



BOUSQUET HOLSTEIN PLLC

110 WEST FAYETTE STREET ▪ ONE LINCOLN CENTER ▪ SUITE 1000 ▪ SYRACUSE, NEW YORK 13202 ▪ PH: 315.422.1500 ▪ FX: 315.422.3549

Aging Infrastructure and Unemployment: The Erie Canal and WPA

Jean S. Everett
jeverett@bhlawpllc.com
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Deteriorating infrastructure and job creation are costly problems that have long plagued many communities. Local governments in New York State faced shrinking revenues and increasing demands for public works projects and services prior to the onset of the pandemic and the outcry for policing reform and equity. Loss of sales tax revenues, defaults on real property taxes and unemployment will place additional strain on overburdened and underfunded counties, cities, towns and villages. Pandemic funding, even if accessible, from the federal government will not be sufficient to meet current and future revenue demands.ⁱ The current pandemic has caused dramatic increases in unemployment. A report by Becker Friedman Institute for Economics at University of Chicago estimates that 42% of recent pandemic-induced layoffs will result in permanent job loss. https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_202059.pdf

Programs and partnerships currently exist that if explored and tapped with intentionality may help local governments address infrastructure needs, satisfy revenue demands and train and employ their residents. The infrastructure dilemma presents opportunities to hire and train local residents to fill new and existing infrastructure jobs. We look at historical models and identify existing programs and current tax policy that may be useful for communities to address infrastructure needs and job creation with the goal of spurring discussion, innovation and creativity among local government, investors, nonprofits, lenders, employers and developers to address these problems.

Merriam Webster defines "infrastructure" as the basic equipment and structures (such as roads and bridges) that are needed for a country, region, or organization to function properly. What's typically included in infrastructure has expanded over time from roads, airports, docks and wharves, water and sewer systems, electrification and social infrastructure such as housing, hospitals and education facilities to now include telecommunications, broadband and renewable energy production and distribution.

The 2017 Infrastructure Report Card released by the American Society of Civil Engineers found the national grade for infrastructure remains at a "D+" — the same grade the United States received in 2013. The American Society of Civil Engineers evaluated 16 categories of infrastructure in the 2017 Report Card, with grades ranging from a "B" for Rail to a "D-" for Transit. <https://www.infrastructurereportcard.org/making-the-grade>



"Nearly 3 million infrastructure workers are expected to retire or permanently leave their jobs in the next decade, but for some agencies and departments – in transportation, water and energy, among others – the workforce gap is even more urgent. An aging workforce combined with a lack of visibility, flexible training or a pipeline of young talent has hit a crisis point, especially for smaller and rural communities." <https://www.brookings.edu/blog/the-avenue/2020/04/07/covid-19-is-a-chance-to-invest-in-our-essential-infrastructure-workforce/>

Local governments have responsibility to construct, repair and maintain a lot of infrastructure. Their challenge to fund, finance and undertake major construction projects presents an opportunity to hire and train a workforce to maintain, operate and manage these facilities, systems and services. This article examines opportunities for local governments to fund and finance infrastructure repair and replacement and address unemployment and underemployment by training and hiring local residents for infrastructure jobs.

Managing funding shortfalls and fiscal constraints are not new to states and local governments in the United States. President Thomas Jefferson vetoed federal funding for the Erie Canal describing it as a "little short of madness." New York State built it anyway.ⁱⁱ Today, tax-advantaged bonds and federal programs subsidize a portion of the costs of constructing and restoring roads, bridges, airports, water and sewer systems and similar infrastructure.

