Comparison Brief: Policy Proposals for a National Infrastructure Bank

With extension of the nation's surface transportation program currently being debated in the halls of Congress, policymakers are considering a variety of options to shore up declining revenues, improve project selection and prioritization, and maintain the existing system. One proposal —a national infrastructure bank — has received considerable attention from both sides of the aisle. Various proposals have been introduced; members of Congress, President Obama, and economists have all weighed in with how a NIB could work. While a new government-sponsored entity is unlikely with lawmakers discussing trillion dollar debts and deficit reduction committee, reports of the nation's ailing infrastructure continue to leave room for debate. Differences in these various NIB proposals raise questions as to exactly how such an entity would operate, and how it should be structured to ensure that dollars are well spent and taxpayers are protected. This policy brief provides an overview and comparison of the four most publicized proposals on the subject.

Proposed powers of a National Infrastructure Bank

- Provide financing for infrastructure projects across the nation.
- Use public dollars to leverage private investment into infrastructure.
- Issue financing tools, which vary based on the proposal considered. These tools include: low-interest loans, loan guarantees, infrastructure bonds, or direct subsidies or grants.
- Offer competitive project below-market rate financing based upon cost/benefit analysis of infrastructure project.
- Rate projects based on ability to meet specified criteria: congestion relief, expansion of multimodalism, improved safety, environmental benefits, and/or system maintenance and upkeep.

Proposal 1: Rohaytan-Ehrlich's National Infrastructure Bank[i]

Felix Rohaytan — a American investment banker and economist — has long brought a national spotlight to infrastructure issues, most recently in his post-Hurricane Katrina call's to rebuild and invest in America's aging transportation, water, energy, and telecommunications infrastructure. Joined in 2008 by Dr. Everett M. Ehrlich — also a business economist — they outlined a radical change to the financing of infrastructure. In a 2008 *New York Review of Books* op-ed, the two point to a myriad of transportation problems they believe current federal funding and finance mechanisms will be unable to solve. In their effort to use federal resources more effectively and garner additional funding, Rohaytan and Ehrlich envision a National Infrastructure Bank modeled after the World Bank, a private investment bank. Their bank would replace all "modal" programs — highways, airports, mass transit, and other infrastructure — that are currently

housed under the Department of Transportation, and distribute all of those funds through the NIB instead. Rohaytan and Ehrlich estimate this amounts to around $60 billion.

"Rather than receiving grants through pre-set federal formulas or privileged congressional payments" under the current DOT, states, cities, and other non-federal entities would come to the bank with infrastructure proposals. The bank would have no national plan for infrastructure – all projects would be proposed from a bottom-up approach. Each proposal would need to meet so-called "legitimate" national benefits and all alternative financing options (including tolling, user charges, and other revenue generating solutions) explored before a project would be considered. Products offered would include subsidies, grants, loans, loan guarantees, interest-rate subsidies, bonds, and bond underwriting without full faith and credit of the U.S. Treasury. Rohaytan and Ehrlich claim that this is important because "only close scrutiny by investors can provide the kinds of discipline needed to ensure the bank's long-term success." It's important to note that this investor scrutiny didn't prevent the billion dollar bailouts for Fannie Mae and Freddie Mac's mortgage-backed securities, which were also issued without the backing of the nation's full faith and credit. Establishment by the federal government alone is enough to imply this backing to both investors and the nation's lawmakers.

Similar to the World Bank, the bank would be governed by a board of directors with a chief executive appointed by the President and confirmed by the Senate. Many lawmakers from both sides of the aisle have since picked up on Rohaytan and Ehrlich's ideas, though their proposals have come nowhere near as encompassing.

Proposal 2: The Administration's National Infrastructure Innovation and Finance Fund[ii]

The Obama Administration has made no secret of their desire to boost infrastructure spending as part of the nation's economic recovery. This is most readily demonstrated by the administration's $556 billion reauthorization proposal. Taking a more federal approach, the Obama Administration's recent (unofficial) proposal establishes the bank as more a revolving fund operating as a unit of the U.S. Department of Transportation. The National Infrastructure Innovation and Finance Fund (NIIFF) would provide grants, loans, lines of credit, and loan-guarantees to transportation-only projects that would be "otherwise difficult to fund." More specifically, grants would separate out into Planning and Feasibility Grants and National Infrastructure Innovation Grants. Loans and other credit assistance products would all need a "reasonable assurance of repayment" from revenue sources but the specifics remain unclear. A minimum fee or insurance premium would be required at levels sufficient to cover the agencies review costs.

