



Charting a New Course?

Infrastructure Investment Ahead...

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What is the “Infrastructure Plan?”

Potential Federal Incentives

- Investment Tax Credits? Wilbur Ross (Commerce), Peter Navarro (NTC)
- National Infrastructure Bank? Steven Mnuchin (Treasury)
- Other Proposals?
 - Performance Grants, Private Activity Bonds, Tax Credit Bonds, Regulatory Reforms, etc.

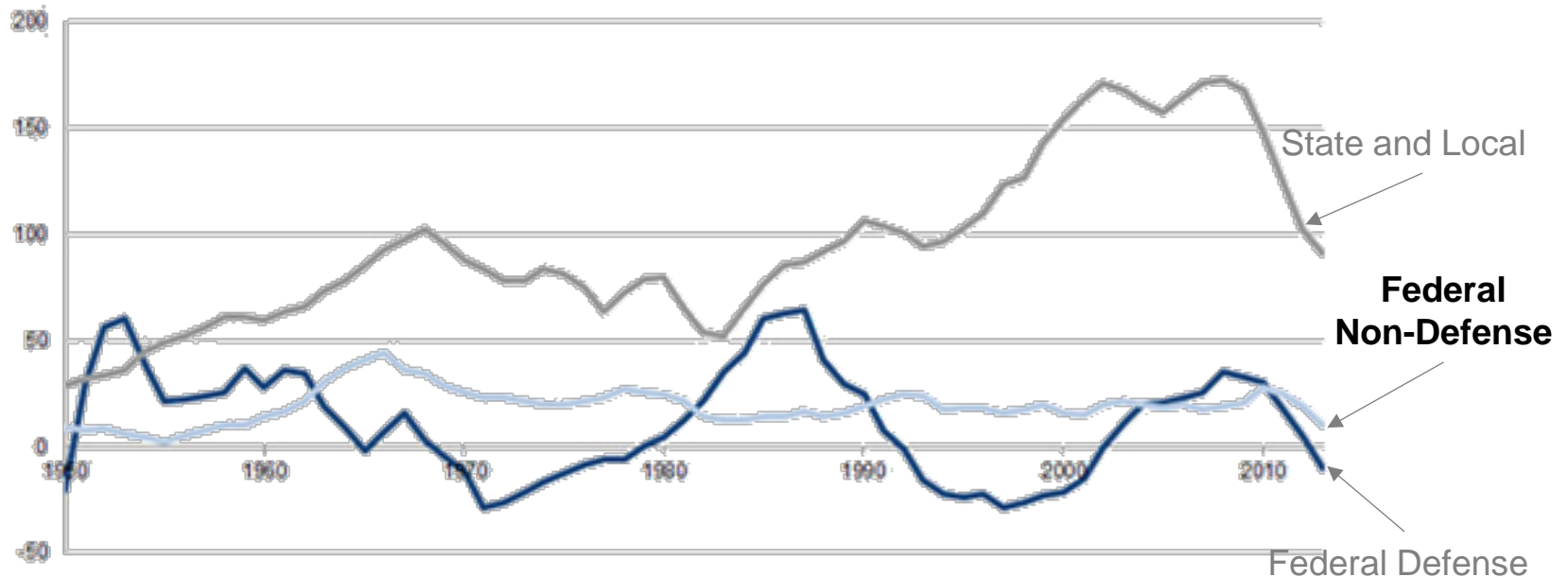
What is being incentivized?

- State/ local and private investment in the “right” projects
 - Revenue generating projects, especially P3s
- What about other projects (state of good repair)?
 - Many public infrastructure projects cannot be readily monetized

Public Infrastructure Investment in Context

- Net non-defense public investment at 0.6% of GDP in 2015, down from 2.6% in 1970

