U.S. Infrastructure: Do More With Existing Resources.

Regardless of which candidate takes the oath of office next January, improving our country's infrastructure will be on the next President's agenda.

An Association of Equipment Manufacturers poll shows that over 70% of Americans want government to address our growing infrastructure crisis.

Turning that into reality will require a clear understanding that the need for additional investment is real.

Members of Congress, governors and mayors from across the country have advanced bipartisan solutions to broadly address this critical need. So too has the financial services sector that works with federal, state and local governments to raise capital crucial to infrastructure investment.

Nevertheless, the level of investment by government and the private sector falls short of meeting the nation's current and future infrastructure needs, and the central question remains how to pay for it.

We need to do more with existing resources while not losing sight of the crucial need for more investment to pay for infrastructure needs. While others attempt to address the political challenge of identifying more sources of infrastructure funding, we can work toward implementing a few tangible policy ideas.

Two ways for state and local governments to achieve more with existing resources is by encouraging broader use of a construction procurement method called design-build and treating infrastructure as assets.

The traditional approach to project procurement is known as "design-bid-build," a multi-step process that separates the design and construction functions. Design-build simplifies the process by making a single entity responsible for both and collapses the procurement into one step, saving time and delivering a better, more cost effective result.

In New York, the NYU Rudin Center for Transportation and Citizens Budget Commission completed studies projecting design-build savings of up to 20% compared with traditional methods. However, design-build is still not broadly available for public infrastructure projects in all 50 states.

State and local government should also treat infrastructure as assets through better tracking and disclosure of on-going costs. The benefits are two-fold: a healthier understanding of the true ongoing costs and greater transparency will lead to more private sector involvement.

Identifying non-essential assets that can be auctioned to the private sector and put to productive use can create new revenue for government without affecting its core mission, a win-win scenario.

Three quarters of annual infrastructure spending in the U.S. is funded through the $3.7 trillion municipal bond market, where private investors purchase tax-exempt bonds issued by state and local governments.

The key advantage of municipal bonds is that interest on them is exempt from federal and state income taxes. This means investors will accept a lower interest rate, providing state and local governments with the benefit of borrowing money at the lowest interest rate available to anyone financing infrastructure, including the U.S. Treasury. This also allows state and local governments to raise capital up front to fund long use projects like airports, roads and bridges and amortize the cost over the life of the project.

The next administration should avoid calls to curb the use of tax-exempt bonds and rather seek to create a more certain tax and regulatory environment expanding the use and easing the availability of lower cost municipal debt for public-private partnership (P3) projects that involve a government entity.

Our economic competitors are using P3s as a way to capture private sector efficiencies while providing public infrastructure and retaining government ownership.

Making tax-exempt financing available for P3 projects would allow the two models to converge, leaving state and local governments with the best of both – access to the lowest cost financing available and private sector efficiencies.

The Move America Act, bipartisan legislation sponsored by Senators Ron Wyden (D-OR) and John Hoeven (R-ND), would authorize Move America Bonds, a new category of tax-exempt bonds that would be exempt from most private use restrictions, as long as the facilities are available for public use.

Providing tax incentives for investment in targeted sectors has been an effective in low income housing development and more recently renewable energy production. The Move America Act would provide for a limited, targeted tax credit applicable to equity investments in infrastructure, and Congress should consider such an idea.

The next president and Congress should embrace these ideas and spur a new chapter of infrastructure revitalization that will strengthen our economic future.

The Bond Buyer

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