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INFRASTRUCTURE

That pile of cash? Invest it in US infrastructure

Douglas L. Peterson, chief executive officer of McGraw Hill Financial Thursday, 24 Jul 2014 | 2:14 PM ET



Private companies are sitting on trillions of dollars of cash while the country faces historic infrastructure problems. Policy makers would be wise to see the connection between these statements and take action.



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Thankfully, the Obama administration gets it. This week the administration hosted the Rural Opportunity Investment Conference. Representatives from some of the largest institutional investment firms in the world were face-toface with high-ranking administration officials. The message the President delivered? There's a tremendous opportunity to use your trillions of dollars to invest in America's rural infrastructure.

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The need for infrastructure investment in the United States is indisputable. The American Society of Civil Engineers last year gave the nation's infrastructure a letter grade of "D+." They estimated that it would cost \$3.6 trillion to improve to a letter grade of "B" by 2020.



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This historic crisis also presents America with an unprecedented opportunity. Currently, too many Americans are looking for work, interest rates are at all-time lows and thousands of bridges and roads are degrading each year.

It's time we invest in solving this problem. Standard & Poor's Ratings Services found that even a minimal investment of \$1.3 billion in infrastructure would add 29,000 construction-related jobs. With an unemployment rate of 8.2 percent in the construction sector in June, that's a targeted return of scalpel-like precision. Additionally, that same \$1.3 billion would generate \$2 billion in economic growth and reduce the federal deficit by \$200 million dollars. That's the type of shot in the arm our nascent economic recovery needs.

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So why focus investors on rural America?

Rural infrastructure projects have built-in advantages that should be attractive to financiers. For starters, investment dollars go farther. Literally. A December 2013 proposal from the Florida Department of Transportation estimated that the construction of a new two-lane urban road cost \$3.6 million per mile. The same mile in rural Florida? \$2.1 million.

Additionally, investing in rural projects comes with fewer unknowns and pitfalls than urban ones. Urban projects are essentially revamps of existing, decades-old infrastructure. The underlying infrastructure, even if replaced, carries more risk. More risk means unexpected challenges and higher costs.

But when it comes to discussions among policy makers, leading thinkers and investors, the infrastructure conversation generally has had a narrow application — urban project finance. The emphasis on infrastructure investment needs to be more geographically inclusive, highlighting rural needs, as well as those in large cities and suburbs.

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In conversations with top officials like Treasury Secretary Jack Lew and Agriculture Secretary Tom Vilsack, we kept coming back to one idea: How do we bundle rural projects to make them more attractive to investors?

McGraw Hill, through its two business units S&P Cap IQ and Standard and Poor's Ratings Services, is working to do just that. We are looking at options for creating a platform for investors to see, much like they do when looking at stocks, what projects need financing and what the financial benefits are.

This focus on rural projects will lead to better policies and a broader coalition of leaders coming together to solve the nation's infrastructure problem. In return, with greater bipartisan buy-in from lawmakers, more accommodating policies will help bring about increased interest from the very private sector decision makers we need to allocate resources towards infrastructure.

And, emphasizing a diversity of capital investment into America's rural heartland matters. State and local governments are facing serious budget limitations and are dialing back their footprint. Traditional banking sources face regulatory constraints on long-term lending projects. So finding alternatives, such as funding from institutional investors, makes sense.

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Best Price Guarantee \$113.95 These firms tend to look for longer-term investments to match up with their long-term debt obligations, while taking on relatively low risk. Infrastructure projects tend to fit that profile: regulated markets, long-lived assets with stable demand and little, if any, competition.

Analysts from S&P note: "The average annual default rate for all project finance debt rated by Standard & Poor's since 1998 is just 1.5 percent — less than the 1.8 percent default rate for corporate debt issuers in the same period. And project finance debt also delivers a better rate of recovery when defaults do happen."

There is a natural place for government when it comes to infrastructure investment. It's not reasonable to pay a toll every time you drive down the street. But modern realities necessitate an increasing role for the private sector. The need is there. The opportunity exists. Let's seize it.

Commentary by Douglas L. Peterson, chief executive officer of McGrawHill Financial, the parent company of Standard & Poor's Ratings Services. He is also co-chair of Georgetown University's collaboration with the United States Department of Agriculture's "Public-Private Partnership" symposium.

Note: This op-ed was updated to reflect some key takeaways from the meetings between officials from the Obama administration and representatives from some large institutional firms that took place this week.

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