FUNDING AND FINANCING FOR COMMUNITY-SERVING INFRASTRUCTURE

ACCELERATOR FOR AMERICA

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SUMMARY

Amidst the current economic crisis caused by the COVID-19 pandemic, cities are contending with significant budget shortfalls due to sharp losses in tax revenue. The continuously evolving extent of the fiscal challenge is being updated regularly by the U.S. Conference of Mayors on the Mayors COVID-19 Fiscal Pain Tracker. This is an unprecedented time, requiring innovative policy solutions for infrastructure planning, funding, construction, and operation. Aligning funding and financing mechanisms to meet local needs for essential infrastructure is critical to kickstart economic recovery.

In order to improve delivery of community serving infrastructure to facilitate economic recovery, the NPI recommends that Congress: 1) Supply long-term operational funding support. 2) Focus recovery dollars first on the State of Good Repair. 3) Provide pre-development funds and technical assistance to support "shovel-worthy" projects. 4) Offer catalytic federal support for state and local bond issuance and re-financings. 5) Increase utilization of federal credit programs through refinancing, 6) Expand the scope of federal discretionary grant programs. 7) Increase direct regional funding. These policy recommendations will enable communities to develop essential infrastructure, and if adopted will:

- Support economic growth both locally and nationally.
- Increase federal funding to underserved jurisdictions.
- Provide much needed support for municipalities to recover from the current crisis.

THE PROBLEM

Increasingly, rigid federal requirements have created the need to "bend" local priorities to fit available federal funding buckets, and other federal strictures have distorted local priorities and limited local choices. This is acutely felt in crises, when state and local authorities have immediate infrastructure needs that they cannot meet due to constricted budgets and lack of resources. Communities are in need, having to meet an unprecedented funding gap to sustain current operations and prepare their communities for the future.

"We have to keep investing now, both for the future, and because so much of our economy is counting on local government to make these investments."

Mayor Kate Gallego
Phoenix, AZ

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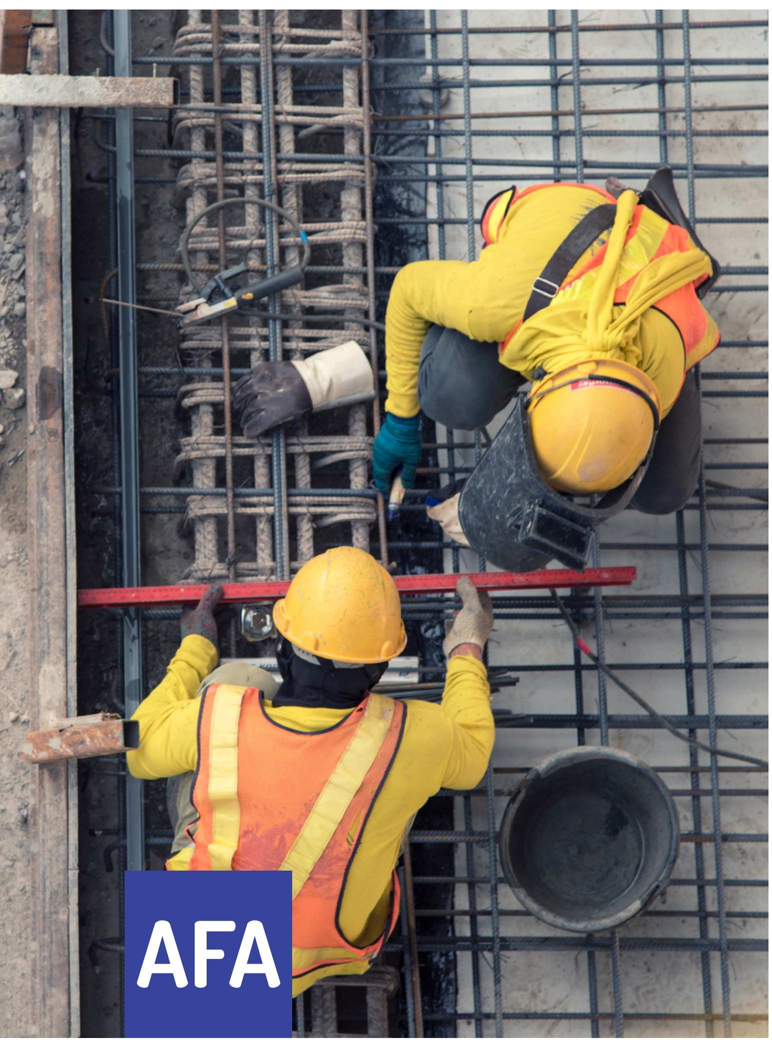
POLICY RECOMMENDATIONS

RECOMMENDATION #12:

Provide long-term operational funding support through stimulus dollars and by reintroducing a federal revenue-sharing program.

