# Loan Guarantees CP

Table of Contents

[Loan Guarantees CP](#_Toc329164983)

[NIB Text 2](#_Toc329164984)

[HSR Text 3](#_Toc329164985)

[Transportation Racism Text 4](#_Toc329164986)

[1NC Solvency 5](#_Toc329164987)

[2NC](#_Toc329164988)

[Net Benefit 8](#_Toc329164989)

[2NC 9](#_Toc329164990)

[Solves 11](#_Toc329164991)

[2NC Solvency 12](#_Toc329164992)

[Private Investment Solvency 13](#_Toc329164993)

[NIB Solvency 14](#_Toc329164994)

[Warming Solvency 17](#_Toc329164995)

[A2 CP Delayed 25](#_Toc329164996)

[Aff Answers](#_Toc329164997)

[2AC 28](#_Toc329164998)

[Perm 29](#_Toc329164999)

[NIB Perm 31](#_Toc329165000)

[HSR Perm 32](#_Toc329165001)

### NIB Text

#### Text: The United States Federal Government should establish a loan guarantee program for transportation infrastructure in the United States through a National Infrastructure bank.

### HSR Text

#### Text: The United States Federal Government should establish a loan guarantee program for the phased construction of a high speed rail network in the United States.

### Transportation Racism Text

#### Text: The United States Federal Government should establish a loan guarantee program for public transit infrastructure in metropolitan areas in the United States

### 1NC Solvency

#### Loans boost project credit, lower finance costs, increase funding capacity, lower construction risks and solve for underperformance

Page et al ‘8 (Sasha, William Ankner, Cheryl Jones, Robert Fetterman, *Page has over two decades of experience in finance and project development in the transportation and utility infrastructure industries… advised municipalities and toll authorities on financing highway and transit projects with traditional and innovative finance sources, cou seled airport authorities on funding expansions with a combination of bonds and grant programs, and helped government organizations to implement performance measurement programs…Master of Public Policy from Harvard’s Kennedy School, a B.A. from Yale University, cum laude, and studied regional transportation and planning at the Technical University of Berlin on a German Academic Exchange Service (DAAD) fellowship,* “The risks and rewards of private equity in infrastructure,” Public Works Management and Policy vol. 13, October 2008)

**Under** the **TIFIA** program**, the USDOT may provide direct loans, loan guarantees, and standby lines of credit to projects that are critical to** the U.S. **surface transportation** system.11 Subject to certain conditions, **TIFIA loans can** be made subordinate to senior debt, such as PABs, which **can improve the credit rating of senior debt, lower financing costs, and increase the overall funding capacity. TIFIA credit instruments are negotiated directly with the USDOT credit program.** Interest rates are set by formula at the time of closing the loan and are determined by the then-current market for U.S. Treasury bonds. TIFIA loans are nonrecourse loans that rely on project revenues or some other dedicated revenue stream for repayment; they are not guaranteed by the federal government. However, the TIFIA program offers repayment **flexibility for long-term structures that is not available in the capital markets** or from other private investors. Examples of the types of innovative techniques that the TIFIA program has negotiated to benefit P3s include the following: • Establishing scheduled versus mandatory debt service. **Creating** alternative **mandatory debt** service **schedules based on downside cash flow expectations lessens the possibility of payment default in the event of underperformance. Allowing very minimum mandatory interest.** For a greenfield project, in the early years after substantial completion, ramp-up risk is minimized with a flexible structure that allows for minimum mandatory interest and recapitalization of sched- uled interest or principal that is not paid. **Relying on the loan life coverage ratio**. Allowing for no fixed principal amortization schedules for a TIFIA loan. The principal is retired from annual surplus funds, using a loan life coverage ratio as a confirmation of ultimate recovery and a trigger for cash flow events. As demonstrated in the Capital Beltway transaction and similar transactions contemplated in Florida and Texas, **private equity paired with** a combination of PABs and **TIFIA provide a low cost of capital, flexibility** on amortization, **and terms that help mitigate project construction and ramp-up risks**. Moreover, PABs dove- tail well with TIFIA’s flexible repayment terms and subordinate status. With variable-rate PABs, and the significant principal deferrals that TIFIA can provide, greenfield projects, in particular, are afforded a longer time to achieve stable revenues. Figures 8, 9, and 10 show three different equity dura- tion periods—10, 20, and 30 years—on this hypothetical infrastructure funding. All other variables, including net revenues and project cost, are the same. As summarized in Figure 11, duration of the equity investment has a significant effect on equity IRR and the cash flow available to cover debt service. In the 10-year scenario, the equity IRR hurdle of 13% is achieved within 10 years. **As** **would be structured and agreed to by banks, capital markets providers, and TIFIA**, the princi- pal on neither the PABs nor TIFIA amortizes during this period. In fact, as allowable under TIFIA, **interest could be further capitalized for a period of up to 5 years after project completion.**

#### Loan Guarantees overcome budgetary constraints – cost analysis, limited risk, private investment

Brandao and Saraiva ‘10(Luiz and Eduardo, *Journal of Construction Management and Economics: vol.26, issue 11*, “The option value of government guarantees in infrastructure projects,” September 2010, <http://www.tandfonline.com/doi/full/10.1080/01446190802428051>)

**The participation of private capital in public infrastructure investment projects** has been sought by many governments who perceive this as a way to **overcome budgetary constraints and foster economic growth**. For some types of projects, this **investment may require government participation in** the form of project **guarantees in order to reduce the risk to the private investor**, and as a consequence, the government assumes a contingent liability which may have significant future budgetary impacts. We present a minimum traffic guarantee (MTG) real options model that differs from most of the literature in the field by using market data to determine stochastic project parameters. This model can be used to assess the value of these **guarantees, allows the government to analyse the cost–benefit of each level of support, and proposes an alternative to limit the exposure of the government while** still **maintaining the benefits to the private investor.** We apply this model to the projected 1000 mile long BR‐163 toll road that will link the Brazilian Midwest to the Amazon River. We conclude that **the use of public–private partnerships** (PPP) **with guarantees and caps on total government outlays can be modelled effectively using option pricing methods and can be a solution to attract private investment to high risk public infrastructure projects.**

