

# BANKING ON THE FUTURE

Post-Conference Report



October 2011



Office of the Manhattan  
Borough President

**Scott M. Stringer**  
Manhattan Borough President



THE STEVEN L. NEWMAN  
REAL ESTATE INSTITUTE

Baruch COLLEGE 





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Dear Friend,

Enclosed please find a follow-up report to “Banking on the Future,” an important, day-long symposium jointly hosted last March by Manhattan Borough President Scott M. Stringer and the Steven L. Newman Real Estate Institute at Baruch College / CUNY.

This post-conference report provides a critical update to the policy and politics of national and state infrastructure banks in the context of current debate around the size of the U.S. deficit and the Obama administration’s proposed stimulus measures. The report also highlights key aspects of the engaging discussions that occurred at the conference. These conversations focused not just on infrastructure banks, but also on clean energy, transportation and high-speed rail, private and pension investments in infrastructure and job creation. Additionally, the report makes a series of recommendations that build upon the many innovative ideas advanced at the “Banking on the Future” conference.

It is our sincere hope that you will use this report as an important resource as New York and the rest of the nation grapples with how to repair existing infrastructure while also expanding to address future needs.

**Scott M. Stringer**  
Manhattan Borough President

**Jack S. Nyman**  
Director  
Steven L. Newman Real Estate Institute  
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## Banking on the Future – Post Conference Report

On March 14, 2011, Manhattan Borough President Scott M. Stringer hosted a conference called “Banking on the Future – A New Paradigm for Rebuilding our Nation’s Infrastructure” at Baruch College’s William and Anita Newman Conference Center. The event was created in partnership with the Steven L. Newman Real Estate Institute at Baruch College and hosted 300 attendees with a variety of professional backgrounds including finance, labor, transportation, energy and government.

The conference served as a platform to bring together notable experts and thought leaders to broadly examine concepts related to national, regional and state infrastructure banks. Borough President Stringer called on conference participants and attendees to discuss solutions and an action plan for creating a national or state infrastructure bank to address the problems facing our nation’s infrastructure.

Speakers featured at the conference’s plenary session included former Pennsylvania Governor Ed Rendell, Representative Steve Israel (D-NY), Representative Jerrold Nadler (D-NY), Representative Rosa DeLauro (D-CT), Executive Director of the Port Authority of NY/NJ Chris Ward, Ber-

nard Schwartz, chairman and CEO of BLS Investments, and Felicity Gates, co-head of Citi Infrastructure Investors. The plenary session was moderated by Mitchell Moss, Director of the Rudin Center for Transportation Policy and Management at New York University.

Following the plenary session, four breakout sessions focused on specialized infrastructure issues. These breakout sessions included discussions on clean energy, transportation and high speed rail, private and pension infrastructure investments, and jobs and labor.

This report summarizes conference proceedings, reviews selected infrastructure bank and finance models that have already been implemented in areas around the world, and sets forth seven solution-oriented recommendations to help continue the conversation on rebuilding and expanding infrastructure in New York City, New York State and the United States.

More information about the conference can be found online at: <http://www.libertycontrol.net/uploads/mbpo/infrastructureprogramfin.pdf>.

## Background

As the United States comes to grips with recent debt ceiling legislation that will reduce government spending by some \$2 trillion,<sup>1</sup> it is becoming apparent that national and state infrastructure banks may offer new and cost efficient options for financing America's transportation, water, energy, cyber and social infrastructure. The deficit reduction agreement passed by Congress and signed into law by President Barack Obama on August 2, 2011 will put enormous pressure on government spending across all levels of government – federal, state and local. Although a clearer picture of the government cuts will not materialize until late 2011, it is certain that fewer resources will be available to fund scores of worthy programs, including infrastructure.

The construction of robust and reliable infrastructure networks is what gave the United States its competitive edge in the 20th Century. The nation's network of roads, bridges, tunnels and rails created jobs and provided advantages to American businesses unmatched anywhere else in the world. Simply put, infrastructure is the core of the American economy.<sup>2</sup>

However, the tide is turning. As professor Michael Likosky noted in a July 2011 New York Times op-ed titled "*Banking on the Future*": "While we have channeled capital into wars and debt, our competitors in Asia and Latin America have worked with infrastructure banks to lay a sound foundation for growth. As a result, we must compete not only with their lower labor costs but also with their advanced energy, transportation and information platforms, which are a magnet even for American businesses."