Outcome(s): Preserve essential local services and maintain an infrastructure backbone that keeps cities moving, support and sustain mobility for essential front-line service workers.



After the 2008/2009 economic crisis, local government agencies across the country were forced to make deep cuts in operational funding and services. Some agencies are just now back on their feet. In response to the last financial crisis, MARTA cut almost half of its bus service and spent nearly a decade returning operations to full service.[1] This crisis could prompt similar cuts and impacts, leading to poorer services and communities less well served at their time of greatest need, with mobility especially threatened for essential front-line service workers who rely on transit. Infrastructure-focused stimulus funding is a clear opportunity to address this crisis in transportation. Amidst sharp reductions in consumer spending because of the pandemic, local and state governments are experiencing major declines in sales tax revenue, resulting in heavily constricted budgets. Providing one-time stimulus dollars to local authorities is not a long-term sustainable solution to support localities through this crisis. In response to the current funding gap and continued funding uncertainty among cities, the federal government should reintroduce a revenue-sharing program, which previously existed from 1972 to 1986. This would allow local governments to receive a portion of federal tax revenues to use for operational purposes. The previous revenue-sharing program provided direct federal aid to cities and towns, enabling local officials and communities via public hearings to determine how best to spend those dollars. Implementing such a program today would provide local authorities with a portion of the financial foundation required to support their infrastructure on an ongoing basis. As a result, cities would be able to provide mobility services for the populations that rely on transit in a more sustainable way. Supplying these services for our communities cannot be contingent on collection of fare revenue. While the one-time operational funding passed in the recent CARES Act has provided a needed short-term infusion of operational funding for transit systems and airports, additional funding is needed, and ongoing investment through a revenue-sharing program is necessary to support systems that will face years of declining operational revenues.