# 2NC

## Net Benefit

### 2NC

#### Guarantees key to risk reduction, check government liability – maximizes project value

Brandao and Saraiva ‘10(Luiz and Eduardo, *Journal of Construction Management and Economics: vol.26, issue 11*, “The option value of government guarantees in infrastructure projects,” September 2010, <http://www.tandfonline.com/doi/full/10.1080/01446190802428051>)

**The presence of the government as a risk reduction agent may be necessary since it controls many of the variables that affect the project, such as interest rates, regulation requirements, political risk, etc., or because market risk is such that the project is unable to attract private investment**. The Costanera Norte toll road in Chile, for example, had no bidders when it was first auctioned out in 1998. Only in 2002, after government supports were included was the road successfully bid. **By offering guarantees** for infrastructure projects, **the government becomes responsible for all future liabilities** that these supports may cause, **which may be** very **onerous** to the government **if the risks involved are not adequately analysed and quantified**.  The foreign exchange guarantees provided by the Spanish government in the 1970s and the failure of the Mexican toll road concessions after the 1994 Mexican crisis eventually cost $2.5 billion and $8.9 billion respectively to these governments. **Thus**, **the importance of the valuation of these supports is that it allows the government** not only **to determine the value of budgetary and fiscal impacts of future** contingent **liabilities**, but also to **define levels of guarantees that are high enough to allow the project to be economically feasible but low enough not to burden the government and society** in excess. Government **guarantees allow the private investor to recoup part of its losses. If a project underperforms** **in a particular year, the investor has the option to demand that the government reimburse him the shortfall, up to a pre-established level of guarantee**. Owing to these characteristics, the **valuation of these guarantees requires the use of option pricing** methods known as real options analysis (Dixit and Pindyck, [1994](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#ref12#ref12); Trigeorgis, 1996). We develop a real options model for infrastructure projects subject to minimum traffic guarantee (MTG) **in order to assess the value of these guarantees, their impact on risk of the project and the expected value of the government outlays**. We also show how different **levels of guarantees affect the project's risk profile and provide suggestions on how the government may use this information to minimize its costs.** The literature on the use of real option valuation methods for infrastructure projects is limited. Rose ([1998](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#ref24#ref24)) uses real option analysis to show that **the value of the Melbourne Central Toll project in Australia increases considerably when the flexibility to increase revenues is considered**. Brandão ([2002](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#ref6#ref6)) applied real option valuation to the Via Dutra highway in Brazil which incorporates the value of the options to expand and to abandon. Ng and Björnsson ([2004](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#ref20#ref20)) present arguments in favour of the use of real option approach to the analysis of a toll road concession project. Bowe and Lee ([2004](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#ref5#ref5)) analyse the Taiwan **High-Speed Rail** project, **where the concessionaire has the option to develop real estate projects along the right of way and show that the value of these options can constitute a very significant proportion of total project value**. Pimentel et al. ([2007](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#ref23#ref23)) investigate the optimal timing of investment for a high speed rail project.

#### Caps set a ceiling – worst case scenario we’re liable to the cap, 50% probability of smaller outlay

Brandao and Saraiva ‘10(Luiz and Eduardo, *Journal of Construction Management and Economics: vol.26, issue 11*, “The option value of government guarantees in infrastructure projects,” September 2010, <http://www.tandfonline.com/doi/full/10.1080/01446190802428051>)

**Given that the values of the guarantees are expected** values, **there is a 50% probability that the actual payments be greater (or smaller), and a small probability that they will be significantly higher, which creates budgetary and liability risks** for the government. We use a Monte Carlo simulation to determine **the probability distribution of the expected payments** in order to analyse the risk that the government be required to honour larger than expected outlays. figure [3](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#F0003#F0003) illustrates the probability distribution of a guarantee of 80%. Although the value of this guarantee is R$352.8 million, there is a high probability that this value will be zero, but also a 5% probability that the actual government outlays will be higher than R$1242 million.[6](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#note6#note6) **Government exposure can be limited by the use of caps, where the outlays cease once a pre-established ceiling is reached**. **This** upper limit only **affects the total aggregate value of the options and not the value of each option individually**, except for the borderline option. With caps**, the value of the option in each year is still determined as shown previously, but the cumulative sum of all government outlays is limited to the cap**, as shown in Equation [15](http://www.tandfonline.com/doi/full/10.1080/01446190802428051#M0015#M0015).

## Solves

### 2NC Solvency

#### Solves high-risk projects – caps and market parameters

Brandao and Saraiva ‘10(Luiz and Eduardo, *Journal of Construction Management and Economics: vol.26, issue 11*, “The option value of government guarantees in infrastructure projects,” September 2010, <http://www.tandfonline.com/doi/full/10.1080/01446190802428051>)

We analysed the problem of private investment in public infrastructure and concluded that for some classes of risky projects, **it may be necessary for governments to share part of the project risk by granting** certain **supports**. One such type of support is the minimum traffic guarantee (MTG), which provides the concessionaire with a government subsidy if traffic falls below a pre‐established level. On the other hand, determining the optimal level of these guarantees cannot be done through traditional project evaluation methods and requires the use of option pricing techniques. We show how this valuation can be performed using a real options model, and how **different levels of support affect both the project risk and its value. Rather than defining an exogenous discount rate for project revenues, we use an innovative model where we consider that the main source of project uncertainty is the future traffic levels, and show how the market parameters required for the risk neutral valuation can be determined**. This approach can be used by governments to model and analyse the use of guarantees for projects of interest and choose the best combination of cost and risk reduction. Less risky projects may require fewer or no guarantees, while attracting private investment for more risky projects may entail more costly guarantee structures. **If we assume that these projects are of interest to society,** as is the case of the BR‐163 road**, the failure to attract private investment will require that the project be 100% government funded, which is by far the most expensive alternative**. We also analyse the impact of these supports on government outlays and conclude that indiscriminate granting of these guarantees can create significant future contingent liabilities for the government. We show that **the use of caps** on the total outlays associated with a particular level of MTG **can help reduce** this **liability** risk, and owing to their asymmetric impact on project value, they may be an acceptable solution to all stakeholders involved. **This would allow governments to leverage their investment capability by redirecting scarce resources away from the financing of public infrastructure investment towards providing a limited level of guarantees to a wide range of projects**, as long as precautions are taken in selecting an appropriate government project portfolio. We conclude that the use of public–private partnerships (PPP) with **guarantees** and caps on total government outlays can be modelled effectively using option pricing methods and can **be a solution to attract private investment to higher risk** public infrastructure **projects**.

