Center on Budget and Policy Priorities

1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Updated June 28, 2019

Any Federal Infrastructure Package Should Boost Investment in Low-Income Communities

By Chye-Ching Huang and Roderick Taylor

The nation has large, pressing infrastructure needs, which are often felt most acutely in low-income communities. Decades of policy choices and insufficient public and private investment have made the infrastructure needs of these communities acute, especially in many communities of color where past policy choices affected by racism, combined with continuing racial bias and discrimination, have resulted in a lack of needed economic resources. As federal lawmakers consider investing in infrastructure, a core priority should be to direct substantial resources across a range of areas to low-income communities, which could expand their access to safe living conditions and economic opportunity. Such investments include:

- **Housing**: Preserving and building affordable housing for low-income families, seniors, and people with disabilities should be a priority, as well as renovating and making needed repairs in public housing, which faces large backlogs after decades of underfunding and deferred capital repairs and maintenance. Investments can ensure safe and healthy living conditions while preserving or developing affordable housing.
- **Schools**: Building and repairing K-12 schools is needed to ensure students have healthy and safe modern facilities. The backlogs in this area are substantial. Research strongly indicates that correcting this neglect would likely boost students' health and school performance.
- **Transportation**: Supporting well-designed transportation infrastructure and public transit can boost the economic prospects of underserved communities by increasing access to jobs and other opportunities.
- **Water, air, and environmental safety; preventing and mitigating climate change**: Upgrading and replacing degraded and substandard infrastructure, such as by replacing lead pipes and improving wastewater treatment, is needed to ensure safe living environments. Low-income children tend to live in areas most exposed to unsafe drinking water, air pollution, and other environmental hazards. In addition, many low-income communities are at high risk of suffering the most damaging effects of climate change and hence could benefit substantially from actions to avert or ameliorate those effects.

Moreover, the benefits that would result from projects focused on the unmet needs of low-income communities are likely to be consistent with other priorities that policymakers seek to address with a federal infrastructure package.[1]

In short, financing and investment mechanisms for any infrastructure package should protect low-income households and be designed so the overall package is beneficial to communities most in need. While some lawmakers may be drawn to certain public-private financing mechanisms, such as tax credits or loan subsidies, those approaches tend to be less cost effective than borrowing at the relatively low interest rates available to the Treasury. They also run the risk of delivering windfalls to private investors for projects that would have happened anyway or prioritizing projects with commercial returns over those that deliver public benefits, and in many cases they are likely to bypass communities most in need.

Prioritize Low-Income Communities' Pressing Unmet Needs

The federal government plays a critical role in funding infrastructure for low-income communities since it can support projects that have multi-state or national benefits and ensure that people who live in areas with limited local resources are treated equitably. It can also ensure reliable funding for long-term investments through both good and bad economic times. States and localities also can address unmet infrastructure needs, and they have important roles to play in partnering with the federal government.[2] But many projects affect entire regions, not just individual areas, and federal funding is particularly important for ensuring that infrastructure investment serves underserved, low-wealth, and rural areas.

Underinvestment in the nation's infrastructure has left particularly urgent needs in many low-income communities, which often lack the basic infrastructure needed for safe living conditions and access to economic opportunity. Some key examples, discussed below, include a lack of affordable housing; decaying school buildings that are in need of repair; inadequate transportation and mass transit systems; a need for remediation to ensure basic water, air, and environmental safety; and a need for investment to prevent and mitigate hazards associated with climate change. New infrastructure investments should address these needs, but lawmakers should also take steps to shore up existing investments and prevent damaging funding reductions. (See box.)

---

[1] This paper focuses on meeting the needs of low-income communities; for a discussion of complementary goals of an infrastructure package, see Kevin DeGood *et al.,* "Building Progressive Infrastructure: How Infrastructure Investments Can Create Jobs, Strengthen Communities, and Tackle the Climate Crisis," Center for American Progress, January 31, 2019, https://www.americanprogress.org/issues/economy/reports/2019/01/31/465687/building-progressive-infrastructure/.