POLICY RECOMMENDATIONS

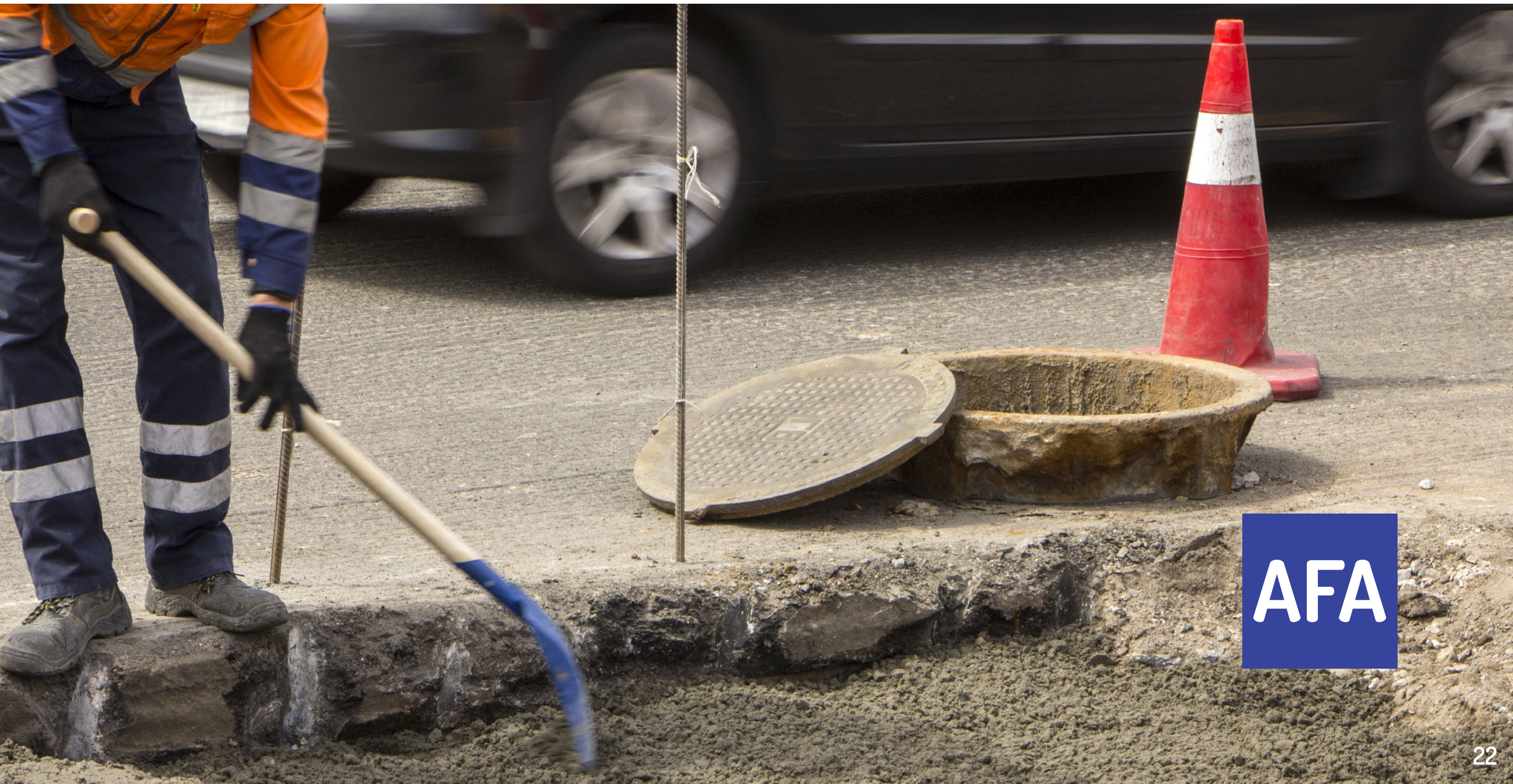
RECOMMENDATION #13:

Focus recovery dollars first on the State of Good Repair.

Outcome(s): Preserve and rehabilitate community infrastructure to a state of good repair, improve infrastructure in traditionally under-invested communities.

> "Especially during this time, rehabilitation projects are expensive. It's awful to always feel like you're scraping by. Federal support would help us from draining our own resources so we could focus on actually getting the projects done."
>
> **Mayor Paige Cognetti**
> Scranton, PA

Increased capital funding should be allocated to rehabilitating or maintaining current infrastructure in a state of good repair. Rehabilitating and maintaining existing assets in a state of good repair is sound fiscal policy, a more affordable and speedier approach to positively impact communities, and a necessary precursor for new infrastructure investments. This will allow for the greatest positive impact for communities in the shortest amount of time, while reducing the maintenance backlog burden for local governments. Additionally, while authorities receive federal funding to deliver new infrastructure projects, they often lack the sufficient funds to manage the maintenance of the assets, leading to large maintenance backlogs and poor asset management practices. Further, state of good repair dollars should be targeted toward communities that have been underinvested in and where infrastructure is most in need of maintenance. For the long-term health of our infrastructure system and the prosperity of our communities, we should devote the first dollars to the state of good repair.



POLICY RECOMMENDATIONS

RECOMMENDATION #14:

Provide pre-development funds and technical assistance to support "shovel-worthy" projects.

Outcome(s): Enable municipalities to progress and execute essential projects, more funds and technical capacity to support delivery of essential infrastructure projects in small and medium sized cities.

"Although TIGER was great for bigger cities, it wasn't so much for mid-sized cities because we simply couldn't compete."

Mayor Nan Whaley
Dayton, OH

Municipalities of all sizes often face the challenge of progressing important "shovel-worthy" projects to the construction stage, which is particularly challenging under current economic circumstances. Municipalities must develop a project design and conduct intensive studies, which can easily cost millions of dollars, before a project can be considered ready for construction. A lack of both human and financial capital impedes smaller jurisdictions from developing the key infrastructure projects necessary to benefit their communities. Additionally, these capacity constraints paired with the resource-intensive process of applying for federal grants pose a significant barrier to entry for smaller jurisdictions to access federal funds. The current crisis will make smaller jurisdictions further resource constrained without the capacity to apply for federal funding.

