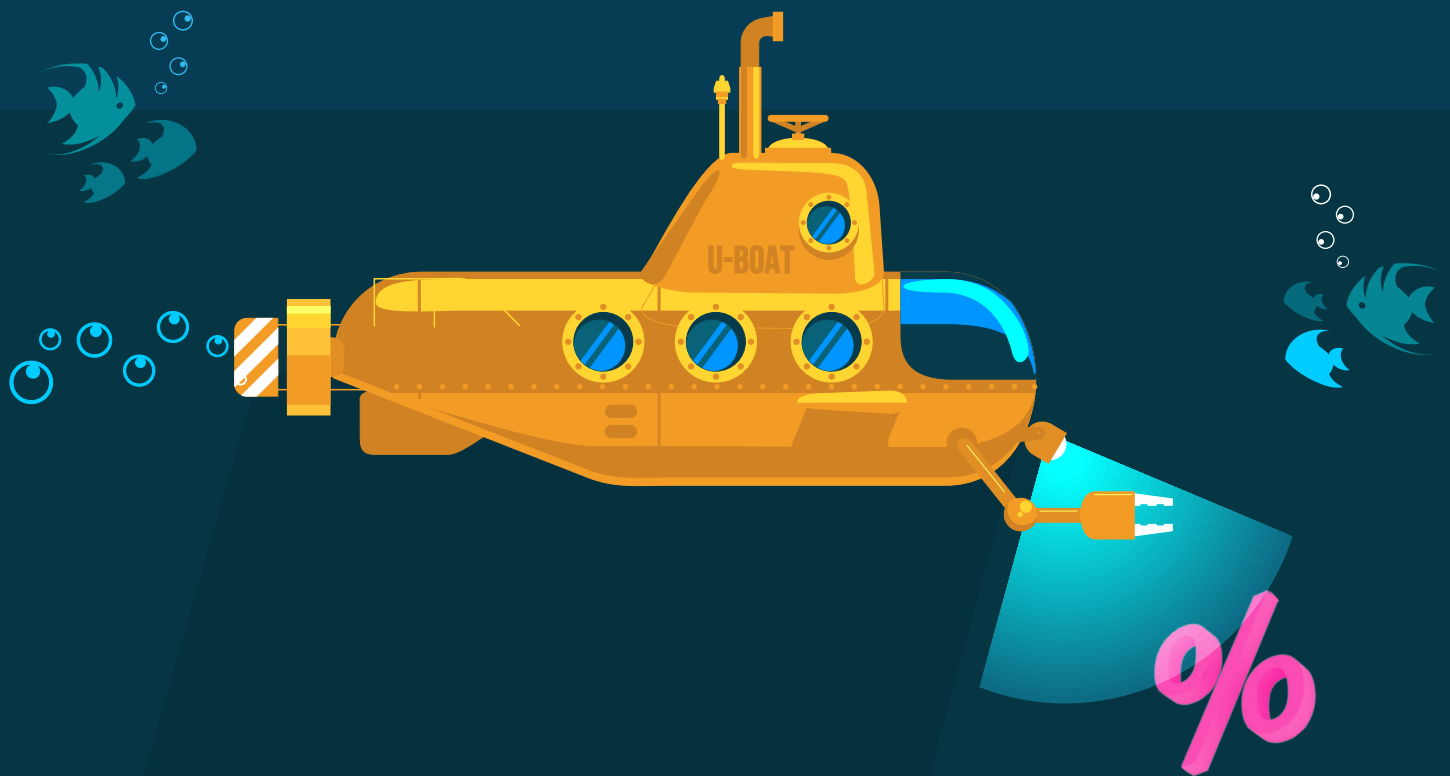




How low can we go?



INTERVIEW

Anthony R. Malloy

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Thought Leadership for the Insurance Investment Community

The Social Infrastructure Funding Gap in the United States

MetLife Investment Management

The need for investment in U.S. transportation and energy has received a great deal of publicity in recent years. However, the attention on the country's aging social infrastructure has been less prevalent. Social Infrastructure assets include hospitals, schools, social housing, courthouses, water and wastewater and other essential assets that support local economies. As a result of shifting population trends, technological advancements and the older age of existing assets, continued investment in social infrastructure projects is going to be critical. For example, the American Society of Civil Engineers rates the nation's schools "D+" with 53% of schools needing improvements to reach even a "good" condition and an estimated \$38 billion annual funding gap¹.

Social infrastructure plays an important role in development and maintenance of a society's quality of life. It can also often impact the economic development of the region. As illustrated in Figure 1, global investments in social infrastructure have ranged between 3 – 7% of global infrastructure spending.

Historically, U.S. investment in social infrastructure has largely been funded via on-balance sheet municipal financing. This is different from its neighbor in Canada, in Australia and in the U.K., where social infrastructure assets have been supported by Public-Private-Partnerships ("PPPs") since the 1990s. In 2018, the U.S. positioned itself as

fourth in the world ranking by deal value for greenfield PPPs. While the U.S. has been late to adopt the PPP model, it has the potential to become one of the largest markets in the world given the sheer size of its infrastructure.

