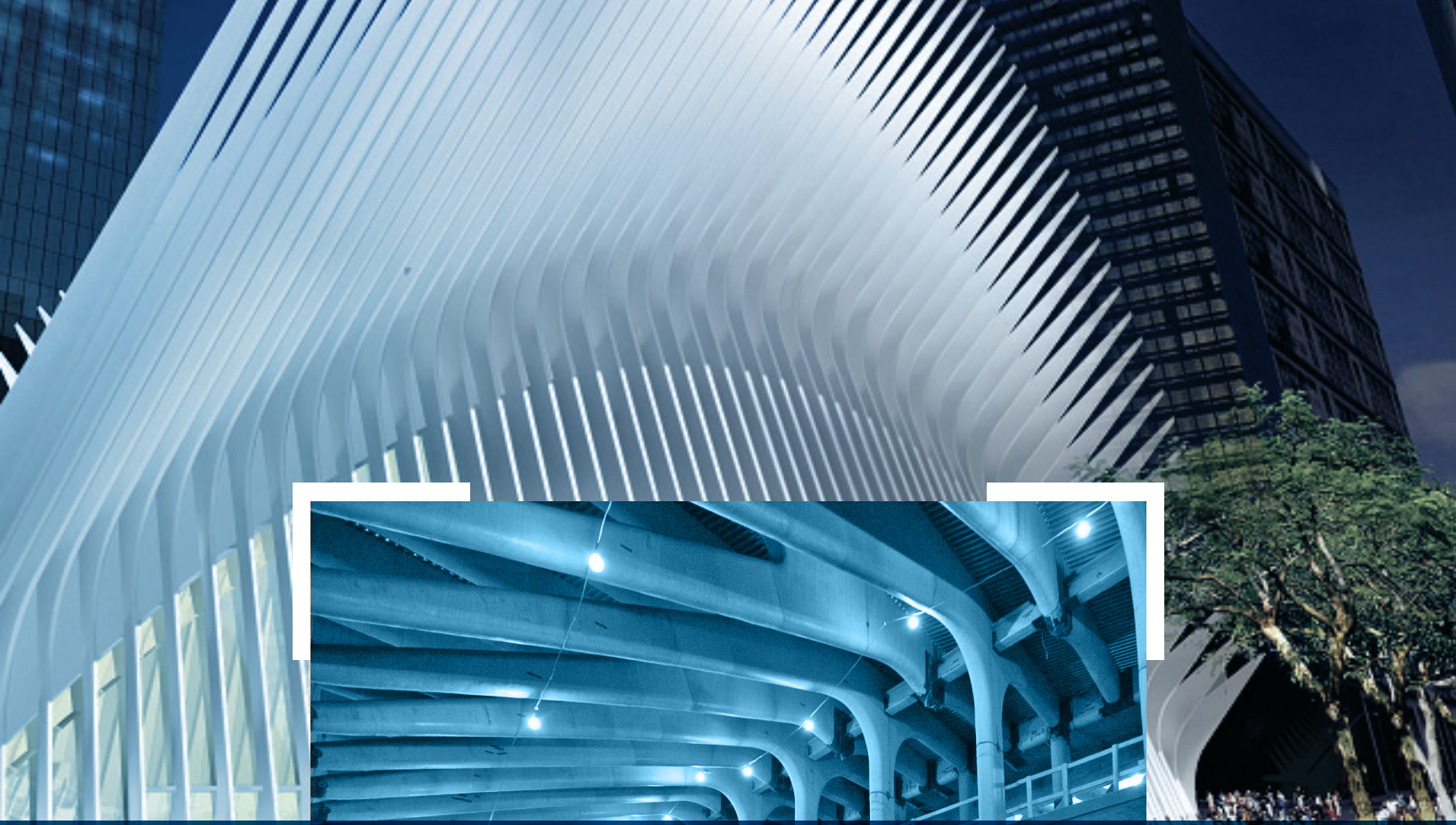

PUBLIC INFRASTRUCTURE DIVIDENDS

THE BENEFITS OF CAPITAL INVESTMENTS IN NEW YORK CITY

A REPORT BY THE NEW YORK BUILDING FOUNDATION

PUBLIC INFRASTRUCTURE DIVIDENDS

THE BENEFITS OF CAPITAL INVESTMENTS IN NEW YORK CITY

We live in an era of fiscal austerity. Spending decisions – by families, communities and governments – are subject to more and more scrutiny, to ensure we are not living beyond our means. In the case of government spending, each dollar is not equally important to individuals and not equally important to society and to the whole economy. This is worth remembering as governments cut their budgets.

Operations and Investments are Different

States, cities, counties and other local governments, like businesses, have budgets separating "now" from the "future." The *general budget* covers spending for the *day-to-day operations*; it is concentrated on paying workers, suppliers and utilities in order to provide the services residents expect from their government. This budget tends to be the focus of political arguments over the size of spending and taxes. The less noticed *capital budget* lays out investment projects for the long term. It recognizes that both the costs, and the benefits, of public projects are spread over years, often decades.