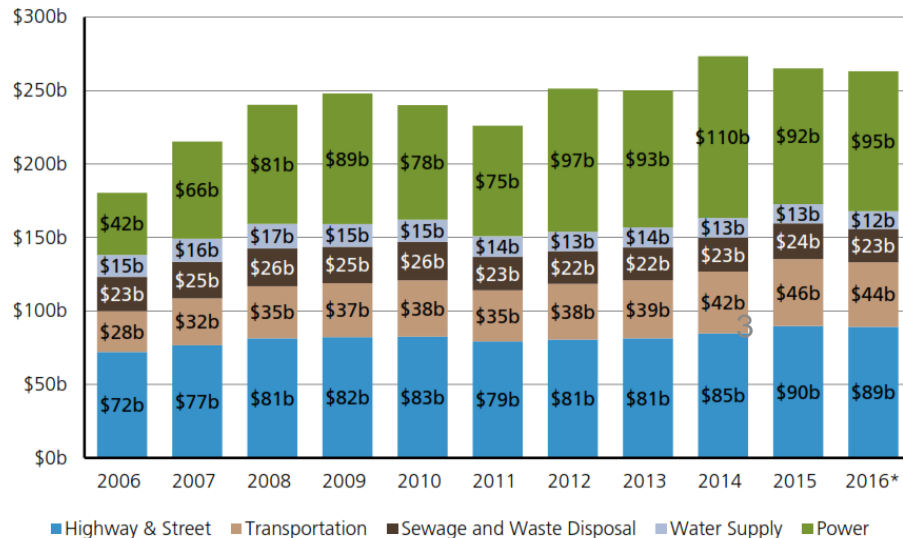
Net Government Investment Spending
Billions of 2014 Dollars



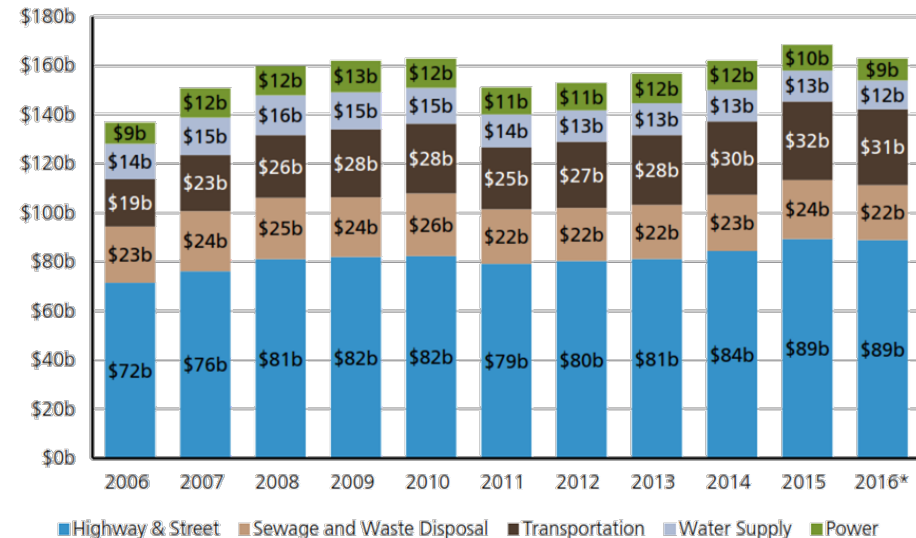
Source: Bureau of Economic Analysis; Hutchins Center on Fiscal & Monetary Policy; Brookings

