Bridging the Gap Together:

A New Model to Modernize U.S. Infrastructure

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BIPARTISAN POLICY CENTER

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EXECUTIVE COUNCIL ON INFRASTRUCTURE

The Executive Council on Infrastructure is a working group of corporate CEOs and executives drawn from the financial, industrial, logistics, and services industries. The council has developed recommendations to help facilitate increased private sector investment in U.S. infrastructure.

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This report is a product of the BPC Executive Council on Infrastructure, whose membership includes executives of diverse organizations. The council reached consensus on these recommendations as a package. The findings and recommendations expressed herein do not necessarily represent the views or opinions of the council member companies, the members of the Political Advisory Group, the Bipartisan Policy Center's founders or its board of directors.

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Executive Summary

We have an extraordinary opportunity in America — to confront the pressure being placed on our nation's roads, water systems, ports, airports, and energy grid with available private capital. This report establishes the framework to unite projects that need funding with private capital ready to invest in a transparent system that allocates risks and resources to the public's benefit.

America is a nation of innovators — we are inspiring new industries through interconnected devices, commercializing suborbital space flight, and advancing cures to life-threatening diseases. Yet if we hope to foster the next generation of entrepreneurs that can push our economy forward and maintain our quality of life, we must invest in our infrastructure. Wise infrastructure investments would create millions of jobs, maintain the health, safety, and security of our communities, and set our nation on track for decades of greater prosperity.

This is a choice between action and paralysis. Not making decisions today has serious consequences for tomorrow. We are already confronting prior mistakes as our infrastructure today is failing us. We are living at risk: driving every day on eroding roadways, questioning whether our water is really safe to drink, and sending our children off to schools built for our parents' generation. The problem is growing worse. It shouldn't be this way in a country that for so long has led and inspired the world.

The Challenge We Face: Short-Term Focus Fuels Mounting Liabilities

The investments made 50 to 100 years ago are nearing the end of their useful life. We have no coordinated vision or plan for their replacement. And public agencies have struggled to maintain existing assets or plan for their replacement, let alone to make the investments necessary to support future population growth and economic needs.

The price tag to adequately prepare America for the future is hefty — likely requiring trillions of dollars to upgrade, modernize, and expand our infrastructure. Long-term needs — operations and maintenance, repair, expansion and modernization of infrastructure systems — are too often ignored in favor of a focus on short-term costs.

There are many competing demands for public resources — healthcare, public pensions, and existing debt — that are expected to overwhelm public budgets. If we are to meet our nation's future needs and preserve our American quality of life, the public sector cannot continue to cover the cost and absorb the risk of our degrading infrastructure alone. We have to act before lasting damage is done to our economy and the next infrastructure-related failure consumes another American community.

The Solution Is Clear: Long-Term Outlook Compels New Model, Delivers More Infrastructure

There is another way. The private sector stands ready to partner and assist — bringing an appetite for risk, necessary capital, and valuable expertise. Investors with hundreds of billions of dollars to deploy are actively seeking infrastructure projects to support.

Unfortunately, there are a number of barriers preventing the investment of private capital into U.S. infrastructure projects. As a result, America is leaving dollars on the table as capital flows to more receptive shores.

Case Studies: Partnerships across the United States

Some state and local leaders in the United States have successfully partnered with the private sector to deliver needed infrastructure improvements. These partnerships include a range of financing mechanisms and risk-sharing approaches. For example:

PENNSYLVANIA will make major strides toward addressing its backlog of bridge repair needs through an innovative approach that bundled more than 550 small bridges into a single procurement. The economies of scale engendered by this approach will allow the private consortium to repair and maintain the bridges for 25 years at less cost than the state would have had to spend to do the work itself.

Facing billions of dollars in courthouse repair needs, the state of California contracted with a private partner to build, operate, and maintain a new courthouse in **LONG BEACH**. The state will pay a set amount each year, subject to the private partner meeting specific standards for upkeep of the building. This approach will ensure that the new courthouse building is maintained to a high standard, with many years of life remaining when it is turned over to the state at the end of the 35-year lease.

In **PHOENIX**, the private sector partnered with the city to design, build, and operate a new water treatment plant designed to serve 400,000 homes. Construction was completed in 2007, and the water treatment plant will be operated and maintained by the private partner until 2022, with the option for a five-year extension. The public-private partnership model saved the city an estimated $30 million.