The United States is investing in infrastructure at the same inflation adjusted levels as it was in 1968, while China and Europe are dedicating substantially larger shares of their gross domestic product (GDP) to infrastructure maintenance and expansion.<sup>3</sup> Even the American Recovery and Reinvestment Act, a recent federal stimulus plan that pledged to support scores of "shovel ready" infrastructure projects, dedicated only six percent of its total \$787 bil-

lion to actual infrastructure work.<sup>4</sup> With other countries investing in infrastructure at a breakneck pace, the United States risks losing its competitive edge to developing nations like Brazil, Russia, India, and China.<sup>5</sup> Indeed, U.S. infrastructure now ranks 23rd out of 139 nations surveyed in a recent World Economic Forum competitiveness report.<sup>6</sup>

Investments in infrastructure are proven job creators in the construction industry and an important source of middle class wages in the U.S., with spill over effects that spread across most other economic sectors. Projections for the precise number of jobs created vary, but estimates range from 30,000 to 34,000 jobs for every \$1 billion in infrastructure spending.

New York City is a shining example of how infrastructure investments create prosperous and productive urban environments. However, without proper maintenance, modernization and expansion, these investments can rapidly deteriorate and cause significant collateral damage to the City's economy, quality of life and competitive position. When the City turned its back on the capital upkeep of the New York City subway system in the 1970's, the negative impacts resonated for years. Even today, despite billions of dollars spent by the MTA on capital projects, scores of subway stations are in a state of disrepair.

With 66 percent of New York City bridges and overpasses rated as "functionally obsolete" by the New York State Department of Transportation and another 11 percent rated as "structurally deficient";<sup>7</sup> an MTA capital plan that will see debt service payments surge to over one fifth of the MTA's operating budget while leaving the City with an antiquated transportation system;<sup>8</sup> and Indian Point – the source of up to a quarter of the City's electricity – potentially coming off-line just a few short years from now;<sup>9</sup> the need to develop a long-term strategy for meeting New York City's enormous infrastructure needs cannot be understated.

4 [http://cicnysb.firstdaystory.com/atf.php?sid=1385&current\\_edition=2010-04-01](http://cicnysb.firstdaystory.com/atf.php?sid=1385&current_edition=2010-04-01)

5 <http://www2.goldmansachs.com/ideas/brics/book/BRICs-Chapter9.pdf>

6 [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2010-11.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf)

7 <http://online.wsj.com/article/SB10001424052748703584804576144421379307838.html>

8 [http://www.tstc.org/press/2011/072711\\_NY\\_statement.html](http://www.tstc.org/press/2011/072711_NY_statement.html)

9 <http://www.nytimes.com/2011/06/29/nyregion/cuomo-emphasizes-aim-to-close-indian-point-plant.html>

1 <http://www.nytimes.com/interactive/2011/07/22/us/politics/20110722-comparing-deficit-reduction-plans.html?ref=politics#panel/11th-hour-deal>

2 June 8, 2011 speech by Senator John Kerry: <http://www.youtube.com/watch?v=vZGOqA335pM>

3 <http://economix.blogs.nytimes.com/2011/06/03/the-virtues-of-investing-in-transportation/>

## What are Infrastructure Banks and Public Private Partnerships?

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 facilitates financeable projects which generate sufficient revenues to provide a return on investment, thereby attracting new sources of private capital.

A national, regional or state infrastructure bank would only supplement the current system of Congressional funding streams for infrastructure mega-projects, not replace it completely. However, 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.

This approach to infrastructure – using government money to leverage substantial sums of private sector money to achieve important social objectives – has worked successfully internationally for decades.<sup>10</sup>

New York State Comptroller Thomas DiNapoli offers a sobering explanation for why New York State must now consider public private partnerships for major infrastructure projects. In a January 2011 report, DiNapoli notes that “one of the main reasons that P3 agreements are under consideration at present is that New York State has engaged in poor financial practices for decades – by pushing current expenses into the future, using dedicated capital project resources for current operating expenses, and borrowing far more than it can reasonably afford.”<sup>11</sup>

The good news is that private capital for infrastructure is abundant. According to a recent report issued by Sphere

10 The pre-conference white paper can be accessed at: [http://www.baruch.cuny.edu/realestate/pdf/H7656\\_BaruchBankingFutureWhtPaper.pdf](http://www.baruch.cuny.edu/realestate/pdf/H7656_BaruchBankingFutureWhtPaper.pdf)

11 <http://www.osc.state.ny.us/reports/infrastructure/pppjan61202.pdf>

Consulting LLC, there is an estimated \$250 billion in global private funding available for infrastructure P3's – a 40 percent increase from just one year ago.<sup>12</sup> The report estimates that this initial amount can be leveraged to a value of \$650 billion and can create 1,875,000 jobs over ten years.

The report also identifies 49 pension funds with \$38 billion in available funds that have expressed an interest in infrastructure investment. Many view pension dollars as a largely untapped stream of funds that could be safely and effectively directed toward equity investments in infrastructure. Indeed, it should not be forgotten that in the 1970's New York City's unions saved the City from bankruptcy by investing hundreds of millions in pension dollars in Municipal Assistance Corporation bonds. Now, close to four decades later, unions may be in a position to save the City again with the right mix of commitment and innovative thinking.

