THE INTERSECTOR PROJECT

Presented at *An Intersector Process for U.S. Infrastructure* - December 13, 2016

INFRASTRUCTURE: AN INTERSECTOR ISSUE

This issue compilation document:

- Presents a broad range of issues relevant to many aspects of infrastructure (from financing and funding to procurement and more)
- Includes issues that are relevant to all infrastructure sub-sectors (from transportation to water and more)
- Represents the perspectives of the business, government, and non-profit sectors

INTRODUCTION

"America's infrastructure is a complex, interconnected network that supports our nation's economy and quality of life."[1] U.S. infrastructure is a broad, diverse sector that includes roads, highways, and railways; bridges and waterways; telecommunications and electricity systems; schools, civic buildings, and hospitals; and more. The continued building, operation, and maintenance of infrastructure is crucial to the economic and social well-being of the United States.

The state of infrastructure in the United States

Our nation is failing to keep up with a backlog of overdue maintenance and the need for modernization. According to the American Society of Civil Engineers' 2013 Report Card for America's Infrastructure – a comprehensive assessment of current infrastructure conditions and needs that assigns grades according to capacity, condition, funding, future need, operation and maintenance, public safety, resilience, and innovation – America's cumulative GPA for infrastructure is a D+. Only one infrastructure subsector rose above a C – solid waste, with a B- – while all others, from schools to transit to levees, ranged from a C+ to a D-. To address the infrastructure problem in the United States, we need a 21st century approach.

Cross-sector stakeholders in U.S. infrastructure

Each of the elements of our nation's infrastructure involves a complex network of stakeholders – including residents, federal, state, county, and city governments, financing organizations, trade associations representing industry, consumers, environmental interests, and others, research and development organizations, design, construction, and engineering firms, and other professional service firms that serve and represent a broad range of industries. And U.S. infrastructure is developed through a variety of mechanisms involving these diverse stakeholders.

For decades, there have been two dominant sources of capital for infrastructure: grants from all levels of government and municipal financing backed either by general revenues, project revenues, or dedicated taxes. Much infrastructure is developed based on plans that are made by state and local governments in consultation with the community and the non-profit sector. Implementation of projects and programs usually involves private-sector participation in design, engineering, and construction under contractual relationships with governmental project sponsors. A less common, but growing way to deliver infrastructure improvements is through relationships that enhance the private-sector role by involving it in project management (design-build), financing, operating, and maintaining public infrastructure (often referred to as public private partnerships or P3s).

The Intersector Process

It is not unusual for the government, business, and non-profit sectors to work separately on important public policy issues. A stove-piped approach, however, can often hamper innovation, create economic inefficiencies, and discourage problem-solving through cross-sector collaboration. The mission of the Intersector process is to help break down barriers among sectors that limit our ability to work together on significant public policy opportunities.

We believe that infrastructure is ripe for an intersector process.

This document categorizes and describes a number of issues relevant to U.S. infrastructure that surfaced in interviews and discussion among the participants – individuals and organizations that have varied interests in and represent a range of diverse perspectives on the topic. The intent is not to present a single recommended proposal or course of action but rather to list the critical issues that need to be addressed by government, business, and the non-profit sector together.

The process for developing this list of issues was inspired by best practices for initiatives that bring together partners from multiple sectors and organizations. In multi-stakeholder environments, developing agreement on the facts that define "the problem" is an often overlooked but crucial step. This task often presents a challenge, as stakeholders may come to the table with sector- and organization-specific biases that influence their perspective on the problems that need to be solved to move forward. The process of developing a fact base provides a platform for surfacing areas of agreement and difference and can serve as an important step even before moving forward to action.

We see this document as a first step in bringing together stakeholders from across sectors and backgrounds to assess and discuss how they can work together and break down barriers to improving infrastructure in the United States.

[1] Bipartisan Policy Center (2016). *Bridging the Gap Together: A New Model to Modernize U.S. Infrastructure*, p. 14.

