Of all the challenges facing New York and the nation, few are as pressing as the dire condition of our roads, bridges and other transportation infrastructure. The tally of unmet needs locally is long and getting longer – deteriorating roads from Buffalo to Long Island; a New York City energy grid that teeters on the brink during heat waves; a slow-speed rail system that is failing to keep pace with the rest of the world; and vital bridges like the Tappan Zee that are in desperate need of repair. And yet, as former Lieutenant Governor Richard Ravitch pointed out in a November 17, 2010 report, New York State “has no credible strategy for meeting future needs” when it comes to repairing and upgrading its public infrastructure. The stakes, Ravitch added, could not be higher: “Avoiding this obligation means surrendering any plausible chance for a prosperous future for New York.”

One promising solution to address these looming infrastructure needs — and to assure a more prosperous future -- is the establishment of a national, regional or state infrastructure bank. Infrastructure banks use government dollars in the form of loans, tax credits, insurance, guarantees, bonds or direct subsidies to leverage much larger sums of private capital to invest in public works. The results are carefully structured public private partnerships (P3’s) that harness a combination of private lending and public financing to produce public goods that are national or regional priorities.

The infrastructure bank model offers several key advantages. In particular, it enables a merit-based system of project selection. Projects are judged based on their ability to do the greatest good for the greatest number of people, regardless of geographical or political boundaries. A national, regional or state infrastructure bank would supplement the current system of Congressional funding streams for infrastructure mega-projects, not replace it. But by insulating certain projects from the ebb and flow of politics, an infrastructure bank could provide a stable investment environment for the private sector and guard against fluctuations in funding due to political factors. The decision by New Jersey Governor Chris Christie to cancel the proposed ARC tunnel under the Hudson River — and forgo more than $3 billion in federal transportation funding — is a recent example of a major infrastructure project that was undone by a change in administrations.

This approach to infrastructure — using small amounts of government money to leverage substantial sums of private sector money to achieve important social objectives — has worked successfully internationally for decades. But the idea has never gained any real traction in the White House — until now.

In a December 4, 2009, memo by the President's Economic Recovery Advisory Board (PERAB), the Obama Administration outlined a broad vision for a national infrastructure bank, noting that “the goal of the Bank is not to displace existing infrastructure spending. It is to help garner additional funding for worthy projects that would not otherwise be undertaken.”

More recently, President Obama has followed through on this vision, proposing the creation of a National Infrastructure Bank capitalized with $30 billion in initial funding over a six year period in his Fiscal Year 2012 Budget.2

1http://www.whitehouse.gov/sites/default/files/microsites/091204_perab_infrastructureMemo.pdf
2http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/transportation.pdf
On February 9, 2011, Treasury Secretary Timothy Geithner spoke at length about the administration’s vision. The national infrastructure bank will “select projects on the basis of rigorous analysis,” Geithner explained. The Bank would evaluate and fund projects that generate the best return on investment, leverage private capital, and promote increased transportation options. Geithner argued that infrastructure investment has a profound ripple effect on the overall American economy. As an example, he said that upgrades and additions to the New York City subway system allow millions to “get to work faster, increasing their productivity and quality of life by decreasing the amount of time lost to commuting.” But it also means that “the far-away Kawasaki plant in Lincoln, Nebraska that manufactures the subway cars will increase production, putting Nebraskans to work.”

The Problem: Our Aging Infrastructure

On a statewide level, New York will have to make difficult decisions to address the operation and upkeep of its transportation, energy, water, and hazardous waste infrastructure. The 2010 Ravitch report projected capital needs of $175 billion for New York’s current network of roads and bridges, and up to $140 billion for New York’s public transit operators over the next twenty years.

More locally, New York City has enormous infrastructure needs. One category in particular – bridges and overpasses – illustrates the daunting challenge that the City faces in the years ahead. According to New York State Department of Transportation data published by the Wall Street Journal, some 66 percent of New York City bridges and overpasses are classified by the New York State Department of Transportation as either not meeting modern design standards or having structural deficiencies. Neither category means a bridge is unsafe.

### Figure: 1

#### Spanning a Growing Gap

Percentage of bridges, including smaller spans like overpasses, that either don’t meet modern design standards or have structural deficiencies. Neither category means a bridge is unsafe.

