

funds. In addition, a RAND study last year concluded that the best congestion strategies are price based.

The HOT lanes program is regarded as superior to the proliferation of toll roads—even when those roads are provided under public/private partnerships—primarily because toll roads employed alone are perceived to induce sprawl. While all drivers are charged on toll roads, the combination of HOT lanes and free general-purpose lanes in the same corridor provides one vitally important feature: choice. Moreover, conversion of often-underused HOV lanes to HOT lanes lowers capital costs when compared with simply adding managed lanes. Existing dynamic lane pricing projects include State Road 91 in Orange County and Interstate 15 in San Diego, along with similar projects in Minneapolis, Denver, Houston, and other cities.

In addition to street improvements, traffic reduction, public transportation, and quality-of-life projects, Measure R is expected to contribute to more than a dozen rail and rapid transit projects in the county; one, the \$215.6 million, four-mile (6.4-km) extension of the Orange Line, began construction this June. Each is expected to lead to development of new transit-oriented developments. Altogether, some \$32 billion will be infused into the local economy and 212,000 jobs added through these transit projects, starting this year.

Following in large part California's leadership, the federal government in May announced a new unified, tougher national standard for automobile fuel economy. These recent milestones are setting the stage for Los Angeles to transform its land use/transportation connection from a story of highway fixation to a legacy of leadership in sustainable urban development and meeting the challenges of global climate change. **UL**

ALEXANDER E. KALAMAROS is a manager in the joint development program of the Los Angeles County Metropolitan Transportation Authority.

A National Infrastructure Bank for the U.S.?

BY MOST ACCOUNTS, the United States is under-investing in infrastructure. Metrics of all kinds give the country poor marks for maintaining existing infrastructure, much less building the new and expanded transit, road, aviation, energy, and water systems it needs. But perhaps more important, the country lacks a coherent strategy for prioritizing which infrastructure investments to make and where to make them. From thousands of transportation earmarks to siloed federal funding programs that send money to states and localities with little attention to overall outcomes, it is clear that the United States is *spending* on infrastructure, but not *investing* in it.

Many hope a new institution, a National Infrastructure Development Bank (NIDB), can address the country's deteriorating infrastructure and kick-start a new investment-oriented approach to U.S. needs. The Urban Land Institute highlighted the promise of an American infrastructure bank in *Infrastructure 2009: Pivot Point*, published in April, and such a bank is a central recommendation of the ULI National Transportation Policy Dialogue, a ULI program—supported by the Rockefeller Foundation and ULI trustee James Curtis—focusing on transportation issues. Proponents of an infrastructure bank say it could give the federal government access to capital markets for infrastructure and add new rigor to the infrastructure decision-making process.

Infrastructure banks have existed in other places for a long time; the European Investment Bank (EIB) is often cited as a model for a U.S. version. Established in 1958, the EIB is the lending arm of the European Union. Its subscribed capital comes from the 27 EU member states, which sit on the EIB board of governors as shareholders, but the bank is an independent entity and employees are not EU civil servants.

The EIB is a nonprofit, policy-driven public bank with a mandate to promote “integration, balanced development, and social cohesion” of the member states, as well as environmental goals such as reducing carbon emissions. It also must generate sufficient returns through its projects to pay expenses, including salaries and overhead, and increase its

capital base for new loans. As a result, it subjects all potential projects to rigorous technical and risk analyses, charges variable interest rates determined by the risk profile of the project and the borrower, and requires a loan match of at least 50 percent for most projects.

The match can come from a variety of sources, including government funding, but it normally comes from other bank loans. The bank's involvement "provides commercial banks a bit of comfort about a project before they're willing to dive in," says Brian Field, planning and development specialist at the EIB. "It also provides long-term capital for projects at lengths most commercial banks don't want to lend, like 15, 20, 25 years." The EIB's minimum loan amount is \$35 million.

In the beginning, the EIB focused on traditional infrastructure projects like roads and bridges that were considered essential to its economic development mission. More recently, its portfolio has expanded to include social assets such as schools, hospitals, and other public facilities. In recent years, the EIB has developed new strategies for reaching small projects, and also has gotten behind major programs such as the Trans-European Networks, a massive investment in transport and energy systems to connect cities across the continent.

Each year, the EIB disperses about \$64 billion in loans, making it the largest public financial institution in the world. In its 51-year history, the EIB has lost money on only a few projects. "We expect to get our money back," says Field.

With its proven track record and long history of infrastructure lending, the EIB offers many lessons for a U.S. infrastructure bank. The most important may be how to combine a mandate to achieve broad social, economic, and environmental objectives with an investment perspective and project selection process that is largely insulated from political influence. The EIB's policy goals are set by the EU,

but the bank's management decisions—including those about which projects are eligible, which are worthy to receive loans, and what the loan terms should be—are made by the bank's cadre of professional and technical staff. This helps ensure that projects move forward on their merits rather than as a favor to a political patron or constituency.

The EIB is not without its critics. The bank must balance the important—but somewhat contradictory—objectives of achieving overarching EU goals while making profitable investments, and also of offering sufficient transparency while protecting clients and strategies. Some critics argue it does not always get the balance right. Others charge that the EIB continues to focus too much on road projects despite its commitment to promoting sustainable development and reducing global warming.

Back in the United States, House Bill 2521, introduced in May by U.S. Representative Rosa DeLauro (D-CT) and 30 cosponsors, warrants a closer look. The bill would establish a government-owned NIDB "to facilitate efficient investments and financing of infrastructure projects and new job creation," and leverage funding with private sources. Investing in transportation, environmental, energy, and telecommunications projects, it would be capitalized at \$5 billion per year over five years with federal resources.

NIDB's five-member board of directors, appointed by the president and approved by the Senate, would be drawn from the public and private sectors to oversee operations, make loans, issue tax-exempt bonds, and conduct other transactions. The board also would have the task of establishing eligibility and giving priority to those projects that emphasize job creation, promotion of equality, and reduction of poverty. An executive committee of bank senior staff would be responsible for processing project applications and providing financing recommendations to the board.

The DeLauro bill refines a 2007 Senate proposal by senators Christopher Dodd (D-CT) and Chuck Hagel (R-NE), and subsequent efforts at creating a new NIDB can be expected to build on these foundations. From this promising start, some ideas from the EIB could be used on this side of the Atlantic:

- ▷ Like the EIB, the NIDB should be able to raise capital in a variety of ways and define loan packages with a variety of lengths and interest rate terms that will ensure both the success of the project and the long-term health of the bank.
- ▷ The NIDB could take a cue from the member-state approach the EIB uses and accept capital from both the federal government and states. States could be represented on the board, perhaps on a rotating basis. With shares in the NIDB and a presence in the bank, states would become stakeholders in the success of each other's projects, and cross-state (or cross-country) projects could become easier to execute.
- ▷ Making sure that the project evaluation and selection process is objective will be an important factor in the NIDB's long-term success and viability. After the board has defined broad economic, environmental, technical, and financial objectives, authority to make decisions about individual projects could be delegated to NIDB management and technical staff.

"ULI has long recognized the promise of an American infrastructure bank. It holds great potential for leveraging public and private resources and for making the investments in infrastructure that we really need," says Maureen McAvey, executive vice president of initiatives at ULI. The EIB offers an important model for thinking about how to structure an infrastructure investment bank in the United States.

RACHEL MACCLEERY is managing director for infrastructure, ULI.

Infrastructure 2009: Pivot Point is available at www.uli.org/bookstore, or call 800-321-5011.