The NIIFF would be intended to serve projects of national scope, specifically to enhance the economic output, productivity, or competitive commercial advantage of the nation or region. In addition to this national or regional requirement, the fund would serve also for eligible projects that improve environmental sustainability, safety, livability and affordability, and efficiency and throughput of the transportation network. Project costs would need to exceed $50 million, but only $1 million in the case of 'rural' areas as classified by the U.S. Census Bureau. Non-federal financing outside of the NIIFF must support at least 30 percent of the project's total cost. Each project application would receive a single numerical factor or qualification score determined by benefit/cost ratio calculations provided by the bank's staff. Governance of the NIIFF would be led by an Executive Director (appointed by the President with Senate Confirmation), an Investment Council, and a nine-member Fund Advisory Committee from various government

agencies. The Investment Council would adopt an 'Investment Prospectus' which outlines methodology and qualification criteria's, strategies, and outcomes for the NIFF's investments. The Fund Advisory Committee would ensure the investment prospectus' mechanics and objectives are consistent with current research and the NIIFF's integrity as finance and grant-making institution. The NIIFF's projects would be bounded by all current Federal law such as National Environmental Policy Act (NEPA) and Davis-Bacon Act. The NIIFF would be seeded with $4 billion annual funding in 2011 and raised to $6 billion in 2015 with an average of $20 billion total over four years. With the NIIFF's grant-making abilities, it is unclear how the bank would achieve self-sufficiency and would most-likely rely on continued federal support. This is similar to other federal loan programs such as the Clean Water State Revolving Fund, which is supposed to be a 'revolving' loan program but continues to receive substantial appropriations from Congress to cover loan subsidy costs and provide additional investment.

Proposal 3: (H.R. 402) Rep. DeLauro's National Infrastructure Development Bank Act of 2011[iii]

Rep. Rosa DeLauro (D-CT) introduced bank legislation in January 2011 with 61 co-sponsors, all Democrats. Certain provisions differ from the Administration's proposal, the most obvious being that her bank would be established as a wholly-owned government corporation similar to the U.S. Postal Service or Amtrak. The bank, known as the National Infrastructure Development Bank, would be authorized to issue senior and subordinated loans, sell debt securities, public benefit bonds, and loan guarantees for not only transportation infrastructure projects, but environmental, energy and telecommunication infrastructure projects as well. Each project applicant would undergo an analysis that considers the economic, environmental, and social benefits and costs of each project. Projects of national and regional significance would be prioritized. Similar to Rohaytan and Ehrlich's proposal, the bank not have the full faith and credit of the U.S. Treasury and only private investors would demonstrate the bank's claimed worthiness and discipline. However, as mentioned under Rohaytan and Ehrlich's proposal, being chartered by the federal government is enough to imply the full faith and credit of the U.S. treasury as exemplified by the bailout of Fannie and Freddie Mac. Compliance with other laws is required including the Davis-Bacon Act, state and local permits, and NEPA requirements.

The National Infrastructure Development Bank would be governed by a board of directors and series of committees. The board of directors would consist of 5 members appointed by the president with Senate confirmation. The board would oversee and monitor all infrastructure projects receiving a financial product from the bank. The executive committee would consist of chief officers much like an ordinary bank who oversee its daily operations, application processes and procedures, technical assistance, and recommendations to the board. A risk management committee and audit committee would assist the board in decision making and report to Congress and investors. The bank would initially be capitalized with $5.0 billion in 2012 and each year thereafter until 2016 for a total of $20 billion over four years, at which point appropriations would stop and the bank would be expected to meet its own obligations. It is unclear whether this would result in self-sufficiency.

