

# THE NEED FOR EQUITABLE ECONOMIC REVITALIZATION

A PROPOSAL FOR INTEGRATED ECONOMIC STIMULUS

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## THE ACTION PLAN

In response to the current economic crisis, the state must institute a decision-making process that will rapidly deploy resources to stimulate a resilient, equitable, and sustainable economy. The focus must be on how these investments can not only improve the current conditions of low-income communities, both urban and rural, but how they can correct for the lack of investment over time that has resulted in the inequality we see today.

### Rethink the process for making equitable infrastructure investments for economic revitalization

- ✓ Redesign the state infrastructure investment process
- ✓ Create a new local-regional governance platform to partner with the state
- ✓ Integrate raising the skills of California's low-skilled workforce to match the investment pipeline
- ✓ Institutionalize regional civic leadership to enhance equitable investment

### Integrate state, regional, and local funding tools with workforce development

- ✓ Expedite the use of voter approved unsold bonds for immediate expenditure
- ✓ Place an infrastructure investment economic recovery bond measure on the ballot
- ✓ Facilitate private capital investment integrated with workforce development



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# INTRODUCTION

## THE NEED FOR EQUITABLE ECONOMIC REVITALIZATION

California once again faces unprecedented challenges. The grim economic implications of the COVID-19 pandemic will be with us for at least the next several years, and possibly longer.

**This reality requires immediate action that is focused on an equitable program of economic revitalization.**

Prior to the pandemic, Californians were lulled into a false sense of economic security created by extraordinary prosperity for over 40% of the population. While some workers moved into higher income jobs during the post-recession recovery, the majority lost ground, caught in the web of increased costs of living and stagnating wages. The economic path of the state was not working for everyone; there are in effect “two Californias,” not distinguished by geography but by those who have been able to share in the state’s prosperity and those who have been left behind.

The income of new jobs over the past decade provides a clue. In California almost 60% of the jobs paid less than \$37,000 per year (\$18.00 per hour). There were 187,390 fewer middle-income jobs created in the decade and the rest paid above \$87,000 (\$40.00 per hour)<sup>1</sup>.

Complicating this picture is the rapid loss of jobs that has compounded the growing income inequality of the last decade. COVID-19 magnified these disparities with disproportionate health and economic impacts on low-income and minority, particularly Black and Hispanic, populations. The challenge of social injustice has been magnified.

**The potential “equalizer” in the state’s prosperity is investments in infrastructure.**

Infrastructure that supports the economy at the local and regional scale is a missing link in

the strategy to achieve an equitable program of economic revitalization. The definition of infrastructure should be broadened to include investments that will lead to a more sustainable and resilient future. A new approach will require us to think beyond the normal transportation, resource management and educational facility investments. Infrastructure planning and development needs to include the state’s electric grid that has long been the foundation of private sector investment as well as technologies such as broadband and logistics systems for production that must now become an integral part of our public and private infrastructure.

This policy brief proposes an action plan for how the state can rapidly invest more resources into infrastructure so there is immediate economic impact. By integrating these investments with workforce training, the state can ensure a steady pipeline of skilled workers while creating good, well-paid jobs to help bridge the gap for those who have not shared in California’s prosperity.

**In California almost 60% of jobs paid less than \$37,000 per year (\$18 per hour).**

**187,390 fewer middle-income jobs were created in the past decade.**

<sup>1</sup> Source: US BLS Occupational Employment Statistics.

# RETHINK THE PROCESS FOR MAKING EQUITABLE INFRASTRUCTURE INVESTMENTS FOR ECONOMIC REVITALIZATION

The highest priority should be to institute a decision-making process that will rapidly deploy resources to stimulate a resilient and sustainable economy. The focus must be on how these investments can not only improve the current conditions of low-income communities, both urban and rural, but how they can correct for the lack of investment over time that has resulted in the inequality we see today.

This effort will require new ways of organizing our governments, utilizing all available tools in a streamlined and coordinated decision-making and financing process. Reinventing the way state, regional and local agencies fund and implement infrastructure investments and enhancing sectors that create higher paying jobs for all Californians is the core strategy. The recommendations below outline an approach to rethinking this process, with a focus on balancing economic growth with tangible investments in environment, equity, resilience and inclusion.

