Infrastructure Outlook

Assessing the impact of COVID-19 on infrastructure funding and project pipelines

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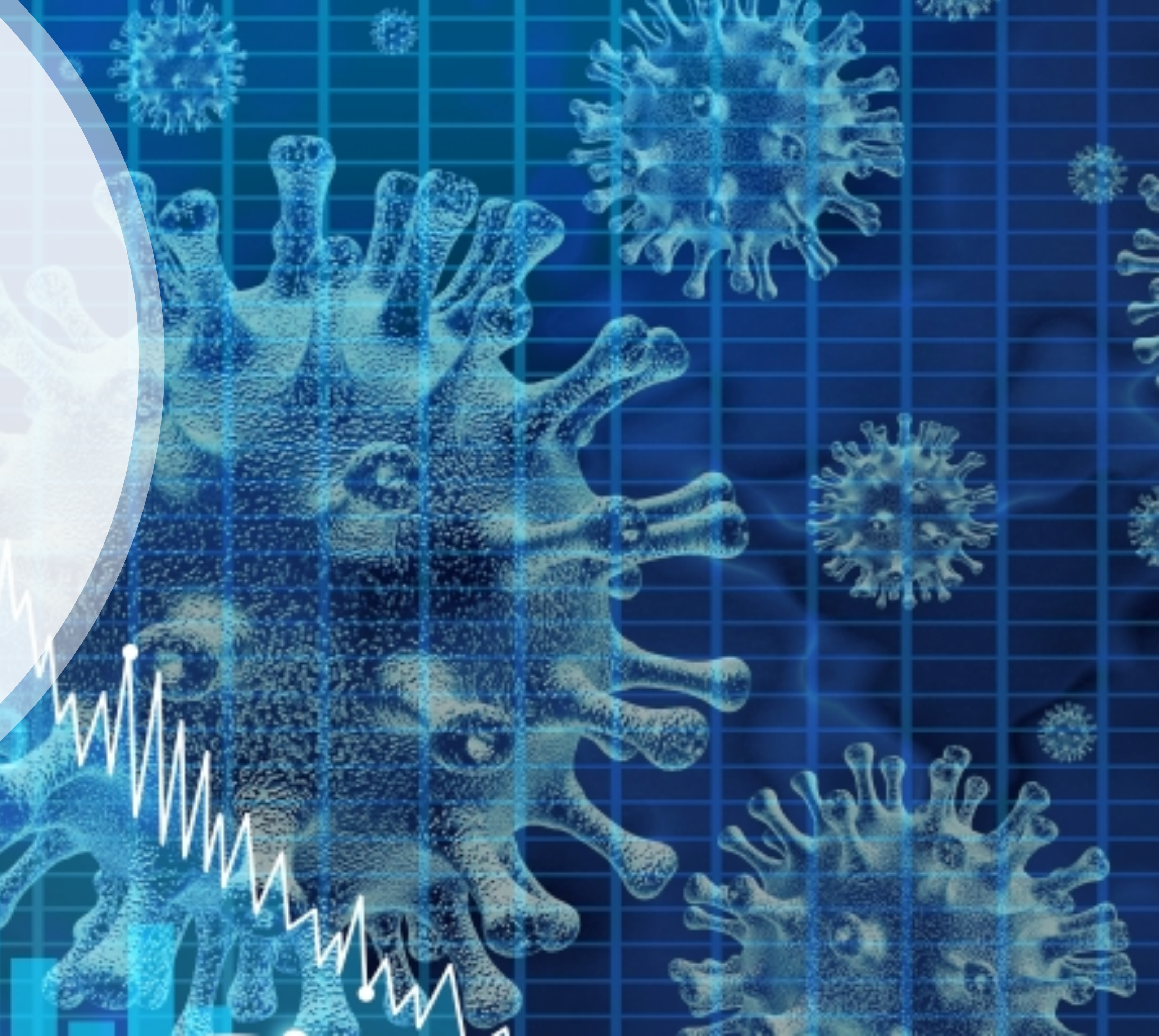
Context

- Although total impact still uncertain, Covid-19 has ushered in massive and unprecedented disruptions across all sectors;
- Transition from relief to recovery has policy makers scrambling to address shifting priorities;
- Today we will discuss the policy context around COVID-19:
  - Framework for infrastructure funding
  - Covid-19 impact on infrastructure funding and projects
  - Considerations around stimuli packages and/or infrastructure bills
  - Adaptation and positioning for the future



