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National infrastructure bank back in play with bipartisan bill

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The U.S. would get a national infrastructure bank that would partner with states and local governments to attract private equity and pension funds under a bipartisan bill unveiled this month.

It's the latest legislation to pursue the idea, which lawmakers have floated repeatedly over the years as a way to spur private investment into the U.S. infrastructure space.

"Our infrastructure needs in this country may be as large as $3 trillion to $4 trillion," said J. Patrick Cave, president of the Alliance for Financing U.S. Infrastructure, which has lobbied for the bill. "Much of the money for current infrastructure needs is still inadequate. We believe that the federal infrastructure bank can begin to close that gap over the medium to long term."

The bank could serve "as a mechanism to recruit the $9 trillion to $13 trillion of pension money that's looking for longer duration assets," Cave said.

He estimated the bank could raise $100 billion of equity to finance $1 trillion of debt over a 10-year period.

Introduced by Reps. Daniel Webster, R-Fla., and Colin Allred, D-Tex., the Federal Infrastructure Bank Act of 2023, H.R. 490 would create an institution to work with state and local partners to encourage private infrastructure investments through loans and loan guarantees. It's been referred to the House Transportation and Infrastructure Committee.

Unlike previous bills, it would include no public money and would be entirely funded with private investment.

At left, J. Patrick Cave, president of the Alliance for Financing U.S. Infrastructure, said a national infrastructure bank could finance $1 trillion of debt over a 10-year period. Michael Likosky, right, says that inadequate policy, not money, is the primary problem with U.S. infrastructure.

The bank would "provide equity investments, direct loans, indirect loans, and loan guarantees to eligible entities for the planning, pre-development, design, construction, operations or maintenance of revenue-producing infrastructure projects in the United States with sufficient revenue sources and guarantees to support the interest and principal payments to the bank."

Cave said supporters hope to have a similar bill introduced on the Senate side "very soon."

The bank would work with state departments of transportation and state infrastructure banks as "primary clients," Cave said. "One key feature is that the bank would lend to projects throughout the economic cycle and throughout the appropriation cycles," he added.

"We wouldn't be waiting on government funding to fund projects and we'd be in the market every week raising money globally for U.S. projects."

The idea for a national infrastructure bank goes back decades, with President Obama proposing one in 2008 and in 2010. More recently, the 2021 Infrastructure Investment and Jobs Act would have created a bank, but the provision was stripped out at the last minute.

Among other opponents, some municipal market groups, like the Bond Dealers of America and the American Securities Association, have opposed the bank. They're skeptical of the need in light of the muni market's traditional role in infrastructure finance and believe federal lobbying efforts should focus on reinstating tax-exempt advance refunding bonds and expanding the current financing tools.

The bill might be aimed at solving the wrong problem, said Michael Likosky, a partner at San Francisco-based firm Results, who has written a book on the subject and as California's director of infrastructure in 2019 helped shape the Golden State's infrastructure bank.

"We have so much money in our loan programs, but a lot of our issue is that we don't know how to spend it effectively," he said, citing the Transportation Infrastructure Finance and Innovation Act and Railroad Rehabilitation & Improvement Financing programs.

"Those programs don't have any shortage of money, they just have a real problem expending the money," Likosky said. "Part of it is there's a bias with large private investors toward large standalone projects, which have very little policy rationale these days."

A more effective approach would be to set up a national bank with a clear policy focus on a specific need, for example, creating well-built special industrial zones to attract private companies. It's a plan that's been "astoundingly successful" in places like Singapore and South Korea, he said.

In addition to multisector loans and loan guarantees, a successful national bank should revive direct-pay bonds, Likosky said.

When it comes to attracting major investor funds, the taxable Build America Bond program was a huge success, he said.

"BABs showed that the bond market could bring the largest institutional investors and sovereigns into the U.S. market very quickly, so it doesn't make a lot of sense to say that you need private equity to bring long-term investors into the market," he said.