# Thursday Updates- ARS

## Yesha- Misc

#### There is a clear difference between transportation and waterway infrastructure

Congressional Budget Office 2010 (“Public Spending on Transportation and Water Infrastructure,” <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/119xx/doc11940/11-17-infrastructure.pdf>)

Although different definitions of “infrastructure” exist, this report focuses on two types that claim a significant amount of federal resources: transportation and water. Those types of infrastructure share the economic characteristics of being relatively capital intensive and producing services under public management that facilitate private economic activity. They are typically the types examined by studies that attempt to calculate the payoff, in terms of benefits to the U.S. economy, of the public sector’s funding of infrastructure.

For the purposes of CBO’s analysis, “transportation infrastructure” includes the systems and facilities that support the following types of activities:

• Vehicular transportation: highways, roads, bridges, and tunnels;

• Mass transit: subways, buses, and commuter rail;

• Rail transport: primarily the intercity passenger service provided by Amtrak;

• Civil aviation: airport terminals, runways, and taxiways, and facilities and navigational equipment for air traffic control; and

• Water transportation: waterways, ports, vessels, and navigational systems.

The category “water infrastructure” includes facilities that provide the following:

• Water resources: containment systems, such as dams, levees, reservoirs, and watersheds; and sources of fresh water such as lakes and rivers; and

• Water utilities: supply systems for distributing potable water, and wastewater and sewage treatment systems and plants.

#### Investor confidence is high now

Levaux March 28 (Janet Levauz, “Investor Confidence Way Up, but Not Equity Allocation,” AdvisorOne, <http://www.advisorone.com/2012/03/28/investor-confidence-way-up-but-not-equity-allocati>)

Three separate investor surveys show strong boosts of confidence, though many high-net-worth investors remain hesitant about jumping into the markets. “Non-millionaires were particularly active investors in March,” said George Walper (right), president of Spectrem Group, in a statement. "There was a dramatic increase this month in the number who chose to invest. Millionaires, however, expressed more caution, with a rise in the number who chose to remain on the sidelines.” Strong gains in the U.S. equity markets, lower unemployment and encouraging news from the European debt crisis all contributed to a dramatic increase in economic optimism among high-net-worth and mass-affluent investors, according to Phoenix Marketing International’s latest survey of close to 1,200 individuals released Tuesday. In the widest swing ever recorded by PMI’s economic-outlook indicator, the optimistic trend line rocketed upward by 19% among wealthy investors – to 53% in February/March from 34% in December/January. The economic optimism trend line also increased among the mass affluent, moving to 41% from 29%. About 28% of mass-affluent investors surveyed by PMI increased their commitment to funding their portfolios, up from 23% in the prior period. And for the third two-month period in a row, these investors indicated that they were expanding their real-estate holdings.

#### Investor confidence in the US economy is high

Satran 8/1 (Richard Satran, “6 Not-So-Great-Alternatives to U.S. Treasuries,” US News, Money, <http://money.usnews.com/money/personal-finance/mutual-funds/articles/2012/08/01/6-not-so-great-alternatives-to-us-treasuries?page=2>)