[2] See Elizabeth McNichol, "It's Time for States to Invest in Infrastructure," Center on Budget and Policy Priorities, March 19, 2019, https://www.cbpp.org/research/state-budget-and-tax/its-time-for-states-to-invest-in-infrastructure.

Policymakers Should Ensure Current Investments Don't Lose Value

In addition to generating substantial new infrastructure investment, policymakers will need to maintain existing federal infrastructure commitments. But the funding for existing commitments faces obstacles under current law. It will take action by policymakers on two key fronts to prevent damaging reductions in funding.

For one, they will need to secure a budget deal for 2020 and 2021 that provides sufficient resources for critical infrastructure needs funded by discretionary appropriations. Many of the federal government's current infrastructure programs — such as spending on water, sanitation, and transportation projects in the Departments of Commerce and Transportation and the Environmental Protection Agency, are funded through annual appropriations and are in the part of the budget known as non-defense discretionary (NDD) spending. NDD funding has been squeezed since 2010, largely due to the austere funding caps imposed by the 2011 Budget Control Act (BCA), including its sequestration provisions. While lawmakers have adopted a series of temporary bipartisan agreements to ameliorate some of the BCA's most severe effects, NDD still absorbed substantial reductions. For example, total NDD funding from 2011 through 2017 was about $400 billion below the levels at which it would have stood if Congress had maintained the overall 2010 NDD funding levels, adjusted for inflation.[a]

The most recent budget deal, covering fiscal years 2018 and 2019, began to dig out of the hole caused by these cuts, and it increased funding for infrastructure projects. But another budget deal will be needed for 2020 and 2021 to ensure that NDD funding levels don't fall back to the BCA's austere sequestration levels, and any such deal should provide room for new investments, including in infrastructure. [b] This also means that to the extent an infrastructure package calls for expanding investments that rely on NDD funding, lawmakers should increase the NDD funding caps so that the appropriations for new infrastructure investments don't crowd out other domestic priorities by using up too much of the room under those funding caps.

Second, policymakers should ensure the Highway Trust Fund is solvent after fiscal year 2021. The federal government spends about $55 billion each year on highways and public transportation through the Highway Trust Fund (HTF), the bulk of which is funded by excise taxes on gasoline and other fuels. In prior years, the taxes that fund the HTF have been insufficient to cover all of its expenditures, primarily because inflation has eroded the value of the gas tax. Congress has responded by supplementing the HTF with general Treasury funds; the Fixing America's Surface Transportation Act, enacted in 2015, provided the HTF with $70 billion in general-fund transfers beginning in 2016. The Congressional Budget Office estimates, however, that the HTF will remain solvent only through 2021. Congress will have to act just to ensure that the HTF can maintain *current* levels of spending after that.

a Sharon Parrott, Richard Kogan, and Roderick Taylor, "New Budget Deal Needed to Avert Cuts, Invest in National Priorities," Center on Budget and Policy Priorities, March 1, 2019, https://www.cbpp.org/research/federal-budget/new-budget-deal-needed-to-avert-cuts-invest-in-national-priorities.

b *Ibid*.

An infrastructure package that prioritizes low-income communities can also help redress racial disparities in access to basic, safe living conditions and economic opportunity. Black and Latino households are more likely than white households to live in poorer neighborhoods and neighborhoods of concentrated disadvantage, even when comparing households of the same income, so ensuring that an infrastructure package meets the needs of low-income communities would especially help households of color.[3]

Many low-income communities of color face these disadvantages and pressing infrastructure needs because of the legacy of past policy choices affected by racism, combined with continuing racial bias and discrimination, which have resulted in such communities often lacking the economic resources they need.[4] For example, the federal Home Owners Loan Corporation in the 1930s drew up maps that disproportionately labeled communities of color as "hazardous."[5] This "redlining" directed private loans and investment away from those communities, making it harder for them to build economic resources and have equal access to opportunity. Often, these communities have also faced artificial state-level policy constraints on raising adequate revenue for public investment within their communities.[6]

