation, local and state governments would still have an incentive to avoid degrading the value of the semi-private road, because if they do, then private capital markets will look less favorably on future investments in their jurisdiction. The reality of third parties having a vested—and often legal—interest in the revenue produced by a single segment of the transportation system can thus restrict the pricing and capacity options available for future system improvement, eventually leading to a less efficient system overall.

## Solvency XT – 5 reasons / Counter Cyclical

\*\*The T-Bills CP links less\*\*

### Counter-cyclical turn

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Cyclicality. One of the most potent benefits of infrastructure investment is its use as a counter-cyclical economic stimulus. Recessions are characterized by falling demand for goods and services, which leads businesses to cut capacity by laying off workers, thus shrinking disposable income, shattering economic security, and forcing households to contract their spending even more. By boosting its own spending on infrastructure, unemployed workers in construction, accounting, office supply, capital manufacturing, and other industries are put back to work. With more income, these workers increase their spending, which in turn creates more jobs throughout the economy. Overall, each dollar of infrastructure investment provides on net about $1.59 in additional economic growth, making it about 33% more effective than generic tax cuts and 10-15 times more effective than many variants of business tax cuts (Pollack 2008). But fiscal policy should not always be expansionary. As the economy recovers, the private sector rehires workers, and businesses once again look for loans to expand capacity. When this happens, fiscal policy should recede, making room for private spending to replace public spending. To this extent, effective economic stabilization means having a counter-cyclical fiscal policy, one that spends more during a recession and less during an expansion. Relying heavily on an infrastructure bank to finance public investment could complicate efforts to make fiscal policy more counter-cyclical. Private capital markets usually become more risk-averse during a recession. If the bank’s bonds (assuming it issues its own bonds) and cofinancing opportunities are viewed as risky, then private capital available to the bank will shrink and overall levels of infrastructure investment will fall at the exact moment they are needed to rise. The portions of the economy reliant on new construction projects will be put out of work, and these effects will ripple through the rest of the economy, making the recession deeper and longer. It is not clear, however, that the NIB will be seen as a risky investment. An investment in a road or an NIB bond should not be any riskier during a recession than during an expansion, and—when considering that most investments do get riskier during a recession—private capital might actually become more available to the bank.6 At the very least, the effects of the business cycle on the bank’s access to private capital is uncertain, which by itself could reduce the control that policy makers have over fiscal policy.

## Solvency XT – 5 reasons / A2 Pollack votes Aff

### Pollack’s support of NiB is relative to capital budgeting, and he also endorses the trades offs in our turns – it’s the job of debaters to external impact the costs & benefits from a two-sided report

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

There is a rare consensus among experts, policy makers, and public opinion that the nation’s transportation infrastructure policy is in dire need of reform. But efforts are complicated by an inefficient budgeting process and an aversion to higher deficits and taxes. Capital budgeting is often seen as a silver bullet, a solution that could produce a more efficient level of infrastructure investment without touching any political third rails. But capital budgeting opens the door to fiscal irresponsibility and could set a precedent that budgeting rules can be easily altered to serve policy goals. Furthermore, it will have little effect on transportation infrastructure, a huge part of the overall national infrastructure and one in most need of attention. The infrastructure bank also has its shortcomings, but those tend to be in areas where the current system is the strongest. Two tradeoffs are relevant here. The first is the classic efficiency vs. equity tradeoff: the current system is weighted heavily in favor of equity concerns, spreading investment across the entire system regardless of need (consistent, of course, with the concept of “Congressional equity,” in which all areas are equal but some areas—such as small/rural states or areas represented by senior members— are more equal than others). The infrastructure bank, on the other hand, would direct resources toward areas of the system in most need of attention (although possible biases due to technical and socio-economic factors could undercut this strength), but in the process sacrifices the fairness of the current system where each state is guaranteed a minimum investment return on its gas tax contribution. The second tradeoff is independence vs. accountability. This paper has shown how the NIB’s independence from congressional politics will promote better allocation of investment resources, but the cost of this independence is accountability, as the political system (through Congress) will be less able to hold the NIB accountable for its decisions. Regular audits, an active Inspector General, and high transparency are all the more necessary to compensate for Congress’s diminished oversight role. While a capital budget would reshape the entire system and introduce new flaws, adding an infrastructure bank component to the current funding and budgeting system would achieve a more efficient level and composition of investment, resulting in a modern and efficient transportation system that would serve as the basis for sustained economic growth.

## Solvency XT – Sustainability

### Low interest rates make it unsustainable

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

As with other federal credit assistance programs, the loan capacity of an infrastructure bank

would be large relative to the size of the appropriation. The bank is unlikely to be self-sustaining,

however, if it is intended to provide financing at below-market interest rates. The extent to which

the bank is placed under direct congressional and presidential oversight may also affect its ability

to control project selection and achieve financial self-sufficiency.

## Solvency XT – Trade Off Turns

### NiB trades off with effective SQ finance mechanisms

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

The federal government already uses a wide range of direct expenditures, grants, loans, loan

guarantees, and tax preferences to expand infrastructure investment. A national infrastructure

bank would be another way to provide federal credit assistance, such as direct loans and loan

guarantees, to sponsors of infrastructure projects. To a certain extent, a new institution may be

duplicative with existing federal programs in this area, and Congress may wish to consider the

extent to which an infrastructure bank should supplant or complement existing federal

infrastructure efforts.

### Investment trade off

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

One of the main arguments for creating a national infrastructure bank is to encourage investment that would otherwise not take place. This investment is especially thought to be lacking for large, expensive projects whose costs are borne locally but whose benefits are regional or national in scope.33 A national infrastructure bank might help facilitate such projects by providing large amounts of financing on advantageous terms.34 For instance, an infrastructure bank could provide loans with very long maturities and allow repayment to be deferred until a facility is up and running. Whether this would lead to an increase in the total amount of capital devoted to infrastructure investment is unclear. One purported advantage of certain types of infrastructure banks is access to private capital, such as pension funds and international investors. These entities, which are generally not subject to U.S. taxes, may be uninterested in purchasing the tax-exempt bonds that are traditionally a major source of project finance, but might be willing to make equity or debt investments in infrastructure in cooperation with a national infrastructure bank. If this shift were to occur, however, it could be to the detriment of existing investment, as the additional investment in infrastructure may be drawn from a relatively fixed amount of available investment funds.

### Spending tradeoff

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

More generally, Congress may wish to consider the extent to which greater infrastructure

investment is economically beneficial. Advocates of increased investment in infrastructure

typically assert that high-quality, well maintained infrastructure increases private-sector

productivity and improves public health and welfare. Congress may want to weigh the benefit of

the increased spending on physical infrastructure against the benefit generated by alternative

types of spending.

### NiB undermines public transport funding

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

Selecting projects through an infrastructure bank has possible disadvantages as well as advantages. First, it would direct financing to projects that are the most viable financially rather than those with greatest social benefits. Projects that are likely to generate a financial return through charging users, such as urban water systems, wastewater treatment, and toll roads, would be favored if financial viability is the key element for project selection. Conversely, projects that offer extensive spillover benefits for which it is difficult to fully charge users, such as public transit projects and levees, would be disfavored.53 Second, selection of the projects with the highest returns might conflict with the traditional desire of Congress to assure funding for various purposes. Rigorous cost-benefit analysis might show that the most attractive projects involve certain types of infrastructure, while projects involving other types of infrastructure have less favorable cost-benefit characteristics. This could leave the infrastructure bank unable to fund some types of projects despite local support.

### Trade off internal

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

A fundamental policy tradeoff underlies the merits of a national infrastructure bank or similar entity. The desire for an equitable distribution of federal investment in infrastructure must be balanced against the often competing goal of an efficient allocation of federal resources. An infrastructure bank that finances projects yielding the highest public benefit (as measured from the national perspective) may yield an unsatisfactory redistribution of federal resources based on a subjective measure of equity. Further, current budget constraints, both federal and nonfederal, may limit public interest in new spending initiatives without accompanying spending reductions on other programs or higher taxes. Ultimately, the anticipated higher productivity and thus greater consumption in the future made possible by infrastructure investment today is not certain.

## Solvency XT – State-Local turns

### NiB undermines rural infrastructure

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

Third, financing projects through an infrastructure bank may serve to exclude small urban and rural areas because large, expensive projects tend to be located in major urban centers. Because of this, an infrastructure bank might be set up to have different rules for supporting projects in rural areas, and possibly also to require a certain amount of funding directed to projects in rural areas. For example, S. 652 proposes a threshold of $25 million for projects in rural areas instead of $100 million in urban areas. Even so, the $25 million threshold could exclude many rural projects.