A combination of financing models will be required to ensure adequate levels of maintenance and expansion to New York City's vast urban infrastructure. National and State infrastructure banks can help address some of New York's regional and local challenges. Congressional earmarks and federal funding streams such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) should have a continued role in funding major infrastructure projects as well. A pension investment model such as Borealis, the infrastructure investment arm of the Ontario Municipal Employees Retirement System (OMERS), should also be considered as an approach with enormous potential.

Each major infrastructure project must be tailored to the most practical model based on project scope, costs and other considerations. While the specific path forward for expanding and repairing American infrastructure remains open to discussion and debate, it is clear that New York City and the rest of the nation can no longer afford to sweep these vast needs under the rug. Our position as a global economic leader is at stake.

12 [http://www.politico.com/static/PPM170\\_110816\\_investmentinfrastructure.html](http://www.politico.com/static/PPM170_110816_investmentinfrastructure.html)

# Proposed Infrastructure Finance Models

## The Obama Bank

President Obama initially proposed the creation of a \$30 billion infrastructure bank in his FY 2012 budget designed to “encourage private, State, and local entities to invest capital in projects that are most critical to our economic progress,” based on “clear analytical measures of performance, competing projects against each other to determine which will produce the greatest return for American taxpayers.”<sup>13</sup>

However, in an address to the nation delivered on September 8, 2011 President Obama proposed a new infrastructure bank model as part of the American Jobs Act. According to a White House press release, the Obama infrastructure bank would be modeled after proposals introduced by Senators John Kerry (D-MA) and Kay Bailey Hutchison (R-TX) and would include input and ideas from Representative Rosa DeLauro. The bank would be initially capitalized with \$10 billion.<sup>14</sup> Both congressional proposals are described below.

## The BUILD Act

On March 15, 2011, one day after the “Banking on the Future” conference, Senators Kerry, and Hutchinson, along with their colleagues Mark Warner (D-VA) and Lindsey Graham (R-SC) introduced the BUILD Act.<sup>15</sup> This proposed legislation would use \$160 billion in seed money over nine years to leverage as much as \$640 billion in private financing – assuming a government investment of 25 percent of the project cost – to support new transportation, energy and water infrastructure. The BUILD Act would permit government investment of up to 50 percent of a project’s projected cost. The legislation is supported by both the U.S. Chamber of Commerce and the AFL-CIO.

The BUILD Act would create an entity called the American Infrastructure Financing Authority (AIFA) which would eventually become self sustaining after investing its initial cash infusion.<sup>16</sup> Modeled after the U.S. Export-Import Bank, AIFA would have a seven member board of directors who would be appointed by the President and confirmed by the Senate. No more than four members of the board could come from the same political party in order to ensure the independent nature of AIFA and protect it from political influence. AIFA would also be subject to the Federal Credit Reform Act of 1990, requiring strict accounting and reporting requirements.<sup>17</sup>

13 <http://www.dot.gov/budget/2012/fy2012budgethighlights.pdf>

14 <http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-american-jobs-act>

15 <http://www.nytimes.com/2011/03/16/us/politics/16infrastructure.html>

16 <http://blog.lib.umn.edu/levin031/transportationist/2011/03/build-act.html>

17 <http://www.nytimes.com/2011/07/13/opinion/13likosky.html>

The major difference between the BUILD Act and the Obama plan is that the BUILD Act would only allow loans and could only be used for “revenue generating projects.” The BUILD Act also requires that a certain amount of loan money be dedicated to rural infrastructure projects. There is a \$25 million minimum threshold for all rural projects and a \$100 million threshold for all urban projects to ensure that all projects funded by AIFA are of either regional or national significance.

## The DeLauro Bank

On January 24, 2011, Representative Rosa DeLauro introduced HR 402 – “The National Infrastructure Bank Development Act of 2011,” which outlines the governance and functions of a National Infrastructure Bank. The DeLauro Infrastructure Bank would select projects with “clear economic, environmental and social benefits such as a transportation projects ability to reduce congestion, a water projects health benefits or an energy projects ability to reduce carbon emissions.”<sup>18</sup> The DeLauro Bank would be capitalized with \$5 billion for five years and it is projected that this initial amount could leverage up to \$625 billion.<sup>19</sup>

Specific provisions of the DeLauro bill call for:

- Establishing the National Infrastructure Bank as a wholly owned government corporation
- Creating a Board of Directors responsible for monitoring and overseeing energy, environmental, telecommunications, and transportation infrastructure projects and which would also be required to establish criteria for determining project eligibility for financial assistance
- Establishing a risk management committee, which shall: (1) create financial, credit, and operational risk management guidelines for the Bank; (2) set guidelines to ensure diversification of lending activities by both region and infrastructure project type; and (3) create conforming standards for infrastructure finance securities.<sup>20</sup>