Another example is infrastructure projects built in ways that harmed communities of color, such as highways routed through, displacing, or failing to serve such communities.[7] In addition, Native American tribal communities face a raft of severe unmet infrastructure needs due to a history that includes the confiscation of their traditional lands and other resources and the relocation of tribes "to locations without adequate resources and basic infrastructure upon which their tribal governments can foster thriving communities."[8] And in Puerto Rico, the recent inadequate federal

---

[3] See Glenn Firebaugh and Francesco Acciai, "For blacks in America, the gap in neighborhood poverty has declined faster than segregation," *Proceedings of the National Academy of Sciences,* vol. 113 (November 22, 2016), pp. 13372–13377, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5127296/; and Paul A. Jargowsky, "The Architecture of Segregation: Civil Unrest, the Concentration of Poverty, and Public Policy," Century Foundation, August 9, 2015, https://s3-us-west-2.amazonaws.com/production.tcf.org/app/uploads/2015/08/07182514/Jargowsky_ArchitectureofSegregation-11.pdf.

[4] Racism and discriminatory public policies have played a central role in the creation and persistence of neighborhoods of extreme poverty, which are home primarily to people of color, particularly African Americans. (These factors also contributed to the creation and persistence of high-opportunity neighborhoods, which are predominantly white.) See, for instance, Richard Rothstein, *The Color of Law: A Forgotten History of How Our Government Segregated America*, Liveright, 2017; and Patrick Sharkey, "Neighborhoods, Cities, and Economic Mobility," *Russell Sage Foundation Journal of the Social Sciences*, Vol. 2, 2016, pp. 159-177, https://www.jstor.org/stable/10.7758/rsf.2016.2.2.07. For this reason, it is important to recognize that many of the characteristics of extreme-poverty neighborhoods that harm children's health and chances of success are entangled with the history of racism.

[5] Bruce Mitchell and Juan Franco, "HOLC 'Redlining' Maps: The persistent structure of segregation and economic inequality," National Community Reinvestment Coalition, February 2018, https://ncrc.org/wp-content/uploads/dlm_uploads/2018/02/NCRC-Research-HOLC-10.pdf.; and Michael Leachman *et al.,* "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, November 15, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy.

[6] Leachman *et al.*

[7] See Rothstein; and Thomas W. Sanchez, Rich Stolz, and Jacinta S. Ma, "Moving to Equity: Addressing Inequitable Effects of Transportation Policies on Minorities," Civil Rights Project, June 2003, pp. 18-19, https://www.civilrightsproject.ucla.edu/research/metro-and-regional-inequalities/transportation/moving-to-equity-addressing-inequitable-effects-of-transportation-policies-on-minorities/sanchez-moving-to-equity-transportation-policies.pdf.

[8] U.S. Commission on Civil Rights, "Broken Promises: Continuing Federal Funding Shortfall for Native Americans," December 2018, https://aihc-wa.com/wp-content/uploads/2019/01/Commission-on-Civil-Rights-Report-Broken-Promises.pdf.

response to Hurricanes Irma and Maria is consistent with a history of underinvestment in the island.[9]

A well-designed, broad-reaching infrastructure package should include robust investments to remedy decades of underinvestment, especially in low-income areas and communities of color that have been historically disadvantaged through policy choices. Some examples are discussed below.

