



The Case for Infrastructure Investment

Protecting Massachusetts' Competitiveness

“Maintaining infrastructure is part of any economic development plan. We must identify critical infrastructure needs and put public dollars where they can best be spent.”

— Acting Governor *Jane Swift*

“Now more than ever, a premium must be placed on carefully considering which capital projects are most critical.”

— State Treasurer *Shannon O'Brien*

... speaking at Mass Insight's December 2000 Leadership Conference, *The Infrastructure We Need—And How to Pay for It.*

Mass Insight invited 150 public and private sector leaders to focus on the major elements of a successful regional infrastructure strategy: **transportation, water and energy**. A telecommunications update set the stage for future discussions. Together these core infrastructure needs are the foundation for continued economic prosperity in Massachusetts and New England. **Reliable funding and clear, transparent policies for project selection** are key elements of any strategy to maintain the regional advantage that a competitive infrastructure provides.



Increase Capital Spending -- Improve Priority Setting

One of history's great lessons is that regions need adequate infrastructure to thrive—both physically and economically. Without potable water and effective waste disposal systems, diseases can flourish. From canals and railroads to highways and airports, transportation has been and will continue to be central to regional economic success. In the 21st century, we will continue to need adequate supplies of electricity as well as the telecommunications infrastructure that is the backbone of our information-based economy. And we will need to keep investing in the “soft” forms of infrastructure—such as parks, libraries, and school buildings—that make the region appealing to the highly-educated, mobile people that work in our world-class firms and institutions. As in the past, the great challenges will be finding ways to pay for desired projects, developing effective systems to ensure that we spend that money wisely and finding cost-effective ways to build this without imposing undue harm on either neighborhoods or the natural environment.

More than \$18 billion in state capital expenditures (not including the Central Artery) have been made over the last ten years.

But a huge gap remains between needed projects and available funds. Increasing the state capital budget for high priority regional projects is critical.

- Budget surpluses (which have been a major funding source for capital projects) are likely to disappear due to a slowing economy and tax cuts.

- The Central Artery project is taking a major share of capital resources; its financial impact will continue for another 10 to 15 years.

- Massachusetts Federal highway aid was cut by 40% in 1998 and is up for reconsideration again next year.

Now is the time to invest in infrastructure. A slower economy provides advantages for infrastructure investment. Work can be done more cheaply because of lower interest rates and labor costs. Improvements in infrastructure position the economy for future growth.

Picking the right projects and priorities, and building consensus around those choices, is more important than ever. We need a clearer coordinated process to identify regional investments that will have the biggest impact on transportation, water supply and quality and energy supply.

Federal, State and Local Agendas

Federal

- Increase overall infrastructure spending; expand the water and waste water State Revolving Fund loan program and appropriate recently authorized grant funds for “wet weather” projects.
- Review EPA regulations, support data-based priority-setting and site specific flexibility.

State

- Increase the funding, visibility and support for major regional infrastructure investments.
- Create a true tax increment financing program in Massachusetts through legislation.
- Incentivize regional projects and approaches.
- Align regulations to support infrastructure decisions.

- Provide a better senior staff level forum to debate and resolve conflicting state priorities e.g. transportation, energy and the environment.

Local

- Inventory local resources and long term needs.
- Create enterprise funds which include rational maintenance and replacement schedules.
- Raise “user fees” to realistic rates to meet the costs.

Capital Demands Exceed \$1B Cap (\$Millions)

Category	Authorized / Unissued Bonds	Annual Capital Allotment
Transportation	\$4,706	\$513
Environment / Open Space	786	100
Courts	707	40
Higher Education	537	75
Housing	477	72
Corrections	306	21
Information Technology	237	49
Seaports	157	5
Other	862	126
Total	\$8,776	\$1,000

Source: Massachusetts Taxpayers Foundation

Regional Incentives for Regional Projects

How can the state use funding and regulatory programs to bring cities and towns together in more targeted, cost-effective regional projects? Infrastructure challenges do not respect municipal borders, but Massachusetts struggles to develop mechanisms (either carrots or sticks) to overcome the limitations of local autonomy.

Economic development projects provide lessons for coordination that could be applied to regional transportation, water or energy projects.

Assabet River

Assabet River Consortium is an example of an incentivized regional approach. Six communities and a special wastewater district discharging wastewater into the Assabet River signed an inter-municipal agreement to jointly apply for a State Revolving Fund loan to develop a single Comprehensive Wastewater Management Plan/Environmental Impact Report (CWMP/EIR). The regional approach greatly assisted in getting the joint project on the fundable portion of DEP's project priority list. More cooperation will be required in the areas of dam removal, pollutant trading, wet weather control and other water quality issues to solve the Assabet's problems. The question remains, will the state take the bigger step of allowing the six communities, because of their regional cooperation, more flexibility to target limited dollars at the most critical water quality goals for the Assabet?

Chicopee

The **Chicopee River Business Park** is an example of what thinking beyond municipal barriers can accomplish. Western Massachusetts seeks economic development. A promising site for business development, located in both Chicopee and Springfield, had been looked at for 30 years. The 173 acre parcel is well-located adjacent to Interstate 291 and a half mile from exit 6 of the Massachusetts Turnpike.

The challenges to this site were daunting, however. Land in two different communities meant different zoning rules, different electricity providers and different water and sewer systems using different treatment plants. The parcel was also a "brownfields" site with a former rifle range and an abandoned landfill.

The mayors of Chicopee and Springfield, along with the regional economic development agency and private business, worked together on a cooperative approach, and the state responded. MassDevelopment provided \$75,000 of critical predevelopment assistance for a market feasibility assessment and preliminary environmental work. MassHighway committed to the construction of a new bridge across the Chicopee River with a direct connection to an I-291 access ramp. Mayor Kos of Chicopee and Mayor Albano of Springfield worked through tax base and infrastructure issues and applied for federal and state grants (CDAG and PWED).