US Infrastructure Spending

Total Public and Private



Public Spending Only

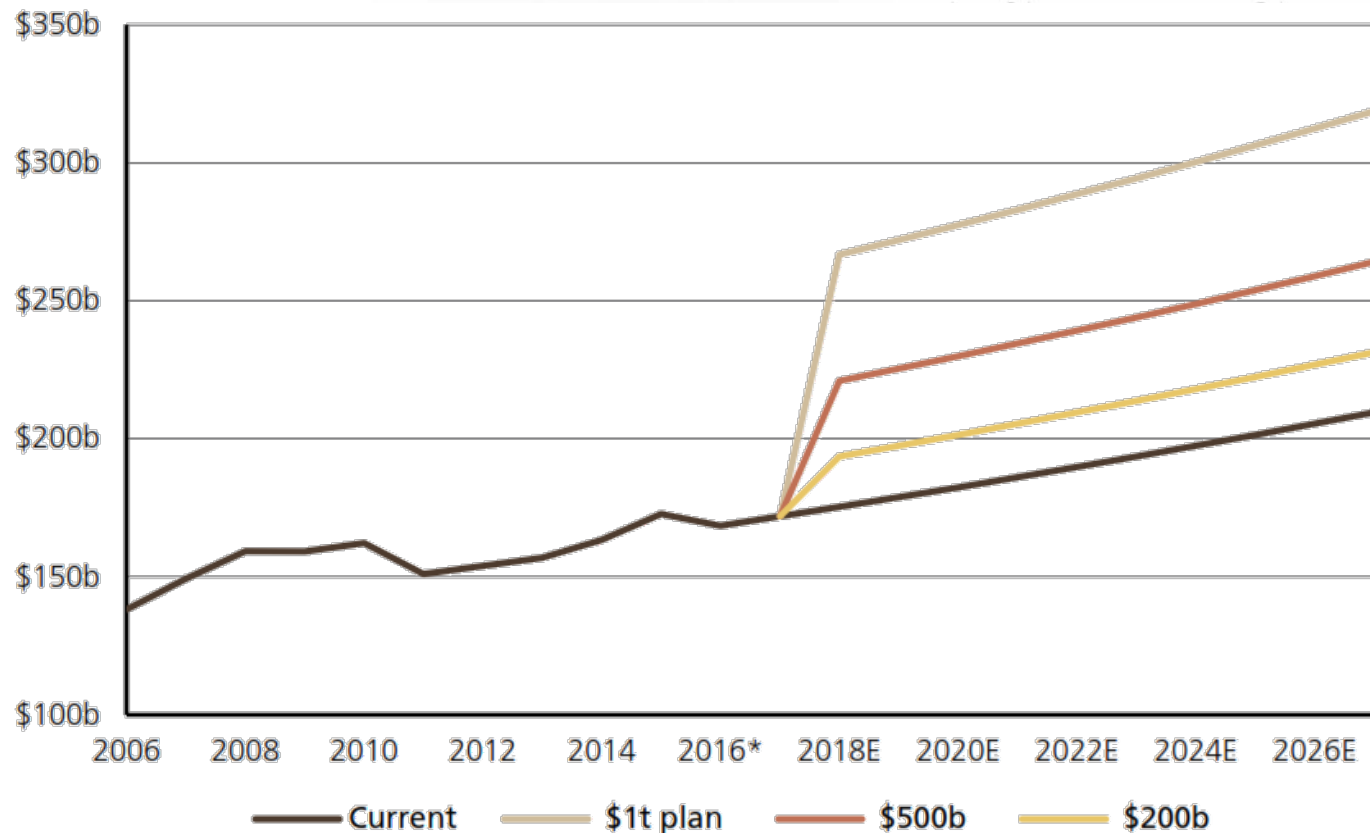


- Total physical infrastructure investment about \$265 billion in 2015

- Public physical infrastructure investment about \$168 billion in 2015

Source: UBS Research, Q-Series: How could a new wave of infrastructure spending impact the construction sector?

Incremental Infrastructure Investment Scenarios



Source: UBS Research, Q-Series: How could a new wave of infrastructure spending impact the construction sector?

Note: "Current" spending includes the public Highway & Street, Transportation, Sewage & Waste, and Water Supply categories of Non-Residential construction. Estimates are grown at a 2% rate for inflation