### Private Investment Solvency

#### Loan guarantees boost returns via private investment – highways, airports, mass transit systems

Cooper ‘12 (Donna, *Senior Fellow with the Economic Policy team at American Progress. Formerly the deputy mayor for policy for Philadelphia and secretary of policy and planning for the Commonwealth of Pennsylvania,* “Meeting the infrastructure imperative: An affordable plan to put Americans back to work rebuilding our nation’s infrastructure,” Center for American Progress, Feb 2012)

The 1998 Transportation Infrastructure Financing and Innovation Act, or **TIFIA, authorized federal credit programs to support publicly funded transportation infrastructure**. Through the TIFIA program, **infrastructure projects that cost at least $50 million are competitively selected for** federally subsidized loans and loan **guarantees to state and local governments, public and private transportation authorities such as turnpikes and airports, and private sponsors of new projects**. These loans are backed by an annual appropriation of credit assistance for lines of credit and loans issued. **TIFIA loans are capped at 33 percent of overall project costs and offer low-interest, long-term loans with a two-year grace period before principal and interest payments begin. The cost to the U.S. Treasury for these loans and loan guarantees are estimated to be 10 percent of the overall value of the** federal loan or **guarantee** for accounting purposes, **figuring in** the cost of an interest subsidy and **the risk of possible losses** on the loans and loan guarantees. The TIFIA program’s $122 million FY 2010 appropriation enables the Department of Transportation to lend or guarantee slightly more than $1 billion per year toward public, private, and public-private partnership infrastructure projects. Over the past 12 years, the TIFIA program has entered into 25 loan agreements totaling $8.7 billion. In some cases**, the public and private sponsors of projects found enough capital to exceed the program’s matching requirements**. As a result, for well less than $10 billion, TIFIA **loans enabled** $33 billion in **public and private capital improvements to public highways, airports, mass transit systems, and large intermodal centers**.42 **The federal government has been making** loans and **loan guarantees for transportation infrastructure projects for nearly a decade with negligible defaults.**

### NIB Solvency

#### Private equity investment solves public infrastructure – regulation

Page et al ‘8 (Sasha, William Ankner, Cheryl Jones, Robert Fetterman, *Page has over two decades of experience in finance and project development in the transportation and utility infrastructure industries… advised municipalities and toll authorities on financing highway and transit projects with traditional and innovative finance sources, cou seled airport authorities on funding expansions with a combination of bonds and grant programs, and helped government organizations to implement performance measurement programs…Master of Public Policy from Harvard’s Kennedy School, a B.A. from Yale University, cum laude, and studied regional transportation and planning at the Technical University of Berlin on a German Academic Exchange Service (DAAD) fellowship,* “The risks and rewards of private equity in infrastructure,” Public Works Management and Policy vol. 13, October 2008)

Many **policymakers, operators and developers of public infrastructure (such as highways, airports, water utilities), and academics believe** that there is a funding deficit for US infrastructure. **Traditional funding sources**, such as fuel taxes, **are widely deemed inadequate and unlikely to be increased.** Tolls and other user fees provide additional funding sources. Coupled with public-private partnership contracting and delivery methods (P3s), these fees can provide new funding sources and ways to reduce delivery costs, as many recent transactions demonstrate, such as the Chicago Skyway and the State of Texas transac- tions. Private equity is an important component of P3 financing and as much as $80 to $130 billion (B) is available in **private equity investment funds** (PEIFs). PEIFs **impose certain requirements on the projects and companies they finance, most importantly on short duration of the investment, as little as ten years, in some cases, from initial investment to final payback**.

#### Private equity solves – focus on financial returns

Page et al ‘8 (Sasha, William Ankner, Cheryl Jones, Robert Fetterman, *Page has over two decades of experience in finance and project development in the transportation and utility infrastructure industries… advised municipalities and toll authorities on financing highway and transit projects with traditional and innovative finance sources, cou seled airport authorities on funding expansions with a combination of bonds and grant programs, and helped government organizations to implement performance measurement programs…Master of Public Policy from Harvard’s Kennedy School, a B.A. from Yale University, cum laude, and studied regional transportation and planning at the Technical University of Berlin on a German Academic Exchange Service (DAAD) fellowship,* “The risks and rewards of private equity in infrastructure,” Public Works Management and Policy vol. 13, October 2008)

**Prior to the past 5 years, strategic investors provided most of the equity financing for U.S. infrastructure projects,** such as in the Dulles Greenway, 91 Express Lanes, or the South Bay Expressway.8 These investors typically consisted of **larger firms that had a strategic interest in a project, including firms in** the **construction** industry, **architectural and engineering firms**, material or equipment **suppliers**, **or operators**. These firms usually received contracts for these other services as a prerequisite for providing equity. Within the past 5 years, however, **financial investors increasingly have been supplying equity capital to infrastructure projects**. Figure 3 contrasts the key characteristics of strategic and financial investors. These large institutional investors, including investment banks, pension funds, insurance companies, university endowments, and foundations, investing increasingly through private equity investment funds (PEIFs), **focus primarily on the financial returns their investments yield.** These institutional investors, however, frequently work closely with strategic investors, through formal and informal teaming arrangements, and some strategic investors even have their own PEIFs. In general, regardless of affiliation**, institutional investors base their investment decisions on the risk-reward trade-off of infrastructure investments in the United States** versus those globally and/or other types of investments.

