

Banking on Infrastructure

The case for creating a Connecticut Infrastructure Bank (CIB)

Need

- ▶ 57% of public roads in CT are in poor condition
- ▶ 338 bridges rated as structurally deficient
- ▶ US News and World Report ranks Connecticut #41 of all states in infrastructure quality, making it difficult to attract companies and create jobs
- ▶ A 21st century infrastructure is essential for economic growth

Solution

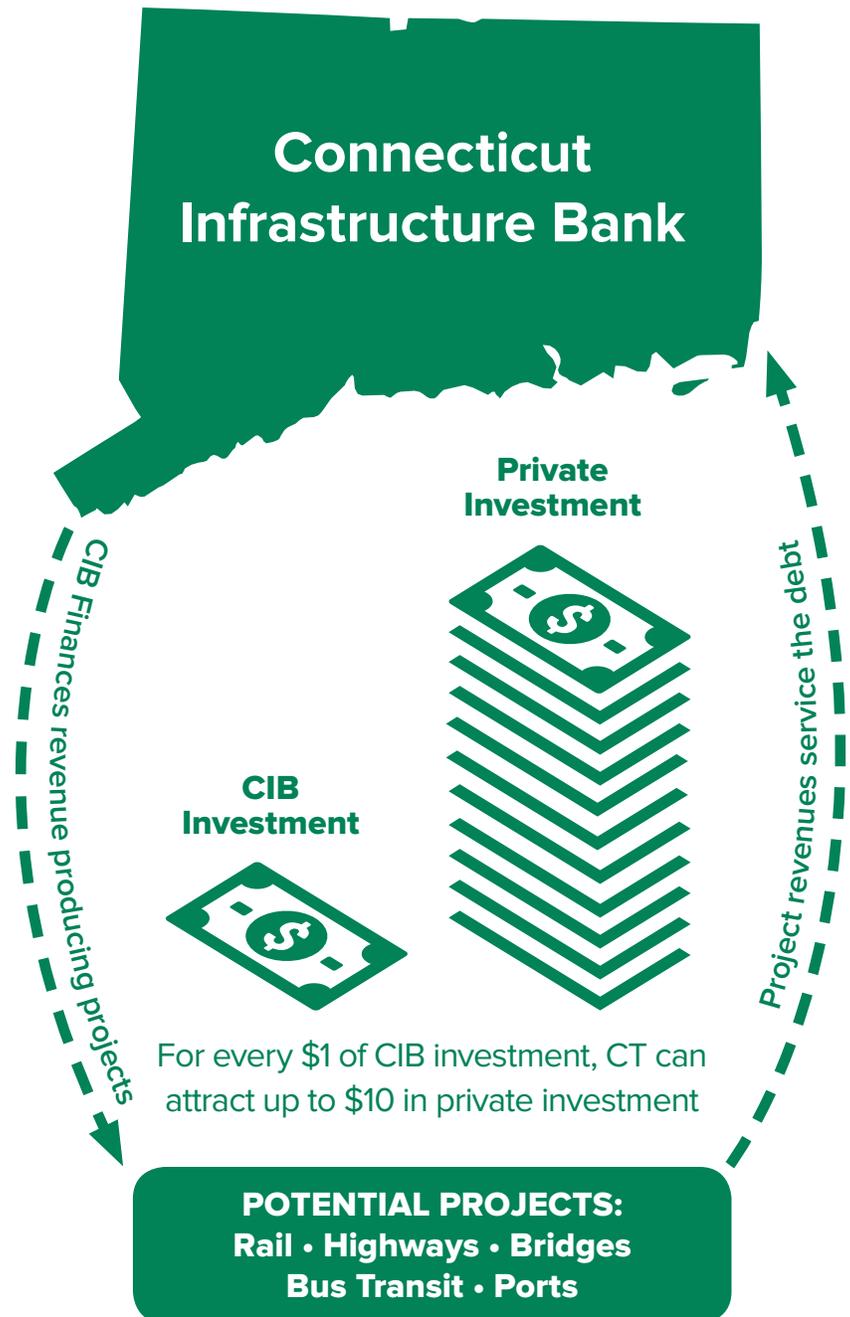
- ▶ A Connecticut Infrastructure Bank (CIB), owned and operated by the state, building on the success of the CT Green Bank (CGB)
- ▶ Equity funded from annual budget or other sources (eg. TCI)
- ▶ State equity leveraged up to 10 times with private debt raised from institutional investors
- ▶ Proceeds used to finance revenue producing projects, like railroads, bus transit, ports highways, and bridges,

