

Trump's Infrastructure Plan and What You Need to Know About Public-Private Partnerships (P3s)

January 25, 2017



Discussion Overview

- What are public-private partnerships and how do they work?
- What is Trump's infrastructure plan?
- Key issues to look out for with P3s
- A progressive vision for infrastructure
- Preview for next webinar

What types of infrastructure are we talking about?

- Roads
- Bridges
- Water and wastewater systems
- Transit systems
- Parking facilities
- Public Buildings
- Airports
- And more

Defining the Terms of Debate

Public-private partnership (P3): A P3 is an alternative form of procurement that may or may not involve any private financing.

Procurement: The process by which governments buy goods and services.

Financing: Money the state borrows and must repay over time with interest. Financing comes in many forms but follows one rule: The man always gets paid.

- **Municipal bond:** Tax-exempt debt issued by the state. Investors do not pay federal income tax on the interest they ear on the bond.
- **Private-activity bond:** A form of conduit financing with the same tax-exempt status as a muni bond. The private company in the P3 deal (concessionaire) is responsible for repaying investors. Typically, PABs don't count against a state's indebtedness.
- **Equity:** Money invested in a project that is not a tradable security.
- **Federal loan programs:** TIFIA, RRIF, and WIFIA

Revenue: The source of money used to repay project financing. Examples include general governmental tax revenues, sales taxes, gas taxes, and tolls, among others.

Funding: Cold, hard cash money that the state does not have to repay. Never confuse this with financing.

Cost of funds: The cost of borrowing money over time. Equity is very expensive.

- **Municipal bonds:** 3 Percent
- **Equity:** 10-15 Percent

Traditional Procurement: \$1 Billion Highway

Characteristics

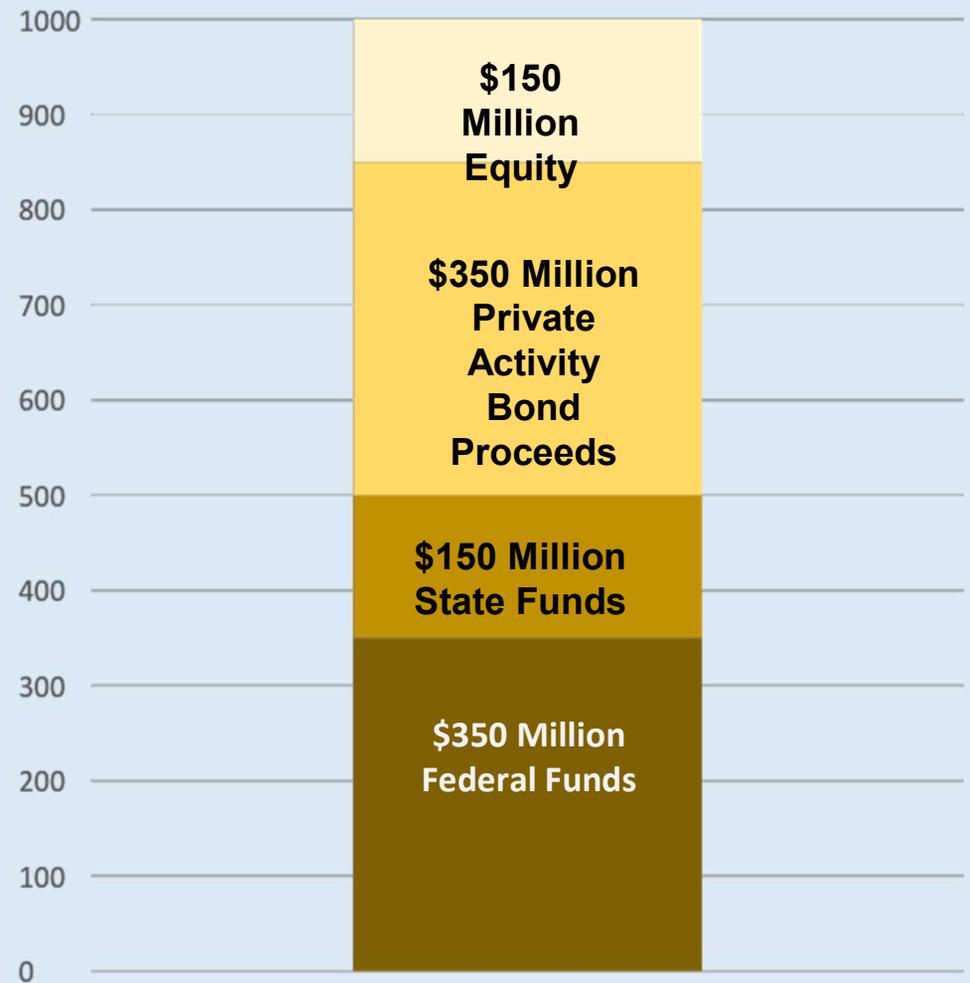
- **Ownership:** public/state DOT
- **Operations & maintenance:** public/state DOT
- **Source of funds:** Grant funds and municipal bond proceeds
- **Source of debt repayment:** State gas taxes and/or general governmental revenues
- **Revenue risk:** None
- **Return on investment:** 3 percent to bondholders
- **Total nominal cost:** \$1.45 billion