On May 6, 1935, 85 years ago, confronting massive unemployment during the Great Depression, President Roosevelt established the Works Progress Administration (WPA). Unlike the Public Works Administration (PWA) that provided federal funding for state and local construction projects, the WPA was a work relief program created to connect unemployed persons with work on state and local projects for capital improvements, the arts and service projects, and nearly one-fourth of all families in the United States were dependent on WPA wages for their support

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Many public policy decisions made decades ago remain fundamental principles today. Two examples are housing and highway and transit funding. Federal government support for housing started in 1934 with the establishment of FHA mortgage insurance, followed in 1937 by public housing legislation. Those programs continue today. In 1986, the Internal Revenue Code was amended to add a tax credit to encourage construction of new rental housing affordable to persons with income of less than 60% of area median income. Public housing is aging and often unsafe; operating support from the federal government is inadequate; and workforce training and wellness programs for residents are insufficient. More affordable housing and supportive services are needed. The amount of low income housing tax credits that can be generated annually in each state for new projects is limited by the Internal Revenue Code based on a percentage of the population of that state. Competition for an allocation of tax credits is often fierce, and the allocations are often soaked up by large cities such as New York City.



For several decades, the federal government has given states grants for highway and mass transit projects funded by federal taxes on gasoline and diesel fuel and other highway transportation taxes. There is continuous pressure to reduce federal funding for highways and mass transit. <https://www.cbo.gov/publication/56346> Federal funding brings with it a requirement to pay federal prevailing wage rates and minority and women hiring goals. More needs to be done though to train and hire from local communities. Despite federal funding and the debate over funding mechanisms, there is not enough money to maintain and replace highways, roads and bridges and maintain and operate mass transit to meet current conditions.

There are many approaches to addressing the infrastructure crisis and need to hire and train new workers. We discuss below a few existing policies and programs and set out a Call to Action to modify these policies and programs to better confront these problems.

State and Federal Tax Policy

Tax Abatements. Whether through a local government's decision to opt in under New York State real property tax abatement programs or to use a local industrial development agency to offer abatements, the decision to forego real property taxes or sales taxes is a public policy decision that involves a cost benefit analysis by the local government for its community.

Abatements of State and local taxes are a long-standing mechanism used by the State to promote public policy objectives. Local legislative bodies must "opt in" for their communities to take advantage of State laws that authorize real property tax abatement for, among other things, residential property owned by veterans and property improved for manufacturing, warehouse and other business purposes. Other programs require State or local governmental approval for abatements for affordable housing projects and economic development projects.

Industrial development agencies have the power to confer tax abatement or exemption of real property and sales and use taxes on eligible commercial, industrial, manufacturing and warehousing facilities. They have discretion after input from local government and the public to adopt Uniform Tax Exemption Policies to establish exemption and abatement schedules for categories of projects. This is an opportunity for local government to attract and support projects and employers that advance community goals.^{iv}

Tax Credits, Tax Favored Bonds and Tax Deferral. Federal and state income tax codes reflect public policy goals by encouraging private investment in certain projects and programs through a reduction or deferral of income taxes. Low income housing tax credits, new markets tax credits, historic tax credits and credits for renewable energy projects encourage upfront equity investments from taxpayers in exchange for the right to receive tax credits generated by that project. The investor can use the tax credits in the future to reduce the amount of income taxes it pays. This tax policy reflects the determination by federal or state government of a need for these



projects and the recognition that encouraging investment is necessary because these projects are expensive and have inherent funding and cash flow shortfalls. Tax credit programs enable these projects to progress more quickly at increased volume.

Tax favored bonds (such as tax-exempt bonds and tax credit bonds like Build America Bonds) issued by state and local governments and their instrumentalities encourage lending by taxpayers to state and local government and for eligible private uses by eliminating or reducing the income taxes payable on interest income generated by repayment of the loan. The Internal Revenue Code restricts the borrowers and projects eligible for these loans to state and local governments borrowing for governmental purposes and to certain eligible private uses such as capital improvements by certain nonprofit organizations, affordable housing, small manufacturing, certain airports, docks, wharves, local electric, water and solid waste disposal facilities.

The Opportunity Zone program encourages taxpayers to invest in businesses in designated low income census tracts by allowing for deferral and reduction of capital gains taxes.

