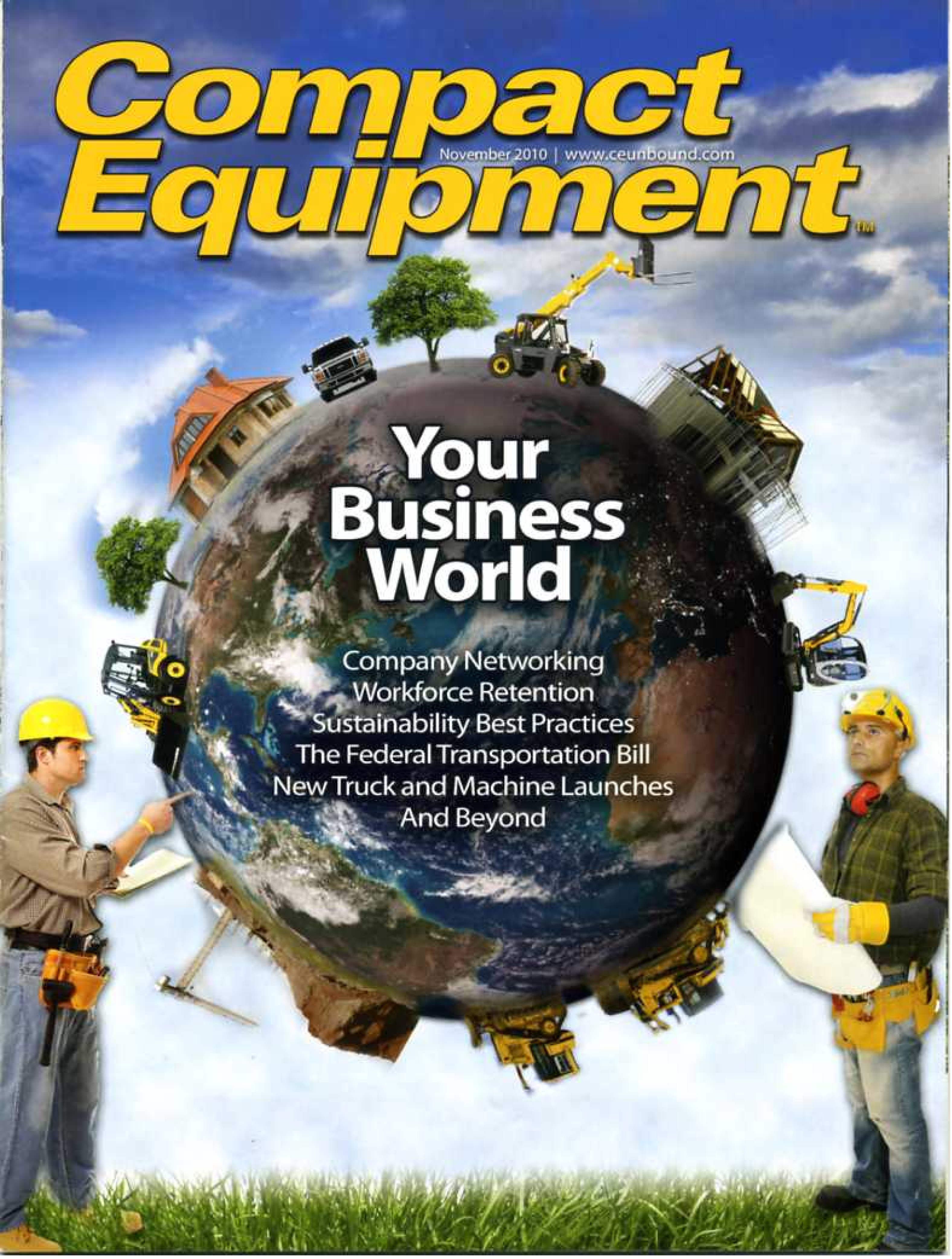
Compact Equipment

November 2010 | www.ceunbound.com



Your Business World

Company Networking
Workforce Retention
Sustainability Best Practices
The Federal Transportation Bill
New Truck and Machine Launches
And Beyond

CE News

The Infrastructure Bank

The White House Has a Plan to Save the Construction Industry, But We Have a Few Questions First

By Louis L. Marines

Within hours of President Obama's speech at LaborFest Milwaukee on Sept. 6, everyone in the architecture, engineering and construction (A/E/C) industry had heard the news: a $50 billion upfront investment in transportation initiatives starting with "immediate improvements in the nation's surface transportation ... airports and air traffic control systems," followed by "a long-term framework to reform and expand our nation's investment in transportation infrastructure."

Other points in the program include establishment of a national infrastructure bank to fund projects, a focus on high-speed rail, a program for "streamlining, modernizing and prioritizing surface transportation" and expanding investments in safety, sustainability, economic competitiveness and livability. The initial program proposes immediate action to improve the national highway system, bus and rail systems and runways.

The infrastructure bank, originally proposed by investment banker Felix Rohatyn in his book *Bold Endeavors: How Our Government Built America and Why It Must Rebuild Now*, would, as explained in the White House Fact Sheet: "Leverage private and state and local capital to invest in projects that are most critical to our economic progress. This marks an important departure from the federal government's traditional way of spending on infrastructure through earmarks and formula-based grants that are allocated more by geography and politics than demonstrated value." Instead, the new process will operate by "competing projects against each other to determine which will produce the greatest return for American taxpayers."

Several industry organizations have issued initial responses. David Raymond, president and CEO of the American Council of Engineering Companies, said in his Sept. 6 response letter to President Obama that, "...we want to commend you for taking this step, and urge you to work with Congress both on this initiative, as well as the multi-year aviation, water and surface transportation bills already pending in the House and Senate." Raymond does not mention the infrastructure bank in his letter.

