

**Infrastructure & Employment  
Government Projects as Engines for Growth  
A Talk with Michael Graetz**

- Infrastructure types
  - Transportation:
    - Roads, bridges, mass transit, etc.
    - Ports, airports, trains, tunnels, light rails, etc.
  - Communications: broadband
  - Utilities: electrical production and grids, water supply
  - Schools: pre-k through community colleges
  
- What accounts for lack of large-scale infrastructure projects in recent decades
  - Degradation of American infrastructure
    - Roosevelt's Works Progress Administration in 1935 built hundreds of thousands of miles of roads, bridges and viaducts, and constructed and repaired buildings.
    - Last major repair and upgrade of the Interstate Highway System was in the 1950-60s.
    - No comparable projects since then.
    - The American Society of Civil Engineers gave the national infrastructure a D+ grade in 2017 (the same grade as in 2013), with transit rated D-, and drinking water, dams, and roads rated D.<sup>1</sup>
  - Anti-tax sentiment and lack of political will
    - Anti-tax attitudes have chipped away at the political will and funding required for large-scale projects.
    - Stagnant gas tax
      - The federal gasoline tax was last raised in 1993 as part of the Omnibus Budget Reconciliation Act of 1993, and the additional revenue went entirely to reducing the federal deficit until the 1997 Taxpayer Relief Act which redirected the revenue to the Highway Trust Fund. The Highway Trust Fund finances highway and mass transit spending. The 1993 increase is not indexed to inflation.<sup>2</sup> Today, gasoline tax revenues are insufficient to fund necessary improvements.
      - Some states have increased gas taxes to fund local infrastructure projects.

---

<sup>1</sup> ASCE 2017 Infrastructure Report Card. <https://www.infrastructurereportcard.org/>

<sup>2</sup> Tax Policy Center Briefing Book: Key Elements of the U.S. Tax System. What is the Highway Trust Fund, and how is it financed? <https://www.taxpolicycenter.org/briefing-book/what-highway-trust-fund-and-how-it-financed>

- Benefits of improvements in infrastructure are generally local. Needs are different in urban, suburban, and rural areas. Lack of political will to vote on projects that don't directly benefit their own communities. Requires a level of federal funding and supports.
- Local and state resources for infrastructure have shrunk. Many state constitutions require balanced budgets; often results in lack of excess revenue for infrastructure. When voters vote on bond issuances, they tend to vote against such spending. Legislatures also vote against these kinds of spending.
- Financing infrastructure
  - Combination of tax and debt
    - Infrastructure is one of the few ways that the government can finance through debt in a reasonable and successful way. Sometimes accompanied with a revenue source.
    - E.g. The replacement of the Tappan Zee Bridge with the Mario Cuomo Bridge was funded through a combination of state funds, debt financing, and federal loans.<sup>3</sup> The federal loans are under the Transportation Infrastructure Finance and Innovation Act<sup>4</sup> loan program. A portion of the debt financing was in revenue bonds to be repaid by increased tolls on all NY highways.
  - Local sales tax
    - Local governments have sometimes funded projects through increased sales tax.
    - E.g. The improvements and expansion of the Los Angeles mass transit system was partly funded by a penny increase in sales tax. In 2016, Los Angeles voters approved Measure M to authorize a half cent increase to the sales tax and to extend a half cent increase that was set to expire in 2039.<sup>5</sup>
    - E.g. Denver's light rail improvements of the past decade were funded in part by 0.4% sales tax increase approved by voters. The improvements included a light rail from the Denver airport to downtown. The project was also funded through a public-private partnership and federal grants and loans.
  - Public-private partnerships (P3s or PPPs)
    - A P3 is generally a single private entity made up multiple private entities that assume responsibility and liability for some or most of the infrastructure project. Public and private entities partner to design, construct, and/or maintain and operate infrastructure projects. Private

---

<sup>3</sup> U.S. Dept of Transportation, New NY (Tappan Zee) Bridge Replacement Project overview. <https://www.transportation.gov/buildamerica/projects/new-ny-tappan-zee-bridge-replacement>

<sup>4</sup> Transportation Infrastructure Finance and Innovation Act (TIFIA). <https://www.transportation.gov/buildamerica/financing/tifia>

<sup>5</sup> Measure M. <https://theplan.metro.net/>

parties inject equity or pay down debt in exchange for revenues or some other form of compensation.

- P3s require careful drafting to adequately protect public interests.
  - Risks borne depends on what the private investment is to be used for and what responsibilities the parties have.
  - Risks should be appropriately shifted to the private entity where appropriate to ensure valuable public assets aren't transferred.
- Full privatization risks
  - E.g. In 2008, Chicago leased its parking meters to Chicago Parking Meters, LLC, a private entity, for \$1.15 billion.<sup>6</sup> Richard Daley, Chicago mayor at the time, made the deal to avoid raising property taxes. At the time, the parking meters were generating around \$20 million in net income for the city. The lease allowed Chicago Parking Meters to raise parking rates. In 2019, Chicago Parking Meters took in \$138.7 million from the parking meter system.<sup>7</sup> The private entity has already recouped their entire investment with 60 more years left on the lease.
- Examples of more successful P3s
  - Denver light rail project: The Eagle Project developed as part the RTD FasTracks to expand commuter rail in the Denver, CO area. The Denver Transit Partners contributed a portion of the funding to design, build, operate and maintain part of the commuter rail lines.<sup>8</sup> The building of the rail system, including the connection from the airport to the downtown area, helped to revitalize the surrounding neighborhoods.
  - LaGuardia Airport Terminal B: Port Authority 35-year \$4 billion lease agreement to LaGuardia Gateway Partners P3 to design, build, operate, and maintain the terminal.<sup>9</sup>
  - Port of Miami: Miami had several P3 projects to improve its ports and tunnels. Some of them involved cruise lines to fund the construction with bond support in exchange for rental payments with guarantees of passenger numbers. Remains to be seen the impact COVID will have.