#### Loans boost project credit, lower finance costs, increase funding capacity, lower construction risks and solve for underperformance

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**Under** the **TIFIA** program**, the USDOT may provide direct loans, loan guarantees, and standby lines of credit to projects that are critical to** the U.S. **surface transportation** system.11 Subject to certain conditions, **TIFIA loans can** be made subordinate to senior debt, such as PABs, which **can improve the credit rating of senior debt, lower financing costs, and increase the overall funding capacity. TIFIA credit instruments are negotiated directly with the USDOT credit program.** Interest rates are set by formula at the time of closing the loan and are determined by the then-current market for U.S. Treasury bonds. TIFIA loans are nonrecourse loans that rely on project revenues or some other dedicated revenue stream for repayment; they are not guaranteed by the federal government. However, the TIFIA program offers repayment **flexibility for long-term structures that is not available in the capital markets** or from other private investors. Examples of the types of innovative techniques that the TIFIA program has negotiated to benefit P3s include the following: • Establishing scheduled versus mandatory debt service. **Creating** alternative **mandatory debt** service **schedules based on downside cash flow expectations lessens the possibility of payment default in the event of underperformance. Allowing very minimum mandatory interest.** For a greenfield project, in the early years after substantial completion, ramp-up risk is minimized with a flexible structure that allows for minimum mandatory interest and recapitalization of sched- uled interest or principal that is not paid. **Relying on the loan life coverage ratio**. Allowing for no fixed principal amortization schedules for a TIFIA loan. The principal is retired from annual surplus funds, using a loan life coverage ratio as a confirmation of ultimate recovery and a trigger for cash flow events. As demonstrated in the Capital Beltway transaction and similar transactions contemplated in Florida and Texas, **private equity paired with** a combination of PABs and **TIFIA provide a low cost of capital, flexibility** on amortization, **and terms that help mitigate project construction and ramp-up risks**. Moreover, PABs dove- tail well with TIFIA’s flexible repayment terms and subordinate status. With variable-rate PABs, and the significant principal deferrals that TIFIA can provide, greenfield projects, in particular, are afforded a longer time to achieve stable revenues. Figures 8, 9, and 10 show three different equity dura- tion periods—10, 20, and 30 years—on this hypothetical infrastructure funding. All other variables, including net revenues and project cost, are the same. As summarized in Figure 11, duration of the equity investment has a significant effect on equity IRR and the cash flow available to cover debt service. In the 10-year scenario, the equity IRR hurdle of 13% is achieved within 10 years. **As** **would be structured and agreed to by banks, capital markets providers, and TIFIA**, the princi- pal on neither the PABs nor TIFIA amortizes during this period. In fact, as allowable under TIFIA, **interest could be further capitalized for a period of up to 5 years after project completion.**

### Warming Solvency

#### Solves renewable energy – private investment nearly doubles returns

Cooper ‘12 (Donna, *Senior Fellow with the Economic Policy team at American Progress. Formerly the deputy mayor for policy for Philadelphia and secretary of policy and planning for the Commonwealth of Pennsylvania,* “Meeting the infrastructure imperative: An affordable plan to put Americans back to work rebuilding our nation’s infrastructure,” Center for American Progress, Feb 2012)

**The Department of Energy had the authority to make $47 billion in loans and loan guarantees in 2010** under Section 1703 of the Energy Independence Act of 2005 and Section 1705 of the Energy Policy Act of 2007. The older program, 1703, has **funds specifically targeted for renewable energy, nuclear power, and advanced vehicle manufacturing.** This program **provides guarantees for up to 80 percent of the value of the project’s costs**. The program is permitted to make $18.5 billion in loan guarantees for nuclear energy projects with no credit subsidy provided by the federal government. In addition, this program had $10 billion in loan guarantee authority for renewable energy projects. Since 2005 the Section 1703 loan program has made four loan commitments: two loans with a combined value of $10.3 billion for two nuclear projects, and $317 million in two loans to companies investing in energy- efficiency technologies.47 Of the $25 billion in Section 1705 loans, approximately $14.7 billion was lent to 26 projects building alternative energy infrastructure and resources for electricity generation, and $8.3 billion was lent to five advanced technology vehicle manufacturing projects. (see Figure 8**) The track record** of the 1705 program **shows that it mobilized substantial private investment in the clean energy generation sector**, **approximately $16 billion of private capital matching $25 billion in federal loan support. That means in total the program mobilized as much as $41 billion in new clean energy investments**.

#### Loan guarantees draw in outside investment – maximizes returns

Cooper ‘12 (Donna, *Senior Fellow with the Economic Policy team at American Progress. Formerly the deputy mayor for policy for Philadelphia and secretary of policy and planning for the Commonwealth of Pennsylvania,* “Meeting the infrastructure imperative:

An affordable plan to put Americans back to work rebuilding our nation’s infrastructure,” Center for American Progress, Feb 2012)

**Approximately $3.3 billion in federal funding enables at least $145 billion in federal infrastructure loans** Federal loans and **loan guarantees** **play a** small but **increasingly significant role in U.S. infrastructure** improvements. CAP’s review of the plethora of federal loan and loan guarantee programs concluded that **in 2010 nine major federal government lending programs had approximately $124 billion in credit capacity for core public infrastructure projects**. For federal budgeting purposes, the cost of these programs is called the credit subsidy, which is determined by the Office of Management and Budget for each program after accounting for expected principal disbursement, loan repayments, defaults, and interest or fees collected. Based on our analysis, this **maximum capacity would cost the government an estimated $3.25 billion.**39 **Of that total capacity**, CAP’s analysis found that roughly **$44 billion in loans and guarantees were actually disbursed** in 2010, with an estimated total credit subsidy cost of $1.8 billion.40 **Most federal loan programs require that borrowers for infrastructure projects also find other investors or demonstrate other available investment capital when applying for a federal loan or loan guarantee. Based on the loan matching requirements** established by Congress**, at least $20 billion in private, state, local, or public authority capital could be drawn into U.S. infrastructure projects if the full federal loan and loan-guarantee program were tapped.** We describe those programs in this section. (see Figure 8) **These loans and loan guarantees go toward an array of infrastructure projects**, which we examine briefly in turn. FIGURE 8 Infrastructure Federal loan capacity anf costs in Fiscal Year 2010 **$3.25 billion in federal credit subsidies leverages $144 billion in other investment** There are two major loan and loan guarantee programs within the **Department of** **Transportation** aimed at boosting infrastructure improvements. In total these loan **programs were authorized at slightly more than $36 billion in 2010, of which $1.7 billion was disbursed in 2010**.41 Chief among these loan programs are the Transportation Infrastructure Financing and Innovation Act and the Railroad Improvement and Financing Act loan programs.