 choice: 1. Municipal bonds. Tax-free munis are now yielding more than U.S. debt, which is unusual. Normally, muni yields are lower because their after-tax yield adds a percentage point in total return. On that basis, munis pay over 4 percent, versus barely 3 percent and less for U.S. bonds. Risk: Many municipal and state governments are in tough financial straits. They are still relatively low-risk investments, but investors should be selective, or rely on a diverse bond fund that can spread the risk. [See The Benefits and Pitfalls of Dividend Investing.] 2. Sovereign debt. Returns are very attractive, to be sure, and you don't need to go to an emerging country that you could not locate on a map to find good yields. The Power Shares DB Italian Treasury Bond Futures ETF (ITLY) gained 15 percent in the first half of the year. Italy is stressed financially, but has been paying on its debt. Risk: Europe's monetary union is in tatters, and a China slowdown is hitting Asia's other economies. The failure of India's energy grid this week casts a spotlight on the kinds of unpredictable things that can happen in emerging economies. 3. Corporate bonds: High-yields are still paying 7 percent, and it's possible to find 4 percent and 5 percent rates from relatively safe B-rated debt issuers. The top A-rated corporate bonds pay only slightly more than the government bonds. Risk: Standard & Poor's figures show that about 3.5 percent of speculative bonds default. A flood of new high-yield bonds have hit the market this year, and some credit analysts are forecasting a rise in defaults. In the latest downturn, the rate of failure was 1 in 10. For A-rated corporate bonds, the default rate is close to zero. 4. REITs: Real Estate Investment Trusts have been strong for the past three years, with returns far into the double digits, and they have been one of the strongest-performing investment sectors. Risk: The income payments for REITs are definitely not fixed. The funds pay out 90 percent of their net income each year. In 2007-2009, the real estate collapse caused their value to fall sharply and payouts plunged. Since then, they have benefited from low borrowing costs and a unusually high demand for rentals (chosen by many over home purchases). Few expect those fundamentals to stay in place. 5. Stock dividends. Some see it as a golden era for dividend yields. The average for S&P stocks is over 2.5 percent. And it's not hard to find blue chips paying in the 3 percent to 4 percent range. Risk: Corporate earnings are seen peaking right now and dividend payments could suffer. There is also the risk that if profits fall, so will share prices. The 2008 and 2009 period saw the most cuts in history. 6. Floating-rate funds: The opposite of high-quality, fixed-rate investing, these funds are growing in popularity as an income solution. In part, this is because they differ from traditional bonds and bond funds in that their value does not fall as interest rates decline. Floating-rate fund managers invest in a wide variety of short-duration notes and floating-rate securities to limit the risk of a default. It also limits principal risk and provides stable value. They have paid yields in the 3.5 percent to 4.5 percent range over the past couple of years. Risk: In an all-out credit crunch like the one that hit in 2008, the corporate-debt market came to a virtual standstill. In an all-out financial meltdown, you don't want to be here. So if you fear a repeat of that crisis, don't go there. [See Gut Instincts Can Hurt Your Portfolio.] Schwartz explains that for floating rates, "If the coupon payments of the bonds [in the floating-note fund] rise with prevailing interest rates, the net asset value of the fund is presumably stable." Floating rate, however, is not a panacea for income investors. "This is just another sector of the bond market. There are many multisector bond funds that have the ability to increase and decrease exposure to this sector as the manager sees fit," he adds. Investors have been seeking out the stability of fixed income in response to stock market volatility. Fund investors have overwhelmingly favored income funds over equity in recent years. It sparked a big debate in recent days as Bill Gross, the famed PIMCO bond manager, said the "cult of equity" is dead, and took issue with Jeremy Siegel, a Pennsylvania professor who has long advocated the merits of long-term stock investing and continues to do so. That debate is as old as the Buttonwood Agreement (the Manhattan meeting in 1792 that set up the New York Stock Exchange). But few would debate Gross's argument from a recent tweet that "Boomers can't take risk." And they have more money, so financial services are offering more income products. Collateralized debt obligations, government-sponsored entity debt, master limited partnerships, and annuities are others. Each of the investments has its own set of risks, though, requiring more planning about how to create a diversified portfolio. One solution may be to look for multisector bond funds that change their holdings to reflect changes in the economy, market sentiment, and corporate earnings. Regardless of investing preferences, Schwartz said, "Investors should continue to maintain a well-balanced fixed-income portfolio."

#### Sovereign wealth funds want to invest in an infrastructure bank – the counterplan avoids politics and spending

**SWF Institute, 2011** (“Sovereign Wealth Funds Anticipate Possible American Infrastructure Bank,” September 8, <http://www.swfinstitute.org/swf-article/sovereign-wealth-funds-anticipate-possible-american-infrastructure-bank/>)