The grants were awarded to the regional project, and with the addition of private investment from the nonprofit Westmass Area Development Corporation, which also owns the land, over \$5 million has been spent to put the infrastructure in place and begin marketing the park. When completed, the project is expected to generate approximately 2600 financial services and high-tech jobs for the western Massachusetts region.

Public Private Partnerships

A Pilot Project Worth Review—Route 3 North

By the mid 1990s, traffic along Route 3 North, a 21-mile limited access highway running north and south between the Route I-95/128 interchange in Burlington and the New Hampshire border, was unacceptable. Gridlock was common, and significant volumes of traffic escaped onto local roads, clogging business areas and increasing local road maintenance.

The seven communities along the Corridor (Bedford, Billerica, Burlington, Chelmsford, Lowell, Tyngsborough and Westford) united to accelerate the road project.

Rather than continue the traditional public process, which would have had a 12 to 15-year time frame with five different contract packages, the communities supported a bi-partisan legislative effort to pass enabling legislation for a new pilot initiative to privately finance the reconstruction.

The 1999 legislation created a public-private partnership to finance, design, build, operate and maintain the project. Through a competitive bid process, which included proposed financing and environmental permitting plans plus warranties for quality of work and traffic management (rather than just price), MassHighway selected Modern Continental as the developer.

Advantages of Route 3 public-private model:

- **Quicker delivery.** Project to be completed in 42 months rather than 12 to 15 years.

- **Lower guaranteed price.** \$385 million guaranteed price due to shorter time frame, efficiencies of design-build, and lower cost of money for the contractor.

- **Risk allocation.** Contracting team, rather than MassHighway accepts responsibility for on-time and on-budget. Price is guaranteed and secured by the developer.

- **Quality assurance.** Contractor must operate and maintain the road for 30 years, and then turn it back to MassHighway in the original improved condition.

- **Favorable financing arrangements.** The Route 3 North project preserves the state's limited bonding capacity through an innovative not-for-profit corporation formed by Modern Continental and MassHighway. Rather than tapping the Commonwealth's general obligation bonds, the Route 3 North Transportation Improvements Association issues \$394.5 million in tax-exempt bonds secured by a 34-year lease between MassHighway and the Association. AAA bond ratings for the Association, the ability to buy tailored project insurance, and non-project development rights for Modern Continental all reduce the costs of the project to the Commonwealth.

Next Steps

Set Priorities Clearly Build Support Invest in Critical Projects

- **Create a Blue Ribbon Panel** for strategic review of competing priorities and investments across all three areas: transportation, water, energy. A bipartisan group of public sector and business leaders should be appointed to help identify the most significant statewide plans and project priorities and build support for major regional investments.
- **Educate the public.** Which problems need to be fixed first and why? Public awareness of the *environmental* impacts of infrastructure decisions has increased but not the public's understanding of *economic* implications. If voters are to support necessary investment, including rate increases, they must make the link to their own well-being. Education is most critical around the infrastructure areas that they either don't understand, like energy deregulation, or don't see, like water and wastewater pipes.
- **Allocate increased capital spending** to the most critical projects. The combination of the administration's recent bond cap increase and the completion of the Central Artery will provide up to \$400 million per year for other priorities.
- **Use**, where appropriate, **public-private partnerships** and **tax increment financing**. The Route 3 North model is worthy of close examination.

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Since 1989, Mass Insight has organized leadership groups and facilitated public-private initiatives to improve state performance on issues that have a significant economic impact on Massachusetts. Through its Mass Clean Water Council, a partnership of local leaders, regional water project directors, private sector professionals and prior leadership groups in transportation and environmental permitting, Mass Insight has had a long history of public-private infrastructure initiatives.

The issues and proposals in this publication were raised at the December 12, 2000 Mass Insight Leadership Conference, *The Infrastructure We Need—And How to Pay for It*. They do not necessarily represent the positions of individual participants.

conference participants

Presenters:

- Stephen Crosby, Secretary of Administration and Finance
- Michael Hogan, President and CEO, MassDevelopment
- Lauren Liss, Commissioner, DEP
- David Luberoff, Associate Director, Taubman Center for State and Local Government, Harvard University's Kennedy School of Government
- William McCabe, retired Partner, New England Development
- Douglas MacDonald, Former Executive Director, MWRA
- Shannon O'Brien, State Treasurer
- James Rooney, Mayor's Chief of Staff, Boston
- Jane Swift, Acting Governor, Commonwealth of Massachusetts
- Susan Tierney, Consultant, Lexecon
- Michael Widmer, President, Mass. Taxpayers Foundation

Discussion Leaders:

- Virginia Buckingham, Executive Director, MassPort
- John Daniels, Manager, Govt. Liaison Services, Earth Tech
- Sonia Hamel, Director of Air Policy Planning, Executive Office of Environmental Affairs
- Richard Kennelly, Attorney, Conservation Law Foundation
- Ed Kunce, Deputy Commissioner, DEP
- R.J. Lyman, Partner, Goodwin Procter LLP
- Douglas McGarrah, Partner, Foley, Hoag & Eliot LLP
- David O'Connor, Commissioner, Department of Energy Resources
- Arleen O'Donnell, Deputy Commissioner, Department of Environmental Protection
- James Rurak, Mayor, City of Haverhill
- Kevin Sullivan, Secretary, Executive Office of Transportation and Construction
- Steve Thumb, Principal, Energy Ventures Analysis, Inc.
- Bruce Tobey, Mayor, City of Gloucester

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