### NiB undermines state/local decision making

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

A fourth possible disadvantage is that a national infrastructure bank may shift some decision making from the state and local level to the federal level. Although the initiation of projects will come from state and local decision-makers, a national infrastructure bank will make the final determination about financing. Some argue that this will reduce state and local flexibility and give too much authority to centralized decision-makers divorced from local conditions.54

### Grants undermine NiB solvency

Samuel Staley Sr. Research Fellow, Reason Foundation 5-13-10 , 13 May 2010, http://reason.org/news/show/infrastructure-bank-testimony “A National Infrastructure Bank Can Provide Important Benefits If Mission and Scope Are Defined Narrowly”

Grants, in contrast, work on fundamentally different principles. A grant reflects a one-time payment without an expectation of repayment. Grants often carry more risk to the taxpayer and government because once the funds are dispersed they are difficult to reclaim if the project fails. Grants, for example, do not have revenue streams tied to the project since the nature of the grant is to provide free and clear funding without future financial obligations. While an infrastructure bank might have responsibilities for making grants of some types, grants are not loans and should not be confused with the fundamental nature and character of a bank which is to incur debt and loan funds to underwrite the construction and sometimes maintenance of infrastructure facilities. Thus, a national infrastructure bank should be thought of primarily as a lender of public funds, not a grant maker. To the extent that a national infrastructure bank might include grant making responsibilities, explicit rules and regulations should be adopted that recognize the fundamental differences between the financing instruments, the criteria needed to evaluate proposals, and evaluating the projects receiving the funds. And whenever possible, grants should be tied to loans to provide a greater level of accountability for the projects.

### NiB crowds out private investment

Samuel Staley Sr. Research Fellow, Reason Foundation 5-13-10 , 13 May 2010, http://reason.org/news/show/infrastructure-bank-testimony “A National Infrastructure Bank Can Provide Important Benefits If Mission and Scope Are Defined Narrowly”

Second, public debt is also not issued in a vacuum. It must compete for private dollars in a global market place. If a NIB lends $1 billion for a new road, those funds are diverted from the private sector, either from the general public or private investment funds. Issuing too much debt, which often occurs at lower interest rates because of the implicit government guarantee, or funding projects with few benefits, will crowd out private investment in other parts of the economy that may be more productive. Debt is not a free fiscal lunch.

### Normal means is to violate criteria key to effectiveness

Samuel Staley Sr. Research Fellow, Reason Foundation 5-13-10 , 13 May 2010, http://reason.org/news/show/infrastructure-bank-testimony “A National Infrastructure Bank Can Provide Important Benefits If Mission and Scope Are Defined Narrowly”

If a national infrastructure bank were established by Congress, what would its fundamental characteristics look like? Independence. Infrastructure banks must be as insulated as possible from political manipulation to be effective. This requires a management structure that is independent of the day-to-day policy concerns of Congress and the White House and a management structure that is focused on a bottom line with a clear bottom line to judge success and failure. In practice this will be very difficult to achieve, but it should still be an important goal. Objective loan criteria. Bank viability is rooted in sound loan management, and the same criteria should be applied to government funded infrastructure banks. In the cases where user fees are not fully capable of covering the costs of the loan, performance criteria must be tied to the loan agreement to ensure public benefits are maximized. Moreover, these benefits must be measurable, directly tied to the project, and objectively evaluated. For example, a new road should significantly improve travel times, increase mobility or reduce congestion. A new water treatment plant should improve public-health outcomes. In contrast, general social goals and planning objectives such as improving "livability" or "enhance quality of life" are difficult to measure and evaluate, leading to inefficiency and ineffective grant making. Well-defined mission. The infrastructure bank should not be seen as a catch all for funding for public projects. The bank should have a clearly defined mission that constrains the types of loans and grants it can make. The NIB should not be considered a source of "free" money, or become a slush fund for favored projects. A NIB should be limited to making loans for bona fide physical infrastructure projects, and these projects should have measurable outcomes tied to them. Well-defined federal role. In the case of a national infrastructure bank, projects must have a clear federal priority and justification, either because the project is of national importance or the project involves interstate or international cooperation beyond the scope of state and local governments. Loans are restricted to capital projects. A fundamental principle of public and private finance is that debt should not be issued to cover ongoing operations and maintenance. Stable, steady revenues should be used to offset these expenses. Loans and their associated debt are used to finance long-term capital projects. Loans require sustainable revenue sources. All projects selected for funding should have sustainable revenues sources to ensure the loan will be paid back in a timely way. As mentioned earlier, these revenue sources could include dedicated tax revenues although user fees would probably provide a more reliable, stable, and sustainable source. This is crucial for sustaining a NIB since it also protects the viability of the revolving loan function of the bank. Many of these criteria are summarized in the table below . Unfortunately, the current infrastructure bank proposals before the Congress fall short on many of these criteria. The most detailed proposal, H.R. 2521, the "National Infrastructure Development Bank Act of 2009," envisions a complex and diffused management structure that includes 9 executive officers appointed, fired, and compensated by a five member Board appointed by the President of the United States (with the advice and consent of the Senate). The Board also appoints two standing committees that include four additional members each to a Risk Management and separate Audit Committee. The criteria for qualifying loans are extremely porous, including criteria that are more appropriately classified as social goals. Presumably projects that meet these social goals, which include workforce training, reducing poverty, job creation, and Smart Growth, would qualify for funding even if they do not provide adequate or efficient physical infrastructure. Indeed, these goals have little application to providing efficient or productive infrastructure, reflecting political considerations and policy tradeoffs. The White House's proposal to create a National Infrastructure Innovation and Finance Fund (I-Fund) is less well developed, so specific comments on its operation, mission, and potential programs are speculative at best. For example, it's unclear how nesting the I-Fund in the US DOT will create the independence necessary to follow through on a rigorous and objective analytical process, or what criteria will be used to determine the merits of varying infrastructure projects. The primary objective of the I-Fund appears to be consolidating federal programs that fund various forms of infrastructure (breaking down "silos"). While consolidation may have value, a national infrastructure bank would need to have clear criteria for assessing risk and the potential rate of return for investments in different projects. In fact, one possible outcome of consolidating federal funding programs might be less accountability, as a rigorous evaluation of investments in different infrastructure projects becomes difficult to assess without clear objectives or performance criteria.

## Solvency XT – Timeframe

### Trades off with other solutions for the economy + long TF to solve

Ronald Utt, Senior fellow in economic policy Heritage Foundation 9-14-11 “UTT: Infrastructure ‘bank’ doomed to fail” Washington Times <http://www.washingtontimes.com/news/2011/sep/14/utt-infrastructure-bank-doomed-to-fail/>

The president’s fixation on an infrastructure bank as a means of salvation from the economic crisis at hand is — to be polite about it — a dangerous distraction and a waste of time. It also is a proposal that has been rejected consistently by bipartisan majorities in the House and Senate transportation and appropriations committees. Those rejections have occurred for good reason. Based on the ARRA’s dismal and remarkably untimely performance, an infrastructure bank likely would yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity. And whatever it did manage to spend would have to be borrowed, only adding to the deficit. That’s no way to meet the economic challenges confronting the nation.

### Either stimulus solved or NiB would also be too slow

Ronald Utt, Senior fellow in economic policy Heritage Foundation 9-14-11 “UTT: Infrastructure ‘bank’ doomed to fail” Washington Times <http://www.washingtontimes.com/news/2011/sep/14/utt-infrastructure-bank-doomed-to-fail/>

President Obama remains enamored of an “infrastructure bank,” an idea flogged, in one shape or another, for several years now. All of the proposals floated to date involve creating a new federal bureaucracy that would provide loans and grants for construction or repair projects sought by state or local governments. In some proposals, those funds would be provided via the congressional appropriations process. In others, the bank simply would borrow the money. But no matter what the source of the cash, this hard fact remains: An infrastructure bank would do little to spur the economic recovery — and nothing to create new jobs. Such a bank has all the liabilities of the American Revitalization and Investment Act of 2009 (ARRA). You’ll recall that this $800 billion “stimulus” included $48.1 billion for transportation infrastructure. Yet, as the president acknowledged recently and the Heritage Foundation predicted, the funded projects have been very slow to get under way and have had little impact on economic activity.

### New bureaucracy adds years to solvency

Ronald Utt, Senior fellow in economic policy Heritage Foundation 9-14-11 “UTT: Infrastructure ‘bank’ doomed to fail” Washington Times <http://www.washingtontimes.com/news/2011/sep/14/utt-infrastructure-bank-doomed-to-fail/>

Infrastructure bank bills introduced by Sen. John Kerry, Massachusetts Democrat, and Rep. Rosa L. DeLauro, Connecticut Democrat, illustrate the time-consuming nature of creating such a bank. Both bills are concerned — appropriately — with their banks’ bureaucracy, fussing over such things as detailed job descriptions for the new executive team; how board members would be appointed; duties of the board; duties of staff; space to be rented; creating an orderly project solicitation process; an internal process to evaluate, negotiate and award grants and loans; and so on. This all suggests that it will take at least a year or two before the bank will be able to cut its first grant or loan check. Indeed, the president’s transportation “bank” proposal indicates just how bureaucracy-intensive such institutions would be. It calls for $270 million to conduct studies, administer the bank and pay the 100 new employees required to run it. In contrast, the transportation component of the ARRA worked through existing and knowledgeable bureaucracies at the state, local and federal levels. Yet, despite the staff expertise and familiarity with the process, as of July — 2½ years after the enactment of ARRA — 38 percent of the transportation funds authorized were still unspent, thereby partly explaining ARRA’s lack of impact.

