Basic Public Infrastructure and Covid-19 Economic Recovery: A Role for Private Capital?

Preliminary Slide Outline

April 6, 2020

Agenda

1. What kind of financing will enable basic infrastructure projects to proceed or even be expanded?

2. What will federal infrastructure financing support look like?

3. What role can private capital play in this mix?

1a. State & Local Challenges and Priorities Post-Covid-19

- US state & local governments and public agencies are at the frontline of the Covid-19 crisis -- they face serious pressure on annually-balanced budgets as immediate costs rise and taxes fall

- Yet in most cases state & local fundamental financial condition is relatively solid – majority have investment-grade bond ratings

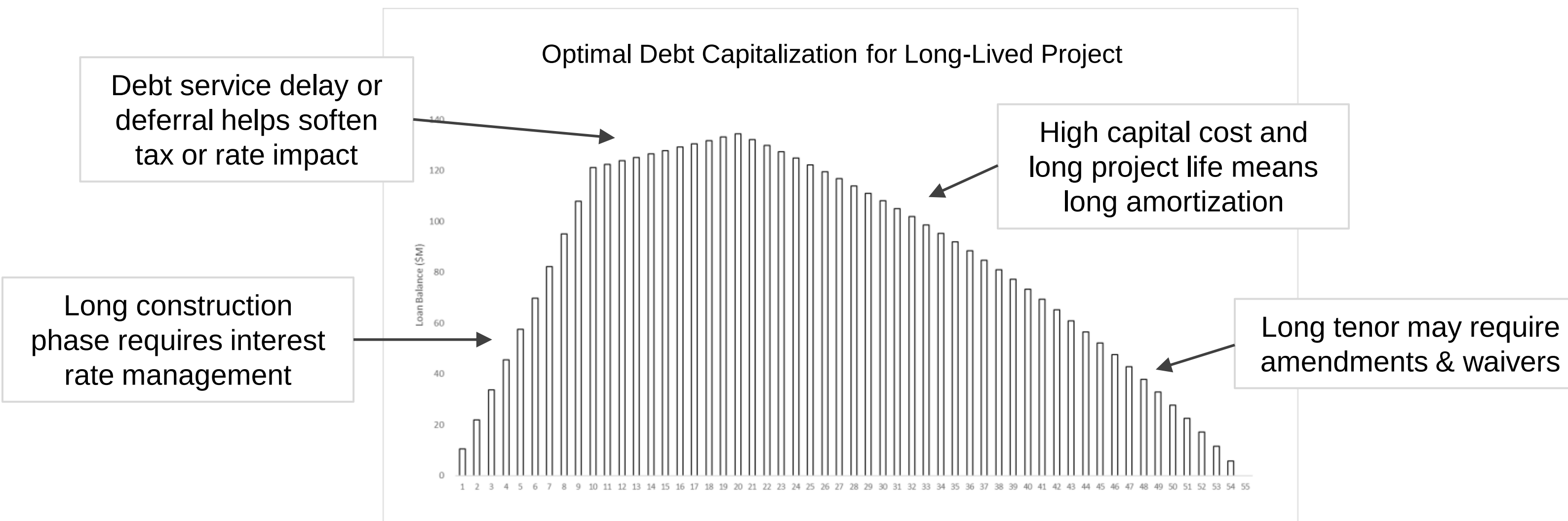
- Due to Covid-19 cash crunch, there will be huge temptation to further ‘kick the can’ on deferred maintenance and delayed investment in basic infrastructure projects

- But continuing these projects should be a priority for economic recovery, for job preservation and the local economy

- For highly rated state & local governments and agencies, financing will be the critical factor that enables continued investment in basic infrastructure

