THE PARTNERSHIP TO BUILD AMERICA ACT PROPOSAL

CONGRESSMAN JOHN K. DELANEY
May 6, 2013

Investing in Infrastructure

- According to the 2013 Report Card for America's Infrastructure, U.S. Infrastructure has a cumulative grade of "D^{+}" with an estimated $ 3.6 trillion investment needed by 2020.
- The Partnership to Build America Act would finance the rebuilding of our country's transportation, energy, communications, water, and education infrastructure through the creation of an infrastructure fund using repatriated corporate earnings as well as through utilizing public-private partnerships.
- The legislation would create the American Infrastructure Fund (AIF) which would provide loans or guarantees to state or local governments to finance qualified infrastructure projects. The states or local governments would be required to pay back the loan at a market rate determined by the AIF to ensure they have "skin in the game." In addition, the AIF would invest in equity securities for projects in partnership with states or local governments.
- The AIF will be funded by the sale of $50 billion worth of Infrastructure Bonds which would have a 50 year term, pay a fixed interest rate of 1 percent, and would not be guaranteed by the U.S. government.
    - U.S. corporations would be incentivized to purchase these new Infrastructure Bonds by allowing them to repatriate a certain amount of their overseas earnings tax free for every $1.00 they invest in the bonds. This multiplier will be set by a "reverse Dutch auction" allowing the market to set the rate.
    - Assuming a 1:4 ratio, meaning a company repatriates $4.00 tax-free for every $1.00 in Infrastructure Bonds purchased, a company's effective tax rate to repatriate these earnings would be approximately 8 percent and the $4.00 could then be spent by the companies however they chose.
- The AIF would leverage the $50 billion of Infrastructure Bonds at a 15:1 ratio to provide up to $750 billion in loans or guarantees.
- At least 25 percent of the projects financed through the AIF must be Public-Private Partnerships for which at least 20 percent of a project's financing comes from private capital using a public-private partnership model.

Benefits

- Creates a large-scale infrastructure financing capability with zero federal appropriations.
- Creates significant jobs in the short-term and helps U.S. competitiveness in the long-term.
- Allows for repatriation while ensuring U.S. corporations' tax savings are truly invested in the U.S. economy to grow quality jobs.
- Pushes the project selection decisions down to state and local governments who have to have "skin in the game."
- Encourages and creates a framework for growth in public-private partnerships.

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FREQUENTLY ASKED QUESTIONS

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- **How is this different from previous proposals for an Infrastructure Bank?**

  1. **No appropriated funds**: In the current budgetary climate, we cannot afford to fund our $3.6 trillion infrastructure needs through appropriations. This legislation is an innovative finance mechanism which uses zero tax dollars. The AIF will be, in itself, a Public-Private Partnership that is capitalized with private-sector money.
  2. **Project selection is left to States & Local Municipalities**: In previous proposals, the federal government was responsible for picking projects. In our proposal, the States and local municipalities will be able to choose the projects.
  3. **Broad definition of infrastructure**: Infrastructure investments in Water, Transportation, Communication, Education, and Energy are all included in our proposal.
  4. **Investment in Project Equity:** States and local municipalities with excellent credit or that have reached their debt cap are not helped by loans and loan guarantees. Having this additional option enables the AIF to act as the private investor in a public-private partnership with the state or local municipality. The AIF would be paid back with a portion of the return on investment from user fees, and the state or local municipality wouldn't have an increased debt burden.
  5. **The majority of the Board of the AIF will be comprised of private-sector appointees.**

- **How is this not a new government bureaucracy?**

  This is not a government bureaucracy because States and local municipalities choose the infrastructure projects. The federal government's role in this process will be to merely facilitate the financing for state and local municipality-driven infrastructure projects.

- **Does the sale of Infrastructure Bonds increase U.S. government debt? Does this create large tax-payer exposure?**

  No, this legislation does not increase the U.S. government debt. The Infrastructure Bonds in our proposal are not guaranteed by the U.S. Government. Instead, the $50 billion in capital from the Infrastructure Bonds (IBs) will enable the American Infrastructure Fund (AIF) to secure a high credit rating enabling the AIF to issue its own bonds. There is no taxpayer exposure in this legislation.

- **What happens if states are broke and can't repay the full amount? Will there be pressure for loan forgiveness?**

  There is no "free lunch." The AIF will be prohibited from forgiving these loans and a process to address default will be determined by the Board.

- **What is the authority of the AIF?**

  The AIF has very limited authority. It will be a resource to local and state governments and private companies and would be responsible for overseeing the criteria for qualified projects, standardizing processes and managing the overall infrastructure portfolio. It has the authority to make loans and loan guarantees, invest in project equity, set pricing, and issue its own bonds.