## TIFIA Counterplan

### CP: The United States Federal Government should substantially increasing transportation infrastructure investment through expanded support of the Transportation Infrastructure Finance and Innovation Act.

### TIFIA demand outstrips appropriation – CP solves & avoids politics

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

TIFIA was enacted in 1998 as part of the Transportation Equity Act for the 21st Century (TEA-21; P.L. 105-178). TIFIA provides federal credit assistance up to a maximum of 33% of project costs in the form of secured loans, loan guarantees, and lines of credit (23 U.S.C. 601 et seq.). Transportation projects costing at least $50 million (or at least $15 million in the case of Intelligent Transportation Systems projects) are eligible for TIFIA financing. The TIFIA program is administered by the Department of Transportation (DOT). Project selection authority rests with the Secretary of Transportation, who is advised by a 13-member Credit Council comprised of senior DOT officials. The volume of loans and other types of credit assistance that TIFIA can provide is determined by the size of congressional appropriations and calculation of the subsidy cost.38 The subsidy cost largely determines the amount of money that can be made available to project sponsors.39 DOT noted that for FY2010, after administrative costs and other deductions, it could apply approximately $110 million to covering loan subsidy costs. DOT estimated that the $110 million made available in FY2010 would support about $1.1 billion in TIFIA credit assistance, a subsidy cost of 10% ($110 million divided by 10% equals $1.1 billion).40 Due to DOT’s higher estimate of expected losses on more recent loans, the subsidy cost has been higher in recent years, thereby lowering the amount of credit assistance available.41 The demand for TIFIA credit assistance appears to be higher than program funding can support. In FY2010, according to DOT, there were requests for almost $13 billion in TIFIA credit assistance, much more than the approximately $1.1 billion available.42 It is not clear, however, how many of these requests fulfill the requirements of the TIFIA program, nor what the subsidy cost of each project would be in comparison with the historical average. Nevertheless, recent House and Senate committee outlines of surface transportation reauthorization have expressed interest in raising the annual appropriation for TIFIA from the current $122 million to $1 billion.43

### TIFIA solves if beefed up with the CP

Tanya Snyder - Streetsblog's Capitol Hill editor – 10-28-11 “Why Create an Infrastructure Bank When We Could Just Expand TIFIA?” <http://dc.streetsblog.org/2011/10/28/why-create-an-infrastructure-bank-when-we-could-just-expand-tifia/>

DeFazio did note, however, that an infrastructure bank is, in the end, a bank that “expects to be re-paid.” So he wasn’t optimistic that it would help with state of good repair or new investments for transit systems or for rail – some of his biggest priorities. Sen. Mark Warner, an original (but often-unnamed) co-sponsor of what’s most commonly known as the Kerry-Hutchison infrastructure bank proposal, admits that’s a weakness of the infrastructure bank proposal. But he said at a recent event that even with a public funding source, an I-bank could be a helpful financing tool to drive interest rates down and lower the costs of a transit project. Scott Thomasson of the Progressive Policy Institute testified at the transportation committee hearing that an infrastructure bank was needed, in part, because TIFIA is understaffed and outsources much of its work to people with greater expertise. The first step toward creating an effective infrastructure bank would be “hiring the financial professionals that TIFIA lacks,” he said. That could help, but it’s not the strongest argument for creating a brand new entity. After all, if TIFIA just “beefed up” as many recommend, it could have that expertise in-house.

## TIFIA CP: A2 Perms

### NiB would duplicate TIFIA – turning their efficiency warrants

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

If it were to create a national infrastructure bank, Congress would need to consider the fate of these other programs. One option would be abolish the programs that appear to have the same objectives as the infrastructure bank, such as TIFIA, but keep the programs that are primarily aimed at providing assistance to smaller projects, such as the Wastewater and Drinking Water SRFs and the State Infrastructure Bank program. Another option would be to create the national infrastructure bank as an added mechanism for credit assistance, with the possible duplication of effort this entails. All existing national infrastructure bank proposals take this latter approach.

## TIFIA CP: A2 Solvency Deficit

### The TIFIA solvency deficit proves the plan is extra topical

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

The federal government already has a number of programs to support infrastructure projects (see Appendix A for a discussion of these). Drinking water and wastewater infrastructure projects, for instance, can receive low-interest loans for up to 20 years from the state revolving loan fund program, and repayment does not begin until the facility is operating, although these loans tend to be relatively small. The Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides large low-interest loans of up to 35 years from the substantial completion of a project (see the box below). For these and other reasons, some argue that TIFIA already functions as an infrastructure bank for transportation projects.36 Only transportation projects are eligible for TIFIA assistance, which has generated interest in creating similar programs in other infrastructure areas. For example, there have been proposals for the creation of a WIFIA, a Water Infrastructure Financing and Innovations Authority, to support infrastructure for drinking water and wastewater systems.37

### Implementation and solvency deficits are decades away

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation <http://www.fas.org/sgp/crs/misc/R42115.pdf>

Once established, a national infrastructure bank might help accelerate worthwhile infrastructure projects, particularly large projects that can be slowed by funding and financing problems due to the degree of risk. These large projects might also be too large for financing from a state infrastructure bank or from a state revolving loan fund.44 Moreover, even with a combination of grants, municipal bonds, and private equity, mega-projects often need another source of funding to complete a financial package. Financing is also sometimes needed to bridge the gap between when funding is needed for construction and when the project generates revenues. Although a national infrastructure bank might help accelerate projects over the long term, it is unlikely to be able to provide financial assistance immediately upon enactment. In several infrastructure bank proposals (e.g., S. 652 and S. 936), officials must be nominated by the President and approved by the Senate. The bank will also need time to hire staff, write regulations, send out requests for financing proposals, and complete the necessary tasks that a new organization must accomplish. This period is likely to be measured in years, not months. The example of the TIFIA program may be instructive. TIFIA was enacted in June 1998. TIFIA regulations were published June 2000, and the first TIFIA loans were made the same month.45 However, according to DOT, it was not until FY2010 that demand for TIFIA assistance exceeded its budgetary authority.46

### Subsidy methodology problems gut any solvency deficit

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

One attraction of the national infrastructure bank proposals is the potential to encourage significant nonfederal infrastructure investment over the long term for a relatively small amount of federal budget authority. Ignoring administrative costs, an appropriation of $10 billion for the infrastructure bank could encourage $100 billion of infrastructure investment if the subsidy cost were similar to that of the TIFIA program.47 The critical assumption, however, centers on the estimated risk of each project. The current methods used to budget for federal credit programs generally underestimate the potential risk and thus the federal commitment (as measured by the “subsidy cost”).48 Increasing the estimated subsidy cost would result in a significant reduction in the amount available for investment. For example, doubling the average subsidy cost from 5% to 10% would reduce available loan capacity by half, as the loans are expected to cost the government twice as much.

## TIFIA CP: Politics Net Benefit

### TIFIA – politics net benefit

Tanya Snyder - Streetsblog's Capitol Hill editor – 10-28-11 “Why Create an Infrastructure Bank When We Could Just Expand TIFIA?” <http://dc.streetsblog.org/2011/10/28/why-create-an-infrastructure-bank-when-we-could-just-expand-tifia/>

Nevertheless, Congressional Republicans have thrown their full support behind the program, mainly as a counterweight to the president’s proposed infrastructure bank. Consistent with their desire to limit the growth of the federal bureaucracy, they resist the idea of creating an entirely new entity, even though the bank would be independent from the government, a la the Export-Import Bank. There are two competing infrastructure bank bills in the Senate and a new one introduced earlier this week in the House. The Senate is planning to vote next week on a bill to spend $50 billion on infrastructure with another $10 billion in seed money for a bank – pieces of President Obama’s jobs bill, which has been dismembered for separate votes. Next week’s bill isn’t expected to pass. Indeed, many members think TIFIA is the way to go. At a House Transportation Committee hearing earlier this month, nearly every Republican present spoke out in favor of expanding TIFIA instead of creating a new bank. Chair John Mica asked why a bank was needed when “we have a successful example” in TIFIA. Highways and Transit Subcommittee Chair John Duncan (R-TN) went as far as to ask, “Is TIFIA the first perfect federal program?” He noted, “Everyone has had glowing comments about TIFIA, and it’s a program that I support as well.” Geoffrey Yarema of Nossaman LLP (a law firm specializing in public-private partnerships for infrastructure projects) told Duncan TIFIA wasn’t perfect but that it did have 12 years of solid experience. He suggested it be “right-sized” by adding staff and he wants to “change it from a discretionary decision-making process that has the potential for being politicized – and some would say the reality of being politicized – to a first-come-first-served program.” That change, however, would eliminate the part of TIFIA reformers like most: The fact that it has the power to encourage innovation and goal-oriented, performance-based strategic transportation planning. Yarema also noted that the Treasury “has actually made money off the TIFIA program,” as opposed to many other federal programs that end up costing taxpayers. He’s all in favor of casting off the idea of an infrastructure bank. “We already have a national infrastructure bank for transportation,” he said. “It’s called TIFIA.” One thing he and other transportation advocates like about TIFIA is that it’s only for transportation. While the Rockefeller-Lautenberg infrastructure bank proposal in the Senate is transportation-only (at least at first), the dominant I-bank proposal is the Kerry-Hutchison version, which would include other forms of infrastructure like energy and water treatment. Yarema admitted that some may see the breadth of scope as a strength of the bank concept, but he was concerned that “transportation would be in there competing for loans, not just with other transportation projects, but with dams and levees and ports and all kinds of infrastructure.”