<table>
<thead>
<tr>
<th>City</th>
<th>Total</th>
<th>Functionally obsolete</th>
<th>Structurally deficient</th>
<th>Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhattan</td>
<td>246</td>
<td>79%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>237</td>
<td>67%</td>
<td>14%</td>
<td>19%</td>
</tr>
<tr>
<td>Bronx</td>
<td>315</td>
<td>58%</td>
<td>18%</td>
<td>24%</td>
</tr>
<tr>
<td>Queens</td>
<td>485</td>
<td>64%</td>
<td>7%</td>
<td>29%</td>
</tr>
<tr>
<td>Staten Island</td>
<td>158</td>
<td>66%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Nassau</td>
<td>323</td>
<td>64%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>Suffolk</td>
<td>364</td>
<td>54%</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>Westchester</td>
<td>763</td>
<td>45%</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>Rockland</td>
<td>234</td>
<td>37%</td>
<td>55%</td>
<td></td>
</tr>
</tbody>
</table>


### Figure: 2

#### Capital Budget Repair Work

Source: Citizens Budget Commission, April 22, 2010.

3http://online.wsj.com/article/BT-CO-20110209-713183.html
As a 2010 Citizens Budget Commission analysis noted, the City’s capital investments in infrastructure have gone up in recent years, with large commitments for school buildings, water treatment and delivery and transportation infrastructure. Nonetheless, the City is facing a substantial maintenance backlog in order to bring all major infrastructure to a state of good repair. Please see Figure 2, “Capital Budget Repair Work.”

From a national perspective, the situation is also bleak. According to the American Society of Civil Engineers, an estimated $2.2 trillion in infrastructure investment is necessary to bring our nations roads, bridges, tunnels and other crucial infrastructure to an acceptable state of repair. As other nations rapidly invest in high speed rail, broadband access and renewable energy, the United States has fallen behind as our airports, water systems and school buildings decay. Beyond the issue of global competitiveness, investments in infrastructure produce tens of millions of new jobs in the construction industry and create a multiplier effect that benefits the entire economy.

A Solution: Infrastructure Banks

On January 24, 2011, Representative Rosa DeLauro (D-CT), together with Representative Steve Israel and others, introduced the National Infrastructure Bank Development Act of 2011 (H.R. 402). Modeled after legislation introduced in previous sessions, the H.R. 402 outlines the main elements of a National Infrastructure Bank.

According to the bill, a national infrastructure bank would be structured in the following manner: The President, with the advice and consent of the Senate, would propose a five member Board of Directors. The Bank’s Board of Directors would be responsible for monitoring and overseeing energy, environmental, telecommunications, and transportation infrastructure projects. Below the Board would be a 19 member executive committee, a five member risk management team and a five member audit team.

According to Representative Rosa DeLauro, who has introduced similar legislation in previous sessions of Congress, the Bank would select projects with “clear economic, environmental and social benefits, such as a transportation project’s ability to reduce congestion, a water project’s health benefits, or an energy project’s ability to reduce carbon emissions.”

At the same time, a dozen states have already established their own infrastructure banks, and it may be that this state-level approach represents the best path forward for New York. The models and best practices of these twelve states can provide a useful road map for any state looking to establish or expand its own infrastructure bank.

One relevant example is the California Infrastructure and Economic Development Bank (I-Bank).

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http://online.wsj.com/article/SB100014240527000004576144421379307838.html
http://www.baruch.cuny.edu/realestate/resources_links/state_infrastructure_bank.aspx
Established in 1994, the California I-Bank has broad powers to issue bonds, make loans, and provide credit enhancements for a wide variety of infrastructure and economic development projects.\(^\text{11}\) The I-Bank’s operations are funded solely by fees, interest earnings, and loan repayments and it supports infrastructure projects in sixteen eligible categories, including transportation, water and wastewater.\(^\text{12}\) The California I-Bank also incorporates strict criteria to ensure that the projects it funds help promote equity, strengthen the economy, protect the environment, and promote health and safety.\(^\text{13}\)

There are also lessons to be learned from the California experience; most notably that appropriations for an infrastructure bank’s seed money should be safeguarded. Since its creation in 1994, the California I-Bank received $475 million in total funding. However, $277 million was later recaptured by the State to address residual effects of the dot com bubble burst.\(^\text{14}\) The remaining $162 million has since been leveraged to create some $400 million in infrastructure projects.\(^\text{15}\) As New York considers its future, the security of infrastructure bank capital should be given high priority to avoid a similar outcome.