The DeLauro bank would also authorize its Board of Directors to: (1) issue public benefit bonds and provide financing to infrastructure projects; and (2) borrow on the global capital market and lend to entities and commercial banks for funding infrastructure projects.<sup>21</sup>

18 <http://transportationnation.org/2010/12/08/so-youre-thinking-of-starting-an-infrastructure-bank/>

19 <http://voicesof.us/2011/commonsense/national-infrastructure-development-bank-act-h-r-402-voices/>

20 <http://www.opencongress.org/bill/112-h402/text>

21 Ibid

## **NYS Infrastructure Bank Legislation**

As a part of his “NY Works” campaign agenda in the lead up to the 2010 gubernatorial election, then-Attorney General Andrew Cuomo unveiled plans for a “Rebuild NY” Infrastructure Bank to pool and invest in New York’s critical infrastructure projects in order to produce jobs and

improve New York State’s infrastructure.<sup>22</sup> Following this lead, New York State Senator Martin Malave Dilan (D-Brooklyn) introduced Senate Bill 1654 in January 2011 to establish a New York State Infrastructure Development Bank with an initial appropriation of \$250 million.<sup>23</sup> Regrettably, the bill did not make any significant progress during the most recent legislative session.

<sup>22</sup> <http://www.andrewcuomo.com/CuomoCentral/press/press-release/2010-10-cuomo-touts-ny-works-agenda-to-revitalize-economy-an>

<sup>23</sup> <http://open.nysenate.gov/legislation/bill/S1654-2011>

# Existing Infrastructure Finance Models

## Borealis

One alternative to infrastructure banks that was not discussed at the “Banking on the Future” conference is an approach to infrastructure investment that is currently employed by the Ontario Municipal Employee Retirement System (OMERS) that leverages public pension fund monies for infrastructure. OMERS has created a wholly owned infrastructure investment arm called Borealis which has invested \$7 billion<sup>24</sup> from the OMERS pension fund in over twenty different infrastructure projects. The projects in the Borealis investment portfolio have yielded returns of approximately \$40 billion.

Borealis invests in infrastructure projects inside and outside of Ontario, with international projects in the U.S. and U.K. Projects funded by Borealis include: energy generation, transmission and distribution networks; social infrastructure such as hospitals and schools; and government-regulated services such as satellite and communications networks.

Borealis hand picks and rigorously vets infrastructure projects that will generate predictable returns, long-term income streams for the duration of their investment and projects with relatively low default rates. These are sensible criteria to apply to any investment since Borealis must achieve a reasonable return on their investment of OMERS pension monies.

The Borealis model is an excellent supplement to the current infrastructure finance models, because infrastructure projects under this model are staked using public pension dollars and therefore must be prudently structured to ensure an acceptable rate of return. Anything other than a careful approach would put pension funds at risk.

## The California Infrastructure Bank

The California Infrastructure Bank, or I-Bank, was created in 1994. It is led by a five member board of directors that is appointed by the Governor and confirmed by the State Senate. The I-Bank has the authority to issue bonds, make loans and provide credit enhancements to support sixteen different infrastructure categories. Funds supporting the I-Bank are derived from fees, loan repayments and earned interest.<sup>25</sup>

The California I-Bank supports new infrastructure investments through five different programs: The Infrastructure State Revolving Fund Program, The 501(c)(3) Revenue Bond Program, The Industrial Development Revenue Bond Program, The Exempt Facility Revenue Bond Program, and the Government Bond Program.<sup>26</sup>

<sup>24</sup> Borealis figures are in Canadian dollars

<sup>25</sup> <http://urbanland.uli.org/Articles/2010/Nov/MacCleeryLessons>

<sup>26</sup> [http://ibank.ca.gov/programs\\_overview.htm](http://ibank.ca.gov/programs_overview.htm)

As the “Banking on the Future” pre-conference white paper noted, the California I-Bank has received \$475 million in total funding since its creation in 1994. However, \$277 million in funding was later recaptured by the State to address residual effects of the dot-com bubble burst. The remaining \$162 million has since been leveraged to create some \$400 million in infrastructure projects.<sup>27</sup>

## TIFIA

The Transportation Infrastructure Finance and Innovation Act (TIFIA) is a federal program that leverages government funds by attracting private investment in U.S. surface transportation systems such as roads, rails and port access. According to the U.S. Department of Transportation, each dollar of Federal funds can provide up to \$10 in TIFIA credit assistance and support up to \$30 in transportation infrastructure investment. TIFIA offers a combination of secured loans, loan guarantees and a standby line of credit to help supplement project revenues.<sup>28</sup>

TIFIA has supported twenty-four different infrastructure projects with total investments of \$30.7 billion.<sup>29</sup> Notable projects funded in recent years include interstate highway improvements in Texas, Florida and northern Virginia.<sup>30</sup>

President Obama’s American Jobs Act has proposed enhancing TIFIA with a portion of the \$50 billion proposed for immediate investments in highways, transit, rail and aviation.<sup>31</sup>

