

Reprinted from  
January 2017

The Journal of Record  
for public-private partnerships  
published monthly  
since 1988  
PWFinance.net

# FINANCING<sup>TM</sup>

## PUBLIC WORKS

### A TIFIA REALITY CHECK

*Bryan Grote, Principal, Mercator Advisors*

The new administration has set an ambitious goal of increasing investment in public infrastructure by \$500 billion to \$1 trillion over the next decade. Administration officials and some congressional leaders have emphasized a desire to achieve this by promoting “private investment” rather than relying on public funding.

“For every \$1 of federal dollars, there’s \$40 of private-sector spending. We want to leverage as much private-sector dollars as possible to maximize the fixing of our infrastructure.” – Speaker Paul Ryan on “Charlie Rose” (01-18-17)

As we consider this approach, it’s worth taking a look back at lessons learned from prior efforts to accomplish similar goals. What constitutes private investment? How effective have been the federal efforts to promote private investment thus far?

The TIFIA credit assistance program is the federal government’s most ambitious effort to promote private and other non-federal investment in transportation infrastructure and has inspired other similar programs. The TIFIA template was used to modify FRA’s RRIF program and to create EPA’s WIFIA program.

Most of the proposals for a “National Infrastructure Bank” call for federal loans and guarantees with terms similar to TIFIA, including investment grade ratings and loan limits of 33-49 percent of project costs. Even TIFIA’s 40:1 leverage

ratio (each \$1 of subsidy funding supporting \$40 of total investment) seems to have been picked up by Speaker Ryan in his recent remarks.

It remains to be seen how well the program structure, designed for surface transportation, will serve the sponsors of a broader range of infrastructure projects.

#### What constitutes private investment?

**Significant public subsidies are required for many P3 projects and private equity accounts for a relatively small portion (only 13%, on average) of total investment. The ratio of private investment per dollar of federal subsidy is just 2:1.**

The 40:1 leverage ratio attributed to TIFIA and assigned to larger “infrastructure bank” initiatives describes the total investment associated with federal credit, not the amount of private investment.

A strict definition of private investment means equity capital. It is worth noting, however, that this excludes other forms of investment capital derived from non-governmental sources (such as bank debt) or repaid with non-tax revenues (such as toll revenue bonds).

If TIFIA is being taken as a model for future initiatives, it’s worth examining the program’s performance in promoting private investment. Since 1999, \$93 billion of total investment (over 60 projects) has been supported with \$25 billion in TIFIA loans, which have covered an average of 27% of total project costs. The federal budgetary scored cost has been approximately \$2 billion in credit subsidy funding.

Most TIFIA loans have been made to projects that

are governmentally procured and financed. Just over a third of the TIFIA portfolio consists of P3s – 23 projects with a total cost of \$33 billion.

The table shows that significant public subsidies are required for many P3 projects and private equity accounts for a relatively small portion (only 13%) of total investment. In fact, the ratio of private investment per dollar of federal subsidy is just 2:1. [This capital leverage ratio does not take into account the ongoing private investment for maintenance and major renewal of the infrastructure during the terms of the concession agreements.] Equity investment varies by P3 type; the revenue risk concessions have 20% equity, on average, while the availability payment concessions have just 5%.

The 18-year experience of the TIFIA program is not

generalizable to all infrastructure sectors at investment levels that are hoped to be orders of magnitude greater. However, the TIFIA program’s results do suggest that even for viable P3 projects with supporting

revenue streams there will still be a need for public subsidy “gap funding.” Given that debt accounts for a much larger share of project investment than equity, federal debt-financing incentives will be more effective than equity-oriented incentives in lowering the cost of capital for P3s, making their cost more comparable to government financing. In addition, debt-financing incentives tend to cost less in terms of budget scoring.

Private equity is a key component of the risk-sharing needed to realize the whole-life project benefits of a P3. But the public sector’s funding role cannot be overlooked. The experience of the TIFIA program confirms this successful partnership. ■

### Capital Sources for 23 TIFIA P3 Projects (\$bn)

Grants	\$9.7	29%
TIFIA Loans	\$9.4	28%
Other Debt	\$9.2	28%
Equity	\$4.3	13%
Other	\$0.4	1%
<b>Total Capital</b>	<b>\$33.1</b>	<b>100%</b>

*Based on Mercator Advisors analysis of DOT / TIFIA data*

Please see [www.PWFfinance.net](http://www.PWFfinance.net) for information about *Public Works Financing* newsletter, published monthly since 1988.