Resilient Infrastructure and Opportunity Zones

Up to $6 trillion in sidelined capital gains are potentially available to invest in US Opportunity Zones. While there is a lot of private sector attention focused on **real estate deals** and investments in **new operating businesses**, another major area that could attract investor interest is building **resilient infrastructure** – including projects such as community broadband, micro-grids and energy-efficient wastewater treatment. This draft issue brief identifies actions that the public sector can take to attract and accelerate these types of investments.

Building A Resilient and Investable Infrastructure Pipeline: Top 10 Recommendations for State and Local Leaders

The forthcoming Milken Opportunity Zone Playbook will feature case studies and lessons learned from jurisdictions and OZ investors as they tackle project work to shape real estate investing, workforce housing, job creation and business startups using the new OZ tool.

For cities, states and regions interested in accelerating another emerging OZ opportunity area, namely the *deployment of resilient infrastructure*, here is a first look at some key plays to consider to get ready:

1. **Set Clear Expectations About OZs and Resilience.**
   OZs are **not** a panacea for fixing every distressed community's problems, let alone fully funding needed infrastructure. But they are undeniably a useful tool for financing some resilient projects where life-cycle costs, risks, asset performance and revenues are analyzed up-front. *Research indicates that the same project management steps project sponsors need take to develop more resilient infrastructure projects will concurrently accelerate the development of a stronger pipeline of investable Opportunity Zone and P3 projects.*

2. **Do an Infrastructure SWOT and Gap Analysis.**
   First, ask your state's municipal finance experts and state treasurer's office to accurately assess long-term funding needs and financing gaps **out to 2050.** Second, conduct an inventory of your jurisdiction's current carrots, sticks, tools, regulations, and financing authorities for implementing resilient infrastructure. Does your state have a resilience plan? If you do, does the plan have a strong financing element? *Good planning and data strategies are Important; but they are not substitutes for what's needed to attract private investment, namely specialized financing and Implementation capacities which are sometimes in short supply in the public sector.*

3. **Create a center of gravity to drive resilient infrastructure and OZ work.**
   There is no hard and fast rule for doing this – it could be a separate office, an inter-agency task force, a designated lead in the Governor's Office or the state's CFO or Treasurer. The key is to put someone or some entity on point to promote integration, break silo'ed thinking and drive innovation across infrastructure modes. This shift in thinking is how the state can prime the pump for new infrastructure deals that could attract private investment – by identifying avoided costs, new efficiencies and infrastructure service pricing models. Resilient infrastructure projects, supported by Opportunity Zone or other sources of private capital, don't just consider only the low cost capital bid; they measure all life cycle O&M costs and risks.

4. **Get serious about infrastructure asset management to get your state's fiscal house in order.**
   Many states lack a clear "fix it first" plan to cut deferred maintenance, boost infrastructure efficiency and capitalize on the investments your state is already making every day. Shifting long-held budgeting practices in your state is often a heavy lift; but using resilience as the driving theme to emphasize fiscal reforms through executive orders is advised. For example, the state can encourage local and state CFOs to fully implement **Government Accountability Standard Board Guideline 34 (1999)** as a critical step for cutting deferred maintenance and accurately measuring the asset value of public infrastructure. Bonus funding points for capital budget requests and grant programs that address life cycle resiliency are other steps to consider that don't require legislative approval.

5. **Then get your legislature involved.**
Some of the key reforms needed to accelerate the growth of an investable infrastructure pipeline attractive to OZ and other Investors will require legislative approval. Based on international experience, states need to build their infrastructure "list" in a new way, by instituting a **10-Year Infrastructure Investment Plan** to promote long-term, integrated and multi-modal planning and an "outcomes mindset" for future infrastructure purchases rather than simply funding the list of politically popular projects every year or two. Requiring public sponsors of major infrastructure projects to do **an Infrastructure Risk & Resilience Assessment (IRRA**) to ensure that life cycle project costs and risks are considered and to assess private impact and OZ investment potential as another proven driver of project pipeline growth.

6. **Implementation programs to drive local work and incentivize community partnerships.**
Successful implementation of innovative resilience efforts – and the use of OZ funding – requires local action. The state can provide guidance and funding to help the process along, but implementation must happen at the local level. States can, for example, make grants available to municipalities on the condition that improve capital planning and asset management processes. The best of these programs, developed in concert with Governors and state legislatures, provide local governments with the support they need to complete these plans, provide training and pre-development support at low or no cost to all public infrastructure project sponsors interested in using these life-cycle methods and then offer money on the back end for implementation.

7. **Procurement innovation to incentivize resilient infrastructure.**
States don't need legislative approval to pilot the development of resilience-based infrastructure procurement methods, such as requiring project bidders to include life cycle business case analysis tools in preparing their bid, using available tools such as Envision or Autocase. Use of these tools, which incorporate resilience risk considerations across the entire asset lifecycle, can simply be a required element to address in a procurement, including analysis of alternative design approaches such as investing in natural or green infrastructure that can provide resilience benefits that complement hard or gray infrastructure systems, and provide other life cycle benefits such as food security, public health and safety, and wildlife habitat.

8. **Build your resilient infrastructure portfolio.**
Develop a long-term "sales mindset" for your state's resilient Infrastructure project pipeline. Is your strong suit creating next generation, energy efficient wastewater treatment systems to be investor-ready? Is there enough demand for community and rural broadband that could lead to Investor demand? Are there other important "use cases" that need deeper analysis? Is there an annual event to use as a driving deadline to develop an attractive state "deal book"? Don't assume that investors will find you.

9. **Be smart about engaging OZ or other resilience investors.**
Don't rush to engage investors with whatever projects happen to be on the top of your state and federal grant "wish list". **Do** take the time to build a reputation for your state and your localities as investor-smart and investment-ready by doing the needed preparation work – such as creating a long-term capital investment, maintenance and asset inventory, identifying a 10-year list of possible OZ-investable investment projects, and encouraging communities to hire a project finance expert (deal jockey) to hone down your list of projects into 10-year pro forma statements and investor-friendly formats that show how certain projects could pencil out for an investor AND fit your community's story.

10. **Build transparent decision-making processes.**
For any type of infrastructure program, but especially for investable infrastructure, it is essential to involve the public from the get-go to encourage meaningful public participation, focus public attention on infrastructure maintenance, and emphasize the true value of public investment in infrastructure. Public skepticism about government's ability to deliver has never been higher, following the Flint water crisis and perceived infrastructure boondoggles such as the Chicago parking meter deal which tripled parking fees. Building a smart resilience strategy can change the conversation about infrastructure towards life cycle value and performance. This is a crucial shift to get right, no matter how we fund and finance individual projects.

Quick Links

Resilience
www.usclimatealliance.org/resilienceplaybook
www.asce.org/infrastructure-resilience/infrastructure-resilience/

Opportunity Zones
https://eig.org/news/tag/opportunity-zones
https://opzones.ca.gov/local-get-ready-guide/

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