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The Fiscal Tools Cities Need to Pay for Infrastructure.

They no longer can count on Washington or their states. They need the authority to find creative local solutions.

As the infrastructure deficit grows in our cities, so do questions about how to pay for these critical systems. Funding from the federal and state levels is uncertain at best, placing increasing pressure on local governments to take the lead. But political realities coupled with unequal access to local revenue tools means some don't have the authority they need to answer the call.

In April, for example, voters in Pulaski County, Ark., rejected a quarter-percentage-point sales tax increase that would have been the area's first tax dedicated to transit, projected to raise $18 million annually for bus-service expansion and the creation of bus lanes. The proposed tax drew widespread support within the city of Little Rock, but not in other parts of the county.

Local governments in Arkansas are among those in 29 states that are permitted to levy a local-option sales tax. But even where that authority is granted, additional limitations on these powers stand in the way. Voter approval is just one implementation hurdle states impose on their cities. Others include rate caps and matching requirements that restrict the ability of cities to meet growing infrastructure demands.

The infrastructure funding relationship that cities have with their states is a complex one. Declining state gas-tax revenues have made state programs and funding to cities increasingly unreliable. Some states are even diverting dedicated gas-tax revenue to balance their state budgets or raiding local revenues to help fill their own maintenance funding gaps. In the rare instances where states have budget surpluses, as in Minnesota, lawmakers are favoring one-time spending increases on transportation over permanent tax increases.

State spending priorities, both for state capital program and infrastructure grants to cities, are often not aligned with city needs or priorities. For example, in New Hampshire, the state implemented a moratorium on aid grants for water and sewer projects even though cities had already completed some of the projects with the intention of using state grants to help retire bond payments.

In short, local governments' access to revenue-raising tools is highly uneven across the country. Our new report, "Paying for Local Infrastructure in a New Era of Federalism," examines the wide variance: While 29 states authorize local-option sales taxes, for example, only 16 allow local-option fuel taxes. Twenty six states allow local-option motor-vehicle registration fees. Thirty-two states authorize public-private partnerships, and 27 have state infrastructure banks.

The way these tools work in each jurisdiction is very much dependent upon the political nuances, demographic makeup and the types of challenges specific to each city. The political landscape in many states is also antagonistic toward cities, particularly for new local taxes and transit projects that are perceived only to serve certain constituencies.

When paying for infrastructure becomes entwined with these sentiments, it is even more evident that cities and their local partners must find other ways. Cities with access to a state infrastructure bank, like those in California, are finding success, but often these banks are restricted to particular uses and particular cities within a state — if they are funded at all.

As a result of the limited options available to cities, some are exploring riskier ways to fund infrastructure, including direct loans and pension obligation bonds. Some are turning to smart-city technologies to increase efficiencies and decrease costs, and others are looking to unlock the value from underutilized assets like parking, lighting and obsolete payphones.

The reason cities are experimenting with a patchwork of new and traditional tools and approaches is because they have to. More funding from federal and state partners would certainly be welcomed. Even more pressing is the need for greater communication and alignment of priorities between levels of government, along with the local authority to implement creative solutions to closing the infrastructure deficit.

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