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Private equity and infrastructure funding experts say private investment alone cannot guarantee the actual development of infrastructure, and that commitment from the federal government is needed to provide long-term financing, and to connect money with projects that need it.

Private investors line up to support infrastructure projects without Trump

by Josh Siegel | Oct 30, 2017

Private investors remain committed to raising money to finance infrastructure in the U.S. despite the Trump administration's lack of progress on advancing a plan to rebuild America's roads and bridges.

Blackstone Group, a major investment company, said this month that it will move forward with a $40 billion fund to invest in U.S. infrastructure regardless of whether President Trump's $1 trillion infrastructure promise ever happens.

But private equity and infrastructure funding experts say private investment alone cannot guarantee the development of roads and bridges, as well as pipelines and ports. They say commitment from the federal government is needed to provide long-term financing and to connect money with projects that need it.

"Having money simply sitting on the sidelines from the private sector won't necessarily make a project happen," said Scott Zuchorski, senior director of Fitch Rating's global infrastructure group. "It's a good thing money is available. But to put the money to use, there have to be projects. And that requires public-sector support, from a financial standpoint, and to be project champions to ensure the projects get done."

Blackstone is the latest private entity to promise private capital to boost U.S. infrastructure, which in recent years has become an attractive opportunity for companies because of the need for improved and expanded infrastructure and the easy access to debt allowed by low-interest rates.

Blackstone, run by CEO Steve Schwarzman, a Trump supporter and former adviser, announced in May that it planned to raise up to $40 billion for an infrastructure investment fund, including up to a $20 billion commitment from Saudi Arabia and up to $500 million from Blackstone itself. It would be the largest fund dedicated to infrastructure ever raised by a U.S. firm.

Tony James, president of Blackstone, said in an Oct. 19 earnings call that his company remains optimistic it can achieve its goal, even in a stagnant political environment.

"We think based on today's market conditions, today's political regulations, today's processes in Washington and everything else, there's a huge opportunity for the fund we're raising right as things stand," James said.

While experts welcome Blackstone's commitment, they say the shortcomings of private financing are amplified without political support.

Joel Moser, an adjunct professor at Columbia University who focuses on international infrastructure development and investment, says most infrastructure investment opportunities in the U.S. do not come with a revenue stream.

"Infrastructure in the U.S. does not suffer from a lack of capital," said Moser, who is also founder and CEO of AQM Capital. "There is plenty of capital with the liquidity of the municipal bond market, and the U.S. is a great market to invest in. The problem is many infrastructure assets are not arranged in a way to receive private capital because they are not revenue producing. Private investment isn't free lunch. It needs to be repaid with a return, just like public borrowing."

Zuchorski and Moser say many European, Asian, and Latin American countries have acknowledged that private investors need to be repaid by applying a longer-term source of funding through the life of a project.

For example, in other countries, it's more common to see governments levy a tax or a user fee to help finance a project. But in the U.S., there is little political interest in raising the gasoline tax, which has not been changed at the federal level since 1993. However, Gary Cohn, Trump's chief economic adviser, recently told lawmakers the administration is open to a higher gas tax to help pay for an infrastructure bill.

"If you're a citizen and saying my infrastructure needs improvement, write your congressman and governor," Moser said. "That's not going to happen as result of private investment. Those improvements will happen when a public official takes action to impose a tax, or allocate tax revenue, or apply a user fee like a toll to generate a revenue stream. There has been longstanding political resistance in the U.S. to the expenditure of funding or borrowing of money, and one of the outcomes of that is deferred maintenance, and so our infrastructure is in inadequate condition."

Moser and other experts predict Blackstone, without the promise of federal government assistance, will mostly invest in existing infrastructure already privately owned. Those could include natural gas pipelines, power utilities, and storage terminals.

If it invests in public assets, Blackstone likely would favor those in which long-term revenues are easily assured, such as liquefied natural gas terminals, port upgrades, and other commercial assets.

Blackstone refused to provide the Washington Examiner more details about plans for its infrastructure fund.

"It's not going to be rebuilding America in the sense of the type of projects we think of as infrastructure, such as roads and bridges," Moser said. "It's going to be wholesale stuff, the kind of assets you can transact on. It's all private stuff and has nothing to do with government incentives or tax policy or everyday infrastructure that American citizens interact with."

Zuchorski and other experts predicted that in the absence of federal action, private investors will look to partner with state governments and cities that have raised taxes and implemented fees to pay for infrastructure.

Twenty-six states, including South Carolina and Tennessee, have increased gas taxes in the past four years, according to a report in July by Pew Charitable Trusts.

"State governments have become an incubator for infrastructure policy because of the lack of federal action, raising gas taxes and looking at different tolling techniques," Zuchorski said. "Private investors will probably look to the state level where projects are ready to go, and they can deploy their capital."

Marcia Hale, president of Building America's Future, a bipartisan interest group that advocates for federal funding of infrastructure, welcomes the potential for states to partner with private entities. But she values the role the federal government can play as a convener and agenda-setter that can amplify the impact of private equity.

"I don't think the private money will dry up, because there is a real need, and real projects [are] out there," Hale said. "But I don't think it will get maximized the way it should be. There is a lot more that needs to be done, and it needs a strong federal role to get some of that done."