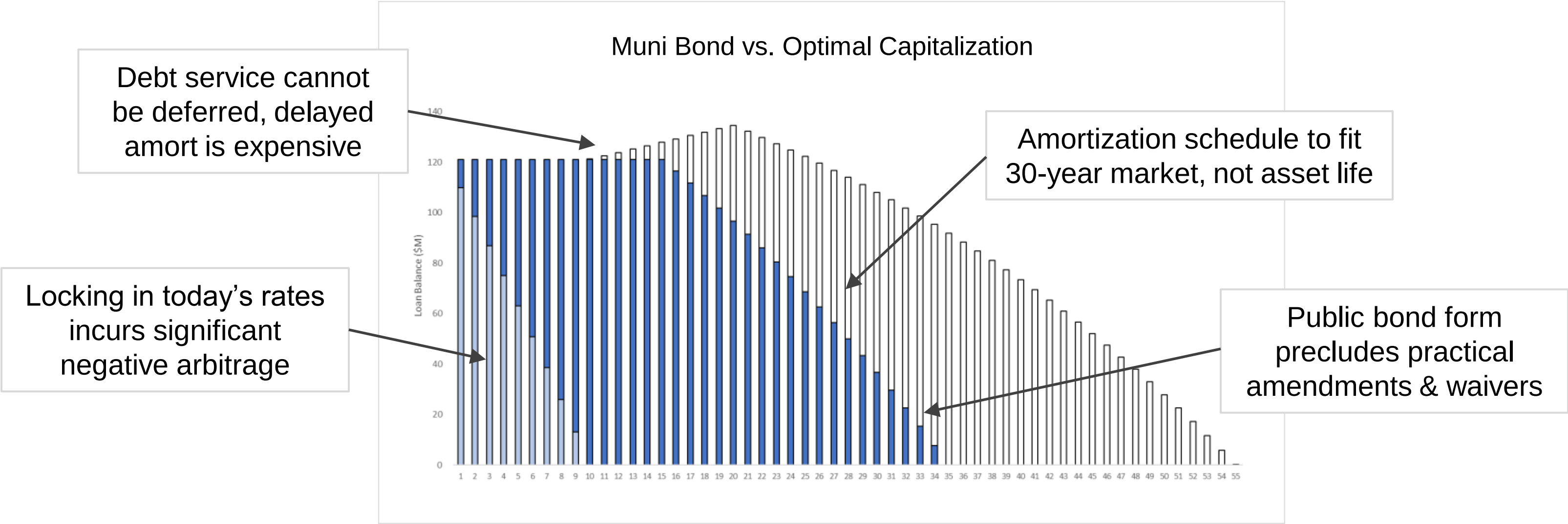
1b. Optimal Financing for Long-Lived Basic Infrastructure

- Large, long-lived projects need optimized long-term debt capitalization, especially in post-Covid world
- Highly rated public-sector borrowers will benefit from low base rates – now is a good time to borrow long-term
- Optimal structure would include manageable interest rate risk during construction and minimized debt service



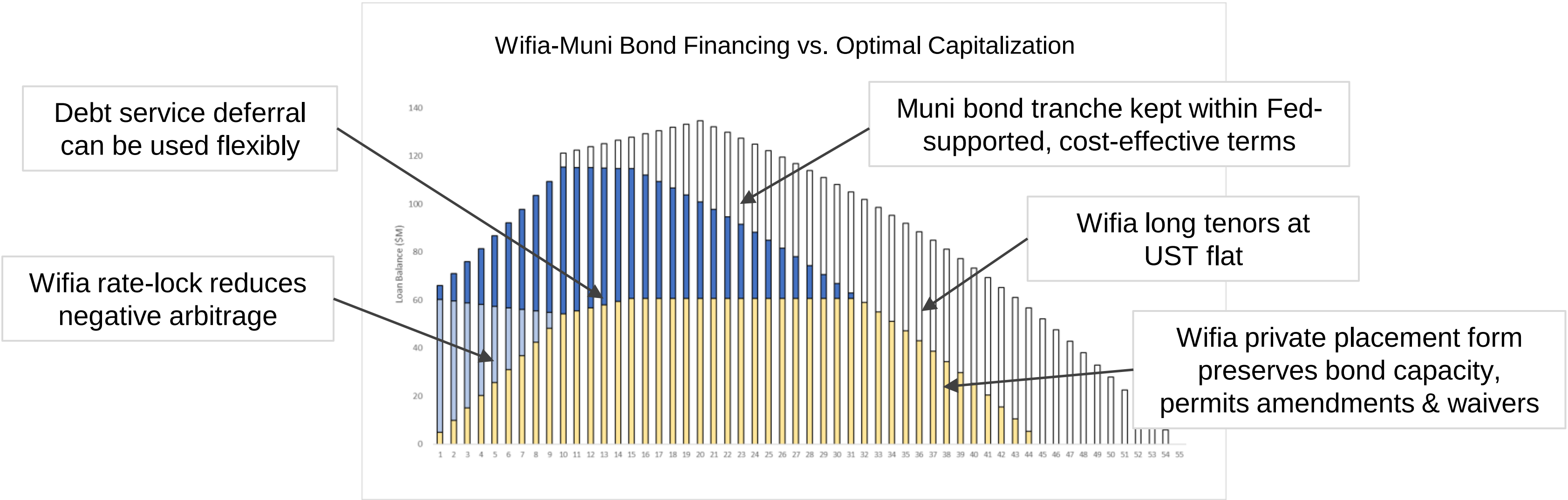
2a. Fed Support for Muni Market Necessary But Not Sufficient

