

# THE CLEAR CASE FOR A PUBLIC INFRASTRUCTURE BANK

[Text of HD 426/SD 861 at https://malegislature.gov/Bills/191/SD861](https://malegislature.gov/Bills/191/SD861)

## THE NEED

- The American Society of Civil Engineers gives Mass a “D” rating for infrastructure.
- The Boston Society of Civil Engineers 2013 report card for Mass lists bridges, drinking water sources, roads, wastewater treatment, public schools, and hazardous waste as being among the most serious deficiencies.
- These ratings do not attempt to capture infrastructure expenditures needed to support operational services such as policing, fire, public buildings, health facilities, etc.
- In a 2017 survey of 37 Mayors and Town Managers across the Commonwealth:
  - 38 % of respondents reported difficulty raising financing for infrastructure
  - 54 % reported that even priority projects had to be deferred
  - 96 % reported high interest in an alternative to the private bond market
  -

## CURRENT FINANCING SOURCES

### Massworks

- Grants - requiring annual appropriation
- Typical grant is \$1,700,000
- Provided 35 % of funding requested - 2015

### MassDevelopment

- 3 infrastructure programs tailored to developers not municipalities
- Mission is to support and accelerate economic development
- Criteria - projected job growth or increased tax revenue

### Private bond market

- Require excellent credit rating
- Artificial ceiling - market requires debt service not exceed 7 % of Operating Budget
- Fees and interest expense can increase costs by 30% to 50 %

### **Mass Clean Water Trust**

- Some grant programs
- Lead Service Line Replacement Program
- Water Resources Grants & Financial Assistance
- Special Programs

### **Recent Legislation**

#### **Federal:**

- Disaster Recovery Reform Act ( DRRA) - 2018
- The DRRA proposes to place 6 % of annual disaster spending into a new national Pre-Disaster Mitigation (PDM) account.
- Availability will depend on occurrence of disaster events and spending levels

#### **Massachusetts:**

- Chapter 90 - 2018
- Share of gas and tax revenues dedicated to road repairs.
- Current allocation is \$240,000,000. Estimated annual need is \$639,000,000.
  
- H 4835 - 2018
- Legislation to promote climate change adaptation, environmental and natural resource protection and investment in recreational assets and opportunity.
- A \$2,402,833,000 bond authorization.
- 35 projects already identified in specified locations.

### **SUMMARY of SOURCES**

The state sources are well managed and are useful as far as they go. However, dependence on annual appropriations introduces uncertainty and makes planning significantly more difficult for municipal managers. The Mass Clean Water Trust has proven to be efficient and dependable. Private bond programs are highly regulated, tightly managed, and usually expensive, which often makes them harder for municipalities to employ. Federal legislation is new, dependent on disaster events and funding availability. The state bond program is new, with projects already identified, with use and availability likely tied to state budget pressures.

## **AN ALTERNATIVE IS CLEARLY NEEDED:**

A locally managed, dependable source of financing for infrastructure products is clearly needed— 1) one that is easy to access, 2) with availability predictable year to year, 3) low cost, and 4) prepared to prudently underwrite a wide range of projects that, while sound, may not meet the policy and criteria of other sources. The bank will be a supplement to the current sources, not a replacement.

## **The Massachusetts Infrastructure Bank**

- Capitalized by the Commonwealth – no further appropriation needed
- Financing at lower cost to Mass cities and towns reducing debt burdens
- Interest paid by municipal borrowers stays in-state, increasing bank’s lending capacity.
- More responsive to Mass municipalities than risk averse private market
- Does not take sales commissions and may provide pre-development counseling and loans to qualify cities and towns for low interest rates
- Does not compete with Mass-based banks or credit unions, but may participate in loans if requested by local bank or credit union
- Transparent governance structure – all records are public
- Audited annually by state auditor
- No branches, ATMs, and does not accept deposits from individuals or businesses
- Policies of the board advised by public advisory committee
- In cases of natural disasters or pressing needs, can respond quickly and flexibly to preserve life and the area tax base – never tied to private investor non-compete legal agreements.