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The Case for Infrastructure Investment

Officials in many U.S. locations are beginning to see the financial rewards of long-term investment in infrastructure — including attracting new business and potentially improving the national economy.

By Mark Crawford (Dec/Jan 09)

It can be seen everywhere as you drive across America — outdated or crumbling infrastructure. Not only is it an eyesore and sometimes dangerous to public welfare — about 75,000 bridges in the U.S. are structurally deficient, for example — it's a big negative to companies looking to relocate or expand.

The American Society of Civil Engineers estimates the United States needs to invest nearly \$2 trillion over the next five years to maintain and expand its infrastructure. "We've inherited a great 20th-century infrastructure, but it is the 21st century and our competitors — including developed regions like Europe and Japan and rising countries like China — invest far more than we do," says Michael Lind, senior fellow at the New America Foundation and director of the American Infrastructure Initiative.

"From the site selection perspective, infrastructure is absolutely vital — it's a very tall pole in the tent," says Jim Colson, president of site selection for Angelou Economics in Austin, Texas. "To be competitive, cities must have modern infrastructure in place, or at least a very sound plan to deliver that infrastructure in a timely fashion, with all risk mitigated."

Regarding existing infrastructure, "the big question is does it have enough capacity to reliably service the client?" says Buzz Canup, managing principal for Fluor Global Location Strategies in Greenville, South Carolina. "This includes water, sewer, electrical, highway, rail, etc. These almost always come into play and the absence of any one of them could cause a community to be eliminated from consideration."

Committing to the Investment

Forward-thinking communities are being proactive in building modern infrastructure to bring in new companies. Cities that want to attract certain types of industry often put together an enticing package of infrastructure that is vital to that industry's operations.

"For example, the semiconductor industry, particularly wafer fabricators, must have a great deal of water and many megawatts of totally reliable electric power," says Bob Goforth, a partner with Leak-Goforth Company in Jacksonville, Florida. "On the other hand, a distribution center might not have strong requirements for water and sewer, but might need fiber optics and a good highway system."

Asheboro, North Carolina, has been enjoying solid economic growth, thanks to two new interstates converging just north of town that provide better connections between North Carolina and South Carolina ports and markets in the upper Midwest. "These highways will definitely enhance our economic development," says Bonnie Renfro, president of the Randolph County Economic Development Corporation. New businesses that have come to town include Malt-O-Meal and Rheem Manufacturing.

Asheboro and neighboring communities have joined forces to dam the Deep River and create a 6,000-acre reservoir to provide a larger water source for both public and industrial use. Related infrastructure improvements include new roads, bridges, dams, water transportation lines, and a water treatment plant. The total cost of about \$60 million is shared by six local governments. "This new source of reliable water will be attractive to industries like food processing and data centers, that require large amounts of water," says Renfro. Norfolk Southern is also upgrading its rail lines to provide more capacity for the manufacturers in the area.

Other cities investing in infrastructure improvements include Lexington, Kentucky, and Clarksville, Tennessee. "The city of Lexington has agreed to construct a new electrical substation for one of our clients, who needs to have segregated power," says King White, president of the Site Selection Group in Dallas, Texas. Clarksville has a megasite that will soon be the home for a \$1.1 billion industrial complex that will create 500 new jobs. Over six miles of gas, water, and sewer lines are being constructed with the help of grants from Tennessee's FastTrack Infrastructure Development Program. The city has also built a nearby business park with a complete infrastructure

package, including fiber optics.

“Tier 2 cities like Lexington are getting more attention from companies because they can compete well in terms of quality labor, lower labor costs, and lower land costs,” says White. “Adding quality infrastructure, usually funded through public-private partnerships, makes them highly competitive with bigger cities and even some overseas locations.”

One of these markets is Temple, Texas, which has invested \$21 million in four “themed” industrial parks. “Rail Park is designed for distribution/logistics companies and provides easy rail access,” says Mary Poché, director of marketing for the Temple Economic Development Corporation. “Gulf States Toyota recently relocated here from Houston because the park provided everything they needed, including a rail spur we constructed to their site. We’re also working out details for installing a gas line.” Poché indicates Temple expects five major companies to break ground in 2009.

Strengthening Ports

Infrastructure upgrades are greatly needed at most U.S. ports, especially Los Angeles/Long Beach. “There are tremendous capacity constrictions at Los Angeles, including heavy congestion on the highways,” says Jack Boyd, president of the Boyd Company in Princeton, New Jersey. “There is also the very real threat of losing shipping business to Mexico’s Punta Colonet port, 115 miles south of Tijuana. This may be the largest infrastructure investment Mexico will ever make and could tip the center of gravity for distribution/logistics along the West Coast. L.A. ports must improve rail service, widen highways, and add more berths to stay competitive.”

“Port cities such as Savannah, Charleston, Mobile, Houston, and Norfolk are moving ahead on their own to improve their infrastructure, and not waiting for federal help,” says Ed McCallum, principal with McCallum Sweeney Consulting in Greenville, South Carolina. “With increased trade with Asia, bottlenecks on the West Coast, increased use of the Suez Canal and the expansion of the Panama Canal, they want to increase their capacity.”