Together the public and private sectors can establish a new model for infrastructure investment that confronts risk and captures value over a project's full life-cycle — propelling America's infrastructure into a modern, technologically advanced, and integrated network that enables prosperity long into the future. Our council aims to increase the flow of private capital into U.S. infrastructure projects – by:

- addressing the pervasive underappreciation of future infrastructure liabilities in America;
- encouraging partnerships with the private sector to share risks and maximize the value the public receives from infrastructure assets;
- ensuring communities across the country have tools to make necessary investments.

The challenge before us is enormous, but we have the resources to address it – if we can overcome the barriers that are pushing those resources away.

Understanding the Barriers

Private investment in infrastructure is happening around the globe, serving as a major source of capital in countries such as Canada, Australia, and the UK. Yet, here in the United States it is rare, due to a number of unique barriers associated with the American market. We identified three major risks hindering the flow of private capital to U.S. infrastructure: the lack of a project pipeline, political risk, and permitting risk.

Lack of a project pipeline. The key barrier is the lack of identified projects that are both attractive to private investors and tied to a clear public benefit. Public agencies, including the federal government, are not conducting the analyses needed to put forward projects that satisfy these criteria, so there are few opportunities for private investment.

Political risk. The United States has a well-developed economy, a strong democratic tradition, and a clear legal code; however, competing stakeholders and interests, parochial opposition, and the current lack of political consensus and commitment to long-term investments create political risk. There are many cases where projects have been canceled or delayed for political reasons unrelated to their merits as infrastructure projects. These actions are particularly unsettling to private capital looking to invest in the United States.

Permitting risk. Infrastructure projects are subject to various environmental and planning statutes and typically require multiple permits, from many levels of government. The risk that a project will be delayed due to sequential permitting and reviews is one of the biggest barriers to getting projects done. Concerns remain high among private companies that the project they invest in may take years longer than anticipated, adding time, increasing costs, and exacerbating political risks due to unnecessary delays in permitting.

Achieving a New American Model for Investing in Infrastructure

We propose a new model for the way we plan, pay for, and deliver infrastructure projects. This model is simple. It begins with ongoing collaboration between government and the private sector. It is transparent to the public, focuses on long-term costs and benefits, allocates risks efficiently, and puts all available resources to work, whether public or private.

The core principles of the **New American Model for Investing in Infrastructure** are:

- Projects proceed only after public benefits have been identified and clearly stated;
- Infrastructure investment decisions incorporate full life-cycle evaluation, beyond upfront costs;
- Project benefits, costs, and risks are completely accounted for and made publicly transparent;
- The risk of not investing is quantified and compared against the costs of action; and

- Public and private sector partners share these risks, costs, and benefits.

The new model will transform both how we invest and how much we invest. It will result in infrastructure investments that meet the country's growing needs and are able to effectively respond to the shifting demands of our nation in the coming century. As more projects are completed through this new model, supported by transparent financial and performance data, the United States will be able to develop a tradeable infrastructure asset class to attract an even greater share of global capital.

This report provides a plan to develop an American infrastructure market that is competitive in the search for investment capital — reducing pressure on public budgets — and successful at getting more projects done.

Recommendations

Our recommendations for a **New American Model for Investing in Infrastructure** rely on the dedication and commitment of actors at all levels of government, and private industry partners. In order for this new model to be met, the following recommended actions must be followed:

Emphasize Outreach, Engagement, and Education

Every project should begin with a statement of public value. Stakeholder outreach, engagement, and education throughout project development is central to a project's success.

We recommend:

- Public and private partners associated with a project assess public value and disclose that information.
- Public and private partners develop a transparent process for public outreach and engagement with continuous opportunities for stakeholder feedback throughout the life cycle of an investment.
- The private sector identify, standardize, and publish project data in an accessible format.
- The private sector work with nonprofits and educational institutions to develop customized training and technical assistance tools for understanding and participating in public-private partnerships.

Establish Broad Enabling Framework

Appropriate conditions and transparent expectations must be set for investments to occur; therefore, a viable legal framework needs to be put in place.