Infrastructure Imperative

- COVID-19 outbreak will not diminish the accumulated global infrastructure investment need;
- On a global level, there is a need for an estimated to be **$69 trillion** (excluding energy) by 2035; while in the US, infrastructure investment needs are estimated at over **$4.7 Trillion** just to keep pace with GDP (OECD/WEF). These figures do NOT account for additional needs triggered by COVID-19, climate change, technology transformation, etc.;
- (ASCE) 2017 report card assigns an overall **grade of D+** to the Nation's major infrastructure, but does not contemplate all infrastructure categories;
- Facing debt ceilings and budget constraints, federal, state and local authorities have limited resources to devote to capital and operational expenditures, while users are increasingly facing affordability and capacity-to-pay issues.

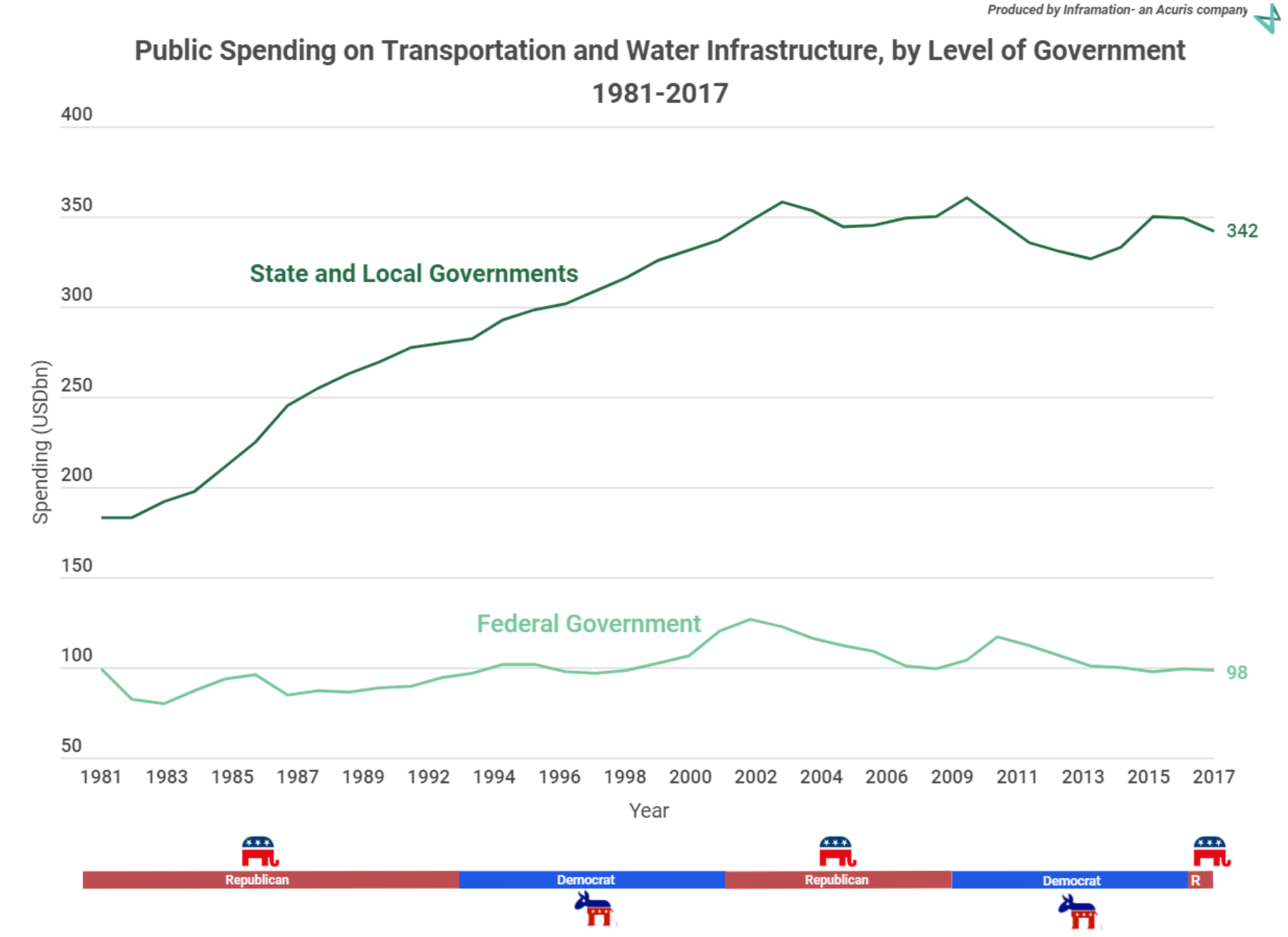
Source: ASCE Infrastructure Report Card 2017