The city of Mobile, Alabama, aggressively pursued the ThyssenKrupp Steel plant by building the infrastructure improvements the company required. “Infrastructure for steel mills and importation of raw material is crucial,” says Canup. “Alabama had a state referendum to win approval to divert oil and gas revenues into improving the Mobile

ports. The difference between winning and losing the project was the infrastructure.” Among the improvements is the 380-acre Mobile Container Terminal, a \$300 million facility that will have a 2,000-foot deepwater wharf, a container yard, an intermodal rail yard, and acreage designated for value-added distribution facilities. In 2010, when ThyssenKrupp starts operations, it will become Mobile County’s largest manufacturing employer.

Orangeburg County in South Carolina has seriously reached out to the manufacturing and logistics industries with the giant Global Logistics Triangle — a \$600 million, 1,322-acre project that is designed to relieve pressure on Charleston’s ports. The Port of Charleston already handles nearly two million TEUs annually, and a new container terminal will increase that capacity by nearly 50 percent.

“Advancement of the project is contingent upon delivery of the infrastructure,” says Gregg Robinson, executive director for the Orangeburg County Development Commission. The first phase — a \$150 million to \$200 million light assembly and distribution industrial park — is under construction. Infrastructure includes water, sewer, gas, electric, road access, and a one-million gallon elevated storage water tank. “At the same time, we are enhancing the capacity of the interstate access, interchanges, secondary roads, and rail access points,” says Robinson.

Jafza International, developer of Dubai’s Jebel Ali Free Zone, acquired the Orangeburg County acreage with the goal of establishing a logistics and business park for light manufacturing, warehousing, and distribution facilities. Jafza hopes to leverage private investment of around twice that amount, as well as spur the creation of more than 8,000 jobs over the next decade. “The state has reliable power, sufficient labor, and quality infrastructure,” says Chuck Heath, managing director for Jafza International. “It’s actually quite close to the model we developed in Dubai. Chief criteria were global connectivity, market demand, land and development costs, and infrastructure/utility quality. We considered four sites in the Southeast U.S., and the final decision was based on the enthusiasm and cooperation of the authorities.”

Rail on the Rise

According to the U.S. Department of Transportation and the American Association of State Highway and Transportation Officials, the freight industry is expected to grow 67 percent by 2020. Not only is rail a safer and more environmentally friendly mode of transportation, but rising truck fuel costs are also making rail the most cost-effective

method of shipping, increasing the need for infrastructure upgrades and more distribution centers.

Norfolk-Southern Railroad recently opened its new intermodal terminal near Rickenbacker Global Logistics Park in Columbus, Ohio, the first of three new Norfolk Southern terminals to be built as part of its Heartland Corridor Project, which improves the routes between Norfolk ports and distribution centers and Columbus and Chicago. Additional terminals are planned for Roanoke, Virginia, and Prichard, West Virginia.

CSX Corporation, another Class-1 railroad, spent \$1.7 billion, or 15 percent of its 2007 revenues, on capital expenditure to meet future transportation needs. Over the next three years CSX says it is planning to spend \$5 billion in infrastructure enhancements as part of its ambitious National Gateway project. Part of this money will include a \$724 million public-private infrastructure initiative to create more efficient freight railroad links between Mid-Atlantic ports and the Midwest. The improvements will permit the use of double-stack containers, which will be able to move more of the increased cargo entering Mid-Atlantic ports, while saving fuel and cutting down on pollution. Construction will start in 2010 and includes expanding and adding new terminals and distribution points, raising overpasses and bridges, and blasting new tunnels. CSX is investing \$362 million of its own money and expecting to receive matching federal and state funds.

Keeping Up With Competition

In an August 26, 2008 New York Times column, Thomas Friedman wrote about the startling contrast between this country's infrastructure and what he saw when he attended the Olympics in Beijing: "When you see how much modern infrastructure has been built in China since 2001, under the banner of the Olympics, and you see how much infrastructure has been postponed in America since 2001, under the banner of the war on terrorism, it's clear that the next seven years need to be devoted to nation-building in America."

"There is a tremendous amount of substandard infrastructure in cities and towns across America," says Colson. "These places cannot attract new development without new infrastructure, but they simply can't afford to build it. This has led to the recent trend of cash-strapped communities turning to a growing number of private investment groups that pool investor money to fund infrastructure projects for better-than-market-rate returns."

With a fierce global recession looming, many experts believe an

aggressive effort to build new infrastructure will provide a long-term solution for economically reviving the country, and the world — and it is something that President-elect Barack Obama has said he will include in his economic stimulus package. “Right now, China is doing something just like this, investing about \$700 billion to improve its infrastructure and stimulate the economy,” says Colson. “Like FDR’s Civilian Conservation Corps back in the 1930s, building infrastructure will create jobs, boost the economy, and help us compete on a global scale.”