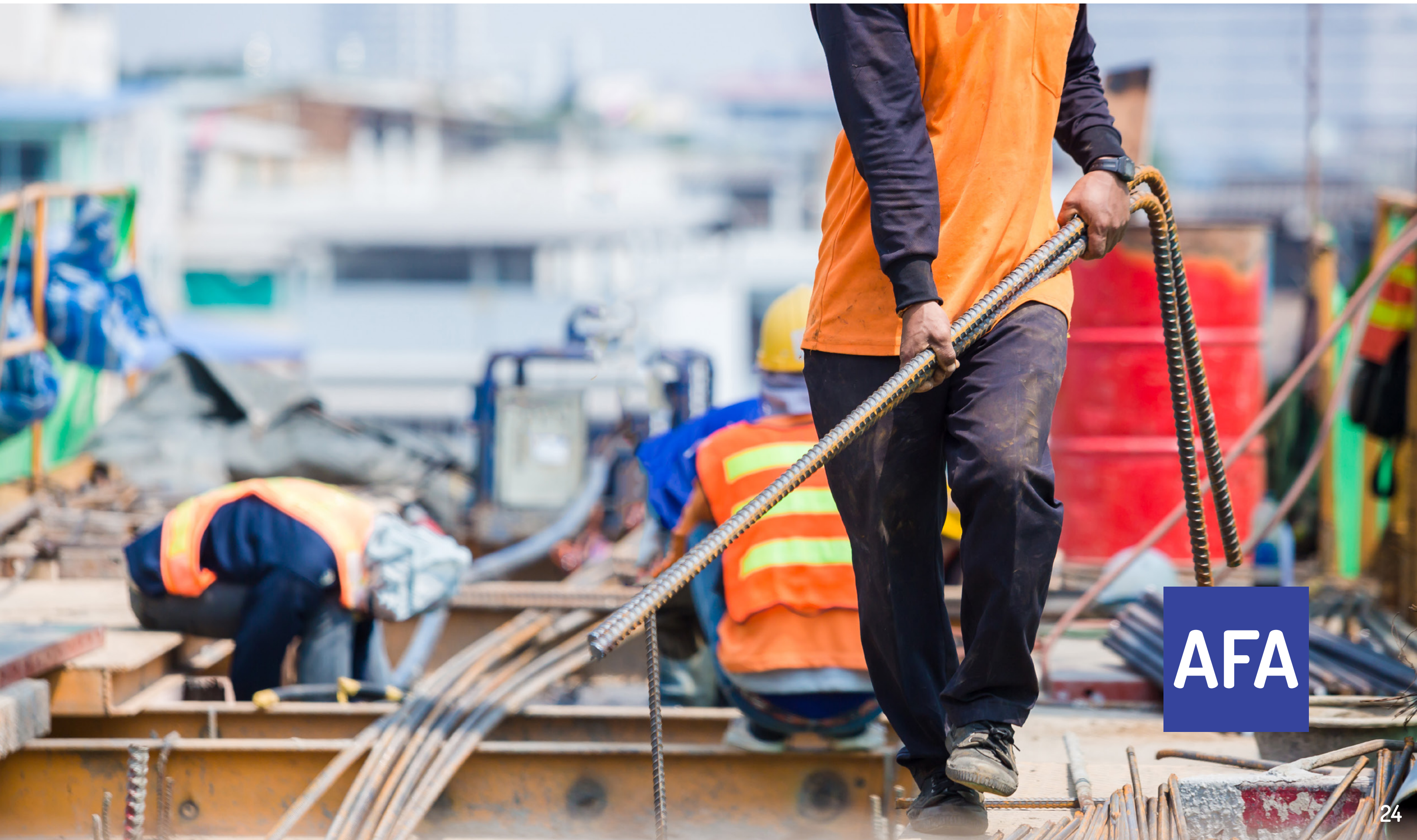
To encourage and support municipalities to develop and execute infrastructure projects, the federal government should 1) Create a pre-development fund targeted toward small and medium-sized cities to provide needed capital for the planning phase. 2) Provide technical assistance and access to consultants and advisor support to small- and medium-sized jurisdictions. The pre-development fund will help advance shovel-worthy projects that have been identified by local decision-makers as being able to provide a needed community benefit, such as electric vehicle (EV) charging and other climate and sustainability projects. Such projects help municipalities recover and build back even stronger from this crisis through future-proof infrastructure that will improve public health and create jobs in decades to come. Further, providing technical assistance and access to consultants and advisor support on the completion of applications and federal requirements would help level the playing field to make funding available to projects in cities of all sizes.