The historic separation between government operations and capital spending is based on good reason and long experience. The all-too-human preference for the short term has often crowded out even the most pressing signs that long term needs must be addressed. When the economy is weak or there is a prolonged fiscal crisis, even highly valued investments do not get maintained. So, sometimes we must stand back and recognize *a bold truth: the dollars of capital spending are different.* They leave an enduring imprint on the landscape, provide benefits over decades, and represent essential investments in the future.

Public Projects Add to Wealth

We travel today using roads, bridges, tunnels, airports and train networks built – and financed – by prior generations. When we turn the tap or flush, we likely take for granted the miles of sewers and water mains, aqueducts and treatment plants others installed to make this possible.

Public infrastructure forms a big part of our national wealth and capital. It represents savings inherited from earlier generations – a visible testimony to the commitment that prior generations have made to improve our quality of life. Each subsequent generation has a responsibility not only to act as stewards of this capital but also to secure improvements for the future.

Uniquely, capital projects offer both immediate and long-lasting benefits. A dollar spent today on public infrastructure gives an immediate boost to the economy and, according to the Congressional Budget Office, will result in an estimated $1.80 in economic activity.

Tomorrow and beyond, these projects support our economic growth because they form the economy's capital base. They are the vital linkages in the economy, making it work on a daily basis. A modern and up-to-date capital base – work places, tools, machines, computers, software and vital infrastructure – increases worker productivity. The more productive we are, the faster our economy grows and, ultimately, the higher is our standard of living.

In addition to the benefits capital projects provide to any single user – the motorist on the bridge, the commuter on the train or highway, the family turning on the tap – they provide multiple benefits to entire communities. This is often taken for granted. It is as if the public infrastructure were always there and always will be. To ensure that public works remain part of our landscape, there must be general recognition of the need for common action – by every generation – to increase our capital stock.

Nothing Lasts Forever: The Need for Replacement & Renewal

It is in the nature of infrastructure that it declines in value over time. Materials and equipment wear out; technology and skills become obsolete. This depreciation alone argues for a steady stream of new investment in order for the economy not to fall backwards.

Unfortunately, America's investment in basic infrastructure (transportation and water) has fallen from just over 3% of GDP in the late 1950's to 2.2% in 2009. Not surprisingly, in their 2009 report card, the American Society of Civil Engineers (ASCE) noted that our infrastructure has been "crumbling" for so long it only receives a "D" grade. To arrest this decline requires saving – setting aside some resources now and turning them into productive investments. This does not come cheap. If we had spent in 2009 the 3% share of GDP on public infrastructure that we did fifty years ago, it would have required about $110 billion, on top of the $317 billion spent that year. And, this added spending must take place year after year to offset the "crumbling" and to initiate and sustain new projects.

Vital Benefits for the Regional Economy

We often do not even note the benefits of this infrastructure spending. While the costs of public projects – the amounts being borrowed to build them and the taxes to repay the interest – can receive considerable attention because the numbers are large, the benefits do not get budgeted. They are diffused in small amounts to a large number of people over generations. As a result, these additions to our national assets may only be noted in ribbon-cuttings, and then go largely forgotten. Individuals will take advantage of these projects, but even they will not necessarily think about the cost of maintaining, improving, or replacing them.

New Yorkers see daily reminders of the value of public projects. The City is the core of a tri-state economy of twenty-two million people. Manhattan is its primary business district, supplier of the best jobs and site of its strongest tax base. It would not be possible for the New York region to sustain its $1.4 trillion economy – with a dazzling array of diversity and economic opportunities – without the web of infrastructure that links the area together. When we lose one piece of this infrastructure web – whether from neglect (West Side Highway) or

malevolence (World Trade Center transit facilities) – the economy takes notice, usually through a decline in productivity or an increase in vacant properties.

Because Manhattan is an island, access is vital. The transportation infrastructure provides widespread benefits; improvements in it save time, reduce transfer hassles, overcrowding and congestion. Commuter benefits may be measured in the dollar value of the time saved. Further economic benefits are generated by new or better access to commerce, jobs and customers, usually captured through increased property values and new economic activity. Quantifying these benefits is difficult; sometimes the assumptions used to estimate them over time prove not to be realistic. But, few dispute they exist, as the case studies below illustrate.

CASE STUDIES

Below is a brief analysis of the benefits of two capital projects. Both involve commuting into Manhattan, a daily event for more than a 1.5 million people. The first project is complete. Plans for the second are in flux.

1 North Access For Grand Central Terminal

In 1999, the Metropolitan Transportation Authority (MTA) added, at an estimated cost of about $120 million, two underground passages (Northeast and Northwest) to allow easier access to and from midtown offices north of Grand Central Terminal (GCT). This offered new exits/entrances to commuters who work north of 47th Street and east of Madison Avenue. The passages – hallways more than 1,000 feet long – run parallel to the tracks on the upper level. Entrances are at the northeast corner of 47th & Madison, northeast corner of 48th & Park, and on the east and west sides of 230 Park (Helmsley Building) between 45th and 46th Streets. These are used daily as a shortcut to and from midtown offices by thousands of commuters.