### TIFIA CP avoids resistance from Dems in the Senate

Tanya Snyder - Streetsblog's Capitol Hill editor – 5-25-11 “Boxer: Transpo Funding Will Rise in Senate Bill, Bike/Ped Will Be Preserved” http://dc.streetsblog.org/2011/05/25/boxer-transpo-funding-will-rise-in-senate-bill-bikeped-will-be-preserved/

TIFIA is currently funded at $110 million a year but demand has far outstripped the availability of loans. Boxer’s committee is proposing to increase that funding nine-fold, to $1 billion a year. She says that amount could leverage $30 billion a year in private investment. They also plan to increase the maximum federal share from 33 percent to 49 percent, with even more favorable terms for rural areas. The TIFIA program will keep its name but be folded into a new, larger program called America Fast Forward. She’s still leaving open the option of an infrastructure bank, which she says she supports, but she’s always prioritized an expanded TIFIA program over an I-bank, mostly because she believes a program that already exists makes more sense than a brand new one.

## Treasury Debt CP

### CP: The United States Federal Government should condition substantially increasing transportation infrastructure investment for establishing a national infrastructure bank on direct T-Bill issuance.

### Treasury Debt solves – avoids the solvency turns – competes with normal means NiB

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Bond issuance. Some of the current NIB proposals also suffer from flaws that are common in policies that sacrifice efficiency for political viability. In order to obscure the budgetary cost and thus inoculate the proposal from criticism of big-government spending, the NIB is made to look financially independent. Most proposals (although to its credit, not President Obama’s proposal) do this is by having the bank issue its own debt, which will unfortunately make the end goal—that is, financing worthy infrastructure projects—more expensive to the federal government. Agencies that issue debt pay higher interest rates on that debt compared to what the federal government pays on its debt—for example, Fannie Mae and Freddie Mac currently pay about 0.3% more in interest than the U.S. Treasury does, and that disparity was even higher when they were independent agencies (GSEs) before they were brought on-budget. Given that agencies are part of the federal government, why does it cost them more than the U.S. Treasury to borrow money from the public? For one, Treasury bonds (or T-bills) have been around for hundreds of years, so buyers are familiar and comfortable with them; NIB bonds, on the other hand, are new and have unfamiliar provisions and terms, making it unlikely that they would be received with as much acceptance as T-bills. Additionally, the market for NIB bonds will be smaller and the demand more uncertain, thus making the bonds less liquid—that is, bondholders will be less certain at the moment of purchase that they will be able to find a buyer when they are ready to sell (by comparison, there has rarely been a time when sellers of T-bills could not find buyers). For these reasons, buyers of NIB bonds will demand a higher yield as compensation for the additional risk (Congressional Budget Office 1982). To avoid having this extra federal debt carry greater liquidity costs (the bank’s debt is guaranteed, so for all intents and purposes it is federal debt), NIB borrowing should be able to take advantage of the U.S. Treasury’s low cost of debt. In fact, the Federal Financing Bank (FFB) was created for exactly this purpose, to “centralize and reduce the cost of federal borrowing” and thus reduce overall debt costs (U.S. Treasury 2009). Prior to the establishment of the FFB in 1974, agencies issued their own debt and ended up wasting significant government resources. It would be a shame to ignore the lesson policy makers learned 35 years ago. There are two more reasons to allow the NIB access Treasury debt. First, use of the FFB would also help mitigate the bias toward projects that can translate their economic returns into revenue streams. Forcing NIB to issue its own debt could make it overly responsive to the concerns of the bond market, which might punish it with higher yields if the NIB decides to finance projects with high economic returns but low financial returns. The reliance on private co-financing will still push the bank toward projects with high financial returns (but not necessarily the highest economic returns), but releasing the bank from bond market pressures is a step in the right direction. Second, using Treasury debt to finance the NIB could ensure that the infrastructure bank does not become pro-cyclical, a concern discussed above. Treasury bonds are considered one of the safest investments available, and during a recession they experience a huge surge in demand as private capital markets become more riskaverse. This makes debt cheaper—yields on 10-year Treasuries fell from 4.1% at peak of the business cycle (December 2007) to 2.4% a year into the recession. Allowing the bank to access Treasury debt would ensure that it has more access to capital during a recession, and thus could provide more infrastructure investment right when the economy needs it the most.

### Treasury CP links less to spending

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

Even if it were to increase the total amount of infrastructure investment, an infrastructure bank may not be the lowest-cost means of achieving that goal. The Congressional Budget Office has pointed out that a special entity that issues its own debt would not be able to match the lower interest and issuance costs of the U.S. Treasury.35

### TIFIA more popular and effective than the plan

Tanya Snyder - Streetsblog's Capitol Hill editor – 9-28-10 “Barbara Boxer Questions Need for Infrastructure Bank” http://dc.streetsblog.org/2010/09/28/barbara-boxer-questions-need-for-infrastructure-bank/

California Democrat Barbara Boxer, chair of the Senate Committee on Environment and Public Works, expressed skepticism about one of the centerpieces of President Obama’s infrastructure plan today. As she tries to stave off an election challenge from the right, Boxer seems reluctant to embrace the creation of a national infrastructure bank to finance transportation projects. In a committee hearing today, Boxer instead threw her weight behind an existing program created by the Transportation Infrastructure Finance and Innovation Act (TIFIA): The infrastructure bank has some support in Congress, others oppose it. So the reason I focus on TIFIA is because it’s already there. So, I think the Administration, I hope, will recognize that if something is already in law it may be easier to go with that model. I’m not saying give up on the infrastructure bank…. But TIFIA is there. Boxer also appeared to take solace in a statement from Senator James Inhofe, the ranking Republican on the Environment committee and well-known climate change skeptic. (He was at another hearing and couldn’t attend.) In his statement, Inhofe said TIFIA was one of the forms of “innovative financing I’m most excited about,” adding that “this is a successful program that must be dramatically expanded.” Unlike TIFIA, the infrastructure bank has generated enthusiasm from transportation reformers, who see it as a potential vehicle to spur investment in walkable development.

## Capitalization CP

### CP: The United States Federal Government should condition substantially increasing transportation infrastructure investment for establishing a national infrastructure bank on multi-year capitalization.

### The CP avoids the start-up cost limitation of normal means & plan, avoiding inefficiency and politicization

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Capitalization. The current NIB proposals also have the federal government providing initial capital to the NIB, and then essentially “setting it free.” At first glance, providing initial funds beyond those necessary to cover start-up costs and administrative overhead seems unnecessary. The bank would already be subsidized through tax-free loans and the federal guarantee on its debt. In fact, the federal government runs many subsidized credit programs without providing initial capitalization, such as the student loan programs (both the direct loan and loan guarantee programs). Instead, the agency requests up-front appropriations on the subsidy cost of the preferential credit in each year. The subsidy is scored based on an accrual basis (that is, subject to the Federal Credit Reform Act), so unlike an initial injection of capital, the budget will smooth the spending over time rather than show a sudden spike in outlays. The question isn’t so much “should the NIB be capitalized,” but rather how it should be subsidized—all at once, or on a continuing basis? Programs are mostly appropriated money on a yearly basis, and for good reason. In general, granting agencies large chunks of money to use over many years diminishes budget oversight and accountability, thus increasing waste and inefficiency. It is possible, however, that making the NIB solely dependent on yearly appropriations would exact an even greater efficiency cost. For one, Wall Street tends to be skeptical of government—certainly as a regulator but especially as a financing partner—so the more the NIB behaves like an independent financial entity, the more successful it might be in securing private co-financing for projects. Although contracts could be written by private investors to safeguard themselves from unexpected changes in bank policy stemming from Congressional intervention, even the appearance of political involvement in the bank’s functions— and the uncertainty that accompanies it—could make capital markets reluctant to participate in the bank’s infrastructure investments. At the very least, it is quite possible that private investors will demand a greater premium on their investment if the bank relies fully on yearly appropriations rather than receiving initial capitalization. Furthermore, as noted above, the independence of the bank’s decision-making process is integral to the bank’s success. It is a near certainty that policy makers will attempt to influence the bank’s project financing decisions, regardless of whether the bank is initially capitalized or not. Making the bank reliant on yearly appropriations might make the bank more susceptible to this kind of influence, resulting in a less efficient project selection.