Stephen E. Sandherr, CEO of the Associated General Contractors of America (AGC), said in a press release that, "... countless thousands of construction workers will have a better chance of retaining their jobs thanks to this proposal ... Like others, we are anxious to learn more details about the President's proposal." Sandherr also withholds comment on the proposed national infrastructure bank.

The proposal raises many questions that must be answered before we can tell whether all, part or none of it is worthy of putting into action. The danger of grand proposals during a stalled economy is that it is easy to ignore future consequences when you have employees who want work today. Politicians are aware of these pressures on business owners and industry leaders.

This proposal for an independent agency that can freely issue bonds and incur debt, but that is not beholden to the voters, sounds familiar. Steven Malanga's July 31, 2010, article, also in the *Wall Street Journal*, "The Muni-Bond Debt Bomb" explains how such programs work. States and municipalities across the country have created such independent agencies to issue bonds for massive projects — convention centers, stadia, housing tracts — that have across the board turned out to be overbuilt, money-losing white elephants.

Malanga explains that, "... most states sensibly require all bond offerings to be approved by voters — who have defeated new borrowing ... but the requirement has led to a rise in maneuvering by officials, who have created quasi-governmental authorities that can issue debt without voter approval ... When government can create a shadow world of independent agencies able to borrow without consulting voters, abuses become inevitable."

Advocates for the infrastructure investment and national infrastructure bank need to be prepared to respond to difficult questions and concerns from everyone potentially affected — from taxpayers to local governments to A/E/C firms. Among those questions, we can expect to see the following:

1. Two-thirds of the money allocated for infrastructure — and thereby job creation — in the first stimulus package is still unspent. What will it take to get those funds distributed?
2. The original Interstate Highway System was promoted as a defense measure to move troops and goods quickly across the country, but has more importantly contributed to sprawl, fossil fuel use and carbon production. In continued promotion of the interstates, are we perpetuating a bad idea?
3. Is facilitating interstate transportation an anathema to locally self-sufficient communities?
4. According to the Rocky Mountain Institute's article on "Rail vs. Trucking" of May 20, 2009, "Today's average train has an efficiency of 400 ton-miles per gallon whereas trucks currently hover around 130 ton-miles per gallon." If rail can move goods at a lower cost and less environmental impact than trucking them, what is the rationale for fixing and expanding highways, especially at a time when we, as a nation, are determined to reduce our dependence on oil for both environmental and economic reasons?
5. Many studies of traffic and congestion have shown that when roads are improved, congestion increases rather than decreases, because more drivers choose the new road, give up other modes of transportation and give up commuting at off-peak times. Arvid Strand, Petter Næss and Aud Tennøy of the Institute of Transport Economics in Norway reported in *Transport Business International* magazine of Oct. 27, 2009, that "Better roads increase emissions." Why then should we continue to expand highways?
6. The recession has lightened commuter traffic by as much as 25 percent, and freight shipments plummeted in 2009 to historic lows. While freight shipping is slowly increasing, are improvements necessary when overall usage is down?

7. If air travel is facilitated, will business reduce its use of online meetings and videoconferences with consequences for environment degradation and higher business costs?

The proposal for a national infrastructure bank will also raise many provocative questions.

1. What is the relationship of this bank to new stimulus vs. transportation act re-authorization?
2. Why is local transit — or any other infrastructure — a federal matter?
3. Is it a good idea to send taxes to Washington for allocation vs. keeping them locally?
4. Nicole Gelinas of the *New York Post* said in a review of Felix Rohatyn's book: "But a new way of financing projects won't create new money. It can't save us from having to cut something else out of government budgets — or having to raise taxes, tolls or some other revenues significantly — to fund important projects." Where will the money come from?
5. How does the bank contemplate transfer/sale of public assets (like highways, bridges and tunnels) to private entities (PPP), especially when the price that the private concessionaire pays depends on revenue flow from tolls? What are the implications?
6. How does the national infrastructure bank relate to the ASCE report card on infrastructure?
7. If the bank forces projects to compete against each other for funding, on the basis of "which will produce greatest return for American taxpayers," who makes that determination?
8. If every local community has to compete against New York, Los Angeles, Dallas and Chicago to get projects funded, why would the taxpayer want to send tax dollars to Washington?
9. If A/E/C firms have to apply for local projects from the national infrastructure bank, what happens to the value of goodwill built up over dozens of years between them and local leaders and public agencies? What does marketing look like under this new configuration?

Comments about the proposed bank range from The Economist's Sept. 7 blog on "Democracy in America," which says that insulating the funds of the national infrastructure bank from political influence would, in effect, remove the bank from being subject to the democratic process, to the six transportation experts at the National Journal's Transportation Blog who unanimously agree that the proposal "shows leadership" and "the benefits would be tremendous." How should the A/E/C industry (individuals as well as firms) address these arguments?

Louis L. Marines, Hon. AIA, is the founder of the Advanced Management Institute for Architecture and Engineering, now the A/E Services Division of FMI Corp. He consults with professional design firms across North America, and is an active author and speaker. His new book, *The Language of Leadership*, available from Greenway Publications, explores lessons learned from decades of developing and coaching leaders in the design professions. Lou is a CEO Emeritus of the American Institute of Architects. E-mail Lou at *lmarines@fminet.com*.

This new infrastructure investment would last six years, specifically rebuilding 150,000 miles of roads, building and maintaining 4,000 miles of railway and improving airports by fixing and building 150 miles of runways and installing a new air navigation system known as NexGen to reduce travel time and delays.