Oral Statement of Robert Dove

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"Rebuilding the Nation's Infrastructure: Leveraging Innovative Financing to Supplement Federal Investment"

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Surface Transportation Subcommittee

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Mr Chairman, Senator Blunt and other members of the committee, thank you for the opportunity to testify. I commend you and this committee for holding a hearing on such an important issue.

My name is Robert Dove and I am a Managing Director at The Carlyle Group. The Carlyle Group is a global, alternative asset manager with approximately $180 billion in assets under management.

I manage The Carlyle Group's Infrastructure Fund, referred to as Carlyle Infrastructure Partners. Carlyle Infrastructure Partners is a $1.2 billion fund that was raised specifically to invest in transportation and water infrastructure projects in the United States. Like most Carlyle funds, the Carlyle Infrastructure Partners fund was raised primarily with investments from large pools of capital. This includes state pension funds, private pension funds, insurance companies and family offices. I am here today to highlight the benefits of private capital in infrastructure financing and to illustrate how the federal government can facilitate access to private capital that is available and poised to improve our nation's ailing infrastructure.

More and more pension funds are recognizing that infrastructure, as an asset class, is an important part of their asset allocation. Internationally, including in Canada, pension funds allocate as much as 15% of their assets to infrastructure investments. The allocations in the United Sates are not as prevalent, but are growing. For example groups like CalPERs, the California State retirement Fund, have grown its asset allocation to infrastructure over the past 5 years. Pension funds are growing their allocation because they view infrastructure investments as long-term investments, and less volatile than other forms of investment. They also recognize that the risk of inflation can be mitigated because the infrastructure concessions often include a link to the consumer price index. For these recognitions, I expect that infrastructure investment allocations will continue to grow.

I would like to highlight one particular investment that our fund has made. In 2010 we reached agreement with the State of Connecticut to enter into a partnership to renovate and in some cases rebuild the 23 highway rest areas in the State. This is a good example of innovative financing and the creativity that is possible in a public-private partnership.

Carlyle is investing approximately $130 million in rebuilding and renovating the highway rest areas over the first five years of our concession. These investments will create approximately 375 additional jobs, and in total, the state is expected to see nearly $500 million in economic benefit from the redevelopment effort.

This project is a win for the state, a win for the taxpayer, and a win for the investor. The state and the taxpayer get to shift upfront costs and risks to the private sector. These risks include potential cost over-runs, missed deadlines, or missed project delivery dates. We are contractually bound to complete the rebuilds and renovation within the first 5 years of the concessions. Any cost over-runs are ours and not the States. In the meantime the State has preserved its bonding capabilities for other projects.

In return, Carlyle is free to develop the rest stops in an entrepreneurial manner to maximize consumer appeal. We've contracted with popular retail outlets in these centers, like Dunkin' Donuts and Subway. There are spacious and airy eating areas as well as free internet for travelers. As a result, we are seeing an increase in customer flow from delivering better, more desirable services.

As a part of our contract, we have also agreed to share with the State our revenues above certain predetermined thresholds. Under this partnership the State benefits financially from our success. We believe alignment with the different stakeholders is an important consideration in creating public private partnerships.

If the federal government were to set up an infrastructure financing authority, local infrastructure investment like this would increase, bonding authority would be reserved and risk would be moved to the private sector.

We need to face the reality that both federal and local governments are operating under ever-growing budget constraints. A federal financing authority is a way to tap into innovative financing and renew infrastructure investment.

In my view, the infrastructure financing authority should operate in addition to current federal investment, not instead of current federal investment. Our goal should be to expand the pool of overall capital, not replace the Highway Trust Fund.

(pause)

Mr. Chairman, although I have lived in the United State for over 30 years, you can tell from my accent that I was not born in the United States. Being from the United Kingdom, I have had the opportunity to directly observe a working infrastructure bank in Europe, and I believe we can learn from their experience.

The European Investment Bank (EIB) provides loans and makes guarantees that are expected to be repaid or extinguished. The EIB lends money for long periods -- sometimes as much as 40 years -- at a low interest rate and, in doing so, provides capital that allows other participants, both commercial banks and private sector equity investors, to participate in a project that would otherwise struggle to obtain financing.

Importantly, the lending of the EIB is driven by the government, but the actual credit decisions on specific loans and guarantee proposals presented to the bank are determined by a professional staff operating independently within the bank.

Like the EIB, any U.S. infrastructure financing authority should be independent to determine the creditworthiness of proposed projects. Congress should give direction on what infrastructure should be built: roads, bridges, rail, water treatment facilities, etc., but the financing authority should be free to make independent financing determinations based on a thorough, case-by-case review of proposed projects.

It is my view that the stark reality here is that if we don't find a way to stimulate private financing, our nation's infrastructure will continue to decline. The growing interest by pension funds and other pools of capital that are looking to invest in infrastructure will go where the investment opportunities are whether it be airports in the UK or ports in Latin America or roads in Australia.

Mr. Chairman, you are at an important crossroads in this committee and I applaud you for exploring an infrastructure financing authority. At a minimum, you are changing the debate from "how much to fund" infrastructure to "how to create more funding". This is an important shift and I applaud your work.

Thank you for your time today and I will be happy to answer any questions.