

New Mechanisms For Financing Smart Growth Infrastructure

Funding Your Vision

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Emerging From The Last Century's Business Model

- America's Infrastructure Was Built In The Last Century For The Industrial Economy.
 - Based On Single-purpose And Centralized Infrastructure Management.
 - Externalized Natural Processes, Which Lead To Regulation As The Dominant Natural Resources Management Strategy.
 - CEQA/NEPA: "Impacts" Are Bad, Must Be Declared, And Have To Be Mitigated.
- Externalizing Social And Natural Capital Maximized Short-term Profit.
 - Financial Capital Was The Limiting Resource In The Industrial Economy.
 - Labor And Natural Capital Were Readily Available So Advocates Could Only Create False Limits. Which, Naturally, Was Resisted By Financial Interests.
- The Industrial Economy Is Ending And Cities Need To Reinvest In New Infrastructure For The Knowledge/Green/Clean/Impact Economy.
- Social And Natural Capital Are Becoming The Limiting Factors In The New Economy. (a la Richard Florida)
 - Consumers And Investors Are Looking For Triple Bottom Line Benefits And Returns.

You Know, Public Funding Isn't Enough

Outdated Utility Value of Existing Infrastructure, Plus Increasing Pressures Like Climate Change,

There Isn't Enough Local, State Or Federal Funding.

- Federal Agency Budgets Are Quickly Declining.
- Regulatory Processes Significantly Increase Costs.

Taxes And Ratepayer Fees Barely Cover Existing Operations And Maintenance.

- Raising Taxes Is A Political Non-Starter.

Bond Funding Has To Be Passed By A Skeptical Electorate, And Has A Variety Of Constraints If It Is Passed.

Public Sector Must Leverage Private Financing To Fill This Gap.

e P3 Promise

The Public Private Partnership Idea Has Been Around A While.

- Public And Private Partners Fund Different Parts Of A Large Project. This Happens Often.
- **Private Financing Of Public Infrastructure. This Isn't Happening Much In The US.**
 - There Is Some Success In The Transit Sector.

More Success Is Occurring In Canada and Europe.

US Treasury Has Produced A Number of White Papers Assessing The Different Models In The US.

Two Titles Are:

- “Expanding The Market For Infrastructure Public-Private Partnerships”
- “Expanding The Nation's Infrastructure Through Innovative Financing”

Few Of The Mechanisms For P3

Older Structures That Can Do 'New Economy' Things:

- JPAs, Districts, Coops, Mutual Benefit Corporations, Land Trusts, CDCs, CDFIs, etc

New Corporate Structures (Private Entity With A Public Purpose):

- For-Benefit Corporation (B Corp)
 - Can Invest In Triple Bottom Line Returns.
 - Uses a 3rd Party For It's Performance Standards.
- Social Purpose Corporation (Formerly the Flexible Purpose Corp in CA)
 - Can Invest In Triple Bottom Line Returns. Metrics Based On Internally Stated Purpose.
- Low-Profit Limited Liability Corporation (L3C)
 - Board And Staff Are Basically The Same People.

New Public Vehicles:

- Enhanced Infrastructure Financing District
- Social Impact Bonds (Pay For Success)

hanced Infrastructure Financing District

- The EIFD Is A New Public Financing Authority in California.
- Replaces Much Of The Community Redevelopment Agency Authority.
 - Enables Tax Increment Financing.
 - Implements A Plan. Must Be Created By A Land Use Jurisdiction. Can Then Be Joined B Any Other Type Of Agency.
 - Joins The Legal And Financial Authorities Of All Member Organizations Into One Entity.
 - Individual Agency Concerns About Autonomy Are Addressed By The Fact That Membe Is Purely At-will.
 - However, Once Investment Plans And Contracts Are Signed An Agency Is Legally Committed, Just Like With Any Other Financial Agreement.
 - Benefit To Investor Is Simplicity. One Entity To Interface With.
- The EIFD Responds To The Constraints Of Stove-Pipe Government Authorities And Mission Specific Budgetary Constraints.
- Aggregation Organizes A Large Enough Price Tag & Return For Investors.