P3 Procurement: \$1 Billion Highway

Characteristics

- **Ownership:** public/state DOT
- **P3 type:** design-build-finance-operate-maintain (DBFOM)
- **Operations & maintenance:** Private concessionaire
- **Source of funds:** Grant funds, private activity bonds, equity
- **Source of debt repayment:** Tolls and/or availability payments
- **Revenue risk:** Yes/concessionaire
- **Return on investment:** 12-15 percent to equity investors and 3 percent to bondholders
- **Total nominal cost:** 1.84 billion (+ 27%)



Trump Tax Credits

Tax Credits: Under the Trump plan, equity investors would receive a tax credit upon the close of the deal worth 82 percent of their overall investment.

- Invest \$100 million
- Receive a tax credit worth \$82 million
- Investors apply the credit against their outstanding federal income tax liability
- For the purposes of analyzing the effect of tax credits, they are treated as cash.

Cost of Equity without Tax Credits

Investment: \$100 million

Rate of return: 15 percent

Nominal cost: \$550 million

Discounted cost: \$281.8 million (assuming 5% discount rate)

Cost of Equity with Tax Credits

Investment: \$100 million

Rate of return: 15 percent

Nominal cost: \$263 million

Discounted cost: \$178 million (assuming 5% discount rate)

Change in the Cost of Equity Capital (NPV)

-38 percent

Key Takeaways

1. Tax credits make equity capital cheaper than it would otherwise be in the absence of the credits
2. Municipal bonds are still much cheaper than equity, even with credits
3. Credits make P3 procurement with equity financing somewhat more attractive to state project sponsor
4. P3 procurements with equity financing only works on really big projects (Total cost over \$1.25 billion)
5. Trump plan leaves maintenance projects and smaller communities behind

For additional information, please see: **How Donald Trump's Infrastructure Plan Fails America**

(<https://cdn.americanprogress.org/content/uploads/2016/11/30043627/TrumpInfrastructure-brief-Dec1.pdf>)

Key Issues to look out
for with P3s

Privatization: loss of public control

- Long-term contracts (30-50 years)
- Can contain contract clauses that limit public control
 - Non-compete clauses
 - Compensation clauses
- Example: Chicago Parking Meters, Capital Beltway Express Lanes

Most critical projects are not appropriate for P3

- Many, maybe most, critical projects not profitable
 - Smaller projects, repairs, projects in rural areas
- P3s could drive public funds to profitable projects and potentially crowd out needed projects