Proposal 4: (S. 652) The Kerry-Hutchinson BUILD Act of 2011[iv]

Sens. John Kerry (D-MA) and Kay Bailey Hutchison (R-TX) introduced the BUILD Act (Building and Upgrading Infrastructure for Long-Term Development), which establishes an American Infrastructure Financing Authority (AIFA). AIFA requires less capitalization than the other proposals, sets parameters for the entity's self-sufficiency, and limits the financial products offered. AIFA would provide loans and loan guarantees to qualified transportation, water, or energy infrastructure projects. As proposed, projects would be prioritized for financing based on their national or regional significance, ability to create jobs, environmental mitigation, and ability to attract maximum private financing. The legislation stipulates that to be eligible for financing, projects would be required to show a dedicated revenue source such as user fees, tolls, tax revenue, or other mechanisms that would be used to repay the credit product offered from the bank. No more than 50 percent of the project's financing would come from AIFA and financing faces a 35-year maximum repayment period. Like other proposals, projects face a minimum cost of $100 million unless located in a rural area where $25 million would be the established minimum.

AIFA's governance would consist of a 7-member board of directors, a chief executive officer, senior management, and auditor (inspector general). This is almost identical to DeLauro's governance structure. AIFA would be established with a one-time $10 billion capitalization of the bank and supplemental administrative subsidies until 2014. After that time, the bank is expected to be entirely self-sufficient from loan and loan guarantees' interest, risk premiums, and other fees.

Comparisons

All of the proposals make clear that any project applicant must come from local, state, regional, or private entity, not the federal transportation program. This would encourage projects to be created with a bottom-up approach, leaving decision-making closest to the where the projects would be built. All of the proposals require that loans, loan guarantees, and other credit-based projects have dedicated revenue streams such as user-fees, toll revenues, or tax mechanisms such as a regional sales tax, dedicated to repayment of the project loan package. Additionally, although slightly differing in form, all proposals have similar governance structures similar to that of private commercial banks, including an appointed board of directors and various committees to guide investment decisions. None of the proposals include the full-faith and credit clause typically attached to the federal government's credit-assistance programs. This clause *hypothetically* makes taxpayers the creditor of last resort, meaning federal coffers will not have to cover losses if a project financed by the bank fails. But U.S. taxpayers have paid dearly for the faulty financial products offered by non-full faith and credit institutions such as mortgage lending giants Fannie Mae and Freddie Mac. Any entity created by and operating beneath the federal government carries the implied backing of the Treasury, therefore putting taxpayers on the line in the case of failure or default.

The primary difference between the proposals involves the funding of the bank and type of financial products offered. As drafted, the Kerry-Hutchinson proposal seeds the bank with a one-time, $10 billion down payment. The bank is expected to become self-sufficient by charging interest and other fees, and through collection of loans over time. Rep. Delauro's bank would work in a similar fashion with $30 billion in capitalization between now and 2016, when it is expected that the bank would become self-sufficient. On the contrary, the administration's

proposal — an infrastructure bank as an operating unit of the U.S. DOT – would almost certainly rely on continued Congressional appropriations. These congressionally-driven appropriations would likely subject the bank's investments to political calculations. Examples of this congressional meddling can be found in the last transportation reauthorization bill, SAFETEA-LU; the "Projects of Regional and National Significance" program was completely earmarked by members of Congress, which severely limited the implementation of cost-effective, prioritized regional or national projects. This may also inhibit DeLauro's proposal but appropriations to the bank would stop in 2016 as drafted in the legislation. Appropriations simply stopping would be highly unlikely, given that many programs have continued to obtain appropriations or extended beyond mandated temporary lifespan, including the previously mentioned Clean Water and Drinking Water State Revolving Funds.

On the far end of this, Rohaytan's proposal takes all of the government's existing transportation revenues streams — gas and diesel taxes, airline passenger ticket taxes, etc. — and directs these mechanisms into the bank's coffers. These would be used to not only seed the bank, but also provide an ongoing revenue stream to support the grants and subsidies — the non-revenue generating discretionary products offered by the bank. The DeLauro and Kerry proposals don't include grants or subsidies as products offered from the bank, thus requiring no ongoing support in theory, but Rohaytan's proposal would use existing funding streams and therefore require no initial capitalization from general funds.

