The Daily Dish

Infrastructure and Private Capital

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On Thursday Treasury Secretary Steven Mnuchin stated that he remains undecided on whether or not to classify China as a currency manipulator. Mnuchin said that he plans on going through the Treasury process already in place where manipulation across the board is examined. He stated that he does not plan on making an announcement before the Treasury issues its foreign exchange markets report in April; the report is issued twice-yearly.

In a blow to the Obama Administration's net neutrality rules, the Federal Communications Commission (FCC) voted to exempt Internet providers with 250,000 or fewer subscribers from certain reporting requirements previously required under the law. FCC Chairman Ajit Pai praised the vote, which was 2-1, stating that he believes smaller internet providers should "spend their limited capital building out better broadband to rural America" rather then using the money to hire compliance officers to keep up with the burdensome requirements. According to FCC Commissioner Michael O'Rielly, the FCC could look into abolishing reporting requirements for larger providers in the future.

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President Trump put infrastructure at the center of his campaign plans for better growth, promising $1 trillion in new infrastructure spending and counting on the private sector to provide over $800 billion of that total. The basic formulation in that proposal was to use tax credits to augment the return to private sector equity investments. To my eye, there are a lot of key pieces of infrastructure that the public will be uneasy having the private sector actually own. If so, it may be that the subsidies raise the return to private investors in debt-financed infrastructure.

Fine. Either way the investment needs to generate a steady cash flow (think of tolls) that are the basis for returning cash to the private sector investors. A logical place to look for such opportunities is in large metropolitan areas. Urban areas are likely to benefit from increases in private sector contributions to infrastructure because in 2014, urban roads had the highest traffic volume with 70 percent of total vehicle miles on only 31 percent of total lane (physical road) miles. At the same time, 19.9 percent of urban roads did not meet Federal Highway Administration (FHWA) standards for road quality. In short, there are a lot of bad roads with high volume that could be improved by the private sector in exchange for tolls revenues.

That does not mean, however, that the projects are actually out there. Recent AAF research indicates that between energy and transit projects, there are currently 148 projects in the National Environmental Policy Act (NEPA) review process with estimated costs of $229.4 billion — an ideal target for private capital. However, the average time to complete the NEPA review process was 3.7 years for energy projects in 2016 and 6.6 years for transit projects in 2011, thereby suggesting a big lag between projects in principle and projects in practice. Some have proposed to give the NEPA review process a deadline to accelerate the process and generate additional projects for investment. Using the average processing time as a deadline, there could be 24 additional energy projects costing around $48.2 billion ready for investment; there would also be 44 additional transit projects costing around $28 billion ready for investment.

So far little concrete (pun intended) has emerged in the way of legislative proposals. The key will be to incentivize the private sector and clear hurdles to the timely completion of projects.