Other key infrastructure investment needs:

- Target-driven initiatives: Resiliency, climate, smart cities
- Transformational projects
- Technology upgrades
- Social infrastructure

U.S. Infrastructure Investment Profile

- Federal investment has been relatively flat for decades and has been declining in real terms
- State and local government shoulder more of the burden, despite growing fiscal pressures
- Nevertheless, according to CBO, 60% of state and local investment in transportation and water infrastructure is financed using tools that impose costs on the federal government: tax-exempt bonds, tax credit bonds, state banks, and direct federal credit programs.
- Competing visions of a "national infrastructure plan" compound uncertainty about funding (*"Green New Deal"*, *"A Better Deal to Rebuild America"*, *"Moving Forward Framework"* etc.).



ource: : Congressional Budget Office, using data from the Office of Management and Budget, the Census Bureau, and the Bureau of Economic Analysis. Dollar amounts are adjusted to remove the effects of inflation using price dexes for government spending that measure the prices of materials and other inputs used to build, operate, and maintain transportation and water infrastructure.

COVID-19: Catalyst for Change

- Significant and sudden shift in policy priorities
- Acute fiscal pressures
- Supply chain disruptions
- Sector impacts:

Hardest Hit	Elevated Priorities
• GDP-driven sectors (i.e., transportation) • Education / Higher Ed • Retail / mixed use • Manufacturing • Tourism • Trade	• Public health infrastructure • Information and communications technology (ICT) • Climate and Resiliency • infrastructure supporting economic activities and supply chains

Policy Expectations

- No clear overriding strategy. Policy framework appears largely reactionary, aimed at trying to trigger expedited (V- or Z- shaped) recovery
- ***Democrats*** and ***White House*** favor massive infrastructure stimulus bill. Speak of $2 trillion or so, with hope that this will put people back to work. Mantra is “jobs, jobs, jobs”;
- ***Senate Republicans*** concerned about spending on non-Covid-19 related needs. Fear infrastructure 'stimulus' bill will bury America in debt, and fail to stimulate economic growth. Favor more modest non-Covid19 related infrastructure initiatives;
- ***Is Infrastructure a useful stimulus for this crisis?***
  1. Do low interest rates make it affordable?
  2. Will it create jobs and stimulate growth?
  3. Will American infrastructure substantially benefit from this initiative?
- **What an infrastructure stimulus package might look like?**
  1. Some look to the American Recovery and Reinvestment Act of 2009 for guidance, particularly as it relates to infrastructure; but there are distinct differences (i.e., credit markets, energy prices, workforce issues, etc.);
  2. Sector-specific initiatives are likely, including America’s Transportation Infrastructure Act, America’s Transportation Infrastructure Act, etc. but are more limited in scope and funding;
  3. Likely to see some level of expanded federal credit and incentives program, but size and scope are uncertain.

Outlook…

- Shifting priorities
- Local and state governments are being forced to make long-term choices on the basis of uncertainty and shorter-term fiscal outlooks.
- Even with a federal infrastructure stimulus package, it is highly unlikely that this will result in “*additional*” investment in infrastructure. State and local governments receiving 2009 federal stimulus infrastructure grants simply cut back on their own spending and borrowing almost dollar-for-dollar, which will likely be the case with COVID-19, particularly in light fiscal constraints.
- Additional safety standards, workforce scarcity and supply chain uncertainty will likely continue to place upward pressure on construction prices, further exacerbating the situation.

Moving Forward

- The only certainty is uncertainty
- Impactful federal stimulus focused on infrastructure is unlikely
- Need to find ways to facilitate government helping the victims of the economic shutdown to prevent a cascade of bankruptcies and a humanitarian crisis; while simultaneously allowing state and local governments to address backlog of critical infrastructure investments
- Seek to create "*additivity*", allowing public sector to do more with its limited resources:
    - Deferred payments and bridge financing;
    - Performance contracting;
    - Asset optimization and monetization
- Limited application of infrastructure "public-private-partnerships" due to complexity and lead time
- "Shovel-Ready" conundrum and stranded investments
- Inevitable long-term reprioritization of infrastructure sectors and asset classes

Q&A

Thank you!

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