## The Replacement of the Goethals Bridge

The Goethals Bridge, owned by the Port Authority of New York and New Jersey, links Elizabeth, NJ and Staten Island. Some 14.2 million vehicles enter New York State using the Goethals Bridge and that figure is projected to increase to 16 million by 2024.<sup>32</sup> The lanes of the Goethals Bridge are only ten feet wide, two feet narrower than standard lane widths, leading to 2,400 car accidents each year – many of them side swipes resulting from the narrow lanes.<sup>33</sup>

<sup>27</sup> <http://www.pbs.org/wnet/blueprintamerica/reports/america-in-gridlock/interview-the-bank-not-built-the-california-infrastructure-bank/554/>

<sup>28</sup> <http://www.fhwa.dot.gov/ipd/tifia/defined/index.htm>

<sup>29</sup> [http://www.fhwa.dot.gov/ipd/tifia/projects\\_project\\_profiles/index.htm](http://www.fhwa.dot.gov/ipd/tifia/projects_project_profiles/index.htm)

<sup>30</sup> [http://reason.org/files/transportation\\_infrastructure\\_finance\\_brief.pdf](http://reason.org/files/transportation_infrastructure_finance_brief.pdf)

<sup>31</sup> <http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-american-jobs-act>

<sup>32</sup> [http://www.nj.com/news/index.ssf/2010/06/port\\_authority\\_says\\_investors.html](http://www.nj.com/news/index.ssf/2010/06/port_authority_says_investors.html)

<sup>33</sup> <http://www.statenislandinjurylawblog.com/2010/09/articles/transportation-safety/goethals-bridge-as-dangerous-as-the-verrazano/>

To reduce the public cost of replacing this antiquated and unsafe bridge in an otherwise prohibitive economic climate, the Port Authority has introduced a public private partnership to design, build, finance, and maintain a replacement bridge for a period of 30 to 40 years.<sup>34</sup> The Port Authority's plan calls for a private developer to contribute between \$1.2 and \$1.4 billion which will account for approximately fifteen percent of the bridges replacement cost. Remaining funding will come from the federal government and from banks, with the Port Authority reimbursing the private developer upon the completion of construction through toll collections.<sup>35</sup> Port Authority officials have stressed that the

<sup>34</sup> <http://blog.tstc.org/2010/06/17/region-wades-a-bit-deeper-into-public-private-partnership-pool/>

<sup>35</sup> <http://www.crainsnewyork.com/article/20110809/INS/110809901>

agreement will be for a fixed sum, meaning that the private partner will be responsible for cost overruns.<sup>36</sup>

It is clear that without a public private partnership in place, the Port Authority would not have been able to afford the replacement of the Goethals Bridge given its myriad economic challenges.<sup>37</sup> The Goethals Bridge replacement will be New York City's first major infrastructure project in recent memory to be constructed using a public private partnership and it may pave the way for additional public private partnerships on future infrastructure projects.<sup>38</sup>

<sup>36</sup> <http://www.streetsblog.org/2011/03/04/public-private-plan-for-goethals-trades-higher-costs-for-faster-construction/>

<sup>37</sup> <http://www.njspotlight.com/stories/11/0808/0206/>

<sup>38</sup> [http://articles.nydailynews.com/2011-02-22/local/28639601\\_1\\_pri-](http://articles.nydailynews.com/2011-02-22/local/28639601_1_pri-)

## Summary of the “Banking on the Future” Conference

The “Banking on the Future” plenary session focused on the broad need for a National Infrastructure Bank and addressed the political hurdles that must be cleared to make one or more of the various infrastructure bank models a reality. Individualized breakout sessions focused on job creation, private and pension investments in infrastructure, energy infrastructure and transportation infrastructure.

Viewpoints from the plenary session on the efficacy of a National Infrastructure Bank varied, with passionate arguments made on both sides of the issue. The section below highlights the key points made by each of the plenary speakers.<sup>39</sup>

### Plenary Session

#### **Representative Steve Israel**

Representative Steve Israel (D-NY) made brief remarks prior to the plenary session. Reflecting on the excessively long trip from his home in Long Island to the conference venue in Manhattan, he pointed out that rush hour delays in the U.S. cost Americans \$115 billion per year. He told conference attendees that he would be flying down to Washington D.C. later in the day and noted that aviation delays at New York City’s three major airports cost commuters \$1.8 billion annually.

Representative Israel noted that the United States dedicates less than one percent of its GDP to infrastructure investments and contrasted this figure with that of China which spends approximately nine percent of their GDP on infrastructure investment. Representative Israel pointed out that the United States and New York have serious infrastructure challenges that must be addressed in the near future. Specifically, he cited the 153,000 U.S. bridges rated deficient or obsolete and the 162,000 miles of American roadways that are rated poor.

