

**SINK OR SWIM -- INFRASTRUCTURE 2009: A PIVOT POINT UNDERSCORES NEED TO TRANSFORM
CRISIS INTO OPPORTUNITY WITH LONG-TERM INVESTMENT STRATEGY**

Report from Urban Land Institute, Ernst & Young Focuses on U.S. and Overseas

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WASHINGTON (April 20, 2009) – The United States desperately needs a 21st-century national infrastructure plan to emerge from its deep recession and ensure future prosperity, according to *Infrastructure 2009: A Pivot Point*, a new publication released today by the Urban Land Institute and Ernst & Young.

“The ongoing economic crisis has pushed the nation to a pivot point—either the country can risk further productivity decline, transportation congestion, and potential catastrophes from dilapidated systems, or it can develop new networks and land use models to accommodate the expected 100 million in population growth over the next generation,” the report states. “Current infrastructure stimulus spending may help fix some outmoded and crumbling roads, transit lines, and sewage systems; but, it offers no long term solutions for keeping the U.S. competitive in global markets or addressing related energy consumption and environmental concerns.”

Infrastructure 2009 calls for overhauling federal infrastructure policy and integrating land use and infrastructure planning at all levels of government. Such a plan, the report says, could result in greater leveraging of public investments; an improved mobility network that adequately supports desired economic growth; and the mitigation of greenhouse gas emissions through reduced auto dependency. The publication discusses the evolving infrastructure market, including private systems, and the combinations of public-private systems for funding, construction, operations, maintenance, and management.

The report acknowledges that the \$132 billion allotted to states for various ad hoc infrastructure projects in the recently-enacted American Recovery and Reinvestment Act (ARRA) should help boost the U.S. economy by creating jobs, but says the legislation falls far short of developing a necessary national strategy aimed at enabling future economic growth. Its sobering message: “The country faces a stark choice -- either avert its slide from prosperity through greater investment and innovation or hurtle into more gridlock, congestion and potential systematic failure. If we continue to run our infrastructure into a ditch, we won't be able to get our economy out of its hole.” For the long-term, *Infrastructure 2009* recommends a funding solution based on strategic investing, rather than simply spending.

“It's encouraging to see the federal government take an interest in infrastructure issues for the first time in a generation. But the very real need for policy changes is getting muddled in the rhetoric about creating jobs, reviving the economy and fixing potholes,” said Maureen McAvey, ULI Executive Vice President, Initiatives Group. “The jobs program is not an infrastructure strategy. Our nation has an unprecedented opportunity to craft a definitive reengineering strategy. It must not be squandered.”

“Infrastructure represents a great diversification opportunity. Pension funds, insurance companies, and other institutional investors are looking to invest in infrastructure projects as a hedge against their long-term liabilities. An estimated \$150 billion has been raised worldwide from the private sector for infrastructure investment,” stated Michael Lucki, Global Infrastructure Leader, Ernst & Young.

Infrastructure 2009 details a four-pronged approach to changing infrastructure policy that addresses how the nation plans, funds and implements infrastructure programs:

- Create a national strategy – A comprehensive strategy is needed that accounts for population growth, rapid urbanization and declining mobility throughout urban areas. New transport networks must interconnect more efficiently to move people and goods through increasingly congested global pathway cities. Innovative new transit schemes, connected to airports and train stations, must help reduce car dependency, prevent bottlenecks in commercial centers and decrease pollution.
- Plan holistically – Goals to reduce congestion, cut carbon footprints, decrease foreign oil dependency and ensure adequate water supplies require integration of transportation, energy and environmental programs with land use planning and housing policy. Where people choose to live and work and how they travel will often be determined by the cost and convenience of various transport options.
- Consolidate government management – Federal, state and local governments must restructure agencies responsible for transportation, housing, water and energy to manage and execute a coordinated infrastructure policy. States should break down silos between different transportation agencies and local land use authorities to formulate long-range regional plans that tie into a national infrastructure agenda.
- Change funding approaches – More of the funding burdens for new infrastructure networks and repairs must shift to users from taxpayers, since government coffers alone will never be sufficient to cover costs. Among the new funding sources: higher gas taxes, greater use of highway tolls, charges for vehicle miles traveled. The report also supports establishment of a national infrastructure bank – drawing on the success of the European Investment Bank -- to help finance national networks and attract more private capital.