Notable projects supported by state infrastructure banks include waste water plant upgrades, road and utility improvements in California,\(^\text{16}\) airport improvement projects and new transit centers in Pennsylvania,\(^\text{17}\) and structural rehabilitations of the Cayahoga River viaduct in Ohio.\(^\text{18}\) Please see Figure 3 for a breakdown of some notable projects supported by infrastructure banks in these three states.

In January 2011, New York State Senator Martin Malave Dilan introduced Senate Bill 1654, which would establish a New York State Infrastructure Development Bank with an initial appropriation of $250 million. The bill does not yet have a sponsor in the New York State Assembly. Please see Figure 4 for a broad overview of the potential powers and capabilities of a New York State Infrastructure Bank, based on existing state models.

\(^\text{11}\)http://www.ibank.ca.gov/
\(^\text{12}\)http://urbanland.uli.org/Articles/2010/Nov/MacCleeryLessons
\(^\text{13}\)Ibid
\(^\text{15}\)Ibid
\(^\text{16}\)http://www.ibank.ca.gov/res/docs/pdfs/Programs_Fact_Sheet.pdf
\(^\text{17}\)http://www.dot.state.pa.us/permdot/bureaus/pib.nsf/report?readform
Moving Forward
Advocating for increased and sustained infrastructure investment in general is an important beginning, but by itself is not enough to attract the attention and action of private and institutional investors. A serious public discussion should begin and should weigh how infrastructure banks could be established at the national, regional or state levels and – once formed – how could they be used to advance specific infrastructure sectors. At a minimum, this discussion should answer:

- What projects should a new infrastructure bank focus on first?
- How can public and private pension funds participate?
- How can we maximize workforce opportunities for future infrastructure projects?
- What is required to lure private sector interest?

The paragraphs below begin this conversation, focusing on four key issue areas.

Infrastructure of the Future: Clean Energy
In his 2010 State of the Union speech, President Obama touted the economic benefits of clean energy investment, noting: “China is not waiting to revamp its economy. Germany is not waiting. India is not waiting. [They recognize that] providing incentives for energy-efficiency and clean energy are the right thing to do for our future – because the nation that leads the clean energy economy will be the nation that leads the global economy. And America must be that nation.”

Investments in clean energy infrastructure are widely believed to foster substantial economic benefits. McKinsey & Company published a July 2009 report estimating that a $290 billion investment in energy efficiency measures over the next decade could create up to 750,000 new jobs. This, however, is just the low hanging fruit. Expanding the availability of electric vehicle charging stations, modernizing the power grid, and finding creative solutions to harness new sources of renewable energy are just a few potential priorities that a national, regional or state infrastructure bank could tackle.

Looming clean energy issues that must be sorted out include: What are the most feasible clean energy options in New York City, given the unique challenges posed by the geography and building stock? What will be the impact on the City’s electrical grid if the Indian Point Nuclear Energy Center goes offline? What impacts

The Case for an Infrastructure Bank:
We need projects that meet national economic objectives, not local political ones.

by Felix G. Rohatyn

President Obama has proposed a program to renew and expand America’s infrastructure. Central to the president’s plan is the creation of a permanent, national infrastructure bank that could leverage private capital for projects of regional and national significance. Hopefully members of Congress will make jobs and the economy their priority and support its establishment.

A national infrastructure bank could begin to reverse federal policies that treat infrastructure as a way to give states and localities resources for projects that meet local political objectives rather than national economic ones. The bank would evaluate prospective infrastructure projects on consistent terms. It would be able to negotiate with state or local sponsors of a project what their cost shares should be. The bank also could help groups of states come together for regional projects such as high-speed rail and better freight management. Such consolidation would improve project selection.

The bank also could ensure that states and localities consider all other options—from wetlands preservation to implementing tolls—before structural options are funded. It would create an avenue for private investors to put risk capital into new projects and bless their involvement with the bank’s own participation. In short, it would treat infrastructure like a long-term investment, not an expense.

have events such as the 2003 northeast black-out and the 2010 summer heat wave had on clean energy expansion in New York City and the region?