#### Avoids the possibility of failure – the debt can be sold

Mody ’96 (Ashoka, and Dilip Patro, “Methods of loan guarantee valuation and accounting,” Infrastructure delivery: Private initiative and the public good, November 1996, wbro.oxfordjournals.org/content/11/1/119.abstract)

A guarantee is valuable to a lender because, **if the borrower fails to meet debt repayment obligations, the guarantee ensures precontracted payments. Since the lender has, in effect, an option to sell the debt at a preagreed price, a guarantee is akin to a put option. Such an option– which can be on various underlying assets (bonds, stocks, currencies, or commodities)–gives its owner the right to sell that asset for a specified price** (called the exercise price) on or **before a certain date**. If the option can be exercised only at maturity, it is referred to as an European option; in contrast, an American option can be exercised anytime prior to maturity. The price paid by the owner of the option is referred to as the option premium. A fair premium is equal to the present value of the cash flows from the option. The methodology used to compute this premium is referred to as option pricing or, more generally, as contingent claims valuation.

#### Risk mitigation and regulation

Mody ’96 (Ashoka, and Dilip Patro, “Methods of loan guarantee valuation and accounting,” Infrastructure delivery: Private initiative and the public good, November 1996, wbro.oxfordjournals.org/content/11/1/119.abstract)

**As instruments for supporting private enterprise and attracting private finance to priority endeavors, guarantees** provide significant value. Their **value increases with the underlying riskiness of the project and the maturity of the loan** being guaranteed. This survey shows that the value in the high-risk, high-maturity loans can be worth hundreds of basis points of interest costs or, equivalently, expected default payments can be a very substantial portion of the loan. Any policy using guarantees thus needs to address several trade-offs. By guaranteeing the lending the government takes on the risk of default and thereby reduces the incentives of the lenders and project sponsors to actively monitor project performance. **To create the incentive for continued project monitoring as well as for filtering out those who have a low ability to manage risk, governments seek to share risks with private lenders by guaranteeing less than the full loan.**

#### Guarantees best for green technology – long term environmental projects need private investment

Linn 11 (Joshua, research centers on the effect of environmental regulation and market incentives on technology, with particular focus

on the electricity sector and markets for new vehicles. His work on the electricity sector has compared the effectiveness of cap and trade and alternative policy instruments in promoting new technology, including renewable electricity technologies, “Loan guarantees reconsidered,” RFF, http://www.rff.org/Publications/WPC/Pages/Loan-Guarantees-Reconsidered.aspx)

Bridging the “valley of death.” **Investment in new technologies tends to be highest in the earliest stages** (think venture capital or public funding of **basic research and development**) **and in the latest stages** (private funding after commercialization); **in between there is a “valley” in which new technology has trouble attracting private investment**. For a variety of reasons, private **investors may lack sufficient incentives to pursue technologies that have not yet been commercialized**. For example, investors may not want to back a startup company because **there is too much uncertainty** about the quality of its product or because the time horizon required for payback is too long. Providing immediate economic stimulus**. Because of poor and, presumably, transitory economic conditions** like the current economic downturn, many **businesses may fail that would otherwise succeed** in a stronger economy**; loan guarantees would help** support such businesses. Although this argument would apply to businesses in many sectors of the economy, supporting the green economy provides the additional bonus of improving the environment**. Supporting green industry in the long term. Many supporters of loan guarantees argue that either because of future carbon policy or depletion of exhaustible resources, the United States will have to transition to low-carbon technologies sometime in the future. U.S. citizens would be better off developing and manufacturing these technologies rather than importing them from China and elsewhere.**

#### Solves green technology – BRIDGES THE VALLEY OF DEATH.

**Brown 12** (Phillip, specialist in energy policy, “loan guarantees for clean energy technologies: goals, concerns, and policy options,” Congressional research service, Jan 17 2012, www.fas.org/sgp/crs/misc/R42152.pdf)

Typically **as technologies move through the development life cycle, the cost to complete each subsequent development stage increase**s, and in some cases the cost increases can be substantial. **System scale-up and operation, and commercial deployment, are usually** the most **costly** development stages. **Financing these development activities can sometimes be difficult because the capital requirements are large and the risks (technology performance, market dynamics) are usually high**. Some people refer to this situation as **the “valley of death”** or **the “chasm” that all new technologies might encounter as they move from demonstration to commercial deployment. Formulating and executing a plan to realize commercial deployment is a challenge in itself.**27 **Financing that plan can further complicate new technology commercialization. By providing a source of low-cost capital for these development stages, loan guarantees could support the commercialization of new and innovative renewable energy technologies.**

**\*\*\*A2: Perm\*\*\***

**Transit systems are normally funded directly by federal grants.**

**UTCM ‘9** (University transportation center for mobility, “Federal funding transit process,” 2009, <http://utcm.tamu.edu/tfo/transit/summary.stm>)

**Federal funding for transit comes primarily through the U.S. Department of Transportation and is administered by the Federal Transit Administration. These funds are appropriated from either the Highway Trust Fund or the general fund.** The [Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users (SAFETEA-LU)](http://www.fhwa.dot.gov/safetealu/) authorized $286.4 billion in funding for federal surface transportation programs including $52.6 billion to be administered by the Federal Transit Administration (FTA) to support locally planned and operated public mass transit systems for 2004 through 2009. According to FTA, fare box revenues account for only about 40 percent of public transit system operating costs, so **transit systems must generally rely on additional funding** from Federal, state and local sources as well as private investment. Since 1997, 2.86 cents on every gallon of federal fuel taxes collected has been dedicated to the Mass Transit Account (MTA). **Funding from state and local authorities may come from numerous sources including sales taxes, property taxes, income taxes, and direct transit system taxing authority**. As is the case with state highway programs, state transit programs receive a large percentage of funding from federal sources. **This funding is in turn awarded in the form of grants that typically require matching funds** depending on the type of program, to individual transit systems by formulas which may vary from year to year. States generally do not own capital equipment for transit and do not provide direct transit services. **State and federal funds are disbursed to cities, counties, transit authorities and transit providers on a reimbursement basis, so expenses must be incurred by the provider prior to disbursement** by the State or the Federal Transit Administration (FTA). State funds may be used by providers to meet the matching requirements of federal grants.

