

# **Bond Case Briefs**

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## **Why We Should Put CFOs in the Infrastructure Driver's Seat.**

*As stewards of public spending, they are best positioned to help us invest effectively*

We all know the story, or at least we think we do: The U.S. infrastructure machine is sputtering, and politicians are failing to fill up the tank with funding. But look under the hood and you will see that America's infrastructure engine needs more than just gas. It needs a total engine overhaul and a new chief mechanic: Government's chief financial officers (CFOs) need to be put in charge.

For years, we have let individual government agencies — separate departments of highways, water resources, energy and so on — drive independently while advocating for their favorite infrastructure projects. Procurement systems have favored low-cost capital bids, ignoring the long-term maintenance requirements of assets meant to last a longer lifetime. Most politicians have done little to address the unsexy challenge of deferred maintenance. Why repair a leak or two underground when one can get more press for cutting ribbon on a new project?

Sadly, this kind of thinking — where prevention is undervalued — is why we have public health disasters like Flint's, a broken-down Washington, D.C., regional subway system and our current \$3 trillion-plus deferred maintenance bill.

Yet the news is not all bad. There are new efforts emerging nationally and internationally led by CFOs, state treasurers and ministers of finance. The key concept is "performance-based infrastructure," which encourages governments to consider life-cycle asset performance rather than simply taking the low-cost bids and ignoring maintenance costs of assets that are meant to last 30 or 50 years.

This shift in thinking has been led by Canada and New Zealand, where individual agencies sponsoring infrastructure projects must first undertake an "independent infrastructure project assessment." This requires agencies to consider more efficient ways to design, finance, procure and maintain the asset and to determine how best to manage important project risks, such as the effects of climate change.

Results are encouraging. There has been a \$110 billion infrastructure-project explosion in Canada in the last decade. This has led to more on-time and on-budget performance and created a new pipeline of financially viable public-private partnerships.

How would this work in the United States?

First, put local and state CFOs in charge of how we can better spend \$500 billion annually, especially since 75 percent of infrastructure spending happens at the local level. As stewards of public spending and impartial "owner-advisers" to public agencies, CFOs are best positioned to assess life-cycle risks, reform procurement systems, promote cross-agency integration and identify viable repayment mechanisms to attract private investment. (Want to nerd out even more on how to make this work? Check out the Government Accountability Standards Board's Statement 34 for [how CFOs can implement life-cycle accounting](#) and [New York State's Smart Growth Public Infrastructure](#)

[Policy Act](#), which requires resiliency and climate risk analyses to be considered with each infrastructure investment.)

Second, build a new network of local, state and regional centers of expertise to shift the system from the bottom up. Only now is Canada creating a national center after a decade of local testing and proven success in British Columbia, Ontario and seven other provinces. The U.S. is also poised to drive this shift through the regional and metro accelerators scattered across the country, from the West Coast Infrastructure Exchange to accelerators now forming in the Washington, D.C., Northeastern and Intermountain regions.

Third, use “big data” to build infrastructure for the 21st century. The private sector is already doing this. Let’s take climate change. Major insurance companies like Swiss Re are busy looking at ways to monetize avoided storm damages by establishing incentives for resiliency investments before the next Superstorm Sandy happens. Insurers and investors need big data to accurately assess climate change effects. New project-design tools and performance-based infrastructure and data innovation techniques could shave 40 percent off of a projected \$57 trillion global infrastructure bill by 2040, according to a McKinsey Global report.

How can the federal government help promote this local and state shift? Support the bipartisan bill passed by Congress last December that calls for funding of more regional centers of expertise to accelerate local public-sector capacity. Another low-cost, high-impact congressional move? Why not allow innovative states and cities to tap into a new “federal flex fund” for the startup and design costs of innovative projects that don’t fit into current funding schemes designed during the Eisenhower era.

We will need more. Universities, business schools and technology companies should team up to train the next generation of infrastructure innovators. A new world of smart grids, driverless cars and broadband technology needs to get built, but first we need government CFOs to fire up their spreadsheets.

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