Benefits

- ▶ Create a multiplier effect on state funds
- ▶ Economically self sustaining, relying on project cash flows for debt service
- ▶ Unlock access to institutional investors/capital
- ▶ Consolidate expertise for negotiating complex projects with the private sector
- ▶ Allow projects to be funded on a portfolio basis, rather than piecemeal
- ▶ Create jobs and fuel economic growth

Structure

- ▶ Establish CIB as a parallel entity to the CT Green Bank
 - CIB focused on mobility infrastructure
 - Expansion of CGB to include other environmental infrastructure sectors
- ▶ Shared services model between CIB and CGB with common support functions to deliver greater efficiency



Suneel Kamrani
Former CEO, RBS Markets;
Chief Operating Officer,
UBS Investment Bank



A Connecticut Infrastructure Bank



A Connecticut Infrastructure Bank (CIB), owned and operated by the state, would leverage public investments by up to 10 times with private debt raised from institutional investors. Proceeds would be used to finance revenue-producing projects, including highway, bridge, railroad, and port projects. The CIB would build on the success of the CT Green Bank (CGB), which currently funds investments in clean energy. And the Green Bank's mandate could be expanded to address other environmental infrastructure such as clean water, waste to energy and recycling, zero emission vehicle refueling (including buses), resiliency and microgrids, land conservation, brownfield redevelopment, etc.

This proposal would establish a funding platform to attract businesses, drive innovation, support a sustainable economy and create jobs.

The Gaps: State Fiscal Constraints and Limited Access to Institutional Capital

Like other states, Connecticut's infrastructure is in dire need of repair with 57% of its public roads in poor condition and 338 bridges rated as structurally deficient. Chronic neglect and tight budgets have taken a toll on the state's competitiveness with US News and World Report ranking the state near the bottom (#41) of all US states in infrastructure quality, making it even more difficult for us to attract companies and create jobs. Connecticut's fiscal situation will likely remain constrained with recurring projected budget deficits mainly due to high debt service, pension and healthcare obligations. A 21st century infrastructure is one of the key pillars of an economic resurgence plan for the state, requiring a new paradigm to attract private capital.

A Proposed Solution: Creating a Connecticut State Infrastructure Bank

A logical solution is for Connecticut to establish a State Infrastructure Bank, modelled on successful development banks around the world. The Connecticut Infrastructure Bank would be owned and operated by the State. The equity would be funded from the state's annual budget or from other sources. It could leverage that equity up to 10 times with private debt raised from institutional investors—like pension funds and insurance companies—who need long-dated cash flows to match their actuarial liabilities. The proceeds would then be used to finance revenue-producing projects, like highways, bridges, railroads, ports, water and waste systems, and renewable energy.

The CIB would be economically self-sustaining, relying on project cash flows for debt service. The equity would serve as a buffer for expected losses, using a risk methodology similar to other financial institutions. As a separately capitalized entity, the CIB would be excluded from the indebtedness of the state, reducing pressure on CT's bond ratings. The CIB could be established as a parallel entity to the Connecticut Green Bank, with the CGB expanding into other environmental infrastructure sectors and the CIB focusing on mobility infrastructure. A shared services model, with common support functions, could deliver greater efficiency.

The Transportation, Energy, Environment and Jobs/Economy Transition Policy Committees recommend that the Governor move expeditiously to establish a Connecticut Infrastructure Bank, taking the following initial steps:

- 1. Appoint a task force to examine and progress the CIB model¹**
 - ▶ Work with DOT to identify a list of projects in need of funding that cannot be supported with planned appropriations or bonding
 - ▶ Identify which of these projects could have dedicated revenue streams
 - ▶ Determine amount of debt those revenues could support
 - ▶ Size the initial equity contribution from the state to the CIB on the basis of debt that can be supported by revenues, assuming a leverage of up to 10 times
 - ▶ Engage financial and legal advisors, as needed
 - ▶ Meet with rating agencies to discuss structure and likely credit ratings
 - ▶ Approach institutional investors to present model and gain indication of interest
- 2. Draft legislation for the creation of a CIB using the CT Green Bank as a template, and expanding Green Bank investment areas beyond clean energy to other environmental markets**
- 3. Meet with stakeholders**
 - ▶ Legislative committees, key legislators, business leaders, unions, rating agencies and target investors
 - ▶ Reach out to similar entities established in neighboring states to exchange best practices and discuss potential for regional cooperation
- 4. Create a plan to operationalize the model (leadership, staffing, core functions, etc.)**

¹ Membership to include the CT DOT Commissioner, CT Green Bank CEO, Treasurer, Comptroller, etc.