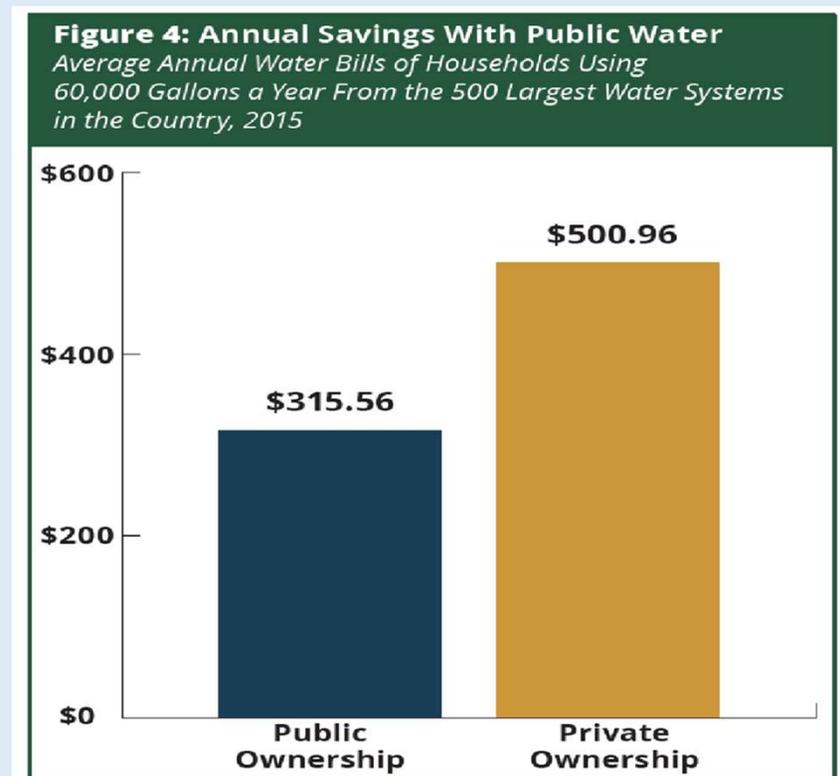
Reduced labor standards

- Operations and maintenance jobs
 - Cost savings often derive from lower wages and benefits
 - Evidence from recent VfMs:

Cost (based on 15 mgd Average Daily Production)	DBFOM Assumption	DB Assumption
Labor	1,732,000	2,198,332

Limited access and affordability

- Shift to user fee schemes
- Rise in user fees (tolls, fares, water rates, etc.)
- Progressive affordability schemes more difficult to create
- Limits access for lower-income residents



Source: Food and Water Watch

Loss of transparency and public input

- Details of P3 deals are scarce and largely unavailable to the public
 - Trade secrets and proprietary information
 - usage projections
 - planning documents
 - workforce information, including wages
 - Example: TX SH 130
- Infrastructure is planned with less public input, including the communities directly affected by the proposed project

What does progressive infrastructure look like?

- Public control
- Rebuild critical infrastructure
- Affordable and accessible
- Good jobs and pathways for disadvantaged communities
- Full transparency and public input

Preview for Next Webinar (2/6)

Next Webinar: How advocates can intervene

- Key decision-making points for intervention
- Responding to Key Arguments
- Case Studies of successful intervention
 - Turn bad deals in to good deals
 - Advocate for increased community benefits

Understanding Financialization Schemes: Predatory Bond Deals

- Auction Rate Securities
- Interest Rate Swaps
- Rate Securitization

Useful Resources

From ITPI

- *Brand New from ITPI!* A Guide to Understanding and Evaluating Infrastructure Public-Private Partnerships
- [Infrastructure Justice: Building Equity into Infrastructure Financing](#)
- [Building America While Building Our Middle Class](#)
- [Public Infrastructure as Stealth Privatization](#), The American Prospect

From Kevin at CAP

- [How Donald Trump's Infrastructure Plan Fails America](#)
 - [The Hazards of Noncompete Clauses in Public-Private Partnership Deals](#)

Contact Info

Donald Cohen

In the Public Interest

Donald@inthepublicinterest.org

Kevin DeGood

Center for American Progress

kdegood@americanprogress.org

Shar Habibi

In the Public Interest

shabibi@inthepublicinterest.org

Carrie Sloan

ReFund America Project

csloan@rooseveltinstitute.org