Affordable Housing

An infrastructure package should include funds to repair, preserve, and build affordable housing for low-income families, seniors, and people with disabilities. In addition to providing safe, decent homes to households who would otherwise struggle to keep a roof over their heads, affordable housing investment can advance environmental goals by improving the energy efficiency of buildings and supporting the development or preservation of affordable homes near public transportation. Many affordable housing projects funded through the Department of Housing and Urban Development (HUD) have the added benefit of requiring that some of the resulting jobs and small business opportunities go to public housing residents and other low-income people, who may miss out on opportunities that other infrastructure projects create.[10]

Most urgently, an infrastructure package should include funds to renovate and repair public housing, which due to decades of federal underfunding has accumulated a massive backlog of unmet renovation needs. A 2010 HUD-sponsored study estimated the cost of these needs at $26 billion, a number that has likely grown since. Added funding would enable local public housing agencies to address unsafe and unhealthy conditions — such as lead paint hazards, leaking roofs, faulty elevators, and failing heating systems that have exposed residents to severe cold in recent winters — and preserve housing developments that provide affordable homes to close to 1 million households.

Policymakers should also include funds for privately owned affordable housing, most importantly by expanding the National Housing Trust Fund. The fund preserves and develops housing affordable to the lowest-income families, but at its current funding level can meet only a small fraction of the need for such housing. Investments in the fund would mean that these families would have greater access to decent, stable housing at rents they can afford.

School Repair to Boost Student Achievement

The nation is not devoting adequate resources to building and repairing K-12 schools. State cuts to K-12 education over the past decade have affected more than school operating budgets for teacher salaries, textbooks, and classroom needs. Capital spending — for example, to build new schools, renovate and expand facilities, and equip schools with more modern technologies — has also fallen sharply in most states. And state and local spending on infrastructure in general is at a historic low as a share of the economy. States have been restoring K-12 education funding in

---

[9] Sergio M. Marxuach, "Puerto Rico's Unfinished Business After Hurricane Maria," Center for a New Economy, October 2018, http://grupocne.org/2018/10/24/puerto-ricos-unfinished-business-after-hurricane-maria/.

[10] See Will Fischer, "Infrastructure Plans Should Boost Affordable Housing for Lowest-Income Americans," Center on Budget and Policy Priorities, April 30, 2019, https://www.cbpp.org/blog/infrastructure-plans-should-boost-affordable-housing-for-lowest-income-americans.

recent years, but progress has been slow and uneven and public schools still have serious needs — elementary and secondary schools cut capital spending by $19 billion, or 25 percent, between fiscal years 2008 and 2016 (the latest year for which we have data), after adjusting for inflation.[11] According to a 2014 study by the U.S. Department of Education,[12] it would cost $197 billion to bring all K-12 school buildings into good overall condition, and according to a 2016 report, the nation is $46 billion *a year* behind what it should spend to provide healthy and safe modern facilities.[13]

Correcting this neglect would likely boost students' health and school performance. Research "strongly suggest[s] that building and classroom improvements to subpar facilities," characterized by poor lighting, bad air quality, and noise, can increase student achievement.[14] Meanwhile, cold conditions that result from inadequate, aging heating systems make it hard to learn and can force unplanned school closures that disrupt studies, as Baltimore experienced in 2018.[15]

Schools in high-poverty areas, which disproportionately educate children of color, are most in need of the repairs that correlate with improved achievement.[16] These include schools funded through the Interior Department's Bureau of Indian Education (BIE), which tend to be geographically isolated and face various challenges. Many BIE-funded tribal schools are deteriorating, and construction funding remains insufficient to address maintenance backlogs. Addressing this disrepair could help boost the nation's long-term prosperity.

While the cost of funding K-12 schools has traditionally fallen primarily on states and localities, the federal government plays an important role, especially in evening out disparities in opportunity based on income and for students with disabilities. There are many ways that the federal government could help address this need to build and repair the nation's schools. For example, the Jobs & Infrastructure Plan for America's Workers, which Senate Democrats proposed in 2018, included $40 billion for public schools. The plan would have targeted funding for school buildings and other infrastructure to areas that need it most and where there's a lack of local resources.[17] Similarly, H.R.

