FedFin Client Report

Monday, April 12, 2021

FedFin Assessment: Infrastructure Bank/Bonds Strategic Implications

Client Report: **INFRASTRUCTURE7**

Executive Summary

Sen. Joe Manchin (D-WV) recently reiterated that he believes an "infrastructure bank" would be an appealing way to fund significant U.S. investment without the direct cost associated with President Biden's plan. We expect legislation along the lines of a new guarantee authority and/or public-private bonds to advance not just due to their fiscal efficiency, but also the deep knowledge and political base about ideas such as these that were strongly advanced during the Obama Administration (see Client Reports in the **INFRASTRUCTURE** series). This report does not reiterate prior ones, but highlights key issues for financial-services companies to consider as the U.S. infrastructure debate advances. We conclude that there are significant profit and political advantages to banks, insurance companies, and other financial institutions with the balance-sheet capacity needed to back, hold, and otherwise advance these initiatives.

Analysis

Infrastructure banks and/or guarantee facilities are not just ideas advanced by Democrats during the Obama Administration; Republicans have also done so in different ways, as recently as 2019. In response to legislation (H.R. 658) from Rep. DeLauro (D-CT), now the powerful chair of the House Appropriations Committee, and 68 Democrats, Rep. Webster (R-FL) and six Republicans introduced H.R. 7231. It differed substantively from the Democratic bill largely in structure and, to a lesser degree, focus than in any aversion to a federal infrastructure financial facility.

Also in 2019, Sen. Mark Warner (D-VA) had four GOP cosponsors for S.1535, legislation to create an Infrastructure Financing Authority (IFA), a bill similar in general form to the House Democratic and Republican bills. In addition to these proposals, the Obama Administration in 2015 floated a new type of municipal bond, a

Federal Financial Analytics, Inc.
2101 L Street, NW – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

© 2021. Federal Financial Analytics, Inc. All rights reserved.

"qualified public infrastructure bond"; these would have extended tax and other benefits accorded to municipal obligations to bonds backed by private capital.

None of these bills advanced in large part because a succession of "infrastructure weeks" came and went without issue. This could of course happen yet again. However, the Senate parliamentarian's decision allowing the Biden plan to proceed under reconciliation gives Democrats considerably more latitude as long as House and Senate leadership advance bills that hold moderate Democrats such as Mr. Manchin and attract at least a few Republicans in the House (where Speaker Pelosi's margin now is down to just five votes).

As noted, this analysis leads us to conclude that public-private structures to advance infrastructure finance at reduced fiscal cost will be a significant part of forthcoming Congressional consideration. Strategic questions for financial-services firms include:

- Which structures are best adapted to the current bank and insurance regulatory framework. If current rules impede offerings and/or add cost, then an additional consideration is the extent to which statutory language requiring favorable treatment is advisable;
- The strategic benefits of designing infrastructure-financial products that are both viable in terms of a firm or sector's business objectives and advantageous in terms of national or local economic development, economic equality, racial equity, and other goals;
- The features of a federal backstop (e.g., front-end or back-end, risk-share, tenor) that would make infrastructure-finance obligations most appealing to both issuers and the market; and
- The need for a specialized federal agency along the lines proposed in the Senate, in conjunction with existing GSEs, or in some other form to create a permanent U.S. facility enhancing long-term infrastructure finance.

Federal Financial Analytics, Inc.
2101 L Street, NW – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

© 2021. Federal Financial Analytics, Inc. All rights reserved.