- Muni market is primary debt source for public infrastructure
- But muni bonds reflect retail investor base preferences for term, liquidity, public bond form and risk avoidance
- Unprecedented Federal Reserve support will keep this mainstay market open – but within standard parameters that are sub-optimal for long-lived projects



2b. Federal Infrastructure Loan Program as Muni Market Adjunct

- Wifia Loan Program has emerged as effective muni market 'adjunct' for highly rated borrowers in US water sector
- Standard financing is 50% muni bonds, 50% Wifia private placement, structured to play to respective strengths
- Wifia features include costless rate-lock, some deferral and long tenors at UST flat forward rates – closer to optimal

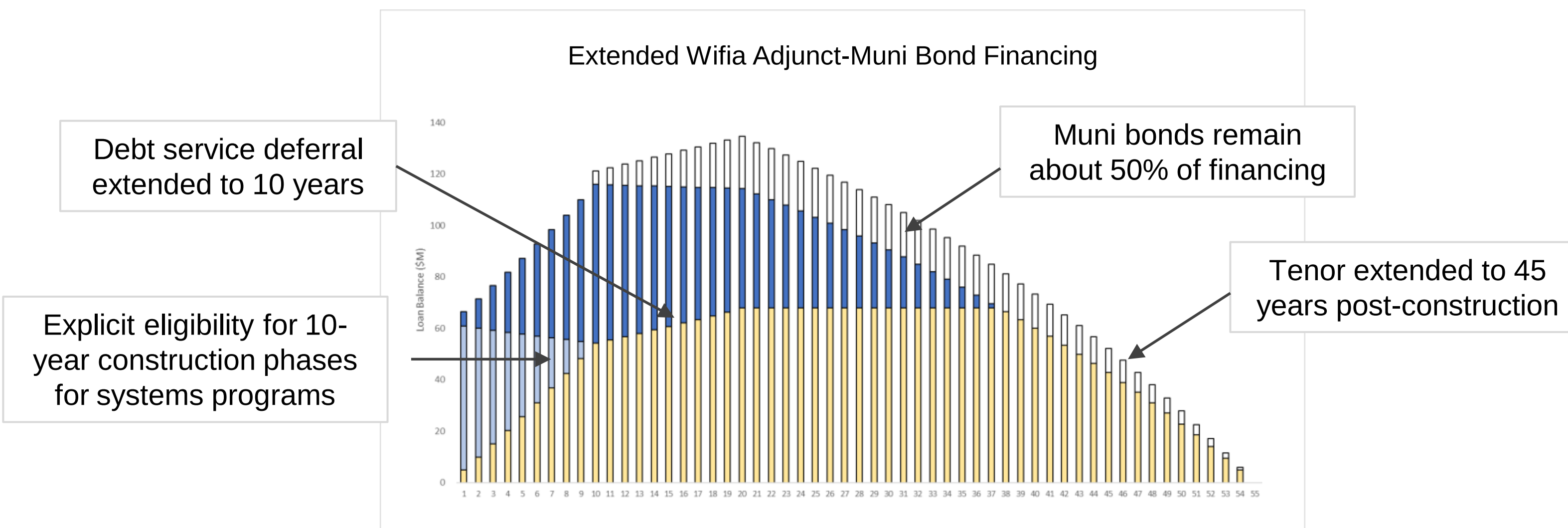


2c. Expanding Current Infrastructure Adjunct Loan Programs

- Program size easily expanded – low credit risk for highly rated borrowers means low appropriation, high leverage

- Program features also easy to extend and improve as technical, low-risk changes to current legislation

- Extended features can result in near-optimal capitalization, compelling benefits but low cost and risk for taxpayers