Another difference stems from each of the proposals criteria for project selection. Although three of the four proposals claim project's must of 'national or regional' significance, Rohaytan and Ehrlich's proposal leaves this requirement out, stating the bank would require no national plan for infrastructure — projects applicants would be at level playing field based on its credit worthiness and forecasted financial performance. Furthermore, the administration's proposal is highly detailed in how projects would be selected in ranked, involving benefit/cost ratios that give each project a single numerical factor. The number would determine whether the project is selected. This type of analysis would be specifically outlined in the bank's 'Investment Prospectus' which would be developed by the bank's investment council. Other proposals leave much of this decision making, criteria, and project ranking methodologies to the bank's respective committees and senior management.

Table comparison of pending and non-legislative NIB proposals

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	Proposal 1: Rohaytan-Ehrlich	Proposal 2: The Administration	Proposal 3: H. R. 402	Proposal 4: S. 652
	National Infrastructure Bank Proposal	**National Infrastructure Innovation and Finance Fund (NIIFF)**	**National Infrastructure Development Bank Act of 2011**	**BUILD Act**
Proposal Origin	*Proposed by Felix Rohatyn —American investment banker— and Everett Ehrlich —business economist, October 9,2008*	*Unofficially released by the Obama Administration, April 2011*	*Introduced by Rep. Rosa DeLauro (D - CT), January 24, 2011*	*Introduced by Sens. John Kerry (D - MA) and Sen. Kay Bailey Hutchinson (R-TX), March 17, 2011*
Entity Type	Establishment of a government-owned entity called the 'National Infrastructure Bank' without the full faith and credit of the U.S. Treasury.*	Operating unit of the U.S. Department of Transportation. Full faith and credit unclear.*	Government-owned corporation without the full faith and credit of the U.S. Treasury.*	Government -owned authority or "American Infrastructure and Finance Authority" (AFIA) without the full faith and credit of the U.S. Treasury.*
Financial Products Offered	Subsidies, grants, loans, loan guarantees, interest-rate subsidies, bonds, and bond underwriting.	Grants, loans and lines of credit, and loan guarantees for infrastructure projects of regional and national significance. Project financing limited to thirty percent of the total project costs.	Provide, purchase, or sell subordinated loans, debt securities, public benefit bonds, and loan guarantees to qualified infrastructure projects.	Loans and loan guarantees covering up to 50 percent of the project costs.
Upfront Federal Costs	All current federal funding mechanisms (i.e. gas taxes) would be redirected to support the bank. Estimated $60 billion annually.	Annual appropriation of $5 billion per year for four years.	Annual appropriation $5 billion per year for five years.	$10 billion upfront investment from Congress
Internal Governance	Operates under a chief executive officer and board of directors appointed by the President and confirmed by the Senate.	Three primary parts; an executive director, appointed by the President and confirmed by the Senate; an investment council, responsible for establishing and approving the Investment Prospectus; and a fund advisory committee appointed by the President and established to advise the investment council and Secretary.	A board of directors consisting of five members appointed by the President and confirmed by the Senate, responsible for monitoring and overseeing the financing of infrastructure projects.	Seven-member board of directors and chief operating officer appointed by the President and confirmed by the Senate, responsible for monitoring and overseeing the financing of infrastructure projects.
Project Types	All infrastructure projects proposed by local, regional, or state governments.	Transportation infrastructure, including highway, bridge, aviation, port and marine, public transportation, intercity passenger bus, and passenger or freight rail.	Transportation, environmental-improvement, energy, and telecommunications.	Transportation, water, and energy.

Criteria for Financing	Applicants must demonstrate a project's national benefit. Additionally, the board would determine all alternatives were studied and selected proposal is worthy of consideration. Restricted to non-federal applicants only.	An 'Investment Prospectus' would determine eligible applicants; prospectus criteria based on a project's ability to improve the safety, efficiency, and sustainability of the nation's transportation system. Furthermore, each project would be ranked with a single numerical factor based on an evaluation benefits/costs. Project costs must be greater than $50 million in total or $1 million in the case of 'rural' areas.	The board would create to create project selection criteria considering the economic, environmental, social benefits, and prioritizing projects that contribute to economic growth and job creation, and of regional or national significance.	Projects must be of national or regional significance, $100 million or more in project costs ($25 million in rural areas), and backed by dedicated revenue streams. Projects would have a clear public benefit and meet rigorous economic, technical and environmental standards.
Other Provisions	Credit products would be bundled and sold to private investors. The NIB would be dependent on investor scrutiny to ensure product soundness and strengths.	Grants would be divided between 'Planning and Feasibility Grants' and 'National Infrastructure Innovation Grants'	Authorized to borrow from all global capital markets and lend to regional, state, local entities, as well as public-private partnerships.	Included rural protections: Five percent of the authority's initial financing reserved for projects of $25 million or more in rural areas.
**Because each of the proposals entails a federally chartered entity with directors appointed by the President and confirmed by Congress, stipulating that the financial products backed by the bank won't enjoy the full faith and credit of the U.S. Treasury don't make it so. The bailouts of Fannie Mae and Freddie Mac provide example of this.*				