## REDESIGN THE STATE INFRASTRUCTURE INVESTMENT PROCESS

The state has a fragmented and siloed approach to infrastructure investment that relies on a model of problem-solving developed in the industrial revolution -- breaking the problem into parts and solving them with functional planning and development managed by separate organizations and divisions each with their separate programs and categorical funding assistance. **Today's challenges require integration of functional investment priorities to produce multi-benefit results.** The problems we face are increasingly complex and demand a new 21st century approach -- integrated, goals-oriented investment portfolios.

The state should task a single entity to act as an investment authority with the ability to integrate functional investment priorities into a system of investments. To avoid creating another state body, legislation should augment the duties of the Strategic Growth Council to include the ability to function as a State Investment Board (SIB). Since the governance of the Strategic Growth Council includes all of the major state agencies that influence infrastructure investment, it is the proper place for this new authority. The new mission of the Council would be to coordinate all state funding streams, including current bond authorizations and other appropriations and programs, as well as new funds and tools supplied by the legislature for this purpose. Included in this process should be the workforce needs produced by the infrastructure investment. Integrating workforce and reskilling needs in the Council's activities will close the loop of infrastructure investment, workforce and sustainable economic growth. It is critical to include the workforce needs to accomplish this investment as an integrated part of the overall economic stimulus.

A key tool for the Council will be *Cooperative Agreements* that are authorized by statute to establish the contractual provisions for these new partnerships. Similarly, the arrangements among the participants in the investment program, involving entities from all the sectors and governmental entities, can be delineated by these agreements. Using Cooperative Agreements, the state will establish a comprehensive set of investment priorities to be built within the state over the next five years. This listing of priorities will reflect what will be funded by a partnership between the state and all of its communities. A statute was passed in 1999 (AB 1473, Hertzberg) creating an ongoing

## RETHINK THE PROCESS, CONTINUED

5-year infrastructure plan for organizing infrastructure at all levels of government. It remains on the books but was never fully implemented. It may be time to review the charge to the state administration and bolster the requirement so that a partnership of investment at the state, regional and local level could be accomplished.

### CREATE A NEW LOCAL-REGIONAL GOVERNANCE PLATFORM TO PARTNER WITH THE STATE

The local and regional side of this new process would be the current intergovernmental structure contained in the *Enhanced Infrastructure Financing Districts* statute. As a local intergovernmental tool for economic development it has lacked the involvement of all local entities and lacked the scale of geography.

The next step in the evolution of local and regional development is contained in SB 1389 (Allen) to create a platform for engaging with the state in the development of cooperative investment agreements. These local or regional

entities are created as *Public Investment Authorities* (PIAs) which create a governance structure that includes cities, counties, school and community college districts and special purpose districts to pool resources and partner with the state to deliver investments at the necessary scale. **When the state PIA resources are leveraged and combined with those of the local or regional PIA, the possibility of state and local revenues to be bundled together into financial and business plans alters the economic performance of the region.**

PIAs would allow communities and the state to capture the growth in local and regional economies through the property tax and the local sales tax for investment into the priority needs of the community or region.

Among their powers is a provision that allows the participating entities to capture a portion of the increase in property value that investments in economic development, housing, infrastructure and environmental improvements create. Upon approval of the participating entities, this tax increment provision will capture a portion of



## RETHINK THE PROCESS, CONTINUED

the increase in property tax base including property taxes that go to the countywide school fund known as the Education Revenue Augmentation Fund (ERAF) along with the other public agencies. Growth increment that is attributable to the local sales tax rate can also be included. The investment program will produce revenue streams that will increase revenue to the participating entities to assist in funding the investment program but will also generate an increase in the share of the property tax attributable to all local agencies including the local school and community college district as well as the countywide ERAF. This will avoid any backfill need from the state since the project will generate more resources for the state and community governments than existed before the investment.

**PIAs would also have the authority to receive federal and state grants, loans, licenses, leases and fees, combining current public revenues with new cross-sectoral provisions that add societal funding capacity to address our problems.** These powers will provide financial resources to address the broad range of problems that confront state and community governments including housing, homelessness, local and regional infrastructure, climate change adaptation, creating a resilient energy grid, and investments that will begin to tackle income inequality through economic development aimed at increasing opportunities for the left behind parts of the state. The new authority does not have the power to levy taxes.