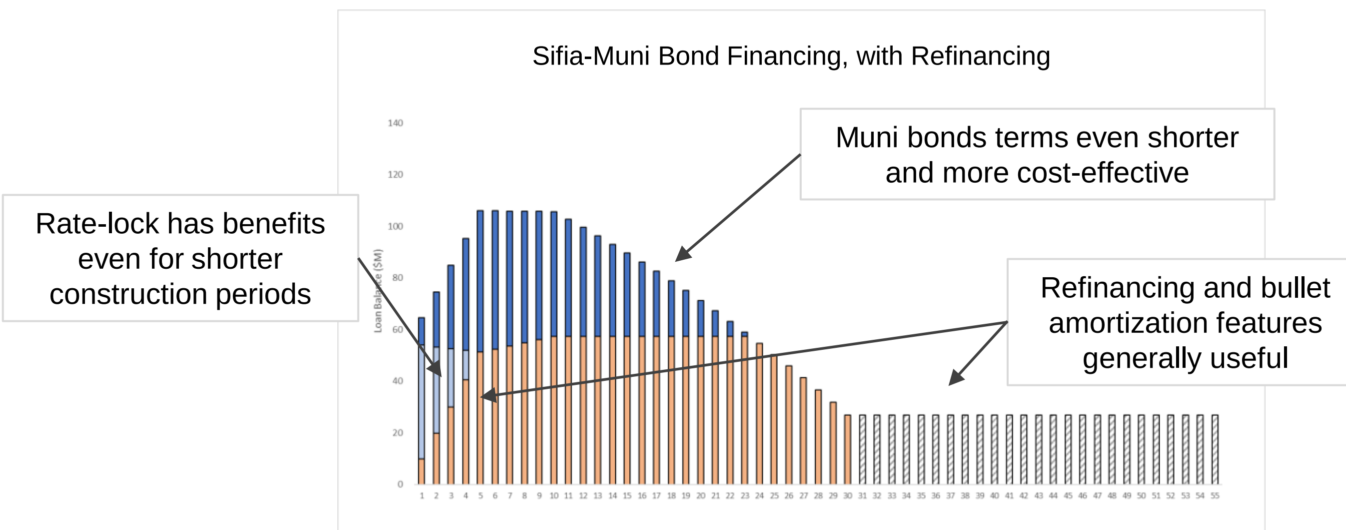


2d. New Federal Infrastructure Adjunct Loan Programs

- Wifia can be used a quick-start model for other public infrastructure sectors – e.g. a ‘Sifia’ Program

- Sifia projects may be less long-lived (e.g. schools, municipal facilities) but adjunct benefits still significant

- Sifia could include features specifically relevant to state & local governments -- e.g. refinancing existing assets



3a. Private Capital and Adjunct Loan Program Frameworks

- There is a huge amount of private capital interested in US basic public infrastructure investment – this interest will likely increase in volatile post-Covid economic conditions

- But due to the predominance of the muni bond market for state & local infrastructure capitalization, little progress has been made

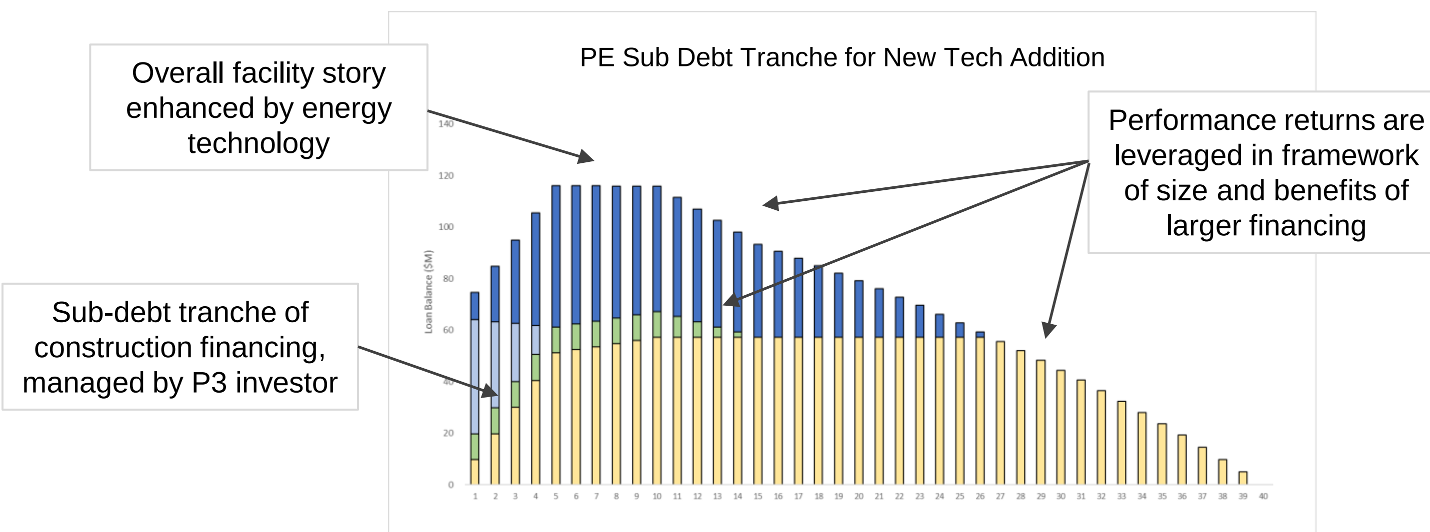
- Muni bonds will remain dominant, but dynamics may change when federal infrastructure loan programs are utilized as a market adjunct for long-lived projects