RECOMMENDATION #15:

Provide catalytic federal support for state and local bond issuance and re-financings.

Outcome(s): Allow municipalities to raise capital for infrastructure projects amidst market uncertainty.

The COVID-19 crisis has created great uncertainty in capital markets, including securities such as municipal bonds. Municipal bonds, often considered to be one of the most low-risk investments, have become more difficult to issue within the past few months, despite the fact that the market is improving. For municipalities to continue raising capital and make progress on essential infrastructure projects, federal support for local debt will be crucial. Access to emergency liquidity support mechanisms is critically important, especially for smaller and medium-sized communities who lack sophisticated financing capacity. At the same time, to drive long-term economic recovery, a new class of securities, based on known best practices and experience, is necessary to provide support for municipalities to raise much needed capital to advance their projects, and increase stability in the securities market and promote economic growth.



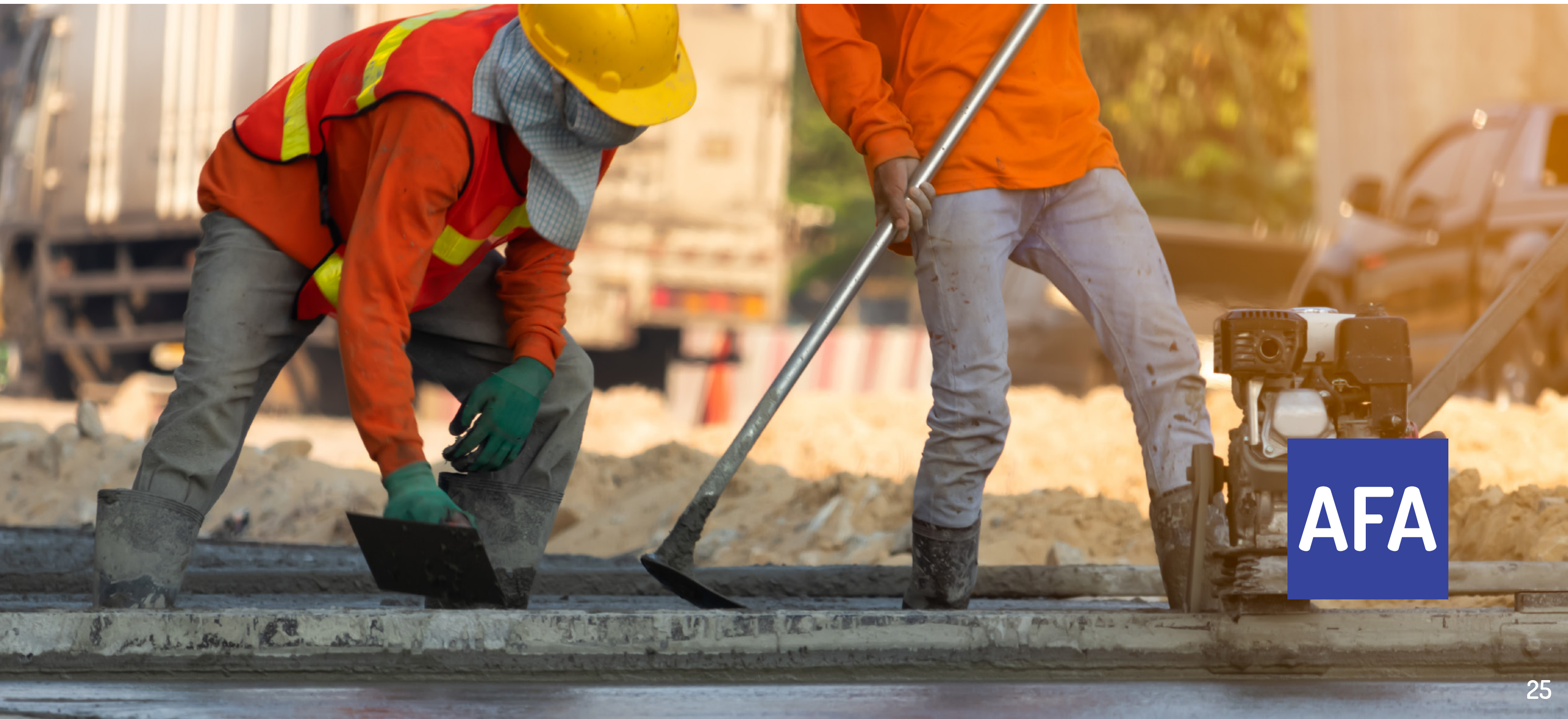
POLICY RECOMMENDATIONS

RECOMMENDATION #16:

Increase utilization of federal credit programs through refinancing.

Outcome(s): Quickly generate billions of dollars of low-interest loans for infrastructure.