**\*\*\*A2: Links to budget\*\*\***

**Avoids the budget link – not recorded as an expenditure**

**Mody ’96** (Ashoka, and Dilip Patro, “Methods of loan guarantee valuation and accounting,” Infrastructure delivery: Private initiative and the public good, November 1996, wbro.oxfordjournals.org/content/11/1/119.abstract)

In the past**, guarantees were often implicitly treated as free, and were recorded in government budgets only when a guarantee was called to make good on a payment default. At the time the guarantee was made, no liability was recorded in government accounts and hence no reserves were created for the contingency that the guarantee may be called.** Seguiti (1988) draws attention to budgetary practices in Italy, where **even though interest subsidies by the government are accounted for in the budget, guarantees are reported if and only if default occurs. Prior to the Credit Reform Act of 1990, contingent liabilities were not recorded in the U.S. budget.**

**Avoids the budget link – net positive returns**

**Mody ’96** (Ashoka, and Dilip Patro, “Methods of loan guarantee valuation and accounting,” Infrastructure delivery: Private initiative and the public good, November 1996, wbro.oxfordjournals.org/content/11/1/119.abstract)

Guarantee values referred to here are the gross values, or the effect that guarantees have on reducing spreads charged by bond holders and other lenders. **Since the guarantee holder pays a premium or a fee for the guarantee, a net value calculation must be made to determine if the gain from lower financing cost is greater than the fee paid. Implicit** in the discussion below **is that a net positive gain accrues to the guarantee recipient, and this net gain results from the assessment made by the guarantor that the market valuation of the project risk is greater than the true risk** (the guarantor in turn spreads its risks of default over a large number of projects). Bland and Yu (1987) who estimated **the cost of borrowing minus the guarantee fee** (for 445 insured and 694 uninsured bonds offered in 1985) **found the net gain to be positive** and inversely related to credit ratings.

**Avoids the budget link – off budget, political support, no impact on the deficit**

**DeHaven ’12** (Tad, budget analyst on federal and state budget issues for the Cato Institute, “Political support for energy’s loan guarantees,” CATO, 6/26/12, <http://www.cato-at-liberty.org/political-support-for-energys-loan-guarantees/>)

Why would members of Congress, and Republicans in particular, continue to support this federal boondoggle incubator? A [new paper](http://mercatus.org/sites/default/files/DeRugy_testimony_final.pdf) from Cato adjunct scholar Veronique de Rugy that looks at the Energy

**loan guarantees** explains: One reason is it **serves** three powerful constituencies: **lawmakers, bankers, and the companies that receive the subsidized loans.** Politicians are able to use loan programs to reward interest groups while hiding the costs**. Congress can approve billions of dollars in loan guarantees with little or no impact to the appropriations or deficit because they are almost entirely off-budget**. Moreover, unlike the Solyndra case, **most failures take years to occur, allowing politicians to collect the rewards of granting a loan to a special interest while skirting political blame years later when or if the project defaults. It’s like buying a house on credit without having a trace of the transaction on your credit report.** Veronique notes that most of the money for the loan guarantees issued under section 1705 of Title 17 have gone to large and established companies: These include established utility firms, large multinational manufacturers, and a global real estate investment fund. In addition, the data shows that **nearly 90 percent of the loans guaranteed by the federal government since 2009 went to subsidize lower-risk power plants, which in many cases were backed by big companies with vast resources**. This includes loans such as the $90 million guarantee granted to Cogentrix, a subsidiary of Goldman Sachs. Currently, Goldman Sachs ranks number 80 on the list of America’s Fortune 500 companies.

**Limits financial liability of the government – risk management**

**Mody ’96** (Ashoka, and Dilip Patro, “Methods of loan guarantee valuation and accounting,” Infrastructure delivery: Private initiative and the public good, November 1996, wbro.oxfordjournals.org/content/11/1/119.abstract)

**Rather than directly financing infrastructure projects, governments**, especially in developing countries, **are increasingly using guarantees to stimulate private lending** to such projects**. Partial guarantees**–or guarantees **targeted to specific policy or regulatory risks inherent in infrastructure sectors–mitigate those risks that the private sector cannot evaluate or will not bear**. At the same time, such partial guarantees **can substantially diminish the financial obligation of the government, where the only alternative is for the government to fully finance the project and bear all risks.** Researchers find that **loan guarantees are of significant value**, providing substantial comfort **to lenders**, especially as the underlying risk and the term of the loan increase. A guarantee’s value to a lender, however, implies a cost to the government. Such a cost, and the consequent obligation, are not always explicit, but are nevertheless real. **When providing a guarantee, a government incurs a contingent liability, or a liability that is conditional on some future event. Although contingent liabilities do not demand immediate payment, future obligations are expected,** and these require careful accounting and administration.

**Avoids the budget link – puts least pressure on the deficit, reduces need for outlays**

**Cooper ‘12** (Donna, *Senior Fellow with the Economic Policy team at American Progress. Formerly the deputy mayor for policy for Philadelphia and secretary of policy and planning for the Commonwealth of Pennsylvania,* “Meeting the infrastructure imperative:

An affordable plan to put Americans back to work rebuilding our nation’s infrastructure,” Center for American Progress, Feb 2012)

This high level of federal spending was due in large measure to the short window in which investors could exchange the value of production and investment tax credits for direct grants. The other federal programs that made 2010 a banner year for clean energy investment come with expiration dates. The production tax credit expires in December 2012, the investment tax credit in 2016, and the most valuable elements of the Energy Department’s loan guarantee program expired on September 30, 2011. **To meet the ambitious energy infrastructure goals**, CAP estimates that **the federal government needs to mobilize $15 billion in investment in our clean energy generation sector each year through 20 40**.107 Federal loans or **loan guarantees for financially viable projects would put the least pressure on the deficit, requiring only $1.5 billion in federal credit subsidy costs**. In addition, CAP estimates that **nearly $25 billion annually is needed in new investment in the energy transmission, distribution, and smart grid capital invest- ments. Here too, the use of loans is an approach that can be employed to reduce the need for substantial federal outlays.**