Since the PIAs as envisioned in SB 1389 can be at any scale, they can be organized to be multicounty Cooperative Agreements. The economic and financial benefits generated by megaregions can be captured through the PIAs to include state financial partnership. This partnership arrangement has the capacity to develop financial plans that enable large scale investments such as high-performance transit that are now seemingly improbable. The same is true for new megaregion goods movement and logistic system coupled with skill development that makes new production industries possible.

## INTEGRATE RAISING THE SKILLS OF CALIFORNIA'S LOW-SKILLED WORKFORCE TO MATCH THE INVESTMENT PIPELINE

To fully achieve the potential, investments in physical infrastructure must be aligned with dedicated funding for workforce training programs. California already faces a shortage of skilled workers; by investing more resources in the partnerships between K-12, career technical education programs and non-profits, labor unions, community colleges and the business community, the state can ensure a steady talent pipeline for good well-paying infrastructure related jobs. Involving the educational community as members of the boards of the Public Investment Authorities to help direct these funds would be a critical component of integrating these workforce and infrastructure investments.

Through this alignment, new employment opportunities and increased productivity would allow for higher incomes and the revitalization of low performing sectors. This effort requires recognizing the context and geographies of our state, driving place-based economic development and job creation through the innovation of our Public Investment Authority revitalization effort. Connecting place-based economic investment with workforce development funding made possible by the provisions envisioned in the Public Investment Authorities approach will create a tangible and operational way for the state to deal with its most serious challenge -- the wealth disparity of the "two Californias."





## INSTITUTIONALIZE REGIONAL CIVIC LEADERSHIP TO ENHANCE EQUITABLE INVESTMENT

New local and state intergovernmental relationships as proposed above will not produce the result of increased equity in investment if all the decisions are insulated in our governmental institutions. The best way to deal with this issue is to institutionalize the involvement of civic leaders in local and regional development.

The Enhanced Infrastructure Financing District governance structure, as revised by SB 1389, will help institutionalize a more active civic engagement. It not only includes all community governments (cities, counties, school and community college districts, and special purpose districts) but it also requires participation of the civic community on the board of the PIA's to ensure equitable investment that reflect community interests. This innovation will assist in creating a new civic culture by involving the community in these new investment portfolios.

The geographical provisions of the Authority are flexible and can be established at community, regional and sub-state areas. The common principle for inclusion is participation in a plan for the funding and financing of an investment.

California Forward's *Regions Rise Together* initiative recognizes that not all communities benefitted equally from the economic expansion, and there needs to be an explicit, well-supported plan for inland California as well as communities that are struggling with the high cost of living, particularly on the coast.

**Engaging civic leaders in this process will be essential to ensure that issues of economic equity are a priority.** AB 3205 (Salas) proposes to institutionalize this participation. To accelerate efforts in both the inland and coastal areas the state could employ a development strategy referred to as Megaregions. This approach uses the economic advantages of both urban and rural areas coupled with infrastructure systems such as broadband, high performance transit and logistics that support both consumption and production sectors.

# INTEGRATE STATE, REGIONAL, AND LOCAL FUNDING TOOLS WITH WORKFORCE DEVELOPMENT

By restructuring infrastructure investment that leverages a broad array of financial solutions, public assets, and incentives, state leaders can enhance economic development and regional competitiveness. The state can be an investment partner by coordinating existing agencies and programs and by establishing new initiatives. This approach will incentivize best practices that work to coalesce the public and private sectors around longstanding market principles in order to achieve positive economic returns for investors and community partners by advancing a project pipeline built around equity, resilient communities, and sustainable ecosystems.

## **EXPEDITE THE USE OF VOTER APPROVED UNSOLD BONDS FOR IMMEDIATE EXPENDITURE**

There are approximately \$34 billion in voter approved unsold bonds that should be expedited for shovel ready or, as a policy preference, “shovel worthy” projects that are in the approval pipeline. Of the total, \$24 billion sits in school, higher education and water resource related facilities. For example, K-14 school bonds already approved by voters can be used for school construction projects that are already in the queue.