* Trailing 12 months

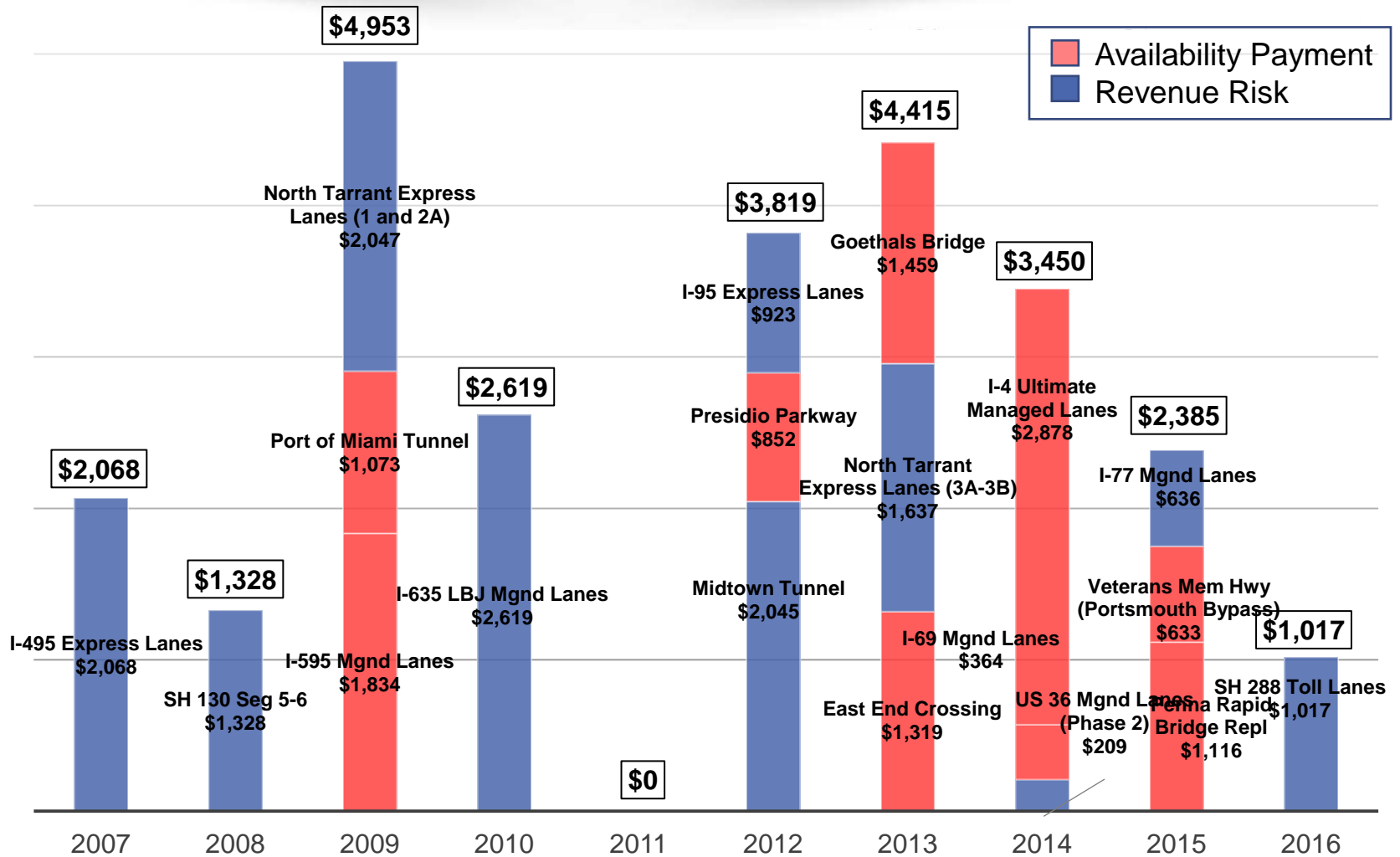
Constraints on Infrastructure Investment Growth

- Planning & Permitting (Governance Challenge)
 - How many projects can be teed up for funding / financing?
- Willingness to pay/raise direct user fees and taxes
- Federal fiscal trend is dire (financing over funding)

