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What Hurdles Are Faced by Infrastructure Projects?

WASHINGTON – Infrastructure projects in the U.S. are plagued by long pre-construction periods, an under-utilization of the public-private partnership financing model, and an inability to both gain public support and access capital, a panel of market participants said this week.

The four-member panel at the Securities Industry and Financial Markets Association's annual conference here on Tuesday, entitled "Financing Infrastructure for the 21st Century," discussed ways in which P3s could be used in order to improve roads, bridges and other struggling areas in a more effective manner.

Chris Hamel, the moderator of the panel and the managing director and head of the municipal finance group for RBC Capital Markets, said the panel's goal was to foster a discussion on solutions rather than the underlying problems. He stressed the advantageous features of the $3.7 trillion muni market that allows for borrowing at a cost lower than Treasury rates.

The panel estimated that the U.S. is in need of $3.6 trillion of infrastructure investments by 2020, and cited a recent study that found 70% of Americans want governments at all levels to do more about infrastructure.

"We need to capture what is unique about our tax exemption and our highly decentralized government structure and combine it with the effectiveness of the private sector," Hamel said.

"It is going to come from a collaboration of people with multiple levels of expertise."

Several of the panel members, including Geoffrey Chatas, senior vice president and chief financial officer for Ohio State University, gave examples of how private help has been used effectively to expedite projects and help in their management after construction.

Chatas cited how his school's airport, seven hospitals, set of energy assets and parking garages have been made possible by using the expertise of private entities. Ohio State is not shying from issuing debt, he said, adding that the school has had $3.5 billion in issuances over the last 20 years, while higher education costs have quadrupled.

The $483 million upfront payment for a 50-year lease for a campus parking lot in 2012 has allowed for an endowment distribution of $105 million over the past four-and-a-half years, he said. Those funds have been allocated toward an arts district, a campus bus system, student scholarships and faculty hirings.

Chatas said there have been "outstanding" financial results, although he did admit growing pains in managing some of the parking facilities during the culture change.

"We're trying to think very differently," Chatas said. "Let's bring in partners, let them raise the capital and then manage the properties. Let us focus on teaching and learning."

Tyler Duvall, a partner at McKinsey & Company in Washington, said that the pre-construction process for national infrastructure projects is "a major problem," one that can often take between 40-60 months. This is often due to complex disclosure mechanisms around the environmental review process, leading to more discussions than decisions, he said.

There is no federal government entity that currently exists to accelerate both this process as well as a more effective revenue stream once construction begins. He suggested the federal government create one to have someone accountable for the end-to-end process and put the U.S. more on a par with Canada and Australia in terms of their infrastructure success.

The federal government has also been plagued by a lack of a problem statement in the highway area, he added.

"The capital is there and it's cheaper than ever," Duvall said. "That's not the issue. Connecting the capital with projects is the issue."

Suzanne Shank, chairwoman and CEO of Siebert Cisneros Shank & Co., a municipal investment bank based in New York City and Oakland, Calif., agreed Tuesday that the U.S. has some catching up to do with other countries.

"We're not making headway and the gap is growing," she said.

Duvall said the U.S. has "phenomenal" lending programs that need to be tweaked to create better revenue streams, a task he said can be done administratively without legislation.

"It's all about prioritization," he said.

Another successful P3 cited by the panel was the $4 billion renovation of LaGuardia Airport in New York, which began in June. Francis Sacr, managing director of infrastructure and transportation project finance for Societe Generale, the corporate and investment bank that served as the financial advisor to LaGuardia Gateway Partners, said it proved complicated because of the multiple financers involved.

Sacr said the project to renovate the dilapidated airport used $1 billion of passenger facility charge revenues from the Port Authority of New York and New Jersey as well as $2.5 billion from special facilities bonds and up to $500 million in taxable delayed-draw private placement bonds.

As the largest airport financing deal ever done in the U.S., the P3 structure proved especially beneficial because of the cost overruns, he said.

"Finding multiple sources of capital was the most important part of the solution," Sacr said.

On a macro level, Sacr said an underinvestment in U.S. infrastructure comes partially as a result of what he feels is shortsightedness.

"Infrastructure is a long-term investment, while politics is a short-term focus," Sacr said. "It really does require a long-term vision from the governments involved."

The Bond Buyer

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