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CROSS-SECTOR AND INTERGOVERNMENTAL COORDINATION

- Underinvestment in infrastructure at the federal level invites action and greater coordination among the government, business, and non-profit sectors. Each has a crucial role to play to achieve overall success.

FUNDING AND FINANCING

Note: *Funding* infrastructure through direct spending and tax policy is different from *financing* infrastructure projects through debt and equity investments.

- In the best circumstances, with the most sophisticated and robust financing mechanisms (debt, equity, and other instruments) available, there remains a need for long-term sustainable levels of direct government funding for infrastructure, which is critical for infrastructure improvement and expansion in the United States.

- Multiple forms of capital could be made to work more easily in tandem to finance infrastructure:
  - *Tax-exempt municipal bonds*: Tax-exempt municipal bonds are often the lowest cost option for financing infrastructure and represent 75 percent of the current market.
  - *P3s*: While they comprise a smaller segment of the market (approximately 5 to 10 percent in the United States), P3s present another financing and procurement option to help address underfunding, with the potential to integrate the capital and capabilities of the private sector into designing, building, and maintaining various infrastructure.
  - *Tax credits*: Tax credits are another tool to address underfunding of U.S. infrastructure, but are underutilized in encouraging private equity investment.

- Smaller-scale infrastructure projects, especially those without a clear revenue stream, are often not adequately attractive to private investors.

PROCUREMENT AND PERMITTING

- Pre-development costs for infrastructure projects are often significant and prohibitive for projects advancing without grant funding. There is an opportunity for innovative thinking to address funding and technical assistance challenges in the pre-development phase of projects.

- Design-build is underutilized as a state and local procurement mechanism that streamlines engineering and construction services and produces significant cost savings.

- Procuring infrastructure projects through public-private partnership presents both opportunities and challenges:
  - While many states have successfully passed enabling legislation, it is sometimes too narrow, limiting activity to one sector or limiting the model that can be used.
  - While each state is likely to continue to maintain its own processes and practices, there is an opportunity for all parties, including the federal government, to collaborate and share guidance on essential common elements for procurement processes – benefitting not only the public sector, but also private-sector partners who must currently relearn processes from market to market.

Author: The Intersector Project

Participants:
American Society of Civil Engineers

Building America's Future

Capitol Peak Asset Management

National Association of Counties

National Conference of State Legislatures

National Governors Association

National League of Cities

Peyser Associates

RBC Capital Markets

Securities Industry and Financial Markets Association

U.S. Travel Association

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- Lastly, there is a mismatch between public and private partners both in the way they view partnerships and in their capabilities to execute them. Knowledge sharing between the sectors about the roles and responsibilities of partners would provide a better environment for the creation of innovative relationships.

- Overlapping jurisdictions, duplication, procedural challenges, and lack of coordination among federal, state, and local governments can to lead to uncertainty in permitting processes, as well as increases in time and cost.

PRIORITIZATION OF PROJECTS

- Much of our nation's existing infrastructure must be brought into a state of good repair. With limited public money available, for both new and existing infrastructure, rigorous cost-benefit analysis when selecting priority projects is critical.

COMMUNICATIONS AND PUBLIC AWARENESS

- Public awareness of failing infrastructure has not translated into public urgency for improving infrastructure, perhaps because many of the systems – however slow or unreliable – still function. But relying on infrastructure policy driven by crisis can be expensive and unsafe.

- A public-private partnership for infrastructure is not "privatization," but the American public has varying comfort levels with public infrastructure being privately operated and, potentially, owned.

- Awareness of the need for improved U.S. infrastructure at the state and local level has not been replicated at the federal level. The success rate for state and local ballot initiatives between 2000 and 2016, for example, is 71 percent. In 2016, communities in 25 states considered ballot measures relating to infrastructure totaling $250 billion – the highest amount ever.

For more information, please contact us at infrastructure@intersector.com.