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The Golden Infrastructure Opportunity That Government Missed.

States had a cheaper option for investing in infrastructure, but they didn't take it. Now, they must pay the price.

There's a lot of talk in Washington about spending more — perhaps \$1 trillion more — on infrastructure over the next decade. It's too bad a free-spending approach wasn't taken sooner.

Interest rates are starting to tick up after years of historically low levels. That means that any capital projects that get underway in coming years are inevitably going to cost more than they would have if states and other jurisdictions had been more aggressive about taking on debt at those now-disappearing bargain rates. Financing for new projects between 2011 and 2015 cost half as much as during the previous decade. Rather than taking advantage of this opportunity, though, states retrenched.

As interest rates plunged, the volume of borrowing actually dropped. Back in 2009, state and local government spending on capital projects, encouraged by the federal stimulus and the Build America Bonds program, represented 2.6 percent of GDP. By 2014, its share dropped to 1.9 percent — a decline of nearly 25 percent. Borrowing rose last year, but most of that was refinancing old debt, not money for new projects. "There was an opportunity to lock in interest rates for a 20- to 30-year period to address these infrastructure problems that everyone seems to recognize," laments Ron Fisher, an economist at Michigan State University.

Politically, though, it was very difficult to take on new debt. Some states have imposed caps on the amount of capital debt that can be added in a given year. Meanwhile, the cost of addressing leaky lead pipes and failing dams and bridges continues to rise. And now states and localities have to worry that their borrowing costs will go up not only due to rising interest rates, but as a result of new federal rules eroding or erasing the tax exemptions of the bonds they issue.

Perhaps such tax breaks will be maintained. And interest rates haven't risen dramatically yet, despite the Federal Reserve's recent hike. Nevertheless — with the notable exception of public colleges and universities — government agencies missed a golden opportunity to go on a building spree. "We squandered a decade of low interest rates to get some of this stuff done," says John Engler, a former governor of Michigan and until recently president of the Business Roundtable.

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BY ALAN GREENBLATT | APRIL 2017