

❖ **Executive Summary**

The infrastructure of finance sector in the US has recovered tremendously after the recession phase of 2007 to 2009. There are various investment avenues for investors and government to park the fund for short term or long term. Government has already announced stimulus packages for funding infrastructure projects. In this report we will discuss infrastructure industry in detail, highlighting opportunities of investment in buildings, road, airport, bridges and many other projects, government policies which are being followed by apex bodies, description of few major players in this industry. Finance lending companies are also dealt along with the future opportunities of growth of infrastructure sector in the US.

❖ **Market Survey**

United States of America's (U.S.A) basic infrastructure has gone obsolete, dilapidated and this has resulted to the inadequacy in meeting the demands in the global market in current scenario. United States has invested only 2.4% of GDP in infrastructure compared to countries like India and China who are spending approximately around 5% and 9% of their GDP respectively.

In order to remain competitive and growing among other countries, the US must get significant investments in roadways, bridges, waterways etc. A report by the Urban Land Institute (ULI) figures out that minimum of \$170 billion annual financing is required to build and restructure its obsolete infrastructure. According to the report by ULI, there is an emerging need of infrastructure funding to help America survive the competition from developing countries like India, China and United Arab Emirates and developed countries like United Kingdom, Japan, and the European Union.

The nation is typically financed by public sector instead of private sector, for transportation and water infrastructure. In order to have a long term economic growth, funds should be judiciously spent so that this spending of funds in infrastructure can help mitigate losses in employment of the nation.

Barack Obama, the president of United States, has proposed to announce at least \$50 billion dollar for transportation and infrastructure projects. It specifically calls for restructuring and rebuilding 150000 miles of roads, building and maintenance of 4000 miles of railways, improving and building 150 miles runways and new projects. The proposal of the president also includes a bank that will majorly help finance all the regional and national infrastructure projects.

There are various types of bonds that are issued by the private operators for the purpose of financing infrastructure in America, like Build America Bonds (BABs) and private equity bonds (PABs).The companies which have invested in infrastructure are Morgan Stanley which raised \$4 billion for its infrastructure fund, Kohlberg Kraveis Roberts (KKR), a private-equity firm which launched an infrastructure practice globally.

❖ Industry Report

The US infrastructure industry looks very depressing; it is far from meeting the demands of the public as its basic infrastructure is outdated, worn out and even failed. Thus, funding for new infrastructure is necessary as it will be a crucial investment for guaranteed future benefits.

Year	
1950-79	Investment and economic growth in investment, both grew together at the rate of 4.00% annually in core areas such as transportation, water management as well as electricity transmission.
1980-2007	Investment and economic growth fell together. Public investment declined considerably at an average rate of 2.3%.
2008-2010	Investments in infrastructure grew slowly along with an economic growth

Table 1: Investments and Economic growth rise and fall in Infrastructure

From table 1, we realize that between 1950 and 1979 the public investments grew at average annual rate of 4% in core areas of infrastructure such as transportation, water management and electricity transmission. The overall economic growth i.e. GDP was averaged at 4.1% during the same time.

Between 1980 and 2007 the investment declined to an average of 2.3%. There was also a decline in economic growth due to fall in GDP during that period. Again after the revival of the United States from depression there is an increase in investments.