In our estimate, sovereign wealth funds would look forward to the creation of an American infrastructure bank. The primary reason for this is the infrastructure fund investment returns would most likely surpass treasuries and other current fixed income investments. It is essential to note that not all infrastructure investments are created equal. By observing current infrastructure investment patterns around the globe, sovereign wealth funds and other governmental investors prefer infrastructure in energy, utilities, and transportation, over more speculative types like green projects and social infrastructure. U.S. President Barack Obama’s speech tonight is outlining his future plan for jobs in America. With high U.S. unemployment rates, the current situation is daunting. American public sector projects are facing major funding issues and will have to rely on outsider capital. Thirty years of underinvestment in American infrastructure has created tremendous issues for the United States. In fact, other developed nations spend a great deal more percentage wise on public infrastructure. One proposal out there is the creation of an American infrastructure bank. The bank would most likely receive a capital infusion of federal dollars to the tune of US$ 60 billion to provide infrastructure financing in transportation. If the proposal includes investment opportunities to sovereign wealth investors and other investors, it could alleviate congressional passage complication and lessen the fiscal impact on U.S. debt. Developing infrastructure in energy and transportation is a white hot asset class for sovereign wealth funds and public pensions. This $4.7 trillion dollar sovereign investor class already represents a major source of foreign capital for the United States. Sovereign wealth funds are an active participant in American stocks, private equity, and real estate. Infrastructure as an asset class is a classic inflation hedge, plus it is long-term in nature. It can be a suitable investment for governmental investors with enough capital and funds with a long-term investment horizon. This inelastic asset class attracts investors searching for stable and predictable cash flows. Among the big infrastructure players in the sovereign wealth fund space include the Abu Dhabi Investment Authority, China Investment Corporation, New Zealand Superannuation Fund, and the Government of Singapore Investment Corporation. One key advantage for sovereign wealth funds by creating an infrastructure bank in the United States is that it will lower political investment risk. When the Abu Dhabi Investment Authority invested in Chicago Parking Meters it created a bit of political controversy in Chicago. One way sovereign investors can circumvent political risk in public infrastructure investment is participating in club deals, bringing multiple foreign parties to the table. This alleviates and distributes political risk among the participating governmental entities and helps paint a better picture of their commercial investment intentions. Furthermore, the infrastructure bank could lower project risk by creating a fund to invest in multiple infrastructure projects. This pooled approach would increase project diversity. In addition, if the Federal government would guarantee the cash flow payments, there would most likely be increased sovereign investor interest and participation.

#### Pooling foreign investment solves

Zwirn, 2011 (Daniel B., Managing Member, Zwirn Family Interests LLC, Trustee at the Brookings Institution, “Rebuilding America: The Role of Foreign Capital, Sovereign Wealth Funds and Global Public Investors,” March 11, <http://www.brookings.edu/~/media/events/2011/3/11%20sovereign%20wealth/20110311_sovereign_wealth>)

But I also think we clearly have some key fiscal issues over the next several decades we’ve got to figure out how to deal with. So, we have to deal with some of those fundamental issues, and then in the near term we have to fund some of these problems. And as we looked at this problem, one gaping hole we think is infrastructure, and frankly infrastructure -- as you think about foreign investors coming in and funding some key infrastructure projects like, for instance, the power grid, it is obviously going to be concerning the issue as a national security matter. But you would argue that these are just the types of assets that a pension-oriented fund would want to invest in, that these are general lower risk projects that ought to be attractive for these types of funds, but you’re going to need to have some structure that’s going to be acceptable to us here in the United States for the Chinese government to come in and invest in our power grids, for instance. And so that’s why the idea here of an infrastructure fund where we’re effectively pooling capital from both foreign and maybe also domestic investors can be helpful to, in effect, buffer issues in the interests of any foreign investor and so our national security concerns here. So, that’s sort of the nature of thinking about this infrastructure fund to try to put together our needs and manage some of our national security concerns with that issue.

#### A weak dollar hurts the economy

Delfeld 7 (Carl, Chartwell Advisor, Forbes, October 10, 2007, http://www.forbes.com/2007/10/17/dollar-currency-feldstein-pf-etf-in\_cd\_1017etfbriefing\_inl.html)