Voter approved but unsold bonds for a variety of infrastructure projects are awaiting action by the legislature since they rely on an appropriation for the treasurer to set in motion the sale of the bonds. To avoid this situation, the legislature should look to include a continuous appropriation to the State Investment Board to consider projects on an emergency basis. Using the current system of an operating department that received bond funding for a particular program will not meet the test of getting

funding out of state departments and into the hands of the state’s infrastructure workforce. It could require the Board to preclear projects that have California Environmental Quality Act (CEQA) certifications and related requirements. The Board could also make arrangements for these bonds to become part of the finance plan of the Public Investment Authorities.

## **PLACE AN INFRASTRUCTURE INVESTMENT ECONOMIC RECOVERY BOND MEASURE ON THE BALLOT**

A new proposal for the November 2020 ballot could specifically direct a \$20 billion investment bond to fund regional and local infrastructure projects that are in the pipeline. A measure like this would be most successful if priorities are established before heading to voters for approval. Not only will it be important for voters to know what they are buying, but by setting priorities focused on eligible projects that can begin initial construction in a reasonable period of time, it can ensure the process moves quickly once approved. A high priority could be given to those communities and regions that have been historically under invested. The State Investment Board could use Cooperative Agreements as the platform for new financing arrangements. Placing a measure on the ballot provides an opportunity to integrate workforce development into the infrastructure priorities identified in the measure.

## **FACILITATE PRIVATE CAPITAL INVESTMENT INTEGRATED WITH WORKFORCE DEVELOPMENT**

Private capital is an integral part of economic revitalization as the public sector expands infrastructure investment. Part of the unfinished

## INTEGRATE FUNDING TOOLS, CONTINUED

business of the 2019 legislative session was a statute that would conform state tax law to the new capital gains deferral Opportunity Zones program adopted at the federal level. California Economic Summit participants proposed a framework that would best facilitate the use of this new private sector investment tool. The framework focused on several key issues:

- **Ensuring communities are “Opportunity Zone ready” and can maximize the attractiveness of these investments.**
- **Identifying how the state can align programs to support local project implementation and reduce state and local regulatory barriers to make eligible investments “entitlement ready.”**

One of the weaknesses in the Federal Opportunity Zone model is the lack of local infrastructure investment that is needed in underinvested minority communities. Matching the local and state Public Finance Authority investments could close that gap by matching Qualified Opportunity Fund investment with local and state infrastructure investment. This could increase the flow of capital through a variety of community finance toolkits in a

coordinated and cooperative approach involving a wide range of stakeholders interested in improving equity in community investments.

The following will be key to accomplish this objective:

- Organize regional collaboration and partnerships that can facilitate place-based workforce development programs and insulate a regional talent pipeline.
- Demonstrate rationale for a state clearinghouse that centralizes resources, aggregates demographic and occupation data, and defines clear career pathways.
- Position California Community Colleges as a critical actor in the state’s COVID economic and workforce development recovery strategy, demonstrating the need for immediate investment prior to end of their fiscal year.
- Develop innovative financing (e.g. Opportunity Zones, New Market tax credits, R&D, California Competes) solutions to fund sector-specific workforce development programs and compensate for budget reductions.

## TIME FOR A NEW PRESCRIPTION

The challenge of developing an economic stimulus proposal under current governmental relationships will likely not produce the desired results. More so, if the state wants a different outcome from planned investment. The objective of inclusive and sustainable investments is unlikely to be achieved using the current functional planning process maintained by vertical relationships from the state to local agencies, particularly when workforce needs are not integrated into these decisions.

Throughout California there are areas that have been left behind, where incomes and opportunities are so sparse that the individuals who live there find themselves in poverty. They have incomes that do not support their existence and leave them without meaningful work. **Public Investment Authorities create the possibility for state and local revenues to be bundled together into financial and business plans that alter the economic performance of the region.** Furthermore, this process can ensure that the full range of equitable, economic, and environmental objectives are included early in the investment process to ensure a more just California for all.

**CA FWD LEADS A MOVEMENT TO MAKE  
CALIFORNIA'S ECONOMY AND GOVERNMENT  
WORK FOR EVERYONE.**

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