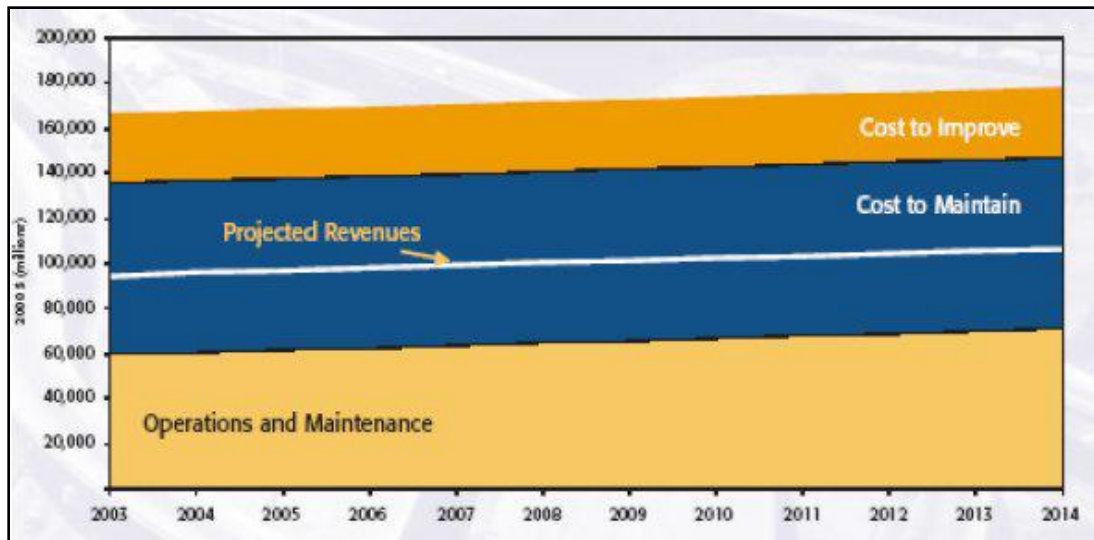


Figure 1: Projected revenues with investment requirements in the US Infrastructure

In figure 1, the revenues and capital required per year for infrastructure in transportation are being shown. From the figure it can be seen that the government required investments of \$222 billion in 2005 for operations and maintenance. This will increase up to \$295 billion every year by 2015. The revenue for the same is projected to be \$180 billion per year, which is \$42 billion short of what is required for national transportation network. Thus, cumulative deficits in returns would exceed more than \$1 trillion by 2015.

❖ **Ministries and Government Policies**

The American Recovery Act, 2009 was passed on 13th February, 2009 which has stated the following provisions:

- Capital investments in surface transportation infrastructure to remain \$1,500,000,000.
- The Secretary of Transportation shall dispense funds provided as discretionary grants to be granted to state and local government on project basis that will help the nation to grow.
- The amount available for the funding of improvement, restructuring, rebuilding, and reconstruction and for other various transportation projects should not be more than \$200,000,000. This amount should be used for paying subsidy and to pay administrative cost of the infrastructure project.
- It is also provided in the Act that the secretary of transportation may waive the minimum grant for funding the projects in cities, regions and states.
- Not more than 20% of the funds should be made available for the projects in a single state.
- Applications for the funding of a particular project should be made 180 days before the start of the project and the selection criteria of the projects needed for funding should be not beyond 1 year after the enactment of this Act.

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❖ Major players

1. Morgan Stanley

Morgan Stanley was founded in New York City in 1935. It is one of the largest financial institutions in the world. It provides different institutional services like investment banking, asset management services.

For more information, visit <http://www.morganstanley.com/>

2. Kohlberg Kraveis Roberts & Co

It is established in 1976, mainly focused on private equity finance having Headquarter in New York. KKR also provides services in asset management and capital markets. It provides finance to infrastructure through private equity. This mainly focuses on roads, railways, ports, airports, power and energy assets, communications networks.

For more information, visit <http://www.kkr.com/>

3. The Carlyle Group

It is a global asset management company established in 1887 having its Headquarter in Washington D.C. It provides services in 19 countries and manages \$97.7 billion investments. It mainly focuses on financial services and infrastructure and real estate finance.

For information, visit <http://www.carlyle.com/>

4. The Blackstone Group

The Blackstone group is established in 1920s. It has its Headquarter in New York having a turnover of \$884.2 million (Investments in real estate).

It focuses on alternative asset management services like private equity, real estate finance and closed end mutual fund business.

For more information, visit <http://www.blackstone.com>

5. Apollo

It is established in 1990 and has its Headquarters in New York. It mainly focuses on private equity, capital markets and real estate sector. It manages over \$57 billion assets in real estate funds, private equity, credit oriented capital markets and others as of September 2010. It has been serving financial industry from last 20 years.

For information, visit www.agm.com

❖ Opportunities

Most of the American infrastructure is outdated and investment is very inadequate to this infrastructural projects. There is a huge opportunity of investment in roads, bridges, water system and broadband infrastructure. The United States is lagged behind in infrastructure finance as compared to other developed nations. The US government is spending approximately 2% of GDP on infrastructure projects whereas China has been funding more than 9% of GDP on its infrastructure projects. According to the American society of civil engineers, the country will require over \$2 trillion for around next five years. The sources of infrastructure funding are under critical strains and inadequate for further financing. In the recession period many of infrastructure funds collapsed. The finance from state as well as

local government fell short of funding. The US government recognized the benefits of private sectors institutions. They were allowed for infrastructural finance in road, bridges, Airport development and many other infrastructure projects. Recent survey determined that the total need of water infrastructure for the next 20 years will exceed by \$202.5 billion.

Source: <http://www.affinigroup.com>