Infrastructure of the Future:
Transportation and High Speed Rail
When he announced a $26 billion investment in BNSF railway, the country’s second largest railroad, Warren Buffet characterized the transaction as an “all-in wager on the economic future of the United States. Our country’s prosperity depends on it having an efficient and well-maintained rail system.” Buffet’s investment is in line with a percolating new recognition that U.S. rail infrastructure – passenger and freight – must be modernized and expanded in the coming years and decades. Prior to Buffet’s investment and the attention that he brought to this issue, Representative Jerrold Nadler has also been a longstanding advocate for increasing New York’s passenger and freight rail capacity.

The Obama Administration shares this view, having recently proposed $53 billion in spending on passenger rail over the next six years. However, the administration’s proposals have not been fully embraced. House Transportation and Infrastructure Committee member Representative John L. Mica (R-Florida) has expressed “extreme reservations.” Meanwhile, Florida Governor Rick Scott has declined $2.4 billion in planned federal funding for high speed rail despite protests from within his own party—money that New York Senator Kirsten Gillibrand has now asked Transportation Secretary Ray LaHood to redirect to New York State for its own high-speed rail projects.

Outstanding questions in this issue area include: What is the future of regional transportation in New York and the United States? What will be the role of regional freight rail and high speed passenger rail? What can we learn from recent rail expansions in Europe and Asia? What barriers to rail expansion does the United States still need to clear?

Private and Pension Investments
for the Public Good
A cornerstone of the infrastructure bank concept is the promotion of reinvestment through a series of public private partnerships (P3s). This approach allows for a significant new role for private investors, pension funds and even sovereign wealth funds.

Questions have been raised about how P3s should be structured to ensure that public priorities are not sacrificed for...
private interests. A January 2011 report issued by New York State Comptroller Thomas DiNapoli identifies four financial risks associated with infrastructure P3s: (1) Failure to identify the full value of public property; (2) unfavorable pricing mechanisms; (3) unrealistic expectations; and (4) poorly drafted agreements and budget gimmicky. Michael Likosky, author of Obama’s Bank – Financing a Durable New Deal, suggests that P3’s can be structured with strong accountability, transparency and public participation provisions, such that the pitfalls identified by Comptroller DiNapoli can be avoided.

Pertinent questions that require additional public dialogue include: What is the role of pension funds? How can public private partnerships be used to their highest potential? What needs to be done to attract private capital to infrastructure so that it is a win/ win from the public and private perspectives? How can P3’s be structured to maintain acceptable levels of government control over processes and assets?

Building for Better Jobs

Job creation is one of the obvious benefits of infrastructure spending. The President’s Economic Recovery Advisory Board (PERAB) has noted that “$1 of infrastructure spending boosts gross domestic product by $1.59.” Additionally, President Obama highlighted the impact that infrastructure investment has on job creation in his most recent State of the Union speech, saying: “We'll put more Americans to work repairing crumbling roads and bridges. We'll make sure this is fully paid for, attract private investment, and pick projects based [on] what's best for the economy....”

Treasury Secretary Timothy Geithner has been making similar pronouncements. According to Geithner, “80% of jobs created by investing in infrastructure will likely be created in three occupations – construction, manufacturing, and retail trade – which are among the hardest hit from the recession. Nine out of 10 jobs created in these three sectors pay middle-class wages.”

Lingering issues surrounding jobs and infrastructure banks include: What are the immediate economic impacts that sustained infrastructure investment will have on the construction and building trades industries? How many cents of every infrastructure dollar go back into these construction and building trade industries? What are the residual economic impacts for other industries not directly affected by infrastructure construction? What would be the short-term fate of the construction and building trade industries if we do not immediately begin to invest in infrastructure?

Conclusion

It is clear that the United States must begin a period of sustained infrastructure investment in order to kick start the national economy, maintain global competitiveness and keep existing infrastructure in good working order. National, regional and state infrastructure banks can afford the opportunity to achieve this goal in cooperation with private sector partners.

By leveraging the private sector with public funds, infrastructure banks will allow for the greatest possible growth and shared responsibility across private and public spheres. Profitability is also a critical factor that can be successfully realized.

This is a concept whose time has come and which deserves serious consideration. Completed applications of the concept in other regions of the country is further proof to consider. At stake is the vitality of the nation, the region, the state and the city.

Endnote: This paper addresses infrastructure needs in the built environment. Other important kinds of infrastructure include our education systems and the intellectual capital they produce.
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