GO / T&E Committees #1
September 22, 2014

Worksession

MEMORANDUM

September 18, 2014

TO: County Council

FROM: Aron Trombka, AT Senior Legislative Analyst
Office of Legislative Oversight

SUBJECT: OLO Memorandum Report 2014-9: *Alternative Infrastructure Financing Methods*

The purpose of this worksession is for the Government Operations and Fiscal Policy and the Transportation, Infrastructure, Energy and Environment Committees to discuss Office of Legislative Oversight (OLO) Memorandum Report 2014-9: *Alternative Infrastructure Financing Methods.*

Councilmembers should bring their copy of Report 2014-9 to the worksession.

The Council directed OLO to prepare a report that describes alternative methods to finance the construction and renovation of transportation, school, and other public infrastructure. The assignment further called for the report to include case studies that detail alternative infrastructure financing methods employed in other jurisdictions. The Council approved release of Report 2014-9 on July 15, 2014.

Finance Department Director Joseph Beach and Finance Department staff will attend the worksession.

A. Report Content

Report 2104-9 includes three informational sections.

- Section 1: Current Methods of Infrastructure Financing provides an overview of current methods available to the County to finance the construction of capital facilities. This section describes how the County currently finances infrastructure development by means of general obligation bonds, current revenue, intergovernmental aid, revenue bond, interim financing, development and special taxing districts, and other methods. Section 1 further offers details on tax increment financing, a borrowing method authorized by State law that has not employed by the County to date.

- Section 2: Private Financing of Public Projects presents recent trends in public-private partnerships. In contrast to the traditional method of public facility development in which the public sector entity retains control over all elements facility construction and operation, public-private partnerships involve private sector participation in the planning, design, construction, renovation, financing, operation, and/or maintenance of a public facility. Section 2 describes the characteristics of three types of public-private partnerships that include private financing of public capital projects:

    a. The Design-Build-Finance (DBF) method (including a case study on the I-90 Innerbelt (George V. Voinovich Bridge) Bridge;

    b. The Design-Build-Finance-Operate-Maintain (DBFOM) method (including case studies on the Capital Beltway HOT Lanes, Colorado Route 36 HOT Lanes / Bus Rapid Transit, and the Purple Line); and

    c. The Design-Build-Finance-Maintain (DBFM) method (including case studies on the Goethals Bridge Replacement project and the Yonkers Public Schools).

- Section 3: Infrastructure Banks discusses proposed and existing infrastructure banks at the Federal, State, and local levels. An infrastructure bank is a government-established entity that provides loans, loan guarantees, and lines of credit to help fund infrastructure projects. Infrastructure banks may be capitalized by various means including direct appropriation of government funds, dedicated revenue streams, bond sales, and private sector investment. The capital assets in an infrastructure bank serve as a revolving fund with loan repayments replenishing the bank's fund balance. Section 3 presents information on:

    a. Recent proposals to create a national infrastructure bank (including summaries of three bills introduced in the current Congress);

    b. Existing state infrastructure banks that received initial capitalization either from Federal or state funds (including case studies on the California I-Bank Infrastructure State Revolving Fund and the Virginia Transportation Infrastructure Bank);

    c. Recent developments regarding the possibility of creating a Maryland Infrastructure Bank;

    d. Recently established local government infrastructure financing initiatives (including case studies on the Chicago Infrastructure Trust and the Dauphin County, Pennsylvania, Infrastructure Bank).

B. Report Conclusions

OLO offered three overall conclusions based on the information presented in this memorandum report.

Conclusion #1 ***Alternative infrastructure financing methods should be assessed in the context of the County's current AAA borrowing costs.***

State and local governments often pursue alternative infrastructure financing methods in an effort to secure lower financing costs than those available through traditional means. Alternative financing methods – including private sector financing and infrastructure bank borrowing – are particularly attractive when public sector general obligation borrowing costs are relatively high. As detailed in Section 1 of this report, Montgomery County general obligation bonds have the highest possible credit rating possible for a local government. The County's AAA bond ratings provide ready access to borrowing markets at the lowest available interest rates for municipal debt. In addition, the County has further benefited from the favorable credit environment that has existed in recent years. When determining the optimal financing strategy for a project, alternative methods must be evaluated in comparison with bond market financing available to the County at the present time.

Conclusion #2 ***Private financing of capital projects offers certain advantages over traditional methods for certain types of public facilities but comes with financial and policy tradeoffs.***

Partnerships in which the private sector finances all or part of public infrastructure development can offer advantages over traditional government-backed bond financing. Private financing may expand total investment dollars, accelerate project delivery, and reduce a government's debt burden as compared to traditional financing. These advantages justify government consideration of private financing as a possible funding strategy for a subset of the capital improvements program.

However, private sector financing has not proven a viable option for many types of public facilities. Private interests only will finance projects that offer a potential for significant returns on their investment. Most successful public private partnerships have involved large transportation facilities capable of generating significant revenue streams through tolls or fees. Non-transportation government functions (such as education and public safety) and smaller transportation projects have no or limited capacity for revenue generation, and so, are unlikely to attract private investment interest.

Public-private partnerships do not come without cost to the government. These agreements typically involve some type of public sector contribution in the form of direct payments, land donation, or the concession of future revenue streams. In addition, in some cases, private investment requires the public partner to cede control over policy considerations such as fee structures and facility access. In sum, governments must accept fiscal and policy tradeoffs to attract private participation.

Conclusion #3 ***Infrastructure banks are a financing mechanism for larger governmental units to assist smaller governmental units that lack the revenue streams, cash flow, or credit status to fund infrastructure improvements.***

Infrastructure banks are government revolving funds that provide loans and other financial assistance to help fund infrastructure projects. Most commonly, a larger governmental unit provides resources to support the development of capital improvements by a smaller governmental unit. The Federal government capitalized multiple state-level infrastructure banks. Similarly, some states have funded infrastructure banks to support local-level capital projects and at least one county has dedicated revenues for municipal-level transportation improvements. In each case, the larger unit of government assists the smaller unit by offering ready access to capital at advantageous interest rates that otherwise may not be available through the commercial lending market.

Creation and capitalization of a Federal infrastructure bank could assist in the financing of large regional capital projects that might benefit Montgomery County residents and businesses. (Projects funded by a possible future Federal infrastructure bank likely would be of a scale significantly larger than any project in the County's Capital Improvements Program.) Moreover, the creation and capitalization of a Maryland infrastructure bank could provide financing assistance for County capital projects. The County Council may also wish to consider whether to establish an infrastructure bank grant or loan program to assist municipal infrastructure improvements.

Finally, OLO offers the following comments regarding the Chicago Infrastructure Trust. The Trust more resembles a public-private partnership program than an infrastructure bank. Unlike an infrastructure bank, the Trust is not capitalized by public funds. Rather, the Trust solicits private investment in projects that have the potential to generate a return on investment but which the City has been unable to finance though traditional methods such as tax-exempt bonds. The Trust model may be less attractive for a jurisdiction such as Montgomery County that enjoys lower general obligation borrowing costs than Chicago.