State and Local Programs

Community Benefit Agreements. Community benefit agreements (CBAs) are generally between a developer and local community groups that represent citizens or groups affected by a project. They involve promises from the developer in exchange for the community group's support of the developer's project. The agreements often contain promises regarding workforce training and hiring and paying for or constructing certain improvements that might benefit the constituents (e.g., health care facilities, parks, open space, programming, environmental improvements or affordable housing).

Municipalities cannot condition site plan, zoning variances and other municipal land use approvals and permits on benefits or consideration from a developer. However, IDA assistance or other local governmental loans or subsidies present an opportunity for local government to encourage developers to negotiate CBAs with community groups or directly with the IDA or local government. ^v

In recent legislation to expedite siting and development of renewable energy facilities, New York State directs NYSERDA to develop guidelines for host community benefit agreements that would provide incentives to property owners and municipalities to host renewable energy facilities. <https://www.nyserda.ny.gov/All-Programs/Programs/Clean-Energy-Siting/Siting-for-Large-Scale-Renewables/Office-of-Renewable-Energy-Siting>

Land Banks. New York State law authorizes up to 35 municipalities to establish land banks as local authorities with the mission of acquiring and stabilizing vacant, abandoned and tax-



delinquent sites. Land banks sell sites for new homes and assemble sites for redevelopment. <https://esd.ny.gov/sites/default/files/ARTICLE-16-January-2019.pdf>

Collaboration between Local Government and Private Sector

Collaboration by municipalities and private funding sources for municipal projects and services can take many forms. In New York State, various laws including procurement laws governing public works projects prevent local governments from engaging in full blown public private partnerships, such as design/build or lease/build with or without the private entity managing and operating the improvements. In December 2019, a law become effective that will permit designated agencies in New York City to use design build for certain major infrastructure projects. <https://www.nysenate.gov/legislation/bills/2019/a7636/amendment/>

CALL TO ACTION

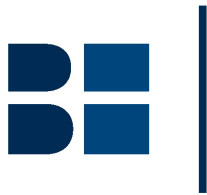
Communication. The first steps must be communication:

- to educate the public on how federal, state and local government policies and programs have historically provided fundamental support to local governments to keep our infrastructure safe and operating and our residents safe, productive and healthy – tax abatement is not a dirty word or unfair benefit to those who don't need it;
- to rally employers to be creative and to recognize that improving infrastructure and training workers will help them deliver and produce goods and services more cheaply and quickly; and
- to inform lenders, investors, nonprofits and developers about community needs and the true impact of municipal budget deficits and revenue shortfalls and challenge them to step up.

A Modern WPA.

State and federal government must adopt a new WPA. The mobilization of nonprofits and State government to find, train and hire contact tracers is a good template for action.

At a local level, local governments might collaborate with nonprofit organizations and foundations to fund and establish mini-WPAs to undertake small scale projects and programs, train and hire locally and tap local veterans to bring their experience with logistics, mobilizing and accountability to bear in developing and administering projects and programs.



Changes to Federal Tax Policy.

Congress and the IRS must ease the limits on the amount of low income housing tax credits and tax-exempt bonds by allocating an unlimited amount of private activity bond volume cap to low income housing. Local governments can consider expedited permitting and approval processes for these projects, enhanced IDA benefits and conditioning IDA assistance on a CBA.

We must advocate for Congress to amend the tax-exempt bond provisions of the Internal Revenue Code to restore advance refunding to allow local governments to realize interest savings on debt; to loosen the limitations on financing for working capital purposes; to reenact expired ARRA provisions that increased the bank qualified bond limits for local governments and nonprofits to \$30,000,000 and created recovery zone facility bonds to make more projects in low income census tracts eligible for tax-exempt financing; to increase the permitted amount that may be financed for manufacturing from the decades old level of \$10,000,000 and to add broadband to the list of eligible exempt facilities.