e Magic Is Not Really The Vehicle, It's The Deal

- The Investment Community Wants YOU.
 - Local Governments Need Capital.
 - Investors Want To Provide That Capital To These Credible Customers.
 - But They Can't Work With You If You Don't Look Like An Investment.
- The Finance Community Needs Big Dollar Investments That Have A Clearly Structured Return.
 - You Must Identify and **Package** Your Projects So That They Save Or Create Revenue Somehow And Have A Clear Capital Flow.
 - You Must **Bundle** Them So That They Add Up To A Large Enough Value. Finance Community Is Interested In Investments Of \$100 Million Or More.
 - Must **Internalize Risk** In The Scoping. All Forms Of Uncertainty Are A Deal Breaker.
- **The Real Key Is In Identifying The Value Proposition Itself. The Plan.**
 - **What Implementation Concept Enables Maximum Value & Utility? Who Benefits?**

Constraints

Privatization Of Public Resources Scares People.

- However, Private Financing Does Not Require Privatization.
- **Ownership Can Remain With The Public.**
- **Private Investors Can Be Financers, Not Owners.**

Constraints On The Public Side

- Public Policy, Funding And Established Procedures Limit The Planning Capabilities Of Individual Agencies.
- Funding Restrictions & Regulatory Constraints Drive Much Of Any Agency's Planning. Not The Opportunity For Value Creation.

Constraints On The Private Side

- The Business Ecosystem Is Incomplete.
- The Social & Environmental Industries Are Not As Advanced As The Finance Industry In Private Sector Processes.
- Heerad Sabeti With The Fourth Sector Network Describes This Well.

Public Money Is Designed For The Modernist Era

Bonds – Local Or State

- For One Time Implementation Costs Of Issue Specific Projects.
- Requires Voters To Approve The Loan
 - Must Appeal To Public Sentiment And Understanding.

Local Agency Revenues – Taxes, Fees

- For Ongoing Costs Such As Maintenance, Salaries, Etc.
- Asset Or Liability? Ongoing Costs Can Be A Drain.
 - Is There A Return So The Expense Justifies The Cost?
 - Who Captures That Return And Are They The Ones Performing The Upkeep?

These Tools Work For Isolated Challenges That Externalize Complexity

- Incentivizes Or Requires Single Purpose Planning.
- Each Agency Does Their Own Planning. Whole Model Lacks Coordination.
- Emphasizes Implementation Vs Planning. And Project Scale Vs System Scale.

Identifying Triple Bottom Line Investment Opportunities

Your Vision Investable?

Is Your Infrastructure Sustainable Or Stove Pipe?

- Requires Comprehensive Planning, Packaging & Bundling.

This Is More Complicated Than You Think It Will Be.

- Mainly Because We Are Stuck In The Processes Of How Things Currently Operate At Every Level of Government.
- Many Changes Will Be Required.

But It Is Achievable, It Will Ultimately Make Your Life Much Easier, You Ultimately Won't Really Have A Choice, And There Is A Pot Of Gold Waiting For You At The End.

New Approach

The Bigger The Investment, The Better Because This Achieves Cost Efficiencies That Increases Investor Profit Margins.

Must Reduce The Investor's Risk And Increase The Value To Potential Partner Agencies By Internalizing Social And Environmental Issues Into The Planning & Design Process.

- Projects Won't Need Mitigation And Will Collectively Implement Regulatory Agency Policy Goals.

Has To Create The Value And Identify Upfront How The Investment Will Be Paid Back.

- Can The Value Created Be Captured By Someone That Will Pay Back The Investor?
- This Is Similar To The Type Of Financial Analysis The CRA's Would Do To Acquire Their Financing.
- Plus - Coordinating Infrastructure Planning, Economic/Community Development, and Land Use Planning To Identify How Revenues Will Be Created And Maximized.
- Plus - Have To Broaden The Financial Analysis To Include Social And Env. Costs & Benefits.

Solution Must Match The Nature Of The Problem

- Creating Value Means Solving Real Problems In A Given Location.
 - First Understand And Define The Problems.
 - Problem Statement Must Be Integrated Before A Vision Can Be.
 - **Many Of Today's Problems Are Systems Problems. Wicked. Intractable. Multivariate And Multi-faceted. No One Entity Is In Charge.**
- Envision Targets And Solutions From There.
- Can't Always Cater To One Funding Source.
 - Public Funding Programs Are Often Single Purpose And/Or Capped At A Certain Dollar Amount.
 - Don't Allow You To Work At The Real Scale Or Complexity Of The Problem.
 - The Greater The Utility Of The Solution, The More Likely It Is You Will Maximize The Opportunity For Value Creation And Revenue Generation.