### NiB undermines state-to-state equity & gas tax support

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

The infrastructure bank also has its shortcomings, but those tend to be in areas where the current system is the strongest. Two tradeoffs are relevant here. The first is the classic efficiency vs. equity tradeoff: the current system is weighted heavily in favor of equity concerns, spreading investment across the entire system regardless of need (consistent, of course, with the concept of “Congressional equity,” in which all areas are equal but some areas—such as small/rural states or areas represented by senior members— are more equal than others). The infrastructure bank, on the other hand, would direct resources toward areas of the system in most need of attention (although possible biases due to technical and socio-economic factors could undercut this strength), but in the process sacrifices the fairness of the current system where each state is guaranteed a minimum investment return on its gas tax contribution.

## Caisse CP

### Non-Profit FDIC protection solves better than normal infrastructure banks - Caisse des Dépôts proves

Yonah Freemark– Ind. Researcher Yale U Gordon Grand Fellowship 3-8-10 “Benefits and Pitfalls of a National Infrastructure Bank” http://www.thetransportpolitic.com/2010/03/08/benefits-and-pitfalls-of-a-national-infrastructure-bank/

But as nice as the infrastructure bank may sound, its own financing mechanisms have yet to be clearly defined, even though the way it would lend out is relatively easy to understand. In his fiscal year 2011 budget, President Obama suggested appropriating $4 billion to establish the new infrastructure bank, with the assumption that the new agency would distribute grants to qualified projects and have its coffers refilled every year or so depending on need. Of course, what’s envisioned there is no bank at all, since it wouldn’t be generating revenue in return for its investments: it would be draining Washington’s coffers even more, with no clear explanation for why it is necessary. What’s the point of establishing another federal agency to dole out grants for infrastructure, when the Departments of Transportation, Housing and Urban Development, and Energy already do that all the time? This non-bank idea, in other words, is a non-starter. But what about an infrastructure bank that distributed loans at low interest rates and then expected to get its money back over time? What Connecticut Congresswoman Rosa DeLauro has been proposing for years is something modeled on the European Investment Bank (EIB). The EIB was founded in 1958 and provides low-interest loans at up to 50% of cost to qualified projects in a variety of sectors in Europe and North Africa. Recent projects funded by the EIB’s transport division include an extension of the Bilbao Metro in Spain, a tramway network in Lodz, Poland, and the high-speed rail line between Istanbul and Ankara in Turkey. Despite its vast size and lending obligations — it is larger than the World Bank — the EIB is independent, does not rely on infusions of funds from any European governments, and has a stellar credit rating. The principal of encouraging states and local governments to take out low-interest loans was championed by the stimulus act of early 2009, which included a provision for Build America Bonds. Governments have now issued $78 billion in these bonds, now representing 20% of the municipal debt market, mostly because the BAB program is such a good deal for public authorities that want to take out debt for new construction projects. Unlike the proposed infrastructure bank, however, the BAB program does not distribute funds based on merit, nor does it rely on a government bank — the federal government artificially produces low interest rates by subsidizing private loans. But the EIB and BAB models, as interesting as they are, do not actually increase the amount of money being spent on transportation in the long-term — they simply transfer more of the current spending load into debt. Is that a good idea when governments are already so squeezed by limited budgets? How can we be sure that we’ll be in an adequate financial situation to pay back these debts in the future? Spending now through loans inherently means less spending in the future: If Los Angeles compresses thirty years of transit spending into ten, what happens during the other twenty? Nothing at all, unless another separate revenue source is established. So none of the the infrastructure bank proposals put forth thus far will actually aid in reversing the current lack of adequate financing for transportation.

But there’s an alternative that would meld the idea of a bank and a grant-lending institution, leveraging the power of the federal government to invest and then using the profits to spend on necessary projects. Imagine the federal government began offering a bank savings account package to young people and seniors with a very favorable rate of return, run through private banks in exchange for, say, their participation in the FDIC bank insurance system. Then say the government “collected” all of those funds together in a public bank and used the money to invest as it wished in the private sector. If well managed, this system could make enough money through its investments not only to give its depositors high interest rates, but also a large profit that would go not to shareholders but instead towards the construction of new social housing and infrastructure. It turns out that this is not that far-off of an idea: it’s exactly how France’s Caisse des Dépôts works. The independent agency, originally formed in 1816, finances much of the country’s affordable housing and urban redevelopment schemes; more recently, it has contributed to the construction of new high-speed rail lines. For the most part, these expenditures are in grant form, meaning that the Caisse is increasing France’s overall spending on infrastructure without increasing the nation’s debt load. That makes it significantly more effective in moving forward with new spending than would be the infrastructure banks proposed for the U.S. The Caisse can raise funds easily partially because it runs a huge percentage of the nation’s bank deposits, but also because it invests directly in (and helps run) a number of major French enterprises, a type of state involvement in the economy that is a hallmark of French policy but is unlikely to play a major role in traditionally hands-off American political decision-making. On the other hand, since the Caisse is autonomous — it makes its investment decisions without, say, the involvement of the National Assembly — it acts somewhat more like a non-profit than an arm of the national government. It does not rely on any kind of subsidy to maintain its operations. Even without a savings account scheme, a similar bank in the U.S. could leverage existing government funds, such as those reserved for Social Security, to invest in the market and earn interest for the public sector. If properly managed, those dividends could be sent back to local and state governments in the form of grants for infrastructure. It’s hard to see the downsides of that idea. Update, 9 March: I should point out that the investment-bank system I’m advocating would work much as public pension funds already do, investing and then using the returns to fund payments to subscribers. The use of this system for pensions produces some major problems, of course: if the market goes down, people stop getting their pensions, and that’s a huge problem. On the other hand, if this system were used for infrastructure creation, it wouldn’t need to be as stable and continuous year-to-year, meaning the use of market investment wouldn’t be as problematic.

## Spending Links

### Infrastructure bank will require hugely yearly bailouts to avoid collapse

Ronald Utt - Sr Research Fellow, **Heritage** Foundation 2010 “Infrastructure bank proposals rely on backdoor deficit spending”. 3-22-10. <http://dailycaller.com/2010/03/22/infrastructure-bank-proposals-rely-on-backdoor-deficit-spending/>

The common meaning of a “bank” describes an entity that borrows money at one interest rate and lends it out to creditworthy borrowers at a somewhat higher interest rate to cover the borrowing, administrative, and bad debt costs incurred in the act of financial intermediation. In contrast, many of the federal infrastructure bank proposals (and those already in existence) follow only the borrowing part. Instead most allow the infrastructure bank to use borrowed funds to provide grants and subsidies to approved infrastructure projects. A grant, of course, is not paid back and does not require interest payments. So this raises an important question: How can the bank service its debt if it has no earnings? Alert readers will recognize that this sounds alarmingly similar to the predicament of the federally sponsored lenders Fannie Mae and Freddie Mac when their earnings failed to cover debt costs, thereby necessitating a taxpayer bailout that now totals $126 billion. Oddly, such apparent parallels were acknowledged by Representative Rosa DeLauro (D–CT), sponsor of current infrastructure bank legislation, when she noted that her bank would be “an innovative public-private partnership like Fannie Mae.” Note that the chief difference between Fannie Mae and the DeLauro bank is that Fannie Mae was mandated to ensure the creditworthiness of its borrowers (however poorly done), while investments, loans, and subsidies provided by the DeLauro bank would be required to meet a series of social objectives devoid of any requirements for economic viability or financial sustainability. The Common Financial Weakness of Many Bank Proposals Relieving the bank’s management from the pesky task of checking a borrower’s creditworthiness, evaluating the viability of the project, and ensuring the sustainability of the bank’s financial integrity is a troubling characteristic of many federal proposals to create infrastructure banks. Obama’s Plan. In his budget proposal for fiscal year (FY) 2011, the President proposes the creation of a “National Infrastructure Innovation and Finance Fund,” which will “directly provide resources for projects through grants, loans, or a blend of both, and will effectively leverage non-federal resources, including private capital.” As one former Member of the National Infrastructure Financing Commission observed, “Institutions that give away money without requiring repayment are properly called ‘foundations,’ not ‘banks.’” DeLauro Plan. The more detailed plan under discussion is that introduced by DeLauro titled the National Infrastructure Development Bank Act of 2009 (H.R. 2521). This bill provides for the full faith and credit of the United States for any bond or other obligation issued by the bank, and while the legislation says nothing about providing “grants,” it does authorize the bank “to issue public benefit bonds and to provide direct subsidies to infrastructure projects from amounts made available from the issuance of such bonds.” Of course, a subsidy is indistinguishable from a grant and is not something that would be paid back. Politics Trumps Viability The DeLauro plan would also concentrate investments in politically fashionable projects: “The Bank shall conduct an analysis that takes into account the economic, environmental, social benefits, and costs of each project under consideration for financial assistance under this Act, prioritizing projects that contribute to economic growth, lead to job creation, and are of regional or national significance.” Nothing in the section suggests that creditworthiness, financial viability, or ability to repay a loan is a criterion. As for specific bank goals, DeLauro’s legislation also mandates job creation, responsible employment practices, reduction in carbon emissions, smart growth, poverty and inequality reduction, pollution reductions, improvement and the physical layout of public housing, and public health benefits. What These Banks Might Look Like: The South Carolina Example The National Highway System Designation Act of 1995 authorized the creation of 10 State Infrastructure Banks (SIBs), and the 1997 appropriations bill included $150 million to capitalize them. South Carolina created its SIB in 1997, and today it is one of the largest and most active of those remaining from this legislation. The bank provides both loans and grants, as would be the case with most federal proposals under discussion. In contrast to a “bank” where interest and investment-related fees would constitute the bulk of the revenue, the South Carolina SIB is largely funded by a series of dedicated taxes (truck registration, portion of the state gas tax, motor vehicle registration, and an electric power tax) that provided 69 percent of the SIB’s revenues in FY 2009. Moreover, because grants and subsidies are “anti-assets” for purposes of the SIB’s balance sheet, the SIB’s 2009 assets of $1.3 billion were exceeded by its liabilities of $2.2 billion (mostly debt). This leaves the SIB with a negative net worth of $896 million for that year. As is apparent from this brief review, the South Carolina infrastructure bank is heavily dependent upon substantial taxpayer subsidies, and will collapse without them. Backdoor Boondoggle As currently written, the legislation to create a federal infrastructure bank would lead to an outcome similar to South Carolina’s, making it little more than a backdoor mechanism for the deficit/taxpayer financing of transportation projects. Congress should instead develop legislation to create a real infrastructure bank whose assets match liabilities and whose earnings and debt service came from tolls and other user fees earned on financially sustainable investments.