---

[11] Elizabeth McNichol, "With Federal Funding Unreliable, States Must Invest in School Buildings," Center on Budget and Policy Priorities, May 1, 2019, https://www.cbpp.org/blog/with-federal-funding-unreliable-states-must-invest-in-school-buildings.

[12] Debbie Alexander and Laurie Lewis, "Condition of America's Public School Facilities: 2012–13," U.S. Department of Education, NCES 2014-022, 2014, https://nces.ed.gov/pubs2014/2014022.pdf.

[13] Center for Green Schools, 21st Century School Fund, and National Council on School Facilities, "State of Our Schools: America's K-12 Facilities," March 23, 2016, https://centerforgreenschools.org/state-our-schools.

[14] See, for example, Sapna Cheryan *et al.*, "Designing Classrooms to Maximize Student Achievement," *Policy Insights from the Behavioral and Brain Sciences,* 2014, https://journals.sagepub.com/doi/pdf/10.1177/2372732214548677.

[15] Pamela Wood and Talia Richman, "Baltimore teachers call on city to close schools amid heating issues," *Baltimore Sun*, January 3, 2018, https://www.baltimoresun.com/news/maryland/baltimore-city/bs-md-cold-schools-20180103-story.html.

[16] See Alexander and Lewis; and School Poverty Indicator, "National Equity Atlas," accessed March 22, 2019, http://nationalequityatlas.org/indicators/School_poverty.

[17] "Senate Democrats' Jobs & Infrastructure Plan for America's Workers," March 7, 2018 https://www.democrats.senate.gov/imo/media/doc/Senate%20Democrats'%20Jobs%20and%20Infrastructure%20Plan.pdf.

865 (the Rebuild America's Schools Act of 2019) includes a $70 billion grant program over ten years and a $30 billion bond program over three years targeted at high-poverty schools in poor condition.[18] Both plans specifically include resources for BIE-funded schools.

Directing Transportation Infrastructure to Areas of Highest Need

Well-designed transportation infrastructure and public transit can extend economic opportunity to underserved communities. For example, public transit can "reduce road traffic congestion, save consumers money, increase productivity, decrease carbon pollution, and spur economic development."[19] But as noted above, decades of policy choices have left many low-income communities, particularly communities of color, under-resourced, producing inequities in access to public transit.[20] Investment in transportation infrastructure should be carefully designed to redress rather than replicate historical patterns of disinvestment. For example, traffic fatalities occur more than twice as often in low-income versus high-income places, and only 49 percent of low-income neighborhoods have adequate sidewalks, compared to 89 percent in high-income neighborhoods.[21]

Investments in public transit can be designed in ways that may have particular potential to increase access to jobs and economic opportunity for people of color and others living in high-poverty areas.[22] The mechanisms used by a set of federal programs to decide where and how to undertake specific projects should account for the often much greater needs in low-income communities and the substantial benefits they may reap from additional investment.[23]

Meeting Water Quality and Environmental Standards, Mitigating Climate Change

Low-income children and children of color tend to live in areas with exposure to toxic lead and other contaminants from unsafe infrastructure, such as lead pipes and older homes with lead-based paint, as occurred in Flint, Michigan[24] and Chicago.[25] A recent report found that while elevated blood lead level (BLL) prevalence rates have decreased significantly over the last two decades in

---

18 "Rebuild America's Schools Fact Sheet," 2019, https://edlabor.house.gov/imo/media/doc/2019-01-30%20Rebuild%20America's%20Schools%20Act%20Fact%20Sheet.pdf.

19 Algernon Austin, "To Move is to Thrive: Public Transit and Economic Opportunity for People of Color," Demos, November 15, 2017, https://www.demos.org/publication/move-thrive-public-transit-and-economic-opportunity-people-color

20 *Ibid.*

21 Bridging the Gap, "Income Disparities in Street Features that Encourage Walking," March 2012, http://www.bridgingthegapresearch.org/_asset/02fpi3/btg_street_walkability_FINAL_03-09-12.pdf.

