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Infrastructure Bank Proposals Rely on Backdoor Deficit Spending

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Resistance to higher fuel taxes to fund failed state and federal transportation programs has encouraged President Obama, some Members of Congress, and transportation lobbyists to endorse a federal infrastructure bank to invest in highways and transit. This bank would be capitalized by federal appropriations to leverage a greater volume of debt borrowed under the full faith and credit of the federal government. In turn the bank would use these funds to finance eligible infrastructure projects. While these proposed entities—and similar ones that exist in the states from earlier legislation—are described as "banks," they are no such thing.

When Is a Bank a Bank? The common meaning of a "bank" describes an entity that borrows money at one interest rate and lends it out to creditworthy borrowers at a somewhat higher interest rate to cover the borrowing, administrative, and bad debt costs incurred in the act of financial intermediation. In contrast, many of the federal infrastructure bank proposals (and those already in existence) follow only the borrowing part. Instead most allow the infrastructure bank to use borrowed funds to provide grants and subsidies to approved infrastructure projects. A grant, of course, is not paid back and does not require interest payments. So this raises an important question: How can the bank service its debt if it has no earnings?

Alert readers will recognize that this sounds alarmingly similar to the predicament of the federally sponsored lenders Fannie Mae and Freddie Mac when their earnings failed to cover debt costs, thereby necessitating a taxpayer bailout that now totals $126 billion.[1] Oddly, such apparent parallels were acknowledged by Representative Rosa DeLauro (D–CT), sponsor of current infrastructure bank legislation, when she noted that her bank would be "an innovative public-private partnership like Fannie Mae."[2]

Note that the chief difference between Fannie Mae and the DeLauro bank is that Fannie Mae was mandated to ensure the creditworthiness of its borrowers (however poorly done), while investments, loans, and subsidies provided by the DeLauro bank would be required to meet a series of social objectives devoid of any requirements for economic viability or financial sustainability.

The Common Financial Weakness of Many Bank Proposals. Relieving the bank's management from the pesky task of checking a borrower's creditworthiness, evaluating the viability of the project, and ensuring the sustainability of the bank's financial integrity is a troubling characteristic of many federal proposals to create infrastructure banks.

Obama's Plan. In his budget proposal for fiscal year (FY) 2011, the President proposes the creation of a "National Infrastructure Innovation and Finance Fund," which will "directly provide

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resources for projects through grants, loans, or a blend of both, and will effectively leverage non-federal resources, including private capital."[3] As one former Member of the National Infrastructure Financing Commission observed, "Institutions that give away money without requiring repayment are properly called 'foundations,' not 'banks.'"[4]

DeLauro Plan. The more detailed plan under discussion is that introduced by DeLauro titled the National Infrastructure Development Bank Act of 2009 (H.R. 2521). This bill provides for the full faith and credit of the United States for any bond or other obligation issued by the bank, and while the legislation says nothing about providing "grants," it does authorize the bank "to issue public benefit bonds and to provide direct subsidies to infrastructure projects from amounts made available from the issuance of such bonds."[5] Of course, a subsidy is indistinguishable from a grant and is not something that would be paid back.

Politics Trumps Viability. The DeLauro plan would also concentrate investments in politically fashionable projects: "The Bank shall conduct an analysis that takes into account the economic, environmental, social benefits, and costs of each project under consideration for financial assistance under this Act, prioritizing projects that contribute to economic growth, lead to job creation, and are of regional or national significance."[6] Nothing in the section suggests that creditworthiness, financial viability, or ability to repay a loan is a criterion.

As for specific bank goals, DeLauro's legislation also mandates job creation, responsible employment practices, reduction in carbon emissions, smart growth, poverty and inequality reduction, pollution reductions, improvement and the physical layout of public housing, and public health benefits.[7]

What These Banks Might Look Like: The South Carolina Example. The National Highway System Designation Act of 1995 authorized the creation of 10 State Infrastructure Banks (SIBs), and the 1997 appropriations bill included $150 million to capitalize them.[8] South Carolina created its SIB in 1997, and today it is one of the largest and most active of those remaining from this legislation.[9]

The bank provides both loans and grants, as would be the case with most federal proposals under discussion. In contrast to a "bank" where interest and investment-related fees would constitute the bulk of the revenue, the South Carolina SIB is largely funded by a series of dedicated taxes (truck registration, portion of the state gas tax, motor vehicle registration, and an electric power tax) that provided 69 percent of the SIB's revenues in FY 2009. Moreover, because grants and subsidies are "anti-assets" for purposes of the SIB's balance sheet, the SIB's 2009 assets of $1.3 billion were exceeded by its liabilities of $2.2 billion (mostly debt). This leaves the SIB with a negative net worth of $896 million for that year.[10] As is apparent from this brief review, the South Carolina infrastructure bank is heavily dependent upon sub-

1. Associated Press, "Fannie Mae's Huge Loss Means $15 Billion More in Rescue Cash," *The Washington Post*, February 27, 2010, p. A10.
2. Press release, "Improving Transportation Creates Jobs," Official Web site for Representative Rosa L. DeLauro (D–CT). June 10, 2008, at *http://delauro.house.gov/text_issues.cfm?id=1247* (March 22, 2010).
3. *Budget of the United States Government: Fiscal Year 2011*, Office of Management and Budget, U.S. Government Printing Office, Washington, D.C., 2010, p. 109.
4. Ken Orski, "The Transportation Community Braces for Continued Uncertainty and Improvisation," *Innovation NewsBriefs*, February 1, 2010, p. 2, at *http://www.innobriefs.com* (March 21, 2010).
5. National Infrastructure Development Bank Act of 2009, H.R. 2521, Sections 12, 5 (k)(1)(C).
6. *Ibid.* § 10 (b)(2), p. 15.
7. *Ibid.* § (c)(1)–(4), pp. 16–18.
8. Congressional Budget Office, "Innovative Financing of Highways: An Analysis of Proposals," January 1998, p. 19, at *http://www.cbo.gov/ftpdocs/3xx/doc320/finhways.pdf* (March 21, 2010).
9. The highway reauthorization bill of 1991 allowed for an expansion of SIBs, but the reauthorization bill of 1998 placed stiff limits on them.

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stantial taxpayer subsidies, and will collapse without them.

Backdoor Boondoggle. As currently written, the legislation to create a federal infrastructure bank would lead to an outcome similar to South Carolina's, making it little more than a backdoor mechanism for the deficit/taxpayer financing of transportation projects. Congress should instead develop legislation to create a real infrastructure bank whose assets match liabilities and whose earnings and debt service came from tolls and other user fees earned on financially sustainable investments.

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10. State of South Carolina, Office of the State Auditor, "South Carolina Transportation Infrastructure Bank, Columbia, South Carolina, Financial Statements, Year Ended June 2009," October 14, 2009, pp. 6, 8, at *http://osa.sc.gov/NR/rdonlyres/AD38EE81-56F2-46D1-A04A-0C803807C7AE/0/U1509.pdf* (March 21, 2010).