Cities and local infrastructure agencies need capital and financing opportunities to sustain operations and build for the future following the current crisis. Repurposing federal credit programs presents an opportunity for local agencies to refinance existing debt obligations at lower interest rates, allowing for effective redeployment of infrastructure dollars to meet changing needs. USDOT's TIFIA lending program finances up to one-third of project costs at low federal interest rates. TIFIA, which has traditionally been used to secure funding for new projects under development, can also be used to refinance existing debt at a low interest rate, currently under 2%, as long as the additional funding capacity is reinvested in the transportation system by supporting the completion, enhancement, or expansion of an eligible project. To ensure localities across the country are able to take advantage of this program in an effective manner, we recommend USDOT designate a portion of TIFIA lending capacity by formula to each state for project refinancings. Then, the state should dedicate a portion to municipalities/municipal planning organizations (MPOs), transit agencies and tolling authorities based on need. The basic credit worthiness requirement of an investment grade rating would apply. Delegating this authority to a more local level would allow communities holding project debt to do what millions of homeowners have done—refinance at a lower rate and reinvest in improvements.



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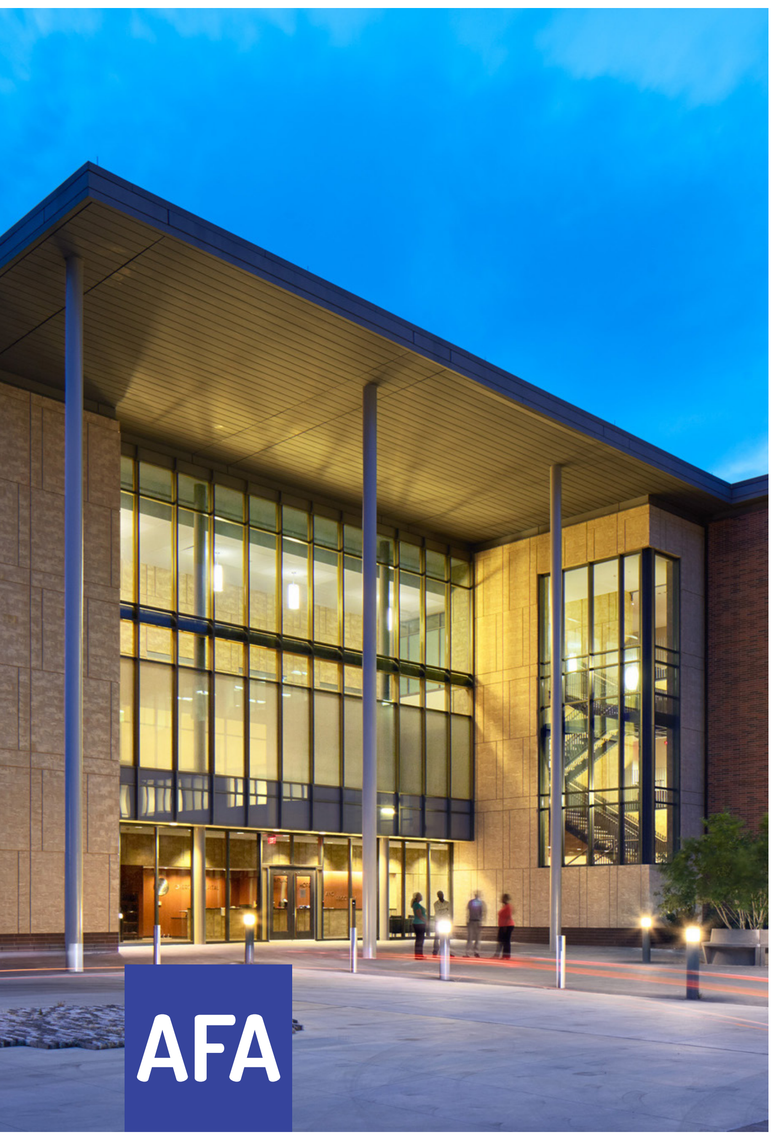
POLICY RECOMMENDATIONS

