"Infrastructure Investment." Pp. 13-15 in K. Chapple and R. Giloth, eds., Big Ideas for Job Creation: A Policy Briefing Highlighting Job Creating Initiatives (Berkeley and Baltimore: University of California, Berkeley and Annie E. Casey Foundation: 2011). With S. Bernstein.

Jobs Idea #4
Infrastructure Investment

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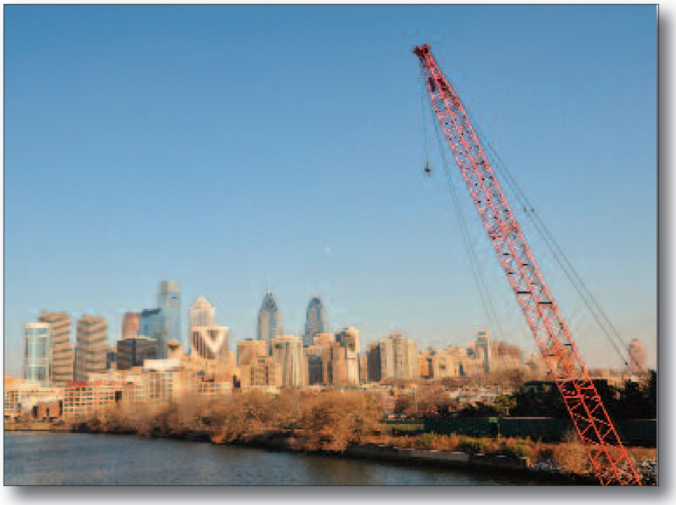
Problem Statement:

America's physical infrastructure is in poor condition or obsolete. Investment yields returns in terms of the efficiency, equity and sustainability of places, and also has immediate and longer-term employment benefits. But there is little will to upgrade infrastructure, uneven local public capacity to manage improvements and institutional barriers to making public investments.



What's the Big Idea?

Private involvement in infrastructure projects can provide speed, competence and a welcome disruption from the existing models of infrastructure finance. The idea is to use private capital in infrastructure projects, under public guidance and performance terms. Projects will function essentially as public utilities, paying for private capital by putting a monetary value on infrastructure's direct service and networked "externalities" and charging its costs to beneficiaries of both.

To achieve this, it will be necessary to build new institutions and strengthen the capacity of local government to enable such projects, meaning first, the capacity to initiate, design, bargain over, monitor and enforce the terms of infrastructure projects combining different types of capital and revenue streams, and second, the capacity to enlist public acceptance of these projects on transparent terms. Finally, to capitalize on private involvement, we will need to remove dysfunctional restrictions on state and local governments and instead reward competence and accountability.

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How Does This Create Jobs?

Infrastructure projects create jobs both through the direct or indirect labor required for their production (and the "induced" jobs from labor's later spending of income from that) and through the increased economic activity they enable. The first results from a project's labor intensity and depends on delivery speed (e.g. ARRA-funded mass transit investments generated twice as many direct jobs-per-dollar as highway projects both because they were more labor intensive and more "shovel-ready"). Job creation via economic impact may be much bigger. Construction of the Interstate Highway system, for example, generated many jobs, but more importantly stimulated major economic activity. Though place-based infrastructure investments may simply shift job activity from one location to another, they also create economies of scope and agglomeration that may generate compensating job growth. A recent example of both is the Twin Cities Hiawatha Light Rail Line, completed in the early 2000s. Employment growth along the line has been twice that of the greater metro area, while household costs-of-living in the most efficient transit zones have been 5 to 10 percent lower than the regional average.

Los Angeles and Chicago both have projects that use public authority, popular support, private capital and new local institutions to build high-road infrastructure.

Case Study A: LA 30-10

LA 30-10 is an ambitious effort to complete a mammoth upgrade of the city's transit system — with 12 new transit lines, 60 new stations and associated road improvements, at least 160,000 construction jobs covered by community benefit agreements guaranteeing targeted local hires, and high hopes for mixed-use, transit-oriented development — in a third the normal time.

Measure R, a 2008 county-wide ballot initiative, passed a dedicated 30-year half-cent sales tax which, over its full run, will cover the full costs of this project during its expected "business-as-usual" completion time. Accelerating that completion however, required more immediate capital. To raise it, LA first successfully competed for a credit enhancement grant from the U.S. Department of Transportation, enabling lower-cost financing; then successfully applied for a low interest loan from the federal government; and then created a new nonprofit entity to issue bonds for private investment, pledging the sales tax revenue of Measure R as security for revenue bonds on the first sub-project of the upgrade (a new light rail line connecting South Central LA to more job-rich parts of the region). LA has also asked federal authorities for help in reducing regulatory roadblocks to realizing LA 30-10's local hiring and other equity goals.

This model of federal-local government cooperation — getting public buy-in, sharing risk, working together to clear the regulatory underbrush, and making intelligent and equity-promoting use of private capital to leverage limited public funds — has prompted 120 cities to join LA in advocating for its use under the banner "America Fast Forward."

Case Study B: Chicago Energy Savers

Chicago's *Energy Savers* program was created to provide one-stop information, contracting, and financing services for retrofitting older apartment buildings to reduce energy costs. Utilities, state and local government, and foundations together capitalized a revolving loan fund housed at a local community development financial institution, the Community Investment Corporation. The Center for Neighborhood Technology provides energy audit, contractor certification and management services.

In just two years, 6,342 apartments in 200 buildings were retrofitted, achieving a 30 percent utility bill reduction for less than $2,500 per dwelling unit. An investment of $15.8 million resulted in 170 direct construction and program jobs, or 10.75 jobs for every $1 million invested. This performance helped the Chicago region successfully compete to manage Energy Impact Illinois, one of 41 local "Better Buildings" initiatives co-funded by the U.S. Department of Energy. Energy Impact then used its $25 million federal award to leverage an additional $125 million in private capital commitments.

In this model, everyone wins. Government gets high-performing, private-sector leverage; landlords and creditors get more stable rent and loan repayments; energy utilities avoid unnecessary capital expansion or purchases (which is why Illinois and other states have passed laws that help scale this model further); and community members get better jobs and lower energy bills.

What Are the Barriers?

Local governments typically lack the expertise needed to structure and design privately-financed infrastructure, or local leaders hesitate to enlist public support for such projects on democratically accountable terms. Federal and state rules discourage the efficient combination or leverage of public funds, and it is difficult to assemble dedicated revenue sources that satisfy market analysts, rating agencies, regulators, and financial services underwriters.

Regulatory endorsement of the legacy business models for existing utility and government service providers is another barrier. Unlocking the value of urban efficiencies requires new business models: decentralized vs. centralized resource generation, networked vs. stand-alone services, demand-reduction vs. supply-increase value strategies.

While the number of revenue-generating public and private efforts now using these new models is growing — in energy efficiency, distributed transportation, recycling and materials recovery and stormwater management — these are still the exception.

How Can This Policy Be Implemented?

Leveraging private investment for infrastructure upgrades usually requires political or institutional protection in three forms:

1) Capacity assessments and compensating technical assistance to local and state governments;

2) A federal risk-sharing partner that can attract private capital, and federal and state relief from unreasonable rules that slow or prevent deals; and

3) Support for joint learning and advocacy among leaders, so they can more effectively partner with the federal government, business and community in developing a national infrastructure strategy.

The first element provides the intelligence and will, the second the way, the third the weight to implement this strategy at national scale.

Conclusion

Quicker and more effective infrastructure improvement will increase employment, but it requires joining public and private capital. We should support cities and states with technical assistance, financial support, and regulatory incentives, and welcome them as partners in improving America's infrastructure strategy.