22 See Austin; Sanchez *et al.;* and DeGood.

23 A number of different approaches for such decision-making are discussed in https://www.urban.org/infrastructure.

24 EPA, "EJ 2020 Action Agenda: The U.S. EPA's Environmental Justice Strategic Plan for 2016-2020," May 2016, https://www.epa.gov/sites/production/files/2016-05/documents/052216_ej_2020_strategic_plan_final_0.pdf; Abby Goodnough, Monica Davey, and Mitch Smith, "When the Water Turned Brown," *New York Times*, January 23, 2016, http://www.nytimes.com/2016/01/24/us/when-the-water-turned-brown.html?_r=0.

25 Robert J. Sampson and Alix S. Winter, "The Racial Ecology of Lead Poisoning: Toxic Inequality in Chicago Neighborhoods, 1995-2013," *Du Bois Review: Social Science Research on Race,* Vol. 13, 2016, pp. 261-283, https://doi.org/10.1017/S1742058X16000151.

Chicago, the prevalence of elevated BLLs is still linked to the racial and ethnic makeup of neighborhoods, even controlling for socioeconomic and housing-related factors.[26]

Similarly, low-income populations are among those most exposed to adverse health risks from fine particle air pollution. A new study linking the sources of harmful air pollution to consumption patterns by race finds, for example, that although the goods and services whose production generates pollution are consumed disproportionately by the non-Hispanic white majority, Latino and Black households bear a disproportionate burden of the harmful health effects from the pollution.[27] Further, the Environmental Protection Agency (EPA) has reported that "minority and low-income populations are more likely to be located in neighborhoods with hazardous waste facilities and are more vulnerable to the negative impacts from such facilities."[28]

A federal infrastructure package should include funding for environmental infrastructure to reduce lead, water, air, and hazardous waste contamination, with a particular focus on low-income communities and communities of color that tend to be the most affected by these hazards.[29] Currently, the EPA — and the programs it administers that make such investments — are substantially underfunded. For example, EPA funding for programs that help localities upgrade and replace aging drinking water and wastewater treatment infrastructure is now *40 percent below the 2001 level*, after adjusting for inflation, even though estimated future investment needs total more than $600 billion.[30]

Furthermore, many low-income communities are at high risk of suffering the most damaging effects of climate change and so could benefit most from actions to prevent or ameliorate these effects. For example, on top of decades of unmet needs for infrastructure improvement, Puerto Rico is struggling to rebuild basic electric, water, communications, and transportation infrastructure damaged or destroyed by Hurricane Maria — the type of natural disaster that climate change is making more likely, more destructive, and more costly to respond to. Puerto Rico and other communities vulnerable to the impacts of climate change have pressing needs for federal investment in infrastructure not only to help them rebuild after such events, but also to improve resilience to future climate-related events.[31]

Policies that reduce greenhouse gas emissions would also reduce emissions of other pollutants that have adverse health effects on communities subject to that pollution, which tend disproportionately to be lower-income communities and communities of color. One example of

---

[26] *Ibid.*

[27] Christopher W. Tessum *et al.,* "Inequity in consumption of goods and services adds to racial-ethnic disparities in air pollution exposure," *Proceedings of the National Academy of Sciences,* March 11, 2019, https://www.pnas.org/content/early/2019/03/05/1818859116.

[28] EPA.

[29] *Ibid.*

[30] See "Drinking Water Infrastructure Needs Survey and Assessment," EPA, March 2018, https://www.epa.gov/sites/production/files/2018-10/documents/corrected_sixth_drinking_water_infrastructure_needs_survey_and_assessment.pdf.