- Adjunct loan programs create a two-tranche framework that includes a private placement, not just public bonds.

- Within that framework, the marginal effort of adding another tranche of capital for a specialized, high-value purpose is far lower – opening the door for private capital

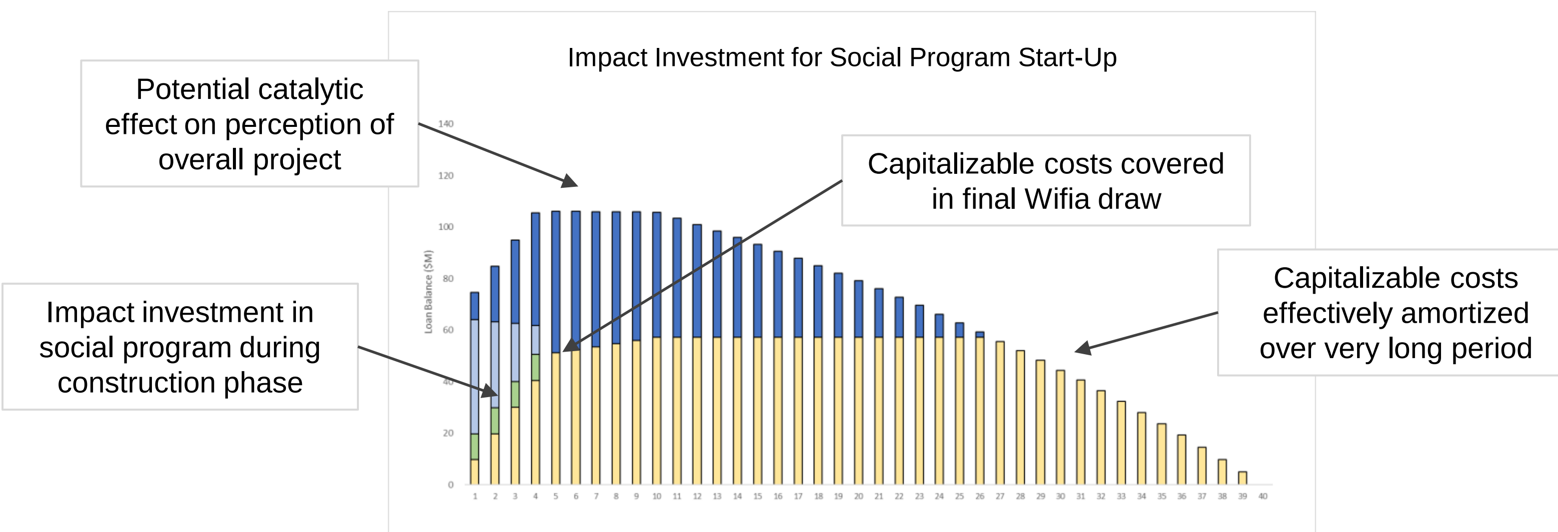
3b. Illustration: Private Equity Investment in New Technology

- New energy technology can be added to basic facility, potential savings are significant but uncertain
- PE investor provides sub-debt with performance-related returns based on overall facility results
- PE investment also enhances financial and policy characteristics of transaction, synergies with Wifia



