MILKEN INSTITUTE

Accelerating Infrastructure Investment across the Country

Executive Summary

On November 5, 1913, water from the Owens River finally started to trickle into the San Fernando reservoir. Upon the completion of the Los Angeles aqueduct, William Mulholland famously uttered, “There it is, take it,” ushering in an era of exponential growth in Los Angeles and beyond. Bolstered by investment in public infrastructure, Southern California’s 10 counties grew to support a population of 23.6 million and emerge as a leading global economic center.[1] Many states followed suit, taking responsibility to plan for future growth, often without the assistance of overarching federal guidance or dedicated programs.

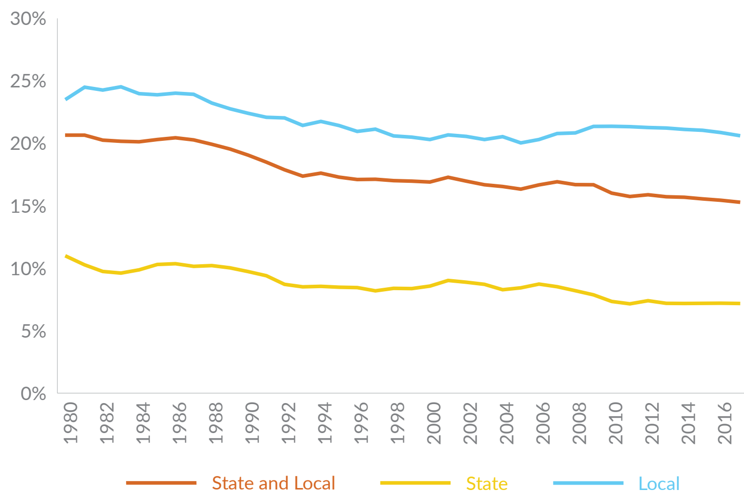
After a decade of economic and population growth following the Great Recession of 2008, however, the lack of a coordinated infrastructure investment plan is exacting significant public health, mobility, and economic productivity costs. Numerous commissions, studies, and efforts over the past quarter-century have identified the need for a renewed regional and national commitment to infrastructure investment as a catalyst for economic growth. However, these efforts ultimately failed to mobilize spending for the high-quality infrastructure systems critical to US economic growth and competitiveness. Today, the COVID-19 pandemic has further exposed the weaknesses of our nation’s infrastructure investment system and local and state budgets.

Despite the absence of renewed spending, a recent review of infrastructure studies indicates each $100 spent on infrastructure increases private-sector production by an average of $17 long-term.[2] Infrastructure is also vital to any region’s ability to tackle today’s existential threats—like climate change and inequality. Transportation, for instance, is the single largest source of greenhouse gas emissions,[3] but a mix of increased density and transit could cut emissions in cities globally by a third.[4]

Judging by federal funding trends over the last several decades, however, funding for investments in the built environment—the human-made environment where people work, live, and play—has been tenuous at best. The burden of infrastructure has primarily fallen to state and local authorities. In 2017, state and local governments were responsible for nearly 80 percent of the country's infrastructure spending, the majority of which is borne by local governments.[5]

Figure 1: Infrastructure Spending Is Down across All Government Levels

State and Local Infrastructure Expenditure as a Percentage of Own Spending



Source: *US Census Bureau Annual Survey of State and Local Governments (2019)*

Note: *Infrastructure spending includes air and water transportation, highways, natural resources, parking, wastewater management, utilities, and transit.*

Today, navigating the maze of funding sources and competing regulatory frameworks results in questions and uncertainty for public- and private-sector leaders. How do leaders access and widen the capital pool and modernize infrastructure investment models? How can state and local leaders structure governance frameworks that better align with federal financing tools and incentives?

The Milken Institute's report, "Accelerating Infrastructure Investment across the Country," aims to overcome political ambivalence and inaction by establishing a collaborative policy framework to accelerate project delivery, increase investment, and meet local community development goals. For cities, regions, and states to compensate for decades of deferred maintenance and disinvestment, they must reimagine traditional economic development models and leverage a broad array of financial solutions, public and private assets, and incentives.

AT THE FEDERAL LEVEL

WE PROPOSE THE FOLLOWING SETS OF POLICY ACTIONS

1 Authorize Long-Term Surface Transportation Funding and Ensure Highway Trust Fund Solvency

Congress should authorize longer-term surface transportation funding and include priority funding for intermodal transportation. Additionally, Congress must ensure long-term Highway Trust Fund solvency. We suggest user fees priced by vehicle miles traveled.

2 Expand Credit Enhancement Tools to Mitigate Risk and Incentivize Development Partnerships

To attract more private capital, the federal government should expand existing credit enhancement tools and eligible projects.

3 Establish a Predevelopment Capital Fund and Align Federal Incentives

We recommend the creation of a $10 billion federal infrastructure predevelopment fund to accelerate infrastructure development. Access to predevelopment capital funds, however, would require a commitment to resiliency, performance standards, a plan to address lifecycle costs, and improving access for underserved communities. Federal requirements should also include sufficient data tracking and accountability frameworks. Currently, US infrastructure procurement at all levels values low-cost bids over long-term planning. Federal guidelines should also organize existing tax incentives to stimulate infrastructure development with private-sector partners.

