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Infrastructure

Opportunities Abound for Bond-Financed Infrastructure, But So Do Obstacles

by Kyle Glazier
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ORLANDO — Transportation finance experts expect robust bond financing of new transportation and infrastructure projects in the near future, even though federal policy is making those investments increasingly tricky.

Several market participants provided that perspective to municipal analysts attending the National Federation of Municipal Analysts' conference here Wednesday.

Nearly everyone agrees that there is a major investment shortfall in America's infrastructure needs, they told the analysts, and the response needs to be both intelligent and creative.

The U.S. spends roughly 3% of its gross domestic product on its infrastructure, said Alexander Heil, chief economist for the Port Authority of New York and New Jersey. That is comparable to the expenditures of most other industrialized countries, including most of Europe. Despite this, the American Society of Civil Engineers gives the U.S. a D+ grade on its infrastructure scorecard. ASCE calculates that the nation will require about $3.6 trillion in infrastructure investment by 2020, of which about only $2 trillion is likely to be available.

Heil told conference attendees to be mindful that demographic trends will shape American infrastructure demand. Millenials are less likely to be interested in car ownership than previous generations, he said, leading to the conclusion that some caution may be warranted when considering whether assets with an expected lifespan of 100+ years will still be paying off generations from now.

"We need to look at risk. We need to look at uncertainty," Heil said.

Duane Callender, director of the Transportation Infrastructure Finance and Innovation Act loan program at the U.S. Department of Transportation, said that 75% of TIFIA's approximately $16 billion of loans to more than 40 programs over 15 years have gone to highway programs. Callender said he expects more transit and multi-modal projects to join the program's portfolio, and that strong bipartisan support of TIFIA means the program will probably remain well-funded for the time being.

But TIFIA is clearly the "good," in federal policy best characterized as "the good, the bad, and the ugly," said Citigroup managing director and public finance sector head Tom Green. On a more negative note, the gas tax-fueled federal Highway Trust Fund, is being repeatedly patched with general fund transfers because the federal gas tax has remained stagnant for two decades, Green pointed out. He said Citi sees promise in the idea of allowing states to decide whether to toll their sections of interstate highways, an idea that has been opposed by trucking and other groups.

While Green said he sees many opportunities for bond-funded new money projects on the horizon, federal regulation of high-quality liquid assets (HQLAs) is throwing up a road block. The Federal Reserve System's Board of Governors, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency proposed a rule in October that would require large banks to maintain a minimum liquidity coverage ratio, defined as the ratio of HQLA to total net cash outflows. Assets would qualify as HQLA if they could be easily and immediately convertible to cash with little or no loss of value during a period of liquidity stress. Munis are not included because federal regulators have suggested they are not liquid enough, though muni market participants — including Citi — have argued the opposite. Under the proposed rule, high-quality corporate or foreign bonds could qualify as HQLA, but not munis. That would hamper the market, Green told analysts.

"There's no logic to that," he said.

A conference attendee said there has been some talk of funding infrastructure by reviving Build America Bonds at a lower subsidy rate, but Green said Republican opposition makes that unlikely.

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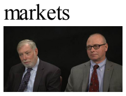
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