The report includes findings from a survey of 330 developers, which suggest the need for a greater national focus on transportation alternatives and funding mechanisms, and on more concentrated development patterns that minimize sprawl and auto dependency. Sixty percent of the developers surveyed said their projects have been constrained by a lack of spending on infrastructure, and 92 percent said rising prices for infrastructure have increased their development costs. Nearly all – 94 percent – said higher long-term gas prices will affect future development patterns. Minimum parking requirements are cited as leading to higher costs and inefficient land use planning -- 74 percent of the respondents cited minimum parking requirements as a significant burden on typical projects, and the majority said they would reduce parking if given the option.

Examples of innovative transportation systems and funding plans are included, with Denver's transit network highlighted as a progressive response by a U.S. city to accommodate population growth. "Of all expanding Sunbelt cities, Denver makes the greatest strides – reclaiming its downtown and planning a hub-and-spoke light rail system reaching into surrounding suburbs with new development concentrated around transit stations," the publication says.

In addition to an analysis of U.S. infrastructure expenditures and needs, *Infrastructure 2009* also provides comparisons on a worldwide basis, including investments in China, Japan, India, the United Arab Emirates, United Kingdom, European Union, Australia, Canada, Brazil and Mexico. China leads the world in investments, with \$9 trillion slated for infrastructure projects over the next 10 years. India, Russia and Brazil follow, with investments of \$2.8 trillion, \$2.2 trillion, and \$1.1 trillion, respectively, over the same period.

"Emerging market countries – particularly China, India, and Brazil – continue to lead in attempts to modernize systems and vault their economies into global leadership positions," the report states.

"They have an advantage over North America and Europe in building from scratch, using state-of-the-art technologies, rather than refashioning and upgrading old and outdated systems." Japan, it adds, may be the one global power that has sufficiently met its infrastructure needs to the point that "it can afford to slow down its infrastructure spending."

The bus rapid transit systems of Bogota, Colombia and Guangzhou, China are included as examples of systems that have proven to be highly cost-effective, efficient and convenient. The European Investment Bank, which lent \$52 billion last year and is the world's largest public financial institution, is noted for its success in lowering investor risk and fostering public private partnerships. Canada is hailed for national efforts to restore its infrastructure, using an approach that marshals federal programs to work in concert with state and local governments to tackle infrastructure planning and funding. Germany is cited for creating a master plan for freight transport and logistics designed to enhance mobility, improve efficiency and reduce carbon emissions. "Once an exemplar for other nations, the United States needs to consider borrowing and adapting successful infrastructure programs and initiatives from its competitors in order to catch up," the report advises.

“Over the course of 2009, Americans will come to terms with whether government has moved from lip service to concerted action in meeting its infrastructure challenges,” predicts *Infrastructure 2009*. It lists several actions that will indicate whether the federal government is gaining ground or lapsing back into its obsolete, dysfunctional mode of operations:

Moving Forward

- Stimulus money goes toward necessary refurbishment and repair of primary roads, transit systems, levies, dams, water lines and sewage treatment
- Congress raises the gas tax to fund the Federal Highway Trust Fund, passes legislation allowing states to toll interstates and encourages use of innovations such as congestion pricing and distance charging
- Congress replaces existing surface transportation legislation with a bill that represents fundamental change and supports the integration of transportation, land use, and energy policies
- The White House and Congress assemble an interdisciplinary national commission to develop and direct long-term national infrastructure strategy
- Metrics and accountability need to be built into the process.

Same Old, Same Old

- Stimulus pays for vanity projects and ribbon cuttings
- Highway Trust Fund sinks further into insolvency and government fails to encourage new funding sources
- The next surface transportation bill tinkers around the edges and funds more of the same, continuing the tradition of pork-barrel decision making
- Infrastructure policy remains compartmentalized within the U.S. Department of Transportation and other federal agencies.

Infrastructure 2009 is the third annual edition of the *Infrastructure* series jointly published by ULI and Ernst & Young. To receive a copy or to request an interview with Richard Rosan or another ULI representative, contact Trish Riggs at 202-624-7086 or priggs@uli.org. To request an interview with Michael Lucki of Ernst & Young, contact Tim Gallen at 925 930 9848 or tim@gallen.com or Andrew Neilly at 925 930 9848 or andrew@gallen.com.

About the Urban Land Institute

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