#### **Representative Rosa DeLauro**

Representative Rosa DeLauro opened the plenary discussion with a broad overview of the National Infrastructure Bank proposal that she has introduced in Congress. Representative DeLauro noted that her proposal would address more than traditional transportation projects—aiding in the expansion and upgrade of water systems, ports and communications infrastructure as well. She stressed that the National Infrastructure Bank needs to be an independent entity with reliable evaluation processes to select private-sector-goethals-bridge-new-bridge

<sup>39</sup> To view the entire session, moderated by NYU professor Mitchell Moss, please visit: <http://www.baruch.cuny.edu/dml/engine.php?action=viewMedia&source=search&mediaIndex=1297&listPlace=1&genreFilter=0&typeFilter=0>

ects of national importance and redevelop the public’s trust in large spending projects. Representative DeLauro closed by noting that any National Infrastructure Bank should supplement, not replace, Congressional earmarks, which elected officials use to serve the needs of the people they represent.

#### **Representative Jerrold Nadler**

Representative Jerrold Nadler recognized the need for a National Infrastructure Bank as a way to leverage private funds to finance infrastructure as long as the Bank would not be the only way to finance infrastructure. He cautioned that some of the infrastructure bank proposals would be viewed as anti-democratic. He suggested that key decisions about infrastructure should be made by the American people and the officials they elect to represent them and who are accountable to them. The purpose of infrastructure is to serve the public interest.

Representative Nadler opposed a system under which projects would be selected only according to their financibility without regard to their overall economic benefit. He also cautioned that infrastructure banks are vulnerable to a disproportionate amount of influence by the executive and pointed to mayoral control of the New York City school system as an analogous situation. He, too, suggested that a National Infrastructure Bank supplement, not replace, other funding mechanisms.

#### **Governor Ed Rendell**

Former Pennsylvania Governor Ed Rendell spoke passionately in favor of a National Infrastructure Bank, noting that we must change the way that the U.S. currently funds infrastructure. The Governor asserted that the public has lost confidence in Congress and that the public believes that there is too much corruption in the earmarking process. Rendell highlighted Boston’s “Big Dig” as an example of this, contending that the project was seen by many as a gift to influential members of Congress in Massachusetts and that it did not achieve the best return on investment possible for its total cost.

#### **Ms. Felicity Gates**

Felicity Gates, Co-Head of Citi Infrastructure Investors, added a valuable financial sector perspective to the discussion. Ms. Gates suggested that the ideal investors in a National Infrastructure Bank are pension funds, pointing out that infrastructure is a stable investment that is inflation proof and that has longevity. Ms. Gates reiterated that widespread cost overruns on public works projects have eroded the public trust for funding large infrastructure

projects and suggested that an infrastructure bank would be a useful tool for funding projects that are not popular but that are nonetheless necessary.

### **Mr. Chris Ward**

Chris Ward, Executive Director of the Port Authority of New York and New Jersey, focused his comments on local infrastructure challenges. Ward highlighted the value of tolls for funding major infrastructure projects and suggested that tolls on Port Authority bridges and tunnels have been kept artificially low, with prices that are not equivalent to the value that commuters reap from these crossings. As this report is released, the Port Authority is moving forward with a controversial plan to raise tolls on PATH trains, bridges and tunnels by 56 percent over the next five years in order to provide the revenue stream needed to maintain its assets in a state of good repair.<sup>40</sup>

Building on earlier comments made by Representative Israel, Ward noted that aviation congestion costs the U.S. economy \$19 billion each year. He proposed an escalation of airport fees from \$4.50 to \$7.50 to be used for future aviation infrastructure investment and suggested that future adjustments to airport fees should be determined by market fluctuations.

### **Mr. Bernard Schwartz**

Bernard Schwartz, chairman and CEO of BLS Investments, rounded out the panel with an impassioned plea for a change in the way that the United States finances infrastructure. Mr. Schwartz emphasized that a focus on employment must be a national priority and that infrastructure is a proven job creator. He relayed his belief that a National Infrastructure Bank should be staffed by financial experts who can independently judge the productivity of any given infrastructure project to determine whether it should be funded.

### **Break Out Session #1 – Infrastructure of the Future: Clean Energy**

Break Out Session #1 participants were: **Tria Case**, University Director of Sustainability – The City University of New York; **Garry A. Brown**, Chairman – NYS Public Service Commission; **Reza Ghafurian**, Technical Leader-Central Engineering – Con Edison; and **Jackson Morris**, Senior Policy Advisor – Pace University Energy and Climate Center.

Starting with the fact that the maintenance costs of New York's existing energy infrastructure, without any addition-

<sup>40</sup> <http://www.crainsnewyork.com/article/20110819/FREE/110819869>

al expansion, will reach \$12 billion over the next five years, panelists discussed how New York can finance new and existing clean energy infrastructure more efficiently.

