# Desperately seeking infrastructure: Investment challenges

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Public infrastructure is necessary for any economy to function, and a prerequisite for future growth. Yet, a recent report estimates that Americans lose approximately $121 billion each year to traffic, fuel and lost productivity due to a dearth of adequate infrastructure.

Meaningful investment by both public and private sectors is required to modernize and expand our outdated infrastructures. But, with Federal infrastructure spending at a 20-year low, and other state and global governments cash poor, public funds will only cover a fraction of infrastructure needs.

So, governments are increasingly and actively encouraging private investment in infrastructure. Together with large private sector productivity gains from public infrastructure investments, often with higher returns than private capital investment, these incentives greatly enhance the appeal to institutional and private investors of an infrastructure asset class.

Furthermore, infrastructures generally have useful lives spanning 30+ years, so revenue streams have more long-term stability, keeping up with inflation and less sensitive to economic cycles or market gyrations than revenues from many other businesses. Infrastructure owners enjoy near-monopolies over the services they provide, and demand is relatively inelastic.

Underscoring the appeal of private infrastructure investment is KKR's July announcement of a new $3.1 billion fund focused on infrastructure investments in energy supply chain, water systems, roads, railways, airports, and communications networks, to serve the growing need to upgrade global infrastructure. A diverse group of new and existing global investors, including public and corporate pensions, asset managers, sovereign wealth funds, insurance companies, and foundations have backed this fund.

Despite many benefits, private investors face a number of regulatory and political risks inherent in the complex arrangements typically utilized in infrastructure. It is imperative that these challenges be addressed to ensure increased long-term private infrastructure investment.

Federal infrastructure policy, in particular, has been paralyzed by partisan wrangling over massive infrastructure bills and initiatives, including the recent six-year highway reauthorization bill entitled the Developing and Reliable and Innovated Vision for the Economy (DRIVE) Act, to facilitate local infrastructure projects with more defined and integrated processes.

Political opposition has killed many prominent infrastructure projects, including some in Chicago and Pennsylvania, while inter-agency and partisan squabbling has impacted New York's infrastructure and contributed to freezing Boston's mass transit system in place during last winter's storms.

Nevertheless, the growing success of state legislatures, 30 to date, in bi-partisan implementation of legislation facilitating public-private partnerships (PPPs) for more collaborative profitable infrastructure finance, provides some light at the end of the tunnel.

In order to further unlock private investment at the state level, the Federal government should consider: reducing state borrowing costs; allowing continued flexibility for alternative revenue sources (e.g., PPPs, tolling and user fees, and low-cost borrowing through innovative credit and bond programs) and private capital financing solutions; streamlining regulatory reviews, environmental permitting and financing approval processes; reducing regulatory uncertainty for project sponsors; improving program management to speed project delivery; and integrating Federal financing programs.

A generation of investments in world-class infrastructure in the mid-twentieth century is now reaching the end of its useful life. Cost estimates for modernizing transportation, energy and water infrastructure over the next decade are over $2.3 trillion. With public infrastructure investment about half what it was fifty years ago, more effective solutions to the political and regulatory risks thereof are desperately needed.

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