Here is my case for why a weaker dollar hurts America. First, **a weaker dollar translates into a cut in the real spending power of American consumers**--in effect, a reduction in real income. Second, a weaker dollar **weakens the role of the U.S. dollar as the world's reserve currency**. Why should investors **and** central banks around the world invest in US assets when their value is steadily declining? Third, the chances of a weaker dollar leading to a sharp reduction in America's trade deficit is highly unlikely since 40% of the current balance is due to oil imports that are denominated in U.S. dollars. An additional 20% is due to trade with China, which is, of course, controlling the value of its own currency. Fourth, a weaker dollar **is inflationary since it increases the cost of imports**. Fifth, business leaders know that discounting prices may bump near-term revenue and profits but at a real cost to long-term profitability, not to mention inflicting damage to the brand name. This is what we are doing to the brand of America by trying to increase exports by lowering their price in the global marketplace. Better to stand firm on price and sell into global markets on the basis of what is great about American products: superior quality, innovation and service. Sixth, investors seem to like a weaker dollar since the profits of American multinationals get a boost from foreign earnings being translated into U.S. dollars. Again this is short-term thinking and vastly overstated since most multinationals have sophisticated treasury departments that hedge currency exposures. What **a weaker dollar really does is to encourage American and international investors to invest in non-American markets. The more the dollar drops, the more global equities rise.** Many Asian currencies are hitting record highs against the U.S. dollar.

#### Investor confidence is key to the economy and any investor anxiety about spending would plunge the world into a global financial crisis

Hagler 2011 (Department of the Army Civilian, “National Security Implications of Long-Term Deficit Spending,” US Army War College, June 20, <http://www.carlisle.army.mil/featured_articles/teaser1_1Jul11-SRP.htm>)

The government needs investor confidence, yet it can be difficult to sustain longterm. If, under whatever circumstances, the government is unable to find adequate buyers of its debt securities, it would be forced to sell securities to itself (over and above what it already self-finances from Social Security tax receipts). This action would equate to printing additional money, leading to inflation based on devaluation of existing dollars. Dollar devaluation would make investors less willing to invest in dollar denominated securities, so the government would be forced to boost interest rates to attract new buyers. The potential for such a downward spiral is real. Another important consideration is that if global investors lose confidence in the value of the dollar and dump it in favor of some other currency or commodity (such as oil or gold), “a selffulfilling stampede could trigger sell-offs in U.S. stocks and bonds. People have predicted such a crisis for decades. It hasn’t happened yet…But something could shatter that confidence, tomorrow or 10 years from tomorrow.” 26 So long as the government is able to sustain investor confidence, it will be able to borrow. If, on the other hand, investor confidence lapses, whether based on something tangible or simply anxiety about the government’s huge borrowing needs, interest rates would rise and could plunge the world into another global financial crisis.

## T Substantial

### A substantial investment is over 20%

Traficant et. al 89 – former member of US House of Representatives(James, written with other Congressmembers, Bill Summary & Status 101st Congress (1989 - 1990) H.R.2489, 5/24/89, http://thomas.loc.gov/cgi-bin/bdquery/z?d101:h.r.02489 )

(C) SUBSTANTIAL INVESTMENT DEFINED- The term `substantial investment' means any amount which- i) was added to the capital account for an existing facility during the 3-year period ending on the last day of any taxable year with respect to which such facility is a tax holiday plant, and caused the sum of all amounts added to such account during such period to exceed 20 percent of the total value of such facility (determined in the manner provided in subparagraph (B)(ii)) on the first day of such period.

### Transportation infrastructure spending is $48.1 billion

GAO 11– Investigative arm of Congress charged with examining matters relating to the receipt and payment of public funds (Government Accountability Office, Funding Used for Transportation Infrastructure Projects, but Some Requirements Proved Challenging, 6/29/11, http://www.gao.gov/products/GAO-11-600)//EM

This report responds to two GAO mandates under the American Recovery and Reinvestment Act of 2009 (Recovery Act). It is the latest report on the uses of and accountability for Recovery Act funds in selected states and localities, focusing on the $48.1 billion provided to the Department of Transportation (DOT) to invest in transportation infrastructure. This report also examines the quality of recipients' reports about the jobs created and retained with Recovery Act transportation funds. This report addresses the (1) status, use, and outcomes of Recovery Act transportation funding nationwide and in selected states; (2) actions taken by federal, state, and other agencies to monitor and ensure accountability for those funds; (3) changes in the quality of jobs data reported by Recovery Act recipients of transportation funds over time; and (4) challenges faced and lessons learned from DOT and recipients. GAO analyzed DOT and recipient reported data; reviewed federal legislation, guidance, and reports; reviewed prior work and other studies; and interviewed DOT, state, and local officials.