### NiB will outrun revenue, triggering full collapse

John D. Schulz ‘10, Contributing Editor -- Logistics Management 4-2-10 “Transportation infrastructure: Is a U.S. Infrastructure Bank an idea whose time has come?” http://www.logisticsmgmt.com/article/455228-Transportation\_infrastructure\_Is\_a\_U\_S\_Infrastructure\_Bank\_an\_idea\_whose\_time\_has\_come\_.php)

Robert Poole, director of transportation policy at the Los Angeles-based Reason Foundation, a libertarian-leading think tank, said the nation suffers from both insufficient and poorly targeted infrastructure investments. "Multi-state projects are particularly hard to fund" under the current system, Poole said. Large, billion-dollar, multi-state, multi-modal projects would be particularly attractive to funding through infrastructure bank funding. But Poole is opposed to using general U.S. funds for transport projects. Rather, he said, they should be funded by user funds, not federal grants. All projects should be merit-based, which could be difficult in a town where all 538 members of Congress are used to bringing home some bacon to their districts and states. "There may be a niche market role for a narrow transportation-only infrastructure bank," Poole said. "But a broader infrastructure bank may be too ambitious to try and achieve a multi-modal, grant-and-loan-based bank, which I think might fail," Poole said. Poole said the larger problem is state departments of transportation don't allocate enough for maintenance budgets of existing transportation entities. That's because such maintenance budgets are "the first things to be cut" during tough economic times. So in addition to funding new projects, states should increase their sources of dedicated funding to maintain existing assets. Bryan Grote, co-founder of Mercator Advisors, a financial advisory firm that works with sponsors of infrastructure projects, said the bank's appeal would be to more effectively utilize revenue into commercially viable projects. "Designing the bank would be difficult, but implementing it would be a major challenge," Grote said. "It probably can be a useful step. But the key is it being given the expertise and backing to ensure this entity is doing a better job in provided assistance in a better way. The primary problem is a lack of revenue, not a lack of access to capital markets."

### Infrastructure Bank Costs $10 Billion up front

Brady Plumer, WaPo Reporter, 9-19-11 “How Obama’s plan for infrastructure bank would work” Washington Post <http://www.washingtonpost.com/business/economy/how-obamas-plan-for-infrastructure-bank-would-work/2011/09/19/gIQAfDgUgK\_story.html> Accessed 7/2/12

One of the key aspects of President Obama’s jobs plan is an idea that’s been knocking around Washington for some time: a national infrastructure bank that would leverage private investment to fund new roads, bridges, mass transit and other public-works endeavors. Here’s how it would work. The proposal, modeled after a bipartisan bill in the Senate, would take $10 billion in start-up money and identify transportation, water or energy projects that lack funding. Eligible projects would need to be worth at least $100 million and provide “a clear public benefit.” The bank would then work with private investors to finance the project through cheap long-term loans or loan guarantees, with the government picking up no more than half the tab — ideally, much less — for any given project.

### Spending compression turn – NiB front loads spending with debt, leading to mid-range funding collapse

Yonah Freemark– Ind. Researcher Yale U Gordon Grand Fellowship 3-8-10 “Benefits and Pitfalls of a National Infrastructure Bank” http://www.thetransportpolitic.com/2010/03/08/benefits-and-pitfalls-of-a-national-infrastructure-bank/

But as nice as the infrastructure bank may sound, its own financing mechanisms have yet to be clearly defined, even though the way it would lend out is relatively easy to understand. In his fiscal year 2011 budget, President Obama suggested appropriating $4 billion to establish the new infrastructure bank, with the assumption that the new agency would distribute grants to qualified projects and have its coffers refilled every year or so depending on need. Of course, what’s envisioned there is no bank at all, since it wouldn’t be generating revenue in return for its investments: it would be draining Washington’s coffers even more, with no clear explanation for why it is necessary. What’s the point of establishing another federal agency to dole out grants for infrastructure, when the Departments of Transportation, Housing and Urban Development, and Energy already do that all the time? This non-bank idea, in other words, is a non-starter. But what about an infrastructure bank that distributed loans at low interest rates and then expected to get its money back over time? What Connecticut Congresswoman Rosa DeLauro has been proposing for years is something modeled on the European Investment Bank (EIB). The EIB was founded in 1958 and provides low-interest loans at up to 50% of cost to qualified projects in a variety of sectors in Europe and North Africa. Recent projects funded by the EIB’s transport division include an extension of the Bilbao Metro in Spain, a tramway network in Lodz, Poland, and the high-speed rail line between Istanbul and Ankara in Turkey. Despite its vast size and lending obligations — it is larger than the World Bank — the EIB is independent, does not rely on infusions of funds from any European governments, and has a stellar credit rating. The principal of encouraging states and local governments to take out low-interest loans was championed by the stimulus act of early 2009, which included a provision for Build America Bonds. Governments have now issued $78 billion in these bonds, now representing 20% of the municipal debt market, mostly because the BAB program is such a good deal for public authorities that want to take out debt for new construction projects. Unlike the proposed infrastructure bank, however, the BAB program does not distribute funds based on merit, nor does it rely on a government bank — the federal government artificially produces low interest rates by subsidizing private loans. But the EIB and BAB models, as interesting as they are, do not actually increase the amount of money being spent on transportation in the long-term — they simply transfer more of the current spending load into debt. Is that a good idea when governments are already so squeezed by limited budgets? How can we be sure that we’ll be in an adequate financial situation to pay back these debts in the future? Spending now through loans inherently means less spending in the future: If Los Angeles compresses thirty years of transit spending into ten, what happens during the other twenty? Nothing at all, unless another separate revenue source is established. So none of the the infrastructure bank proposals put forth thus far will actually aid in reversing the current lack of adequate financing for transportation.

### NiB will be scored at 10x the appropriation level for budget purposes

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

The budgetary implications of H.R. 402 are somewhat different from those of the other pending infrastructure bank proposals. This bill proposes to capitalize an infrastructure bank with appropriations of $25 billion and to provide another $225 billion in “callable capital,” which would be made available from the Treasury only if it is needed by the bank to meet its obligations. Under this proposal, the bank would be permitted to issue bonds up to 250% of the bank’s total capital (capital plus callable capital). This means the bank could support up to $625 billion of bonds, which would be backed by the full faith and credit of the U.S. Treasury. In addition to the $25 billion, the callable funding of $225 billion would likely be scored as an appropriation.