### A2 CP Delayed

#### Risk of low returns and cost overruns make loans the only way to solve – otherwise the project gets delayed

Page et al ‘8 (Sasha, William Ankner, Cheryl Jones, Robert Fetterman, *Page has over two decades of experience in finance and project development in the transportation and utility infrastructure industries… advised municipalities and toll authorities on financing highway and transit projects with traditional and innovative finance sources, cou seled airport authorities on funding expansions with a combination of bonds and grant programs, and helped government organizations to implement performance measurement programs…Master of Public Policy from Harvard’s Kennedy School, a B.A. from Yale University, cum laude, and studied regional transportation and planning at the Technical University of Berlin on a German Academic Exchange Service (DAAD) fellowship,* “The risks and rewards of private equity in infrastructure,” Public Works Management and Policy vol. 13, October 2008)

These above **scenarios assume that cash flows occur as expected**. **Should revenues be significantly lower or cost overruns result in the project taking on more debt** and thus higher debt service, a PEIF may receive much less or nothing at all from its investment. **Equity can serve as an important cushion during** those **critical development and start-up years. Without equity**, greenfield **projects may not be financed or would be delayed until cash flows are more certain** for the investment grade capital markets, or governments can fund them with grants. Therefore, **if senior and subordinate lenders in an infrastructure financing agree to a specified debt repay- ment schedule and accept equity** dividend payment terms, and dividend payments conform to concession agreement terms (if applicable**), there is no reason why a PEIF cannot play a meaningful role in an infrastructure financing**. Public policy makers need to fully understand the terms to which they are agreeing, so that they can defend the role of equity and the P3 process in public. In addition, they need to consider regearing, novation, and project development issues in the concession or other agreements that they negotiate: Allow regearing. **Regearing** (or releveraging) **consists of increasing the amount of debt in a project**/entity, **based on more stable or higher cash flows**, usually following the ramp-up period. In a regearing, equity investors gain a one-time payment that can substantially boost IRRs. In general, governments should allow regearing as it is only possible if the project has been successful and the credit markets are willing to lend it additional monies. However, **a government that is lending the project money**, through a SIB, for instance, **should receive some of the regearing proceeds, in the form of retiring outstanding debt.** The USDOT’s **TIFIA** program generally **requires project sponsors to share 50% of regearing proceeds** with TIFIA, thereby **reducing project debt and benefiting equity’s cash flows, a virtuous circle**. Similarly, governments should look positively toward refinancing, **which results in project benefits through lower interest rates** on senior debt. Maintain flexibility on novation. Novation is when the concession contract with one private entity can be transferred to another. This is a sensitive issue for some governments, because they are concerned that their partner—one chosen after a long process and given the responsibility for developing important, highly visible assets—is able to meet the requirements of the concession contract. As mentioned, given PEIFs’ challenges with duration, it is expected that the secondary market for PEIF transactions will grow. Again, once a project has been completed and a suitable ramp-up period, such as 5 years or less, has passed, governments should be generous in their novation rights, making such terms clear and simple. If there are important performance standards to be maintained, they should be established in easy-to-verify performance measures, with clear enforcement terms. Shorten project development. **Governments can shorten duration by reducing the development and construction period.** **This may include dividing** larger projects into smaller phases or providing grant support for those **portions of a project that create unusual delays or that do not add revenues** (such as untolled portions of a project). Although the latter may be interpreted as allowing the private sector to “cherry pick,” **if it improves the project’s attractiveness** for PEIF investments**, it should result in healthy competition and a higher price paid to the government in the procurement process**.

# Aff Answers

### 2AC

**Links to budget disad – subsidizing investment uses the same logic as deficit spending**

**Krugman ’12 (**Paul, op-ed columnist for the New York Times, New York Times, “Crony Keynesianism,” 6.15.12, http://krugman.blogs.nytimes.com/2012/06/15/crony-keynesianism/)

Jonathan Portes has the goods: he points out **that the assumptions under which** the UK government’s new policy of **subsidizing private investment — including infrastructure investment! — through loan guarantees makes sense are exactly the same assumptions under which debt-financed government spending on**, say, **infrastructure makes sense.** **So why funnel the money to private corporations via loan guarantees rather than simply doing the obvious and restoring the huge cuts that have recently taken place in public investment**? One answer, of course, would be that doing that would be an implicit admission that the Cameron government has just wasted two years doing exactly the wrong thing. It has, of course, and apparently realizes its mistake; but presumably the **government hopes that privatizing the process will confuse enough people that it can escape blame.** **But let’s also note that funneling funds through the private sector offers an opportunity to lavish favors on friends.** Now, to be fair, so does government contracting; but that’s a familiar enterprise, with well-established rules and safeguards in place. This will be something new, **which may make it possible to slip in some big giveaways that nobody notices**. So as you can see from the title of this post, it sounds to me as if Osborne has come up with a new wrinkle in policy that I hereby dub Crony Keynesianism — **doing policies whose logic calls for government spending, but take the form instead of incentives to favored private-sector interests. From a macro point of view, even crony Keynesianism is better than continued destructive austerity.** But we should be aware how basically strange it is, and how subject to abuse.

**Can’t solve clean energy technology –**

**Brown 12** (Phillip, specialist in energy policy, “loan guarantees for clean energy technologies: goals, concerns, and policy options,” Congressional research service, Jan 17 2012, www.fas.org/sgp/crs/misc/R42152.pdf)

**The high-risk nature of clean energy projects**, however, raises some **concerns about the use of loan guarantees** as a mechanism to encourage the deployment of new technologies. First, **loan repayment demands cash flow from development stage companies at a time when they may already have high cash flow requirements, so loan repayment obligations could actually increase the risk of default** for certain projects. Second, at a project level, **the government’s potential return is not commensurate with the risk being assumed.** Third, **loan guarantees for clean energy technologies are essentially long-term commitments in a dynamic and evolving marketplace. As a result, technologies supported today could be obsolete in less than a decade, thereby increasing the risk of loan default**. Finally, **federally managed loan guarantee programs may be subject to certain pressures that could result in less-than-optimal decision making**. Should **Congress** decide to continue the use of government financial tools as a clean energy technology deployment support mechanism, it **may wish to consider various policy options** for future initiatives. Some policy options could include (1) **using grants or tax expenditures instead of loan guarantees**; (2) **taking equity positions in new technologies** and projects through a new government-backed venture-capital-like organization; (3) authorizing the use of flexible management tools such as stock warrants, portfolio management, and convertible equity; and (4) **creating a dedicated clean energy financial support authority to manage federal clean energy deployment investments**. Each of these policy options is explored and discussed in this report.