Integration Occurs In “Place”, Not In Policy

- Policy Is Issue Specific. The Funding It Authorizes Is Too.
 - Transportation, Housing, Water, Energy, Education, etc.
 - All Have Different Policy Drivers, Regulation, Funding Sources And Performance Metrics. They Are Managed Separately.
- Reality Isn't Separated Like This. Projects Must Exist Within, And In Relationship To, All The Other Issues.
 - All Issues Interact With Each Other On The Ground In Any Given Location
 - It's How That Interface Is Structured That Defines The Sustainability Of All Of These Components.
 - Our Governance, Policy & Funding Tools Aren't Really Set Up To Help Understand And Plan For These Relationships.

e Planning Process Internalizes

- Regulation Is A Result Of Externalizing Issues From The Planning Process.
 - Focuses On Outcomes Of A Broken Planning Approach.
- Don't Plan To Regulation. Plan To The Integration Of Place.
 - Land Use Design Should Start With Social And Environmental Opportunities And Constraints. Suitability Mapping.
 - Build On Inherent Strengths, Not Weaknesses.
 - Then Assess The Financial Opportunities Of The Social & Environmental Strategies
 - What Is The Deal Flow Of The Value Created And Who Captures It?
 - Turn Impact From A Negative To Positive By Expanding Your Scope Of Planning
 - Streamlines Regulation By Aligning Regulators And Implementing Their Policy Goals.
 - Enables A Larger Number Of Funding Partners. Those Who Sued You Can Now Fund You.

Capital Stacking To Finance Collective Impact

Public: Existing Forms Of Public Funding Can Still Be Utilized As Appropriate For Those Funding Sources.

- Most Risk Averse, Laws Restrict Use Of Public Funds.
- Oriented Around Issue Specific Implementation.

Philanthropy: Non-Profit Funding Can Partner In These Deals, As Missions Align.

Private: Can Leverage Private Equity Investment Or Profit From Mission-Based Businesses.

Idea Of “Collective Impact” Combines These Funding Sources.

- Opportunities Don’t Self Organize. Still Needs Seed Funding To Convene & Coordinate The Participants Up Front & Identify Systems Processes and Opportunities.

Stanford Social Innovation Review Article: [Collective Impact](#) by John Kania & Mark Kramer

Completing The Impact Economy Ecosystem

What I Hear Cities Saying

- Even If There Is Funding Is Available For Resilient, Integrated, Sustainable, Smart Growth, Type Projects, Many Cities Don't Have The Capacity To Do The Scoping And Planning It Takes To Identify Those Opportunities And Pursue The Funding In The First Place.
- And, If They Did, They Don't Have The Recurring Revenue To Handle Operations And Maintenance Costs.
- Long Range & Comprehensive Planning Budgets Were The First To Go During The Recession And They Haven't Come Back.
- Totally Buried By Day-To-Day Fires And Regulatory Hurdles.

Impact Entrepreneur / Broker / Intermediary

- My Role As Strategic Planner Has Evolved Out Of Necessity To Fill This Gap.
 - I Focus At The Systems Scale To Connect Problems And Identify Opportunity For Collective Impact.
 - My Focus Has Been On Natural Resources, Urban Planning And Economic Development.
 - Existing Public Funding Sources Don't Usually Fit. Tax Revenue or Bond Funding is Either Too Small or Too Single-Purpose.
 - This Lead Me To The Private Finance Community Who Are Looking To Find Sustainable/Green/Triple-Bottom-Line Investment Opportunities.
- Who Else Does This Work?
 - This Will Be An Emerging Specialty.
 - The Business Model For This Process Isn't Complete Yet.
 - Can Learn From The Finance World. Social & Natural Capital Needs Intermediaries Too.
- Milken Institute & Living Economy Advisors Are Currently Convening A Dialog About This To Articulate The Model For The Upfront Planning & Coordination Needed To Developing Sustainable Infrastructure Investment Opportunities.