[31] "Potential Increases in Hurricane Damage in the United States: Implications for the Federal Budget," Congressional Budget Office, June 2016, https://www.cbo.gov/publication/51518.

environmental policy that prioritizes investment in low-income communities while addressing climate change and infrastructure needs is found in California,[32] which enacted a measure in 2012 (amended in 2016) requiring at least 25 percent of the revenue generated from the state's cap-and-trade program to be allocated directly to projects in disadvantaged communities. The resulting investments targeting low-income communities can include solar power systems for low-income households, projects[33] that link affordable housing to clean transportation, and the like. [34]

These are just a few examples of how infrastructure investment can reach such communities. More broadly, a federal infrastructure package should, where possible, increase economic opportunity in low-income communities and reduce economic and racial disparities. In crafting a package, lawmakers should consider not only past underinvestment in infrastructure in low-income communities, but also the potential for infrastructure investments in these communities to deliver benefits that can be broadly transformative.

Financing Should Be Fiscally Responsible and Protect Low-income Households

How an infrastructure package is financed will surely be part of the debate. Options include reducing other spending, raising revenues, and higher borrowing — or some mix of the three. In addition, lawmakers will likely consider arrangements for some infrastructure investments that involve the private sector, with the hope that it will contribute to meeting the nation's infrastructure needs. All of these options can affect low-income communities, either directly or indirectly, so must be taken into account if an infrastructure package is to make low-income communities significantly better off.

Lawmakers should consider the following when choosing among (or setting the mix of) financing options:

- **Program cuts that would make people with low or modest incomes worse off shouldn't be on the table.** Such workers and families have faced decades of near-stagnant wages and growing inequality.[35] They shouldn't bear the brunt of paying for infrastructure investment, especially as underinvestment in infrastructure is a significant barrier to greater economic opportunity in many low-income communities.
- **There are many sound options for generating substantial, progressive revenues to finance infrastructure needs**. The costly 2017 tax law is tilted to high-income households.

32 "California Climate Investments to Benefit Disadvantaged Communities," California Environmental Protection Agency, accessed March 21, 2019, https://calepa.ca.gov/EnvJustice/GHGInvest/. S.B. 535 was enacted in 2012, and then amended in 2016 by A.B. 1550. The amendment increased the allocation of funds to disadvantaged communities.

33 "SB 535 Funding Puts Affordable Housing Near Transit," Coalition for Clean Air, June 30, 2015, https://www.ccair.org/sb-535-funding-puts-affordable-housing-near-transit/.

34 "Climate Investments Case Studies Report," Greenlining Institute, October 5, 2015, http://greenlining.org/issues/2015/climate-investments-case-studies-report/.

35 Chuck Marr, Brandon DeBot, and Emily Horton, "How Tax Reform Can Raise Working-Class Incomes," Center on Budget and Policy Priorities, October 13, 2017, https://www.cbpp.org/research/federal-tax/how-tax-reform-can-raise-working-class-incomes.

And it reduced federal revenues to 16.5 percent of GDP in 2019, their lowest level in the last 50 years (outside of the immediate aftermath of a recession). In addition, much of the income of the most well-off is exempt from tax, taxed at preferential rates, or escapes taxation due to unintended loopholes. There are many sound options for raising revenues in a progressive manner to help finance infrastructure and other national needs.[36]