### Loan guarantees are scored at their risk value, by current federal budgetary law

William J. Mallett Transportation Policy Specialist Kevin R. Kosar Analyst in American National Government Steven Maguire Public Finance Specialist 12-14-11 National Infrastructure Bank: Overview and Current Legislation http://www.fas.org/sgp/crs/misc/R42115.pdf

Traditional banks are self-sustaining because they borrow from depositors at a low rate (and typically short term) and lend at a higher rate (and typically long term). In addition, they impose fees and charge for a variety of services beyond lending. An infrastructure bank’s self sustainability, in contrast, would depend almost exclusively on its capacity to lend at a higher rate than its cost of capital. If the infrastructure bank were to rely mainly on private capital (either equity or credit), it would have to provide those investors with a rate of return comparable to that available on investments with a similar risk and time profile to those in the bank’s portfolio. If the federal government bears some of the risk, then investors would not require as much compensation as they would if not for the federal guarantee. Federal budgeting rules, however, would require that the value of the risk shifted from the private sector to the federal government be accounted for in the federal budget.49

49 Congressional Budget Office, “Estimating the Value of Subsidies for Federal Loans and Loan Guarantees,” August 2004, at http://www.cbo.gov/ftpdocs/57xx/doc5751/08-19-CreditSubsidies.pdf.

### Either the plan has front loaded costs, or involved hidden bailouts

Ethan Pollack, Sr. Policy Analyst, Economic Policy Inst (formerly with OMB), 12-10-09 “Street Smart: Reforming the Transportation Budget Process” Economic Policy Inst Briefing Paper #254 <http://www.epi.org/publication/bp254/>

Budget treatment. There will be some projects on which the NIB might make a profit even without government subsidies—the European Investment Bank, for example, has only lost money on a few projects in its 51 years of existence (Urban Land Institute 2009). That said, many of the projects in which it chooses to invest could require substantial government assistance that will not be fully recouped. Portions of that assistance, such as the initial public capitalization and tax-free loans, are explicit, but others are not. For example, there would exist an implicit guarantee that the federal government would bail out the bank if it became insolvent, offering it a subsidy that may exist nowhere in law but, as the bailouts of Fannie Mae and Freddie Mac have shown, are nonetheless very real costs. Accordingly, the option to set up the bank as an independent Government Sponsored Entity (GSE) should be rejected, and the cost of the guaranteed risk should be explicitly included in the budgetary cost of the program.

## Politics Links

### The plan is unpopular in congress- cost and state’s rights

Ken Orski 08/30/2011 Infrastructure Bank: Losing Favor with the White House?

http://www.newgeography.com/content/002408-infrastructure-bank-losing-favor-with-white-house

For a while, it seemed like their plea would be answered. **A proposal for a $30 billion infrastructure bank focused on transportation-related investments** was included in the President’s FY 2011 budget proposal unveiled last September. As recently as last month, Mr. Obama was mentioning the Infrastructure Bank as part of his job stimulus plan to be unveiled after Labor Day. But **today, the idea is on life support.** **Neither the Senate nor the House have** seen fit to include **the Bank in their proposed transportation bills.** Congressional Democrats and Republicans alike are in agreement that decision making control over major federal investments should not be ceded to a group of "unelected bureaucrats." Rather than creating a new federal bureaucracy, they think the focus should be placed on expanding federal credit assistance tools already in place, such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation & Improvement Financing Program (RRIF). There are other reasons for congressional skepticism. **House Republicans are suspicious that the Obama-proposed Bank is nothing more than a vehicle for more stimulus spending, disguised as "capital investment."** They want the Administration to be more specific about its proposal: how the Bank would be funded, what kind of investments it would fund and how the $30 billion capital would be repaid. "If this is more of the same stimulus spending, we won’t support it," Kevin Smith, spokesman for House Speaker John Boehner (R-OH) has been quoted as saying. **House Transportation and Infrastructure Committee chairman John Mica (R-FL) thinks state-level infrastructure banks would be a more appropriate means of financing major transportation projects at the state and local level.** Decentralized infrastructure financing **would "keep the federal financing bureaucracy at a minimum and maximize states’ financial capabilities,"** according to the House transportation reauthorization proposal.

### Republicans hate trains, bike paths, roads, buses etc. They’re reversing thirty years of Bipartisan compromise on transportation for the sake of the economy.

Greg Hanscom Feb 2, 2012 Grist special projects editor Greg Hanscom has been editor of the award-winning environmental magazine High Country News and the Baltimore-based city mag, Urbanite. http://grist.org/politics/boehners-last-stand-house-leader-wants-to-kill-transit-funding/#content-container

Earlier this week, **Rep**. John Mica (R-Fla.) **unveiled a draft transportation bill that would cut all designated funding for bike and pedestrian infrastructure**, the Safe Routes to School program, and grants that have encouraged “complete streets” projects. Still, it looked like the more egregious provisions would be stripped away as the legislation — titled “The American Energy & Infrastructure Jobs Act” — ran through the lawmaking process. And at least the bill maintained the country’s longstanding, if weak, commitment to public transportation. Then, Wednesday night, **Boehner and the leaders of the House Ways and Means Committee proposed killing a longstanding rule that sets aside a portion of the gas tax to fund trains and buses and other public transportation systems.** “We were all expecting some weird stuff,” says David Goldberg with the nonprofit Transportation for America, which has raised the alarm over the latest move. “But we weren’t expecting this now.” In his attempt to reverse a longstanding commitment to transit (the “mass transit account” was created in 1982 under President Ronald Reagan), **Boehner may have gone too far.** The American Association of State Highway and Transportation Officials — that is, **the people who build this country’s roads — has come out against the move, and there are rumors that even the U.S. Chamber of Commerce may oppose it.**

### Affs need to spend between 1 and 2 trillion dollars to repair our infrastructure

Ashley Halsey III, Published: July 5, 2011 http://www.washingtonpost.com/local/house-gop-expected-to-ax-transportation-funds/2011/07/05/gHQAt9HkzH\_story.html

**“According to numerous experts, including the American Society of Civil Engineers, the U.S. needs to invest an additional $1 trillion beyond current levels in the next 10 years just to maintain a state of good repair and meet demand,”** the letter said. Two major studies in the past year have urged increased spending to revitalize the nation’s aging infrastructure. **The Urban Land Institute concluded that the United States needed to invest $2 trillion to rebuild roads, bridges, water lines, sewage systems and dams that are reaching the end of their planned life cycles.** Without that investment, the institute warned that the United States would fall dramatically behind much of the world in providing transportation networks needed to remain competitive in the global marketplace. That report buttressed the findings last fall by a panel of 80 experts led by former transportation secretaries Norman Y. Mineta and Samuel K. Skinner. The panel concluded that as much as $262 billion a year must be spent on U.S. highways, rail networks and air transportation systems.

### No public support for a gas tax

Asha Weinstein Agrawal, Ph.D. Hilary Nixon, Ph.D. June 2011 http://transweb.sjsu.edu/PDFs/research/Transportation\_taxes\_public\_opinion\_1031.pdf

Making direct comparisons among the polls is difficult, because the specific tax increases proposed and the contexts in which they are presented both vary widely. For example**, some proposals call for unspecified increases in the gas tax, while others propose specific increases that range from 5¢ to $2 per gallon.** Some polls link the gas tax increase to a particular purpose, such as maintaining bridges, while others link the increase to very general uses, such as “to help meet new transportation needs.” **Two general trends do emerge across the polls, however.** First, **support levels tend to be below 50% and are often considerably lower.** Second, support tends to be higher when the tax increase is linked to some sort of environmental benefit. Table 11 in Appendix B, which presents the results for the eight polls that link a gas tax with environmental benefits, shows **that five of these found support levels above 40%.**

### There is no public support for a mileage tax

Asha Weinstein Agrawal, Ph.D. Hilary Nixon, Ph.D. June 2011 http://transweb.sjsu.edu/PDFs/research/Transportation\_taxes\_public\_opinion\_1031.pdf

Far less polling has been done about mileage taxes, because they are not currently in use anywhere in the United States, although they are under active discussion among transportation policymakers and researchers. **A review of six polls shows that support levels for mileage taxes were often below 30%** (see table 12 in Appendix B). Only the two polls linking a mileage tax to environmental benefits found higher support levels.