3c. Illustration: Impact Investment in New Social Program

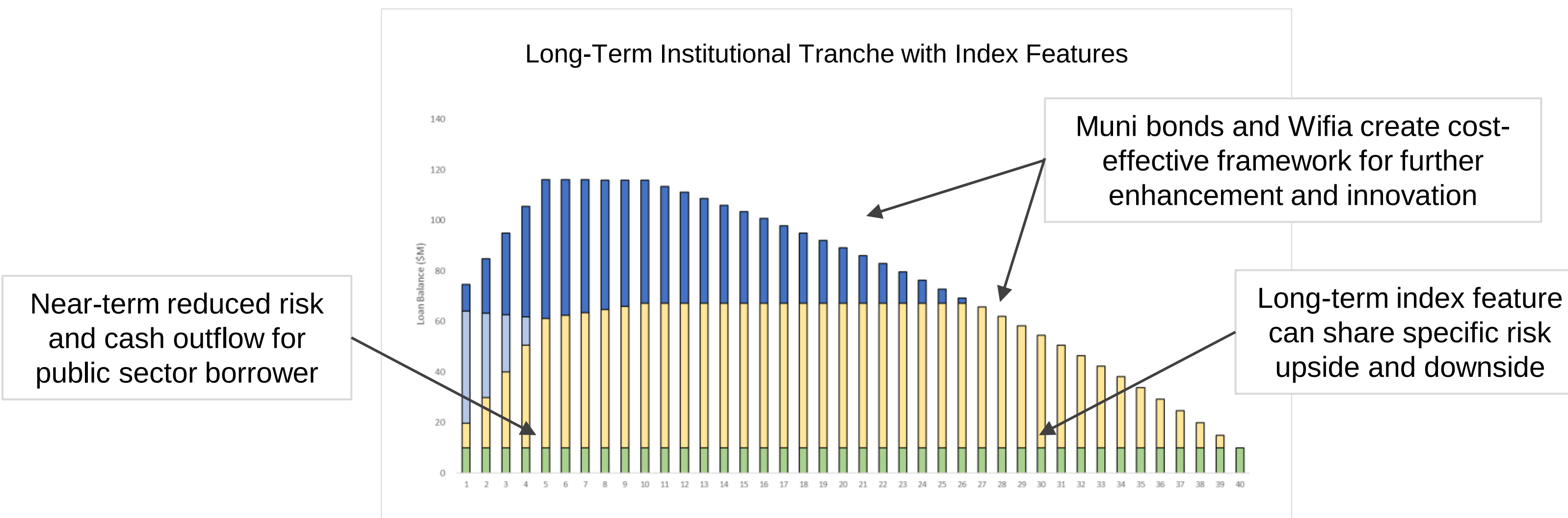
- Impact investor provides funding for new social program related to basic infrastructure (e.g. workforce training
- Implementation during construction phase, capitalizable costs are permanently financed by Wifia drawdown
- Social program investment, though small, may significantly enhance policy outcomes, possible catalytic effect



3d. Illustration: Institutional Indexed-Debt Investment

- Institutional debt investor makes a very long-term taxable loan that has index feature (e.g. inflation, local tax revenue, water rates) that will minimize near-term risk and cash outflow for the public sector borrower

- In context of 100% bond financing, this would not be worthwhile. But as an addition to an adjunct financing, the specialized value of such innovative financing can now be considered efficiently



Going Forward

1. Despite near-term challenges, many basic infrastructure projects will likely proceed as part of Covid-19 recovery - financing will be critical factor

2. There is unprecedented Federal Reserve support for muni bond market – additional federal support may come from expansion of Wifia and similar infrastructure loan adjunct programs for long-lived projects

3. The loan adjunct framework can open the door for private capital investment in US basic infrastructure. Innovation and synergies with adjunct program parameters and policy objectives will be key

InRecap Links and Contact

Loan Programs and Covid-19 Economic Recovery

- Wifia Loan Program and Post-COVID-19 Economic Recovery

Wifia Program Performance To Date and Role as Market Adjunct

- Explaining Two Trends in Wifia Loan Program Selected Applications 2017-2019

Expanding Program Capabilities

- Wifia Loan Program: Transformational Development Concepts
- Benefit-Cost Impact of Wifia Loan Program Extended Term Modifications

Including Specialty Capital in a Wifia Financing

- Including an Opportunity Zone Investment Tranche in a Wifia Infrastructure Financing
- Leveraging Infrastructure Impact Investment with EIB and CBP3 Components
- Potential Role for P3 Investors in the Utilization and Expansion of Infrastructure Loan Programs

Wifia Loan Benefit and Cost Models and Benchmarks

- Wifia Benefit-Cost Demonstration Model User Guide
- Bond-Wifia Indicative Benchmark Comparison 29-Jan-2020
- Bond-Wifia Indicative Benchmark Comparison 20-Mar-2020

InRecap

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