We recommend:

- States adopt the Bipartisan Policy Center (BPC) model legislation enabling public-private partnerships which includes:
    - Authorization of the full range of partnerships between the public and private sectors for all types of infrastructure, at all levels of government; and
    - Establishment of an expert coordinating office with the authority to convene multiple agencies, focused on attracting private investment to infrastructure.
- States and localities set up a dedicated development fund to provide financial assistance to meet the upfront costs of public-private partnerships.

Inventory All Public Assets

Establishing a standardized inventory of the physical and economic condition of all public assets is critical to understanding and meeting infrastructure needs.

We recommend:

- Federal, state, county, and municipal governments and independent public authorities develop and publish a complete list of all assets owned, including transportation infrastructure (streets, bridges, stations, ports), water systems, civic buildings (schools, courthouses, convention centers), vacant land, and underutilized real estate, including air rights.

- Those entities develop a complete inventory that includes the physical and economic conditions of each asset with estimates of the cost of maintaining it over its remaining useful life, the cost of replacement, and the potential impact of a failure.

Exercise the Full Range of Options for Project Delivery and Financing

Public officials must identify the infrastructure needs they are best positioned to own and operate, which needs could be shared with the private sector, and which needs could be fully transferred.

We recommend:

- States and local governments prioritize projects for investment based on clearly identified, measurable goals.

- State and local governments conduct an "optionality analysis" to match infrastructure projects with the best delivery and financing options.

Simplify Project Development and Permitting

Permitting and environmental review, particularly when executed sequentially, is one of the most significant deterrents to private capital investing in U.S. infrastructure projects.

We recommend:

- The federal government, states and localities establish and enforce implementation of simultaneous agency review of projects.

- Public agencies identify all required permits and clearly delineate responsibility and timelines for acquiring them, prior to entering into a project contract.

- Public agencies collect data and publish tracking reports of permitting timelines, making delays transparent, increasing accountability, and improving coordination and communication.

- The public and private sectors work together to develop model forms, standardized documents, and contract language to make it easier for investors to assess candidate projects.

Expand the Range of Revenue Options Available

Project sponsors must identify revenue to leverage financing. Where possible the source of revenue should have a nexus to the project, where those who will benefit from the project pay for it with user fees, tolls or explicitly-tied taxes.

We recommend:

- Federal and state action to provide long-term, stable infrastructure funding, derived from the breadth of revenue options available, such as: motor fuel tax, vehicle miles traveled charge, facility use charge, sales tax, rate payer fees, and license surcharge.

- Project sponsors identify a broad range of revenue options, including blending multiple sources, to meet the needs of identified projects.

- Public and private sector leaders maximize the use of emerging funding sources that directly engage the private sector: value capture, naming rights, crowdfunding, and private development capital.

Create New and Leverage Existing Financial Tools

Increasing the variety and strength of financial tools will attract new private capital that has not traditionally been invested in infrastructure, while preserving the existing tax-exempt bond market.

We recommend:

- Public and private sectors work together to activate new or broaden use of existing investment vehicles that would stimulate the development of a project pipeline: REITs, MLPs, asset-backed securities, regional infrastructure funds, and pension pools.
- The federal government consolidate credit programs that have been important for private investment into a single infrastructure loan provider open to all types of infrastructure, set funding levels commensurate with demand, and modernize program terms and credit scoring to reflect actual experience and best practices.
- The federal government authorize and expand promising initiatives such as Build America Bonds, QPIBs, and Move America Bonds.
- The federal government conduct an audit of its tax regulations and other infrastructure-related guidance and amend any that create unneeded barriers to private investment in infrastructure.
- The private sector develop benchmarks for infrastructure investments that will lead infrastructure into a tradable asset class.

Our Call to Action

American competitiveness and quality of life depends on continuous investment in public infrastructure. The short-term gains of job creation, efficient transportation, safe drinking water, and harnessed technological advances will be tremendous. Moreover, the long-term gains of a robust market of infrastructure assets attracting substantial capital with reduced risk on public balance sheets, producing a system of interconnected infrastructure that is the envy of the world, are essential.

As American business and political leaders, we call for public and private resources to be put to use to build necessary public infrastructure. We call for an America open for business in the market for global capital. By working together to put the **New American Model for Investing in Infrastructure** into action, we can create jobs, ensure our businesses can deliver goods to market efficiently, protect the health and safety of our communities, and give our children something to aspire to with investments that capture the cutting-edge technologies and innovations of tomorrow.

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