### Romney AND Republicans hate rail funding

Keith Laing - 09/29/11 http://thehill.com/transportation-report/railroads/184573-romney-amtrak-a-classic-example-of-unnecessary-government-spending

The GOP presidential **candidate (Romney) says Amtrak should be privatized to save taxpayer money.** Republican presidential candidate Mitt **Romney said Thursday that the federal government could rein in spending if the national passenger rail service, Amtrak, was not national anymore.** Romney, the former governor of Massachusetts, penned an op-ed Thursday in the New Hampshire Union Leader laying out solutions for controlling federal spending, which he wrote "has accelerated at a pace without precedent in recent history" under President Obama. New Hampshire, of course, holds a crucial early primary that Romney hopes to win. Among the solutions Romney laid out is privatizing Amtrak service, **a plan that has been proposed by House Republicans.**

### No support exists for any taxes among the elderly, educated, and white.

Asha Weinstein Agrawal, Ph.D. Hilary Nixon, Ph.D. June 2011 http://transweb.sjsu.edu/PDFs/research/Transportation\_taxes\_public\_opinion\_1031.pdf

We also examined support levels for the different tax options by subgroups within the population. The statistical test of two proportions was used to check whether differences among subgroups (e.g., men versus women) are statistically significant at the 95% and 99% confidence levels. Results are presented in tables 2 through 5 below. In each case, the first subgroup listed in a table for that set of population categories is the base case against which the other subgroups are compared. Table 2 shows support for the taxes when the respondents are broken into subgroups by socio-demographic categories and Census region. The single clearest pattern that emerges is linked to age. Respondents in the youngest group (18- to 24-year olds) were significantly more likely to support all of the taxes than respondents in the two older groups (25-45 year olds and 46 and older). Trends by ethnicity and race are somewhat weaker. Hispanic/Latino respondents were significantly more likely to support four of the gas tax options dedicated for specific purposes; for the other taxes, where the results did not show statistically significant differences, they were about equally likely or less likely to support the taxes. **Among races, whites were the least supportive of the tax increases.** Asians and Asian-Americans were significantly more supportive than whites of all of the options, while blacks and African-Americans, and those who self-identified as “other,” were more likely than whites to say they would support almost all of the tax options. The differences were statistically significant in several cases for each group**. Education and employment status played a modest** but not striking **role**. Respondents with the least formal education (those who had completed no more than high school) were more likely to support most of the taxes than respondents with more education. **The difference between the two educational groups is statistically significant for six of the tax options. Employed respondents were more likely than retirees to support most of the taxes, with the difference statistically significant in four cases.**

## Politics Links - HSR

### There is less and less public support for HSR by the day

Joe Mathews Tuesday, January 24th, 2012 Journalist and Irvine senior fellow at the New America Foundation, Fellow at the Center for Social Cohesion at Arizona State University and co-author of California Crackup: How Reform Broke the Golden State and How We Can Fix It (UC Press, 2010). http://www.foxandhoundsdaily.com/2012/01/how-to-start-high-speed-rail/

I have big doubts about high-speed rail, but I was glad to see Gov. Jerry Brown take on the subject in a big way. This is a governor who has ducked big questions and big fights. At least he’s thinking bigger—and touching off a big debate. But pushing for high-speed rail won’t be enough. Brown needs to rethink the shape and design of the system itself. Judging by the state of the state, he’s currently continuing on the course of starting with a stretch of high-speed rail in the Central Valley. There are reasons for doing that – the biggest one being the federal funding on the table. **But for all the money and business plan problems the high-speed rail project has faced, its biggest problem is public support. Such support is slipping in recent polls. And if the public won’t support high-speed rail, it has no hope of being built. Building the first link in a less-populated area of California won’t help that.** (Even high-speed rail folks in Spain, quoted in a joint project by various California media organizations this week, seemed aghast at the decision to start in the Central Valley, instead of where people are).

### Republicans hate infrastructure funding. They would kill any plans for one, specifically HSR.

Kevin O'Neil, 2-2-2012 http://www.chicagonow.com/cta-tattler/2012/02/house-republicans-move-to-eliminate-transit-funding-contact-your-u-s-rep/

**House Republicans are at it again. This time they are trying to eliminate guaranteed funding for transit agencies by taking away their allocation of gas taxes. The Midwest High Speed Rail Association summed it up just about how I would, so I will let them do the talking: "Don't own a car?! Don't want to pay high gas prices to get around? Too bad!" That's essentially what U.S. House leadership and the Ways and Means Committee said late last night when they made a shocking attack on transit that could have huge impacts for the millions of people who depend on public transportation each day! They have proposed an unprecedented bill that would eliminate any guaranteed funding for public transportation in the highway fund. Instead, public transportation systems around the U.S. will be forced to fight before Congress for general funds each year -** all while highway spending continues to be guaranteed. **This bill would undermine decades of bipartisan investments in public transit.** President Reagan originally made a decision in the 1980's to fund our nation's transit system out of a small share of gas tax revenues. Yesterday's move by House leadership and the Ways and Means Committee would roll back 30+ years of this successful bipartisan transportation policy. Funding for mass transit would no longer be guaranteed year-to-year and there would be no long-term stability for public transportation. If passed into law, this proposal would represent a big change in transportation policy, designed to return us to the car or nothing policies of the 1950's**. It would impact high-speed rail too. The Midwest High Speed Rail Association has always felt that transit and high-speed rail are two inextricably linked policy issues. Both are part of an integrated network that would provide multimodal options to all intercity travelers. Without a successful transit system, we can't have a successful high-speed rail program.**

### No support for HSR, two thirds of voters would oppose it

Ed Fuentes December 7, 2011 http://www.kcet.org/updaily/socal\_focus/transportation/poll-show-loss-of-public-support-for-high-speed-rail.html

Up to two-thirds of voters would change their support for California's high-speed rail system, according to a Field Poll released Tuesday. 64% would invite another vote on Prop 1a, the 2008, $9 billion bond measure. **If a new election was held, 59% say they would oppose it. Prop 1a was approved in November 2008 with a 52.6% of the vote. In 2011, the California High-Speed Rail Authority "limped" under increasing political opposition, even with reaffirmed support of Gov. Jerry Brown and a release of a new business plan**, according to the Sacramento Bee. **Budget and bad press may be the tipping point**, adds The California Report.

### Bad cost estimates ensure HSR is publicly and politically unpopular

Michael A. Fletcher January 15, 2012 http://www.washingtonpost.com/business/economy/plans-for-high-speed-rail-are-slowing-down/2012/01/13/gIQAngYc1P\_story.html

**Critics began panning the first leg of California’s futuristic high-speed rail network as a “train to nowhere”** soon after officials decided to build it not in the major population centers of Los Angeles or San Francisco, but through the state’s Central Valley farming belt. Since then, things have only gotten worse. **Spiraling cost estimates and eroding political and public support now threaten a project crucial to a 21st-century vision of train travel that President Obama promised would transform U.S. transportation much as interstate highways did more than a half-century ago.**

### New polls find unbelievable public opposition to HSR

Dan Walters Jan. 7, 2012 http://www.sacbee.com/2011/12/06/4102223/dan-walters-californias-high-speed.html#storylink=scinlineshareb

However, **the new plan didn't silence opposition among those living along its route. It also continued to draw sharp criticism from the Legislature's budget analyst, and – most importantly – its eye-popping cost eroded an already thin veneer of public support.** That erosion is starkly evident in a new statewide Field Poll that found overwhelming support for resubmitting the project to voters and overwhelming opposition to building it**. More than three-fourths of registered voters said they should be given another chance to vote on the project and, by a 2-1 margin, they want it to be killed.** Or to put it another way, should Brown and the Legislature continue to spend hundreds of millions of dollars on the bullet train, they would be defying the very clear wishes of those who elected them to office.

### HSR is unpopular in congress because rail corporations control congressional elections, meaning politicians won’t support the plan in fear of losing reelection

Ralph Vartabedian and Dan Weikel, October 29, 2011| Los Angeles Times http://articles.latimes.com/2011/oct/29/local/la-me-bullet-train-20111029

**The company's comments** as part of an environmental review **assert that the authority, which is building the $43-billion system, has made a "false conclusion" that the bullet train would not affect the freight railroad's operations during construction or later passenger service.** Documents and drawings show encroachment onto the railroad's right of way in Fresno and Merced. The comments were provided to the Times by Union Pacific. **The company is widely regarded as a major political player, making $1 million or more in annual political contributions at the federal level alone and spending more than $5 million a year on lobbying.** Former Vice President Dick Cheney served on the company's board before the 2000 elections. Richard Tolmach, **co-founder of the California Rail Foundation, called Union Pacific "dangerous" in its influence. The company's objections are coming "after they warned the California High Speed Rail Authority not to make any plans involving their right of way,**" he said. **"Politically, they could be a problem for members of Congress who support the project."**

### The plan is not bipartisan and Obama himself has given up on it

Ken Orski 08/30/2011 Infrastructure Bank: Losing Favor with the White House?

http://www.newgeography.com/content/002408-infrastructure-bank-losing-favor-with-white-house

**"A national infrastructure bank must garner broad bipartisan support to move forward,"** says Michael Likosky, Director of NYU's Center on Law & Public Finance and author of a recent book, Obama's Bank:Financing a Durable New Deal. "This means no grants, a multi-sector reach and a realistic idea of what projects will benefit straight away." **President Obama was expected to include the infrastructure bank among his recommended stimulus measures when he lays out his new job-creation plan before the congressional deficit reduction committee in early September. But lately, he seems to have put the idea on the back burner** and turned his attention to more traditional "shovel-ready" highway investments using existing financing programs. **His advisers may have concluded that the Bank will do little to stimulate immediate job creation--- and that the proposal will find little support among congressional Democrats and Republicans alike.** If so, check off the Infrastructure Bank as an idea whose time had come and gone.