It was noted that at the time of the conference, over one million New York State customers were over sixty days in arrears on their utility bills, indicating that there is broad economic hardship across New York. These hardships make raising rates as a solution to building out more green energy infrastructure an untenable option. The panel was clear that in order to make New York's energy infrastructure greener and greater, it would require a mix of private and public funding sources.

Long term goals for large increases in renewable energy production by 2015, the implementation of a Smart Grid in New York City and methods for making existing energy consumption more efficient were all discussed in depth during the Clean Energy breakout session.

### **Break Out Session #2 – Infrastructure of the Future: Transportation and Light Rail**

Break Out Session #2 participants were: **Robert Paaswell**, Director Emeritus – Region II University Transportation Research Center; **Stanley Gee**, Executive Deputy Commissioner – NYS Department of Transportation; **Ya-Ting Liu**, Federal Advocate – Tri-State Transportation Campaign; **Manfred Ohrenstein**, Partner – Ohrenstein & Brown, LLP; **Petra Todorovich**, Director of America 2050 – Regional Plan Association; and **Christopher J. Taylor**, Deputy Director of High Speed Rail – AECOM.

The focal point of Break Out Session #2 was high-speed rail. Panelists pointed out that when Representative John Mica (R-FL) chaired a meeting of the House Transportation Committee at Grand Central Station in January 2011, he supported the construction of high speed rail in the Northeast Corridor (NEC) from Boston to Washington D.C. using a public private partnership.

The panel felt strongly that New York must take the lead in ensuring that high-speed rail along the NEC becomes a reality. Several facts and figures were presented by panelists to support this position. Some 70 percent of Amtrak trips along the NEC originate or terminate in New York City, contributing a large portion of the 8.5 million passengers who travel through Penn Station each year. At the time of the conference, President Obama had set aside \$53 billion for high speed rail. It was suggested that since federal funding for high-speed rail will only match New York State funding, a northeast high-speed rail corridor can only become a reality if these funds are leveraged in partnership with private capital.

### **Break Out Session #3 – Government Cannot do it Alone: Private & Pension Investments for the Public Good**

Break Out Session #3 participants were: Professor **Michael Likosky**, Institute for Public Knowledge – New York University; **Samara Barend**, Vice President & Director of Strategic Development for PPPs & Alternative Delivery-North America – AECOM; **Vonda Brunsting**, Eastern Regional Director – SEIU Capital Stewardship Program; **John Di-  
onisio**, Infrastructure Director – Merediam Infrastructure; **Joyce Miller**, CEO – Tier One Public Strategies; and **Cynthia Praschnik**, Investment Principal – Citi Infrastructure Investors.

This breakout session focused on pension investments in infrastructure. It was noted that New York City pension funds were early participants in an investment policy known as economically targeted investing. This strategy is based on the belief that city and state employees and their pension funds benefit greatly from a prosperous local economy that contributes to the tax base of city and state government. Under an economically targeted investing strategy, infrastructure projects are a logical focus for pension investments.

The panel also drew attention to the New York State Commission on State Asset Maximization which was created during the Paterson administration to develop a road map for major projects that would be good candidates for public private partnerships in New York State. The Commission, which was chaired by former State Comptroller Carl McCall, published a final report on June 1, 2009<sup>41</sup> but it was unclear at the time of the discussion if the new gubernatorial administration would embrace its findings.

Additionally, the Ontario Municipal Employees Retirement System (OMERS) and its subsidiary Borealis were singled out by panelists as a well established pension investment model for infrastructure.

<sup>41</sup> <http://www.bcny.org/inside/transport/2011/StateAssetMaximization-final-report2009.pdf>

### **Break Out Session #4 – Building for Better Jobs**

Break Out Session #4 participants were: **James A. Parrott**, Chief Economist – Fiscal Policy Institute; **Richard T. Anderson**, President – New York Building Congress; **Mike Fishman**, President – 32BJ Service Employees International Union (SEIU); and **Gary LaBarbera**, President – Building Construction Trades Council of Greater New York.

The Construction industry generates \$620 billion in economic activity in New York City every year. However, as several panelists in this breakout session noted, construction has been hit very hard by the Great Recession. It is in this context that members of Break Out Session #4 called for new pension, private and public investments in infrastructure.

Panelists stressed that new investments in infrastructure must create good jobs with strong prevailing wage standards, not poverty-level jobs. It was also suggested that pension funds should be pooled in a consortium for infrastructure investments at the State level, using the Ontario Municipal Employees Retirement System (OMERS) as a model for pension investments. Mike Fishman, President of SEIU Local 32BJ, noted that OMERS has approximately 15 percent of their investments in diversified infrastructure investments and have achieved an 11-12 percent return on their investments.