- **If the AIF has final selection of projects, will certain states end up being favored and certain states discriminated against?**

  No. There will be both annual and cumulative limits to the total percentage of financing a single state can receive.

- **If the bank is capitalized with $50 billion, but can loan/guarantee up to $750B (leveraged 15:1), what happens if there are defaults? Who is on the hook for the guarantee?**

  Fannie Mae was leveraged at 99:1. Banks are generally leveraged at 12:1. 15:1 leveraging is standard for insurance leveraging. A 15:1 ratio is approximately the right level of risk based on the $50 billion in equity and the credit rating we expect the AIF to obtain.

  Ultimately, the states and local municipalities are on the hook for the loans. In the event of default by the AIF, the Infrastructure Bonds are subordinate and are the "first-loss." As a result of the Bond-holders being the most at risk, the corporations will make good decisions when appointing trustees to protect their investment.

- **How does the purchase of Infrastructure Bonds create an "effective tax?"**

  Suppose a company purchases $2.5 billion worth of bonds at a 1:4 ratio. These bonds, with a maturity of 50 years, a fixed interest rate of 1 percent, and not backed by the full faith and credit of the federal government, are not worth PAR. If not for the repatriation incentive, no company would ever purchase these bonds.

  The bonds are also freely tradable, and a company may choose to sell them the day after they purchase them. We estimate that these bonds will be worth approximately 65 cents on the dollar in the market. At that price, a company that purchases $2.5 billion worth of bonds on may turn around and sell those same bonds for $1.625 billion. We can consider the loss on the sale to be the "effective tax."

  Therefore, the purchase of $2.5 billion worth of bonds and subsequent sale of those bonds represents a net loss of $875 million. At a ratio of 1:4, the company was able to repatriate $10 billion and paid an "effective tax" of $875 million. $875 million divided by $10 billion equals 8.75 percent, so their effective tax rate is 8.75 percent.

- **Is this proposal a solution to ensure the solvency of the Highway Trust Fund?**

  No. The Partnership to Build America Act deals with infrastructure financing, not funding. The AIF would make it cheaper for states and local municipalities to finance their infrastructure projects and would be one of many tools available to build infrastructure in the country. We hope that the bipartisan coalition that supports this proposal will be able to again work together on the next Highway bill.

- **Won't this tax-free repatriation create an incentive for more companies to move their earnings offshore?**

  No, this legislation will not incentivize more companies to move their earnings offshore. For the estimated $2 trillion in offshore earnings, this legislation will provide a path for approximately $200 billion, or 10 percent, to return. Because this sum is such a small percentage of total offshore earnings, even the potential for a second round of bond issuances wouldn't incentivize a company to move more earnings offshore. That would be taking a big risk.

  With the rate at which foreign earnings are building up overseas, the 10 percent that will be repatriated with this legislation will have been replenished in less than a year. This doesn't change the basic back-drop against which overall tax reform will occur. We still need comprehensive tax reform that includes changing the incentives for U.S. corporations to repatriate their earnings.

- **What is a "reverse Dutch auction?"**

  A reverse Dutch auction will provide the best deal for American taxpayers by allowing the market to set the ratio to determine how much money corporations can repatriate for each dollar of Infrastructure Bonds they purchase. Specifically, a reverse Dutch auction has companies bidding on the face value of Infrastructure Bonds they would like to purchase relative to the amount of money they can repatriate with the lowest bids winning. Below are two simplified examples of reverse Dutch auctions in which five companies bid on the quantity and ratio of the $50 billion of IBs available.

  Example 1

Bids		**Cumulative $ in Infrastructure Bonds**
1. $15 billion at 1:3.25	(winner)	$15 billion
2. $10 billion at 1:3.50	(winner)	$25 billion
3. $15 billion at 1:3.75	(winner)	$40 billion
4. $10 billion at 1:4.00	(winner)	**$50 billion**
5. $25 billion at 1:4.25		$75 billion

Example 2

Bids		Cumulative $ in Infrastructure Bonds
1. $30 billion at 1:3.75	(winner)	$30 billion
2. $20 billion at 1:4.00	(winner)	**$50 billion**
3. $10 billion at 1:4.25		$60 billion
4. $20 billion at 1:4.50		$80 billion
5. $15 billion at 1:4.75		$95 billion

In Example 1, the first four companies win because their bids were the lowest and cumulatively they reached the $50 billion maximum of IBs offered. In Example 2, the first two companies win because their bids were the lowest and cumulatively they reached the $50 billion maximum of IBs offered. In both cases, however the companies are allowed to repatriate at the highest winning ratio of 1:4.00 because that was the ratio at which the threshold bid hit $50 billion.