PPPs are exactly as the name describes - a partnership between public and private sector for the delivery of a public asset. This procurement model allows the public sector to transfer key risks over to the private sector often including construction, operational or maintenance risks. The potential benefit of the PPP model is to allow appropriate risk-transfer of key project risks to the private sector, which is generally better equipped to handle them. Importantly, unlike asset privatizations, there is no transfer of ownership of the assets to the private sector and the public authority retains all ownership of these core, essential assets.

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Mansi Patel is a Vice President at MetLife Investment Management (MIM) Private Capital Group. She is a member of the Infrastructure and Project Finance team, responsible for transaction sourcing, origination, underwriting and portfolio management infrastructure assets in the Americas.

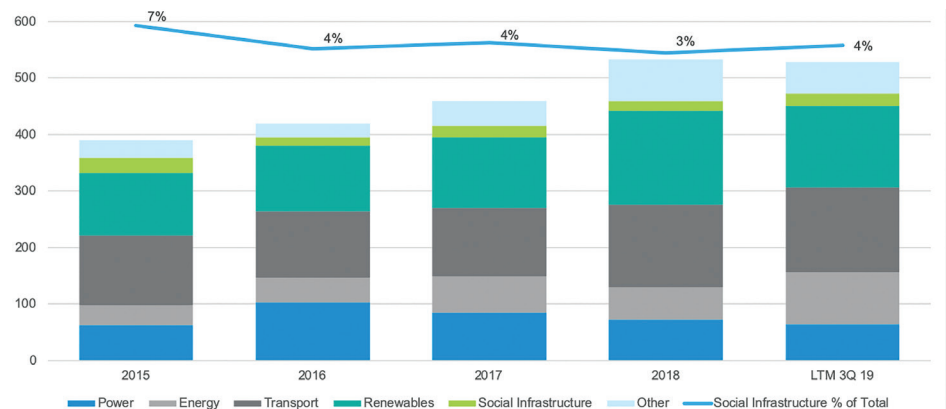
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Compared to economic infrastructure, social infrastructure assets typically do not generate sufficient revenues to allow for self-funding. The most widely used funding model for social PPPs is the availability-based model. Under the

Figure 1: Global Infrastructure Spending by Sector



Source: www.inframationnews.com

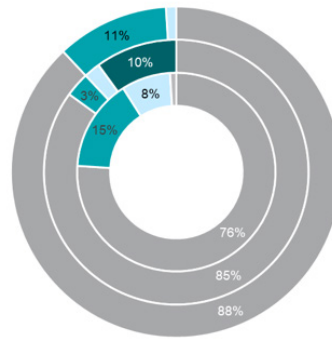


availability-based model, the private and public partners negotiate a long-term concession agreement whereby the public authority agrees to pay a fixed periodic payment to the private entity for the delivery, operations and maintenance of the asset. This allows the public authority to source the project without massive up-front costs that would likely stress its balance sheet. Additionally, performance measures are placed on the private sector that seek to ensure assets are delivered on-time, on-budget and maintained at the highest quality. At the end of the concession term, the asset is required to be handed-back to the public authority under a pre-determined asset condition.

While the US awaits a federal infrastructure funding plan, many states and municipalities have taken on the task of addressing the funding gaps at the local level. Texas, Virginia, Florida, California and Maryland have been the most active in PPPs. For example, Howard County in Maryland used a PPP to procure a new \$178 million courthouse. Similarly, the University of California system is currently in the middle of its \$1.2 billion construction of the UC Merced Campus development via a PPP. The City of Los Angeles is currently seeking bids for the development of its Civic Center, as it looks to leverage the successful Long Beach Courthouse PPP project. We continue to see a positive trend in states adopting the PPP model to help build, finance and fund much needed projects.

The PPP model has helped to bridge the gap as municipal and state balance sheets remained stretched. Well-structured projects typically have access to multiple sources of capital including Private Placement debt, Private Activity Bonds in the Municipal Bond Markets, and

Figure 2: US PPP Investments by Sector



• Transport • Social Infrastructure • Environment • Renewables • Power • Other • Energy • Telecommunications

Source: www.inframationnews.com

Bank financing. Equity Sponsors that are bidding on States’ requests for proposals often pick one or more of the available financing solutions to try and optimize the assets’ financing solutions.

There is a clear need to support the growing funding gap for social infrastructure assets. If the U.S. were to adopt the PPP model on a greater scale, this could potentially be achieved without adding trillions of dollars in user fees or by worsening budget deficits at the local levels. While PPPs are not the only solution to support the financing and funding of social infrastructure, a greater use of the model would allow states to focus on their core competencies and leverage private sector expertise in an effort to optimize asset delivery and management. Continued investments in social infrastructure assets can greatly benefit the quality of life and support economic growth and development at the local levels.

MetLife Investment Management (“MIM”) has made a substantial commitment to Responsible Investments’ including Infrastructure, Municipal

Bonds, Green Investments, and Impact and Affordable Housing. MIM seeks to actively support continued infrastructure investments in essential social projects through its broader infrastructure and municipal debt investment platforms.✿

1 <https://www.infrastructurereportcard.org/wp-content/uploads/2017/01/Schools-Final.pdf>



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