Opportunity & Constraint

- Infrastructure Presents The Opportunity To Achieve Sufficient Scale Of Capital Investment.
 - But How Can These Opportunities Be Structured To Reduce Risk & Uncertainty, Achieve Social And Environmental Performance Criteria, And Deliver A Financial Return That Meets Fiduciary Standards?
- Business Structures Have Been Envisioned For How To Do This On The Finance Side, Using Things Like Investment Funds.
 - But Remember, A Fund Is Only As Good As The Investments In It.
 - And, The Design Challenge As An Investment Is To Get The Revenue Articulated And Clear And To Achieve Scale.

ing Economy Advisors

- A Consortium Of Sustainability Experts Started By Gregory Wendt, A Private Wealth Manager Based In Santa Monica
 - He Saw The Need For The Identification Of Investment Opportunities In The Sustainability Of Local Regions And Communities That Fit Fiduciary Standards.
 - Currently There Are Very Few Investment Opportunities For Fiduciaries That Contribute To The Sustainability And Triple Bottom Line Wealth Of Their Own Region.
 - This Team Can Convene A Dialog To Advise Communities On How To Do This. Will Create The Kinds Of Investments His Clients Are Asking For.
- Living Economy Advisors Takes A Systems Approach To Envisioning And Structuring The Investment Package In A Location.
 - Uses The Idea Of “Biomimicry” To Envision Relationships Between The Elements A Community That Can Be Connected Or Aligned To Amplify Investment Potential And Triple Bottom Line Impact.

Unlock The Potential Of Endowments

- The Real Potential Of Philanthropy Is Not The Money It Grants Out.
 - This Is Only 5% Of Their Assets. 95% Of Their Assets Are Held In Their Endowment.
- These Two Types Of Money Are Managed By Two Entirely Separate Departments That Don't Have Much To Do With Each Other.
- Once Investment Capital Can Be Directed To Things That Achieve The Missions Of These Organizations, Then The Real Potential Of The Impact Economy Can Be Realized.
- Requires Triple Bottom Line Returns. Both A Financial Return That Meets Investment Criteria, As Well As Social And Environmental Performance Criteria.
- Local Governments Are Uniquely Well Suited To Position Themselves For This Type Of Investor Because Your Missions Are Often Aligned.
- What Is Your Community's Pension Fund Invested In? What If A Portion Could Be Used To Finance Your Investment Needs? What If Cal Pers Could Do This?

Newport Bay Watershed

CASE STUDY

ocused On Planning At The Systems Scale

- Environmental Projects Are Always So Segmented. A Creek Here. A Wetland There. A Cluster Of Birds There.
 - Regulators Are Never Satisfied.
 - Real Environmental Improvement Is Marginal. Missing The Forest For The Trees.
- No One Was Planning For The System. Local Agencies Don't Have The Authority. Regulators Don't Either.
- So I Worked Through A Local Stewardship Non-Profit Who Could Operate More Free-Form And Ask The Big Questions.
 - This Did Make Many Of Our Partners Uncomfortable At First. Have To Build Trust
 - I Had To Make It Clear That This Was A Thought Experiment To See What Was Possible. This Would Only Identified Opportunities That Would Be Presented Back To Them For Consideration, With Funding.
 - This Would Streamline Regulation, Not Create New Ones.

o-System Scale Planning & Outcomes

- Coordinated Consensus And A Common Vision For The Ecological System Among Natural Resource Agencies And Advocates That Achieves The Full Range Of Public Policy & Regulatory Objectives.
 - Didn't Let Regulation Drive The Process. Just Provide Guide Rails.
 - Ecology Drove The Process. Since I'm Working With A Natural System I Maximized It's Natural Capital.
- Identified Project Opportunities That Implemented That Outcome, But That Also Provides A Community Design And Amenity Value.
 - Green Streets, Park & Golf Course Retrofits, Parkway Design, River Corridor Improvements, Etc.
 - Puts The Environment At Front Of The Design Process So It Can Be Leveraged As An Asset. Not At The End In CEQA Where It Causes Problems And Cost.
- Projects Interface With & Support Economic Development Planning.
 - Can Bring Funding Partners. Can Identify And Provide A Network Of Value Added Mitigation Opportunities.
 - No Opponents = No Risk To Investors.
 - Took 3 Years Of Facilitation Just To Complete The Concept Phase. Cost \$250,000, Need \$250,000 More.
 - But We've Attracted An Investor Who Wants Provide Implementation Funding In The Range \$250 - \$500 Million.