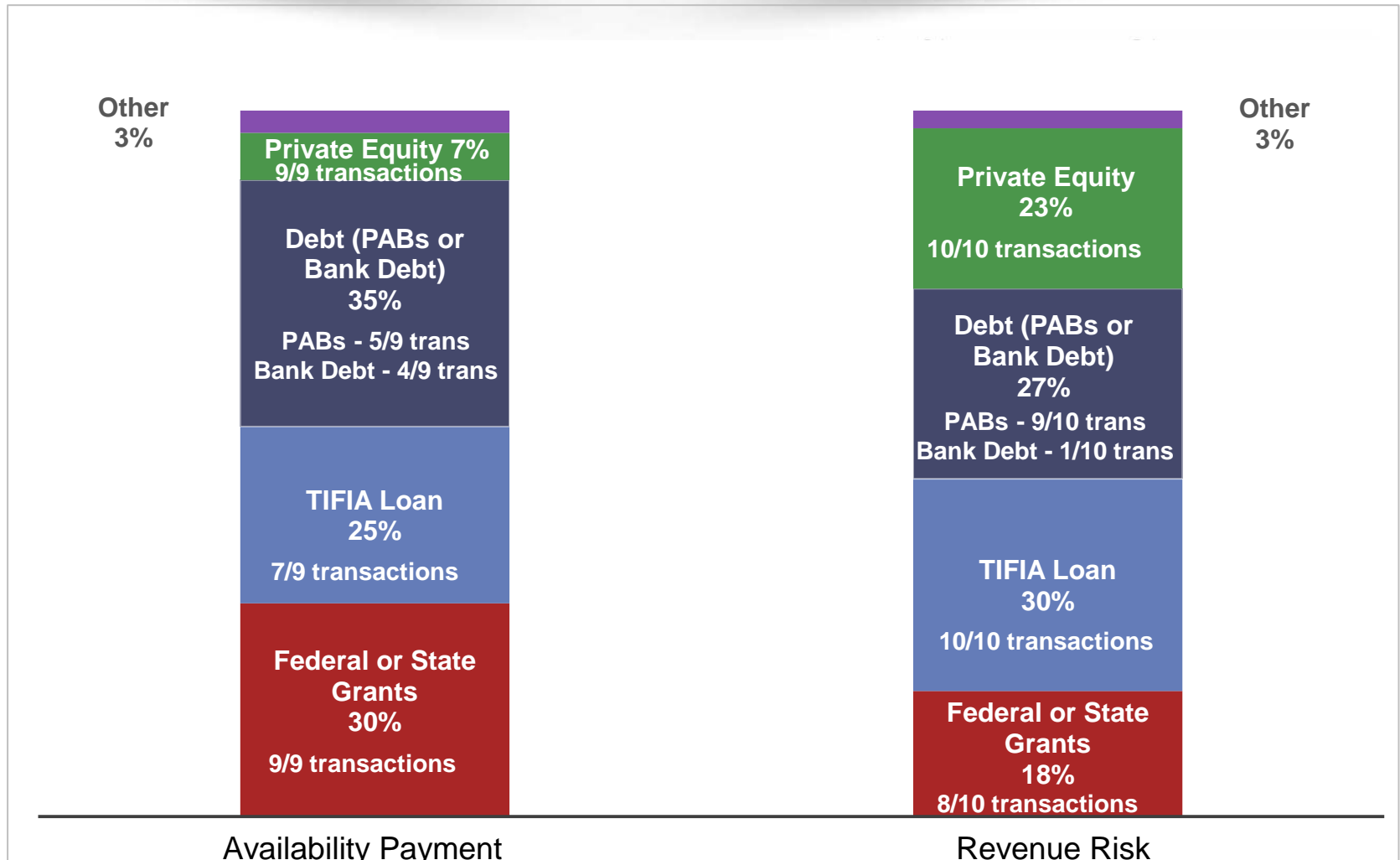
Relatively few projects can generate adequate returns for private financing (P3 = project pipeline problem)