---

<sup>6</sup> Chicago's Parking Meter Deal a Lesson in "Worst Practices." The Better Government Association. <https://www.bettergov.org/news/chicagos-parking-meter-deal-a-lesson-in-worst-practices>

<sup>7</sup> Spielman, F. (2020, August 2). Parking meter deal Chicagoans love to hate gets worse — again. *Chicago Sun Times*. Retrieved from <https://chicago.suntimes.com/2020/8/2/21348711/chicago-parking-meters-75-year-lease>

<sup>8</sup> Denver Transit Partners project overview: <https://denvertransitpartners.com/project/>

<sup>9</sup> Press Release: Governor Cuomo Announces Financial Closing on Transformational Redevelopment of LaGuardia Airport, June 1, 2016. <https://www.governor.ny.gov/news/governor-cuomo-announces-financial-closing-transformational-redevelopment-la-guardia-airport>

- Federal support and coordination
  - Large-scale infrastructure projects require federal funding, support, and coordination. State and local governments may have the borrowing power, political will to cooperate, or financial wherewithal required to fund and manage such infrastructure projects.
    - E.g. Gateway Program: tunnel between New York and New Jersey. The existing tunnel was damaged by Hurricane Sandy, and a new tunnel was considered and proposed. In 2010, the Obama administration committed \$3 billion to the project, but NJ Governor Chris Christie canceled the project citing costs that he expected to overrun the initial estimations.<sup>10</sup> In 2017, Governors Cuomo and Christie reached a tentative deal to resurrect the project.<sup>11</sup> The Trump administration then retracted the federal funding commitment.<sup>12</sup>
  - Municipal bonds
    - Municipal bonds are generally exempt from federal taxes except when there is private-equity activity. P3 projects do not qualify.
    - Build America Bonds were created under the American Recovery and Reinvestment Act of 2009 and expired in 2010.<sup>13</sup> It allowed states and local governments to issue taxable bonds with 35% of the interest costs subsidized by the federal government. Intended to encourage investment in local areas. Despite its success in making state and local bonds more competitive with corporate bonds, it was not renewed.
- Infrastructure for economic security
  - Benefits
    - Is an area where government and private finance can be combined to create jobs and rebuild crumbling infrastructure
    - Generally financed through debt, not an increase in taxes
    - Jobs creation short-term and long-term in the design and building as well as in the local community that benefits from revitalization
  - Has bipartisan support broadly but maybe not necessarily the political will

---

<sup>10</sup> Zernike, K. 2012, April 10. Christie stands by his decision to cancel train tunnel. *The New York Times*. Retrieved from <https://www.nytimes.com/2012/04/11/nyregion/christie-stands-by-his-decision-to-cancel-trans-hudson-tunnel.html>

<sup>11</sup> Press Release: Governors Cuomo and Christie Announce Commitment to Fund 100 Percent of States' Half of New Gateway Tunnel. December 14, 2017. <https://www.governor.ny.gov/news/governors-cuomo-and-christie-announce-commitment-fund-100-percent-states-half-new-gateway>

<sup>12</sup> Segers, G. 2018, March 20. Updated: 6 questions about the Gateway Program, answered. *City & State New York*. Retrieved from <https://www.cityandstateny.com/articles/policy/infrastructure/the-gateway-program-five-questions-answered.html>

<sup>13</sup> Frequently Asked Questions on Build America Bonds and Recovery Zone Economic Development Bonds, IRS informational flyer. [https://www.irs.gov/pub/irs-tege/arra\\_baba\\_final\\_shw\\_qa.pdf](https://www.irs.gov/pub/irs-tege/arra_baba_final_shw_qa.pdf)

- Bipartisan recognition that American infrastructure is failing
- Because infrastructure benefits are local and the urban, suburban, and rural needs are varied, there's lack of political will in building coalitions to advance projects that don't directly serve local interests.
  - For example, broadband and utilities are more important in rural areas. Transportation is more important in urban areas.
  - As was the case in the Gateway Project. Early on in the project's inception, prominent Republicans and Democrats supported the project. By 2017-18, the Trump administration and many Republicans sought to strip funding, wary of such spending on projects in other districts.<sup>14</sup>

### **Additional Resources**

Graetz, Michael J., and Ian Shapiro. *The Wolf at the Door: the Menace of Economic Insecurity and How to Fight It*. Harvard University Press, 2020.

Available at: <https://www.hup.harvard.edu/catalog.php?isbn=9780674980884>

---

<sup>14</sup> Dawsey, J., DeBonis, M. 2018, March 2. Trump pushes Republicans to oppose the crucial New York-New Jersey tunnel project. *The Washington Post*. Retrieved from [https://www.washingtonpost.com/powerpost/trump-pushes-republicans-to-oppose-crucial-new-york-new-jersey-tunnel-project/2018/03/02/06987446-1e6c-11e8-9de1-147dd2df3829\\_story.html](https://www.washingtonpost.com/powerpost/trump-pushes-republicans-to-oppose-crucial-new-york-new-jersey-tunnel-project/2018/03/02/06987446-1e6c-11e8-9de1-147dd2df3829_story.html)