

DESIGN OF THE NATIONAL INFRASTRUCTURE BANK

BACKGROUND

The current process for federal infrastructure investment stems from a time when construction of the national highway system was the nation's primary infrastructure objective. The highway system enabled the efficient movement of goods, people, and ideas across the nation. In the past half-century, however, our nation's infrastructure investment needs have changed significantly. Energy, water, and telecommunications have joined the list of pressing infrastructure priorities. Within transportation, greater demand for transportation options like transit, rail, and aviation has increased the need for projects that connect different modes. The growth of urban areas has been accompanied by increases in accident rates, congestion, freight delays, and pollution.

Several barriers hinder the ability of federal infrastructure programs to address these challenges:

- Cost effectiveness evaluations of projects are often done poorly or are limited to comparing projects of like kind.
- Federal programs fail to consider the impact of infrastructure decisions on other sectors or broader policy goals. For instance, highway construction is viewed solely as a transportation project, with little attention to the project's implications for economic development, land use and energy conservation.
- Regional projects that cross state lines are often neglected in the formula-driven allocation and decision model of infrastructure spending.
- Federal transportation funds in particular are siloed by mode, with separate programs for highways, bridges, rail, and transit. This stovepiping makes it difficult to fund intermodal transportation projects or compare projects of different modes.

BANK PURPOSE AND OBJECTIVES

Given the nation's diverse infrastructure needs—including energy, water, transportation, and telecommunications—the Administration proposes the establishment of a National Infrastructure Bank with an initial focus on transportation-related investments and flexibility to expand to other sectors over time. This approach will help target resources to the federal transportation funding system, which is particularly in need of bold reform at this time. In the meantime, the Recovery Act and other funding will help clarify the highest-value approaches to investing in other sectors.

The purpose of the Infrastructure Bank is to establish a new direction in federal infrastructure investment: one that supports regionally and nationally significant, high-value projects funded through a merit-based selection process. The Bank would fund relatively large and transformative projects currently underfunded by the allocation process, including:

- Projects that cross state and local jurisdictions, such as freight and passenger rail;
- Projects that integrate sectors and policy goals, such as highway projects that consider land use and economic development; and
- Projects that cross transportation silos, such as bridge construction that includes a rail line and harbor dredging.

Merit-based project selection would be a fundamental principle of the national Infrastructure Bank. The Bank would compare projects of different modes, incorporating cost effectiveness and equity considerations into its decisions.

BANK DESIGN PRINCIPLES

The budget resolution adopted by Congress includes \$2 billion this year and \$5 billion next year for a national Infrastructure Bank. President Obama has outlined broad design principles on the focus, governance structure, and financing mechanisms of the Infrastructure Bank. The Obama Administration will work with Congress to establish specific policies and practices for the Bank.

- **Sectors for investment: Transportation & transportation-affiliated projects.** The Infrastructure Bank should target transportation and transportation-affiliated projects that emphasize smart land use, economic development, intermodalism, energy conservation, and other priorities of our modern infrastructure system. Focusing on cross-modal transportation projects with special attention to broader economic and environmental impacts would allow for effective targeting of Infrastructure Bank dollars. It would also direct funds to high-value projects that are difficult to finance in the existing system. As the Infrastructure Bank grows over time, its scope could expand to more sectors.
- **Project size: Low minimum threshold.** The Administration proposes a \$25 million minimum threshold on project size. This relatively low project threshold is consistent with the fundamental principle of merit-based selection and would allow the Bank to choose the most valuable of a broad array of projects. The low threshold would also help make Bank funding accessible to all potential applicants, whether large or small, urban or rural.
- **Governance and structure: Independent entity within DOT.** Political independence is critical to the success of an Infrastructure Bank. For this reason, the Administration proposes that the Bank be housed as an independent entity within DOT, consistent with the proposed Bank focus on transportation and transportation-affiliated projects. The Bank would be governed by a board of non-governmental advisors with proven expertise in infrastructure, appointed by the President and confirmed by the Senate. Similar to the role of the IRS Oversight Board, the Bank board would lend expertise and insight to project selection, approve final selection decisions, and protect the Bank from internal and external political pressures.
- **Financing mechanisms: Combination of grants and credit products.** A flexible set of financing tools would allow the Bank to provide the most appropriate form of financing to a given project. The Administration would allow the Bank to offer a combination of grants and credit products like direct loans and loan guarantees. The Administration does not support Bank authority to borrow independently from private capital markets, since Treasury is the sole entity that borrows on behalf of the federal government and can do so more cheaply and efficiently than any other entity.