Congress must amend the Opportunity Zone Program to include in the list of eligible investments infrastructure projects that will serve designated Opportunity Zones and employ local residents. Local governments and business organizations should explore structuring Qualified Opportunity Funds to include community or nonprofit investors who can provide some input and control over setting and achieving the community goals for businesses and projects in which Funds invest.

Steps Local Governments Can Take.

Local governments should look at how tax abatements can be used to achieve their long term objectives to promote the growth and development they need to house and employ veterans and low income and working families and attract and support businesses responding to the new demands for goods and services.

IDAs should review Uniform Tax Exemption Policies and revise them as necessary to reflect the community's new goals and needs for commercial activities, infrastructure upgrades and workforce development and consider making CBAs a condition to receiving tax abatements.

Land Bank Policies and Projects to Advance Community Needs.

Land banks need to take a fresh look at the goals and needs of the communities they serve and the types and locations of housing and development that will ameliorate the community's new economic, employment and financial condition.



Collaboration

The New York State Legislature must expand authority for design-build projects to all local governments for airports, bridges and other major infrastructure and establish a State office to explore and encourage public private partnerships throughout the State and to educate local government officials on the benefits and impacts.

Nonprofits can partner with local government to assess requirements and demands for municipal workers to maintain and manage infrastructure and to enhance and expand programs for workforce training, matching workers with employers and supporting workers as they launch to new jobs and careers.

In conclusion, local governments should evaluate existing programs to align them with the pressing needs of building, repairing and maintaining infrastructure and job creation. Local government, investors, nonprofits, lenders, employers and developers must work together to advocate for changes in federal tax policy and State law and to innovate and create programs and mechanisms to fund and finance infrastructure projects and job creation to achieve community goals.

ⁱ Several bills with various approaches to these problems are pending at the federal level, for example, the HEROES Act, H.R. 6800; Municipal Bond Market Support Act, H.R. 3967; American Infrastructure Bonds Act, S. 4203; Lifting our Communities through Advance Liquidity for Infrastructure (LOCAL Infrastructure) Act, S. 4219.

ⁱⁱ The State issued bonds and private investors lent it money to pay the construction costs of the canal. <https://www.npr.org/sections/money/2020/01/28/800025377/the-erie-canal-as-a-model-of-how-to-build-big-projects-again>. Wealthy landowners often constructed the portion of the canal adjacent to their property. The project was an employment boon for recent immigrants.

ⁱⁱⁱ According to the Final Report on WPA Program, 1935-43 dated December 18, 1948, among major construction accomplishments of the WPA were the building or improving of 651,000 miles of roads, the erection or improvement of 125,110 buildings of all kinds, the installation of 16,100 miles of water mains and distribution lines, the installation of 24,300 miles of sewerage facilities and the improvement of many airport facilities, including landing fields, runways, and terminal buildings. Service projects ranged from serving hot lunches and maintaining child-health centers to operating recreation centers and conducting literacy classes. <http://lcweb2.loc.gov/service/gdc/scd0001/2008/20080212001fi/20080212001fi.pdf>

WPA collaborated with state and local governments to match workers with needs. Led by a Presidential appointee, the WPA harnessed the experience and expertise of officers and members of the military to administer funding, hiring, training and employing workers to provide needed services and construct necessary projects in communities.

^{iv} For example, the City of Syracuse IDA has a real property tax abatement schedule to facilitate the development of rental housing for families with income equal to or less than 65% of area median income.



^v For example, in consideration for financial assistance including PILOT Revenue Bonds to finance Destiny USA in Syracuse, New York, the City of Syracuse IDA and the developer agreed that the developer would establish a fund to be used by the City of Syracuse and Onondaga County to pay for economic development programs and demands for increased municipal services and municipal improvements expected to arise from visits to the completed project. Although CBAs were entered into in the early 2000's for large controversial development projects in New York City, such as Yankee Stadium and Atlantic Yards, community groups now largely disfavor CBAs because of a history of ineffective compliance monitoring and lack of enforcement.