RECOMMENDATION #17:

Expand the scope of and refine federal discretionary grant programs.

Outcome(s): Federal funds will be allocated to a variety of infrastructure projects based on local need, allowing municipalities the flexibility to deliver projects that will provide the greatest benefit to their community.



Recognizing that the complex needs of the built environment often do not align with the heavily siloed nature of federal programs, cities require greater flexibility to fund projects that cross sectors and governmental agencies. Additionally, eligibility of federal grant programs can be improved to allow these funding sources to serve as a tool to address racial inequality in communities across the country. Congress created programs like the Better Utilizing Investments to Leverage Development (BUILD), Infrastructure for Rebuilding America (INFRA), and the Community Development Block Grant (CDBG) to provide flexibility and invest in infrastructure across modes of transportation and areas of development. However, these programs still have specific criteria and individual requirements that make it difficult to fund cross jurisdictional and innovative infrastructure projects without changing their scope or delivering a not quite right project for communities in need. As a result, many communities must rely on local innovative funding sources to support important community infrastructure investments. Mayor Holt of Oklahoma City led the passage of MAPS 4, a temporary penny sales tax that is estimated to raise almost a billion dollars to support community-serving social infrastructure projects including senior wellness centers, mental health and addiction centers, parks, and a civil rights center. These types of projects serve as essential social infrastructure for communities but are often only possible for cities that have the resources and tax base to pay for them with local dollars. Particularly in times of crises, these community-serving projects could further benefit from federal leadership to ensure that all cities have the needed support and resources to successfully develop and execute innovative programs or projects. Along with expanding eligibility for infrastructure projects, the federal government can include racial inequality as an optional merit criterion, requesting that applicants demonstrate how the project will support Black and Brown communities. A refining by federal grant agencies of their funding eligibility criteria for major grants and providing monetary support to local government programs and essential social infrastructure would allow agencies to deliver the exact projects that would best serve their communities.

POLICY RECOMMENDATIONS

RECOMMENDATION #18:

Increase direct regional funding.

Outcome(s): More efficient delivery of funds and increased local decision-making results in projects that make sense for the communities served.

"Finding the money for ongoing flood control and emergency management is the real challenge. Project-based funding is tremendously helpful, but cities need to be able to maintain the infrastructure and services."

Mayor Paige Cognetti
Scranton, PA

Providing more infrastructure funding directly to regions via MPOs ensures investments are vetted in a way that reflects local priorities but also allows for strategic investments that serve communities as a whole. The Surface Transportation Block Grant Program uses this approach as federal funds are provided to MPOs and distributed on a regional basis after local officials evaluate a variety of factors, including local benefits, quality of life, economic development, and return on investment. Increasing funding for this program and creating similar infrastructure programs with broader eligibility criteria could have lasting regional benefits. When smaller and midsize cities look to make capital improvements, the projects benefit from a coordinated approach. For example, water pipes that do not end at the city limits and bridges frequently connect two or more communities. Understanding this reality and distributing funds directly to regions who can help prioritize and oversee this coordination aligns with expanding the Local Empowerment for Acceleration Project (LEAP) pilot program that tested providing local governments with direct federal funding in order to distribute federal funding more efficiently.