Sourcing of capital (debt or equity) is NOT a significant constraint

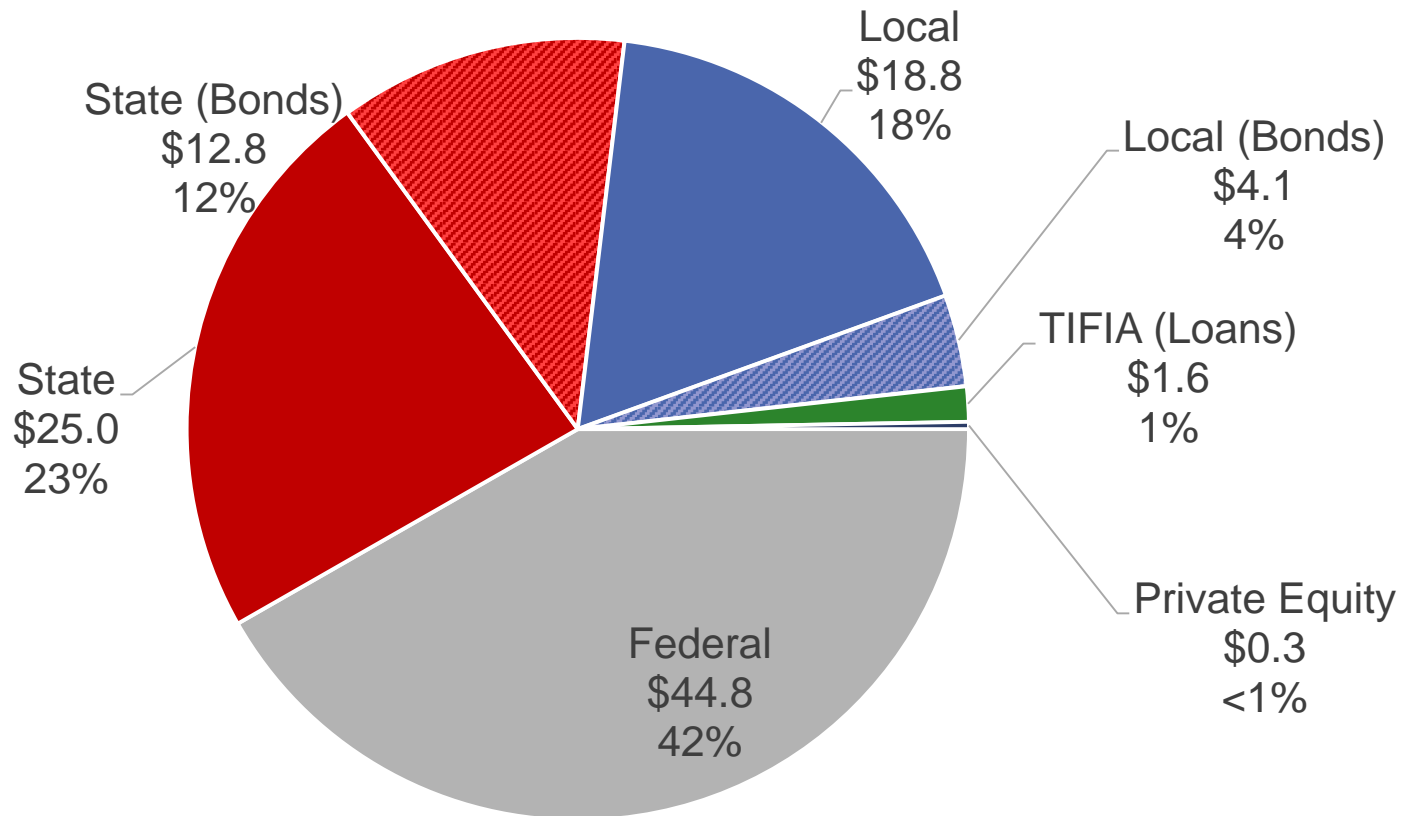
Highway P3 Projects by Year (\$ in Millions)



Capital Structure by P3 Type



2014 Capital Outlays for Highways (Total = \$107 Billion)



Sources: Highway Statistics, Table HF-10; Bond Buyer Annual Statistics; FY 2016 Budget, DOT Appendix

Evaluating Potential Federal Incentives

Mechanics

- Type of incentive
 - Grant program, tax incentive, credit assistance, regulatory relief
- Targeted projects
 - Infrastructure sector, eligibility of projects (including P3 vs. public)
- Level of subsidy (financial benefit)

Budget Impact

- Cost of subsidy (budget score)

Considerations

- Technical feasibility
- Political feasibility

Investment Tax Credits (ITCs) Navarro-Ross Example

Mechanics

- Equity-based credits set at percentage of private equity
- Paid out to investors at project delivery or over a few years

Budget Impact

- Tax expenditures (foregone receipts) over 10 years
- Relatively high for ITCs (without reliance on dynamic scoring)

Considerations

- Do federal tax credits displace or supplement private financial equity?

Bottom Line: Potentially meaningful financial subsidy (15 to 20% NPV) for small sliver of public infrastructure (P3 projects with private equity)

Tax Credit Bonds (TCBs) AFF bonds / TRIP bonds

Mechanics

- Debt-based credits attached to bonds to reduce or eliminate interest expense
- Paid out to investors over term of bonds (up to 35 years)

Budget Impact

- Tax expenditures (foregone receipts) over 10 years
- Relatively low for TCBs, approximately 20%-30% of authorized volume

Considerations

- Are federal tax credits liquid / marketable over long term?

Bottom Line: Potentially very large financial subsidy (50-60% NPV) for broad segment of public infrastructure (both P3 and governmental projects)

Quantification of Investment Initiatives (\$ in Billions)

Potential Incentive	Potential Program Volume	Estimated Budget Cost	Net Investment Effect
“Performance” (P3) Grants	\$ 20	\$ 20	\$ 90
Qualified Private Activity Bonds (QPIBs)	100 (no formal cap)	5	70 (net)
Tax Credit Bonds (AFF Bonds / TRIP Bonds)	100	20	100
Federal Infrastructure Service Contracts (FISC)	60	0	40 (net)
National Infrastructure Fund or Lending Authority	100	10	275 (net)
Total	380	55	575



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