At a minimum, transportation improvements save time for commuters. For employers, the time-saving justifies the Park Avenue location. Multiplied by the thousands of workers and hundreds of employers that benefit, the improved productivity and economic stimulus of this one project are enormous. It contributes to higher rents, property values and more spin-off business in the surrounding area, all to the benefit of the State's and City's tax bases. In addition, other GCT commuters benefit from less congestion– not insignificant as Metro North has grown into the nation's fourth largest commuter railroad; in a metropolitan region with three of America's top four commuter railways.

The success of the North Access can be directly linked to the push for the $6.3 billion East Side Access project, which will bring the Long Island Railroad (LIRR) into GCT. In addition to providing two train platforms to accommodate the LIRR under GCT, there will be a new entrance/exit to the north. Currently, as part of East Side Access, the MTA is building a fifth, north entrance, which will allow street-level access at 245 Park, on the side street between Lexington and Park Avenues. The entrance costs $14 million and is due to open in the fall of 2011.

When East Side Access is completed in 2016, the benefits from the 1999 investment in the North passages -- and this year's fifth entrance -- will spread to even more commuters and their employers, supporting more midtown businesses, and adding further to State and City tax revenue. Connecting LIRR's main and Port Washington lines to GCT will increase LIRR's capacity into Manhattan and significantly relieve congestion at Penn Station and on connecting subways. And it will save an estimated 160,000 passengers 30-40 minutes on their daily commute.

Visit www.mta.info/capconstr/esas/ for more information on East Side Access.

2 New Trans-Hudson Passenger Rail Tunnel

The existing, 100-year-old, trans-Hudson tunnels are at or near capacity. They are shared by Amtrak and New Jersey Transit, resulting in significant congestion on the tracks and at Penn Station. There now seems to be greater consensus on the need for a new tunnel for passenger rail from New Jersey into Manhattan, despite recent controversy over the rising cost and subsequent cancellation of the Access to the Region's Core (ARC) project.

There are three publicly announced plans for a new trans-Hudson passenger train tunnel that will address capacity and congestion issues.

First, the now canceled **ARC project**, proposed in 2006 by New Jersey Governor Jon Corzine, New Jersey Transit (NJT), and the Port Authority of New York & New Jersey (PA), was estimated to cost about **$9 billion**. Second, Amtrak, with the support of New Jersey's US Senators Lautenberg and Menendez, proposed in early 2011, a **Gateway tunnel** project to accommodate its trains, as well as those of NJT, at an estimated cost of **$13.5 billion**. Third, the administration of New York City Mayor Michael R. Bloomberg has proposed a **#7 subway line extension into** New Jersey for about **$5 billion**. The significant expense of any one of these projects comes at a difficult time, and the politics of parceling them out among the various governments and agencies in the region is daunting.

A report advocating construction of ARC released in 2006 by the Building Congress and the New Jersey Alliance for Action stated, "The Tunnel is vital to the economic competitiveness of New York City and the entire region." The report added that the Tunnel would help generate an additional $10 billion in gross regional product and $4 billion in real personal income. In a study to forecast the likely impact of ARC released in October, 2010, by the Regional Plan Association (RPA), using NJT's ridership data as well as local New Jersey property values, concluded that such a project would, "significantly cut train commute times to Manhattan, increase the reliability of NJ Transit trains, reduce traffic and greenhouse gas emissions, create jobs, drive economic growth in the right places and boost home values." About 275,000 New Jersey residents now commute into Manhattan, where, on average, pay is 60% higher than in New Jersey. The ARC project would provide capacity for an additional 70,000 commuters and double the number of New Jersey residents within a fifty-minute train ride to Manhattan.

Amtrak says its alternative Gateway proposal would accommodate 10 more of its trains and 20 more commuter trains hourly during peak periods. According to the plan, during off-peak times the tunnel would allow 13 additional NJ Transit trains, an increase to 33, and eight more Amtrak trains per hour. This also offers New Yorkers quicker access to points west.

Mayor Bloomberg's plan envisions the #7 subway stretching from 34th Street on the Far West Side of Manhattan to Secaucus, N.J. to connect with NJT trains. It would extend the New York City subway outside the City for the first time, giving New Jersey commuters direct access to Times Square, Grand Central Terminal and Queens, and to almost every line in the subway system.

While it is essential that funding continue for police, fire, education and other vital services, budget choices must be made with a full understanding of the short and long term benefits. Cutting capital funds that support public infrastructure projects will almost certainly cost more – in direct costs for materials and labor and indirect costs for lost economic activity – in the long run. But preserving such projects yields significant dividends for New York City residents, visitors and commuters, both now and in the future. ■

For more information on programs, publications and events:

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