Conclusions

These comparisons provide an in-depth review of what's on the table for a National Infrastructure Bank and various structural and financing options available to policymakers. By most accounts the nation's infrastructure is in dire need of investment. At the same time the country is running a $1.3 trillion annual budget deficit and staring into a chasm of debt. This scenario makes the idea of leveraging federal investment with non-federal cash an attractive option for tackling the nation's infrastructure needs. National infrastructure bank boosters tick off a myriad of potential benefits: increased private investment; project acceleration; reduced risk; improved project selection and prioritization; improved financing for large, complex, multi-jurisdictional projects; and reduced federal share of project costs.

However, serious questions about these proposals remain. In most cases, a NIB will not function explicitly as a bank would, making market rate loans to qualified projects with expectation of repayment plus interest in order to provide capital for additional loans in the future. Providing grants would not accomplish this, nor would some of the other financing tools that some of the proposed banks would offer. Also, because a NIB would be federally chartered with directors appointed by the President and confirmed by Congress, simply stating that loan guarantees and bonds backed by the bank don't enjoy the full faith and credit of the U.S. Treasury does not make it so, and would likely leave taxpayers on the line in the event of default. The bailouts of Fannie Mae and Freddie Mac already proved that case. In addition, the stipulation that the bank become self-sustaining does not guarantee this will be the case, and in some instances ongoing support from taxpayers is explicitly envisioned. Finally, concerns that the bank becomes subject

to short-term and short-sighted political whims remain. It is possible that many of these concerns can be addressed through the careful crafting of legislation with explicit taxpayer protections, but it is not clear that a political process will guarantee such results.
In addition, there are other federal programs that operate in much the same manner as envisioned by the NIB proponents. Chief among them is the Transportation Infrastructure Finance and Innovation Act (TIFIA), which provides more than $100 billion each year to leverage private financing, and has a proven record of protecting taxpayers even in the face of default and bankruptcy. Though decisions are not made by a private entity as envisioned with a NIB, the requirements for obtaining TIFIA funding have proven adequate to fund projects that were not default risks, and even in the one case of default under the program, taxpayers were largely protected from loss due to the sharing of risk with private entities. Demand for TIFIA funding remains high, and this program could be expanded to meet some of that demand.

In times of trillion dollar deficits, $14 trillion in national debt, and crumbling infrastructure, taxpayers must be given the highest safeguards from the risks presented by a NIB. There are instances where additional public-private financing can fill an important gap for maintaining, expanding, and improving the nation's transportation infrastructure; it is not clear that an infrastructure bank is required to fill this need, but a carefully constructed bank could play a role in this regard. Taxpayers for Common Sense will continue to analyze these proposals and advocate for the highest taxpayer protections if such plans are seriously considered by federal lawmakers.

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[i] F. G. Rohatyn, E. Ehrlich. "A New Bank to Save Our Infrastructure" The New York Review of Books. September 10 2008. **http://www.nybooks.com/articles/archives/2008/oct/09/a-new-bank-to-save-our-infrastructure/?pagination=false**
[ii] "TRANSPORTATION OPPORTUNITIES ACT" The Obama Administration. May 2011. **http://taxpayer.net/user_uploads/file/Transportation/Obamaadminreauthsections.pdf**
[iii] "H.R.402 -- National Infrastructure Development Bank Act of 2011" U.S. Library of Congress. January 24 2011. **http://thomas.loc.gov/cgi-bin/bdquery/z?d112:h.r.402:**
[iv] "S.652 -- Building and Upgrading Infrastructure for Long-Term Development" U.S. Library of Congress. May 17 2011. **http://thomas.loc.gov/cgi-bin/bdquery/z?d112:s.652:**