

“Investing in Infrastructure: Creating Jobs & Growing the Economy”

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Robert Wolf Written Testimony

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Good morning Chairman Dodd, Ranking Member Shelby and distinguished members of the committee. I am grateful for the opportunity to offer testimony today in support of a National Infrastructure Bank ("NIB"). My name is Robert Wolf, and I am Chairman & CEO of UBS Americas and President of the global Investment Bank. I am also a member of the Group Executive Board of UBS AG, our parent company.

I have worked in the financial services industry since receiving my undergraduate degree in economics from Wharton in 1984. My career has focused predominantly on fixed income specializing in the credit markets, principally at two firms – Salomon Brothers for approximately 10 years and UBS for 16 years.

As a member of the President's Economic Recovery Advisory Board, I have worked with fellow board members to develop a considered approach to creating a National Infrastructure Bank. Today, I am here to share my own views, as a 26-year veteran of the markets, on why I believe a National Infrastructure Bank is in our nation's best interest. I will also offer specific recommendations on how the proposed bank should be structured to achieve its goals in an optimal manner.

Let me say at the outset that creating a National Infrastructure Bank at this time makes sense for two main reasons:

(1) It will attract private investment to help fund badly needed infrastructure improvements critical to America's competitiveness and economic growth.

State and local governments account for about 75% of public infrastructure spending, and many of these governments are under severe fiscal strain. A number of important projects have been delayed or sidetracked, especially those with high capital cost or those which cross state boundaries. A national infrastructure bank would vet projects carefully, lend to fund the highest priority projects, and help attract private sector capital to augment government funding. Preqin, a private equity industry consultant, estimates that there is over \$180 billion dollars of private equity and pension fund capital focused on infrastructure equity investments. This capital can play an important role in bridging state and local budget gaps.

(2) It will create jobs.

The U.S. Department of Transportation estimates that \$1 billion of Federal and State spending on transportation infrastructure creates 27,400 jobs. Similarly, the Milken Institute estimates that \$1 billion of spending creates 25,000 jobs. Many of these jobs are in the construction industry and related sectors that have sustained the largest job losses in the economic downturn. Greater employment in these areas is essential to any sustained and accelerated economic recovery. A National Infrastructure Bank will provide funding for new projects that put people to work now – not just transportation-related jobs, but jobs that build durable infrastructure with lasting economic benefit, including projects in energy and electricity, water

and wastewater, and telecommunications and broadband. Our hope is that new jobs will be created not only for construction workers, but also for engineers, architects, urban planners, scientists and many industrial production businesses.

To achieve these goals, it is crucial that a National Infrastructure Bank be chartered with a clear and achievable mission and strict operational guidelines.

I have looked at other government-sponsored infrastructure institutions from around the world and have developed views on what the National Infrastructure Bank's mission should and should not be.

The National Infrastructure Bank SHOULD be:

(1) *Policy driven:* It should be a vehicle for attracting public and private funding to projects of considerable merit that accomplish broader policy goals like relieving congestion, minimizing environmental impact, improving mobility, enhancing transportation networks, and increasing our national or regional economic competitiveness.

(2) *Loan focused:* It should focus on making loans that will generate returns, which means funding primarily projects with user fees or dedicated revenue sources.

(3) *Merit based:* It is crucial that the National Infrastructure Bank allocate its funds on the basis of a rigorous cost-benefit analysis conducted by experienced industry experts and

be focused on those projects that will deliver the most value for its dollars.

Transparency is critical throughout the decision-making process. If a project cannot generate revenues sufficient to pay the principal and interest on the loan, and there is no other dedicated revenue source or local availability payments for that purpose, the loan should not be made.

The National Infrastructure Bank should NOT be:

(1) *A project equity investor.* Consistent with its lending focus, the NIB should primarily offer loans and loan guarantees at the project level, not project equity capital.

(2) *A substitute for existing infrastructure funding programs.* Rather, the National Infrastructure Bank should complement successful programs like loans under the Transportation Infrastructure Finance and Innovation Act (TIFIA), Private Activity Bonds, Build America Bonds and municipal bonds. It should act to leverage other public and private sector funding sources at the project level, and it should complement the traditional appropriations process, not replace it.

(3) *Focused solely on transportation.* Instead, it should make funds available for projects of regional or national significance in other qualified sectors such as energy, broadband, water and wastewater.

Finally, in order to achieve this mission, the National Infrastructure Bank must be properly structured.

In my view, the National Infrastructure Bank should be established as a wholly-owned government corporation, allowing it to serve a broad range of infrastructure sectors, such as transportation, energy and water. The NIB decision-makers must have the independence to make loan decisions based on project merit. Independence will permit faster, more transparent and objective project selection supported by detailed cost-benefit analysis.

It should be capitalized with equity capital that comes solely from the U.S. Federal Government via the U.S. Treasury. Funding its equity in this manner will avoid the problems seen with the Government Sponsored Enterprises, such as Fannie Mae and Freddie Mac, which are hybrid organizations chartered to be owned by private shareholders while benefiting from government sponsorship. By contrast, the National Infrastructure Bank should be fully owned by the Federal Government with no private shareholders.

In closing, creating a National Infrastructure Bank is an idea whose time has come. I don't think anyone disputes that our country's infrastructure needs are extraordinary. The NIB would mobilize the capital markets to fund new projects, leading to sustainable economic growth – and new jobs.

Again, Mr. Chairman, thank you for providing me with this opportunity to appear before the committee today to discuss my views, and I am happy to answer any questions you and other members may have.