4 Prioritize Projects Addressing Unequal Access to Public Services

Any new legislation authorizing infrastructure spending must prioritize projects that directly address inequalities and historic disinvestment in the built environment.

5 Pass Comprehensive Broadband Legislation

Policymakers must ensure that any infrastructure framework addresses the deficit in broadband architecture and facilitate its construction in rural areas. Congress should also restructure aid programs to prevent program funding overlap, authorize the Federal Communications Commission (FCC) to subsidize home use of devices and connection services, and support public-private partnerships that expand internet access.

AT THE STATE LEVEL

WE RECOMMEND THE FOLLOWING POLICY ACTIONS TO MAXIMIZE FEDERAL DOLLARS AND ATTRACT PRIVATE CAPITAL

1 Bundle Small Projects to Attract Interest from Capital Markets

Long-term institutional investors and private investors are not attracted to small projects. States should bundle small projects into larger packages by infrastructure type or region. Bundling allows for cost savings on design and construction costs and unlocks institutional capital by creating projects of an investable size.

2 Adopt a Regional Economic Framework for Infrastructure Provision

State governments should create regional economic development offices to drive state policy outcomes. Regional offices can coordinate funding, offer technical assistance, establish common standards and data collection systems, and provide specialized workforce training.

3 Mitigate Project Risk by Streamlining the Review Process and Offering Predevelopment Support

State legislators should prioritize infrastructure projects with clear environmental benefits and expedite bureaucratic review processes for new infrastructure investments. States should also offer predevelopment support of 10-15 percent of project costs to infrastructure projects with a clear environmental benefit and linked to performance measures.

AT THE LOCAL LEVEL

WE RECOMMEND THE FOLLOWING POLICY ACTIONS, BASED ON A LAND VALUE CAPTURE MODEL

1 Adopt a Land Value Capture Framework to Generate Sustainable Revenues

When public agencies build new infrastructure or invest in the built environment, they improve land and property values for nearby parcels. Land value capture is a set of tools to transform the increased property values into revenues. By using strategically targeted and well-coordinated land value capture, local agencies can maximize tight federal and state funding and generate continuous, sustainable revenues for infrastructure development.

2 Assess Local Assets and Define the Opportunity for Development

The establishment of a facilities commission or investment authority would allow for an inventory of public assets and development alignment with existing projects and land available to further coordinate, streamline, and accelerate regional economic development needs (e.g., housing, business formation, renewable energy generation, broadband).

3 Leverage Innovative Finance as Funding Mechanism Support for Community Reinvestment

Establishing a local impact fund that would leverage state and federal credit enhancements tools (e.g., remediation, predevelopment, land acquisition) and tax incentives (e.g., new markets, Opportunity Zones) would add certainty to a regional shovel-ready project portfolio and incentivize outside investment.

4 Prioritize Additional Revenue Sources to Meet Local Investment and Human Capital Needs

Greater public-private partnership authority will lead to better coordination with developers in a broader array of infrastructure classes in the newly formed regional project portfolio.

By structuring and aligning many different financial tools and policy reforms, federal, state, and local leaders can leverage new sources of capital and apply other market-based solutions to support an enhanced regional development framework and project delivery pipeline.

The full report includes:

- a summary of macroeconomic, social, and equity benefits of infrastructure investment;
- analysis of current US infrastructure spending at the federal, state, and local levels to understand the long-lasting implications of disinvestment;
- specific policy barriers each level of government faces in funding and maintaining infrastructure investments;
- a distillaton of policy recommendations into an actionable roadmap; and
- a concluding summary of major themes.

To view the full report, [https://milkeninstitute.org/reports/infrastructure-investment.](https://milkeninstitute.org/reports/infrastructure-investment)

ENDNOTES

1. "Population, Population Change, and Estimated Components of Population Change: April 1, 2010 to July 1, 2019," United States Census Bureau, accessed September 10, 2020, https://www.census.gov/data/tables/time-series/demo/popest/2010s-state-total.html.

2. Josh Bivens, "The Potential Macroeconomic Benefits from Increasing Infrastructure Investment" (Economic Policy Institute, July 18, 2017), https://www.epi.org/publication/the-potential-macroeconomic-benefits-from-increasing-infrastructure-investment/.

3. Daniel Aldana Cohen, "Climate Justice and the Right to the City" (University of Pennsylvania Current Research on Sustainable Urban Development, February 2018), https://penniur.upenn.edu/uploads/media/Cohen.pdf.

4. "Sources of Greenhouse Gas Emissions," Environmental Protection Agency, accessed May 7, 2020, https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions.

5. Milken Institute analysis of Congressional Budget Office data. See "Public Spending on Transportation and Water Infrastructure, 1956 to 2017" (Congressional Budget Office, October 15, 2018), https://www.cbo.gov/publication/54539.