On the State level, the panel suggested that new five year capital plans for the MTA and the NYS Department of Transportation should be drawn up in tandem, and that if Governor Cuomo is serious about his intention to shutter the Indian Point Nuclear Power Plant, he should begin announcing plans for replacement power plants. It was noted that the new power plants required to generate 2,000 megawatts of new power in the down state area could create thousands of new construction jobs.

# Recommendations

**1. Plan for the future.** The initial plans that each of the ten New York State Regional Economic Development Council's submit to the Empire State Development Corporation by November 14, 2011<sup>42</sup> should include lists and descriptions of the key infrastructure projects of local, state, national or regional importance. Including detailed infrastructure needs and upgrades in these plans will provide the Governor's office, the legislature and the private sector with the most up to date measure of the scope of New York State's infrastructure challenges.

**2. Explore pension investments in infrastructure.** New York State and its pension funds should collaborate with the Ontario Municipal Employees Retirement System (OMERS) and Borealis Infrastructure on a project of state and regional significance. New York has several billions of dollars in municipal and private pension funds statewide that can be prudently leveraged for infrastructure investments. OMERS and Borealis have the experience and wherewithal to help execute pension assisted infrastructure projects in the immediate term and they can provide valuable lessons which New Yorkers can learn and apply for themselves in future years.

**3. Streamline capital planning.** New York State should draft a Statewide Capital Plan and streamline procurement. Agencies and authorities with similar missions and large infrastructure maintenance responsibilities such as the New York State Department of Transportation, the MTA and the Port Authority all use different procurement models. This results in siloed capital investments for agencies and authorities across the State, making planning for cross agency infrastructure projects extremely difficult. A statewide capital plan, together with a standardized procurement model across agencies and authorities, would help the state take a more cohesive approach to infrastructure investment and would facilitate the creation of a New York State Infrastructure Bank.

**4. Do not allow TIFIA funding to be cut during federal deficit negotiations.** TIFIA is currently over subscribed by a 14 to 1 margin,<sup>43</sup> suggesting that the program is popular and effective. On July 7, 2011 House Transportation and Infrastructure Committee chair John Mica released a

preliminary transportation reauthorization plan that immediately drew controversy,<sup>44</sup> but which increased TIFIA funding from \$122 million per year to \$1 billion per year.<sup>45</sup> A senate proposal released several days later by Senators Barbara Boxer (D-CA) and James Inhofe (R-OK) maintained the increased TIFIA funding levels.<sup>46</sup>

As the Joint Select Committee on Deficit Reduction deliberates the difficult decisions that must be made to reduce the national deficit by years end, TIFIA funding already proposed for future years should not be cut.

**5. Ensure that strict safeguards protect public monies invested in public private partnerships.** Public monies invested in infrastructure projects through public private partnerships must be subject to stringent and well enforced safeguards to ensure that taxpayers do not get ripped off. The New York State Legislature should mandate that the Attorney General and State Comptroller's offices review, approve and monitor all public private partnership agreements on major infrastructure projects to ensure that taxpayers do not get saddled with unaffordable long term payments. Additionally, fixed sum agreements should be used to ensure that cost overruns are not absorbed by the public. The risks to taxpayers associated with public private partnerships that State Comptroller Thomas DiNapoli outlined in January 2011 should be heeded: failure to identify the full value of public property; unfavorable pricing mechanisms; unrealistic expectations and poorly drafted agreements; and budget gimmickry.<sup>47</sup>

**6. Introduce a new infrastructure bank bill in the State legislature.** On January 11, 2011 a bill was introduced by New York State Senator Martin Dilan to introduce a \$250 million New York State Infrastructure Bank.<sup>48</sup> The legislation did not make it out of the Senate Finance Committee in the 2011 session. A new bill, building off of the work done in the last session, should be introduced. The successful California I-Bank should be viewed as one possible model for a future New York State Infrastructure Bank.

42 <http://innovationtrail.org/post/trail-guide-how-regional-councils-will-actually-work>

43 <http://www.infrastructureinvestor.com/Article.aspx?article=60219>

44 <http://www.infrastructurist.com/2011/07/08/mica-reveals-transportation-reauthorization-plan-230-billion-over-6-years/>

45 <http://www.infrastructurist.com/2011/07/08/building-america's-future-responds-to-chairman-micas-reauthorization-proposal/>

46 [http://epw.senate.gov/public/index.cfm?FuseAction=Majority.PressReleases&ContentRecord\\_id=43ff8abd-802a-23ad-4f87-e7d37ed3d493&IsPrint=true](http://epw.senate.gov/public/index.cfm?FuseAction=Majority.PressReleases&ContentRecord_id=43ff8abd-802a-23ad-4f87-e7d37ed3d493&IsPrint=true)

47 [www.osc.state.ny.us/reports/infrastructure/pppjan61202.pdf](http://www.osc.state.ny.us/reports/infrastructure/pppjan61202.pdf)

48 <http://open.nysenate.gov/legislation/bill/S1654-2011>







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