Bond Case Briefs

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A Tried and Trusted Way to Finance America's Infrastructure Projects.

Infrastructure may be the only area where bipartisan action by this Congress predictably can create large numbers of solid jobs, enhance growth and income opportunities for American investors, and help invigorate our economy. Our country needs it.

Yet with proposals starting at $150 billion and climbing quickly above $1 trillion (and then some), the government is burdened at all levels across the country with massive debt and unfunded liabilities may be unable to finance large projects without private money. Moreover, projects must be productive, locally-needed winners. No one wants more bridges to nowhere.

Fortunately, infrastructure is also popular outside Washington, both with voters and investors. Many investors are looking for long term, low risk, high quality investments. As a result, demand for infrastructure is pent up. A national initiative to repair and replace our crumbling highways, bridges, tunnels, ports, and railways (possibly adding schools, utilities, water and Internet, among others) will create top-shelf investment opportunities. This will benefit financial companies, but promises to help Main Street a great deal more.

Much is made of attracting new private funding, and with Congress sure to enforce geographic and other balancing factors to spread the wealth around, the primary financing option is likely to be tried and true municipal bonds. Many are low risk, offer attractive returns, and carry tax advantages. Municipal bonds paid for most of the iconic infrastructure that made America great.

The first option floated, the private-financing “Ross-Navarro plan” laid out by the Trump administration is unlikely to succeed. With Wilbur Ross and Peter Navarro joining President Trump’s economic and trade teams, the plan will get air time, but the idea of offering tax credits to attract private investors is unnecessary. Depending on how the plan is executed, it could prove inefficient or even unproductive.

The money is already there. Private equity firms have raised large amounts of capital for infrastructure, with some funds raising as much as $16 billion. Much of it sits idle, waiting for attractive projects. When good investment opportunities are presented, that money will move fast, with more behind. Investors will gladly accept tax credits but they do not need these subsidies. What they want are projects that make sense.

Congress and the executive branch can do something that would cost the U.S. Treasury nothing but would dramatically increase the odds of success: formulate a predictable, streamlined, regulatory permitting process. President Trump has vowed to kill “burdensome regulations,” and there are few areas where they have run more amok than infrastructure.

Take the New NY Bridge Project to replace the Tappan Zee Bridge across the Hudson River. It was proposed in 1999, but thanks to multiple agencies and jurisdictions throwing up a byzantine gauntlet of conflicting rules and regulation, it only became shovel-ready more than a decade later in 2013. Thus, the new bridge will cost many billions of dollars more than it would have in 1999.

Protecting the public good requires that federal, state, and local governments all be involved. That's the American way. But it would be beneficial for projects to have coordinators, someone with the power to enforce an agreed-upon framework across the parties in the public and private sectors. The challenge will be to imbue the role with authority enough to keep projects on budget and on track.

Of course, with private money comes a desire for private proprietorship, which is accepted in Australia and Europe but relatively new to the United States. There is resistance here to selling ownership of what the American people believe should be assets in trust for the public benefit.

Chicago learned that the hard way when it privatized its parking meters. Meter prices doubled overnight. Thanks to a transaction poorly negotiated by the city fathers, private owners were rewarded handsomely while returning dubious long-term value to the city. Earning an attractive return is critical to attracting private money, but local authorities must ensure that each deal also serves the public good.

True top-dollar return projects will never lack for money—and that's a good thing. We want to encourage as much private investment in public works as possible, but the solution will not be "new."

Municipal bonds will continue to lead the financing effort. With them, we can build exciting projects, but equally important, the mundane, necessary projects that raise the quality of life for so many Americans. Tried and trusted remains the best choice.

THE HILL

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