### Perm

**Perm do cp – it’s normal means**

**Page et al ‘8** (Sasha, William Ankner, Cheryl Jones, Robert Fetterman, *Page has over two decades of experience in finance and project development in the transportation and utility infrastructure industries… advised municipalities and toll authorities on financing highway and transit projects with traditional and innovative finance sources, cou seled airport authorities on funding expansions with a combination of bonds and grant programs, and helped government organizations to implement performance measurement programs…Master of Public Policy from Harvard’s Kennedy School, a B.A. from Yale University, cum laude, and studied regional transportation and planning at the Technical University of Berlin on a German Academic Exchange Service (DAAD) fellowship,* “The risks and rewards of private equity in infrastructure,” Public Works Management and Policy vol. 13, October 2008)

Many **policymakers, operators and developers of public infrastructure (such as highways, airports, water utilities), and academics believe** that there is a funding deficit for US infrastructure. **Traditional funding sources**, such as fuel taxes, **are widely deemed inadequate and unlikely to be increased.** Tolls and other user fees provide additional funding sources. Coupled with public-private partnership contracting and delivery methods (P3s), these fees can provide new funding sources and ways to reduce delivery costs, as many recent transactions demonstrate, such as the Chicago Skyway and the State of Texas transactions.

**Normal means – governments transitioning to lower liability**

**Mody ’96** (Ashoka, and Dilip Patro, “Methods of loan guarantee valuation and accounting,” Infrastructure delivery: Private initiative and the public good, November 1996, wbro.oxfordjournals.org/content/11/1/119.abstract)

**The amount of risk sharing in the cases surveyed has not been large, but** **governments are increasingly conscious that they need to lower their exposure** and, as the Canadian example shows, **there is likely to be greater movement in this direction**. The value of the guarantee also depends upon the structure of financing. Guaranteeing junior debt creates incentives for senior debt holders to be vigilant, but raises expected costs to the guarantor. The **high value of loan guarantees, losses experienced, and trends towards greater budgetary discipline have led to countries adopting a more rational approach to accounting for subsidies.**

**Normal means – loan guarantees will cover 50% of project costs**

**Goodman ’12** (Douglas, military quality assurance manager, campaigner, “Government – run infrastructure bank will create jobs,” Next Generation News and Politics, May 2012, http://www.policymic.com/articles/7441/government-run-infrastructure-bank-will-create-jobs)

**The AIFA will provide** direct loans or **loan guarantees to infrastructure projects in** the areas of **transportation**, water, and energy. Approved projects must contribute to regional or national economic growth, be beneficial to taxpayers, demonstrate a clear and significant public benefit, lead to job creation, and mitigate environmental concerns. Minimum total project cost for a project to be considered is $100 million, $25 million for a rural project. **Priority will be given to projects based on a public-private partnership. The maximum annual federal funding available would be $10 billion the first two years, $20 billion during years three to nine, and $50 billion 10 years and beyond. These amounts also are the maximum total of direct loans and loan guarantees that may be issued in a given fiscal year. Any individual loan or loan guarantee may not exceed 50% of the total project cost and must be repaid in full no later than 35 years after completion of the project.** Before issuing a loan or loan guarantee, **AIFA will review the overall financing of the project**, the credit worthiness of the project sponsors and co-financiers, the financial assumptions and projections used, and whether there is sufficient State or municipal political support.

### NIB Perm

**Infrastructure bank would provide loan guarantees and leverage private equity/government outlay**

**Bloomberg ’11** (“A bank that can get Americans on the road and on the job,” Bloomberg review, 8/11/11, <http://www.bloomberg.com/news/2011-08-11/a-bank-that-can-get-americans-on-the-road-and-on-the-job-view.html>)

Enter **the infrastructure bank**, which **would provide** loans or **loan guarantees for big projects deemed to be in the public interest -- and attract private investment by offering cheap access to capital and a path to profit from tolls, fares and other charges. The bank could leverage the government’s outlay to lend more. An initial $5 billion a year for five years could result in $50 billion or more in loans. And because these loans would be paid back with interest, the institution could become self- sustaining. Financing for such a bank should be seen as an investment,** not “spending.”

### HSR Perm

**Normal means - high speed rail’s unappropriated funds were in loan guarantees**

**DOT ’10** (Financing Florida’s rail system, Investment element of the 2010 Florida rail system plan, 2010, www.dot.state.fl.us/**rail**/.../Final**Investment**Element/K-Chapter6-Finan)

Separately, Section 1036 of ISTEA authorized $50 million for demonstration of new high- speed ground transportation technologies, and $25 million for research and development. Section 1107 authorized $97.5 million for land and right-of-way acquisition and guideway construction for a 13.5-mile magnetic levitation, or maglev, line between the Orlando Airport and the International Drive complex near Disney World**. ISTEA** also **amended the Railroad Revitalization and Regulatory Reform Act** of 1976 **to authorize up to $1 billion in government-guaranteed loans to finance construction of high-speed rail systems; however, these funds were never appropriated**. The Swift Rail Development Act, which was enacted into law in November 1994, authorized $184 million for FY 1995 through FY 1997 for “Next Generation” corridor planning and technology improvements. The Transportation Equity Act for the 21st Century (**TEA-21**), enacted in June 1998**, provided additional funding for high-speed rail development and added six new lines to the list of priority high-speed corridors**. In the 2003 and 2004 DOT Appropriations Bills**, $3.85 million and $5 million respectively were earmarked** for planning the Florida high-speed rail corridor.