- **Some revenues dedicated to infrastructure (such as the gas tax) fall most heavily on low- and moderate-income households, so increases in those revenues — which should be part of an infrastructure package — need to be accompanied by protections for low-income households.** Increasing the gas tax could help reduce carbon emissions while boosting infrastructure investments made through the Highway Trust Fund (HTF). Low-income households feel increases in such taxes more than high-income households do, however, because gas and other energy expenditures constitute a higher proportion of their consumption and incomes. In addition, while low-income communities could benefit from boosts in HTF spending, many of them historically have been underserved by federal and state infrastructure spending, even as they contributed to the revenue sources that help fund infrastructure. Accordingly, a portion of the revenues from increasing the gasoline tax, or other environmentally sound energy taxes whose revenue-raising effects would be regressive, should be devoted to preventing low-income households from being made worse off. The 1993 budget reconciliation law provides an example of how to do this: it increased gas taxes by 4.3 cents per gallon, which helped put the HTF on somewhat more stable footing, and it accompanied that measure with increases in the Earned Income Tax Credit and SNAP benefits to avoid regressive effects overall.[37]
- **Private-sector financing mechanisms may have cost and targeting disadvantages compared with the Treasury simply borrowing at low federal interest rates.** Lawmakers should tread carefully when considering mechanisms that involve private financing, such as business tax credits or other incentives intended to draw private-sector funds into infrastructure projects. Lawmakers should consider not only the costs of those options compared with having the federal government borrow at the relatively low interest rates it now enjoys, but also any trade-offs that occur when commercial returns take priority over public benefits.
    - **The ultimate cost of federal borrowing at relatively low interest rates is likely lower.** Some lawmakers may wish to "leverage" federal dollars in an infrastructure package by offering incentives to the private sector, such as tax credits or loan subsidies, to encourage private infrastructure spending. The cost of such incentives is likely to exceed the cost to the federal government of borrowing the funds directly and then spending them on infrastructure, however, given the low interest rates the

[36] See Center on Budget and Policy Priorities, "2017 Tax Law Shrinks Revenue When More Revenue Is Needed," updated October 25, 2018, https://www.cbpp.org/research/federal-tax/new-tax-law-shrinks-revenue-when-more-revenue-is-needed; and Samantha Jacoby, "Commentary: *New York Times* Investigation Highlights Failures in Taxing Income From Wealth," Center on Budget and Policy Priorities, October 30, 2018, https://www.cbpp.org/federal-tax/commentary-new-york-times-investigation-highlights-failures-in-taxing-income-from-wealth.

[37] Paul Leonard and Robert Greenstein, "The New Budget Reconciliation Law: Progressive Deficit Reduction and Critical Social Investments," Center on Budget and Policy Priorities, 1993.

government now pays.[38] Private investors tend to face a higher cost of borrowing than the federal government and also would be seeking a higher rate of return (profit) from any investments. For any incentive to be attractive to private investors, it would have to take these higher costs into account.

- **Windfalls are harder to avoid**. In mixed public-private approaches, it can be difficult to eliminate windfall subsidies for projects that private investors would have undertaken in whole or in part anyway. Any such windfalls increase the ultimate cost and dilute the targeting of the public cost towards new projects.
- **Direct public spending may be better targeted to infrastructure with high public benefits, especially in low-income communities**. Private investors are most attracted to where the commercial return is highest. They avoid investments that don't produce a commercial return or where charging ongoing fees for the use of the new infrastructure is prohibited, infeasible, or undesirable. But projects that don't deliver a commercial return can still generate high public benefit, particularly in communities underserved by infrastructure investment. These could include, for example, towns that have lost a major employer, rural communities that lack easy access to amenities, and low-income communities that lack basic necessities such as clean waste disposal. Even in communities that can sustain commercially viable investments, the need to deliver a commercial return through fees or other charges can lock many low-income households out of the benefits of the investment. So a package that relies too heavily on private financing would likely skew investments away from low-income communities and households that most need such investments, because private investors tend to see bigger returns from investments in higher-income, more developed communities and users. Federal incentives large enough to bring private investment to communities where commercial returns are very low would, on the other hand, raise federal costs even further above the cost of simply borrowing to invest directly in those communities.

[38] Hunter Blair, "No Free Bridge: Why Public-Private Partnerships or other 'Innovative' Financing of Infrastructure Will Not Save Taxpayers Money," Economic Policy Institute, March 21, 2017, https://www.epi.org/publication/no-free-bridge-why-public-private-partnerships-or-other-innovative-financing-of-infrastructure-will-not-save-taxpayers-money/.