

Financing the Nation's Infrastructure Deficit

By Kenneth Orski
Innovation Briefs
Vol. 19, No. 7 www.innobriefs.com

February 25, 2008

"...We have to rebuild America. I am proposing a National Infrastructure Reinvestment Bank that will invest \$60 billion over ten years." --- Sen. Barack Obama, February 13, 2008

With this succinct phrase, presidential candidate Sen. Barack Obama has injected a new idea into the ongoing debate about infrastructure financing. Instead of endorsing new taxes or direct user fees to fund the nation's infrastructure deficit, he has embraced the concept of a federal capital infrastructure budget. It's an idea that also has been advanced by Senators Christopher Dodd (D-CT) and Chuck Hagel (R-NE) in their bill, the National Infrastructure Bank Act of 2007. Obama, by virtue of his prominence as a presidential candidate, has automatically ensured that this novel financing concept will figure prominently in the national dialogue about the future of infrastructure investment. The need for fresh thinking about infrastructure financing has received a further boost from an influential coalition launched last month by Governors Ed Rendell and Arnold Schwarzenegger and Mayor Bloomberg (see below).

The National Infrastructure Bank Act of 2007

The Dodd-Hagel bill (S.1926 and HR.3401) would create a new mechanism through which the federal government would finance infrastructure projects of substantial regional or national significance. The bill proposes to create an independent national bank financed with a \$60 billion bond issue, the same amount as proposed by Sen. Obama. Long-term bonds (up to 50 years) issued by the bank would align the financing of infrastructure investments with the benefits they create. The repayment of those bonds would allow the Bank to be self-financing. In other words, the dedicated bond fund would create a de facto national capital infrastructure budget.

The Bank would give preference to large "capacity-building" infrastructure projects that are not adequately served by current financing mechanisms and existing formula grants. Projects "of substantial regional and national significance," would include roads, bridges, mass transit systems and wastewater treatment facilities. Candidate projects would be brought to the Bank's attention by state and local sponsors. Once a level of investment in a given project has been determined, the Bank would develop a financing package backed by the full faith and credit of the Federal Government.

The Rohatyn-Rudman Report

Sen. Obama's proposal and the Dodd-Hagel bill have their conceptual antecedents in a 2004 report of the Commission on Public Infrastructure created under the auspices of the Center for Strategic and International Studies (CSIS). The report, authored by the Commission's co-chairmen, Felix Rohatyn and Warren Rudman, proposed a National Investment Corporation (NIC) that, like Obama's proposed Infrastructure Bank, would have the authority to issue federally guaranteed 50-year bonds to finance large-scale infrastructure projects. (The authors summarized their proposal in a December 13, 2005 op-ed in the Washington Post entitled "It's Time to Rebuild America.")

In 2006, the Commission on Public Infrastructure reinforced its proposal with a set of "Guiding Principles for Strengthening America's Infrastructure." In a preamble, the Commission noted that the nation is both under-investing in infrastructure and investing in the wrong projects. "New investments are critically needed," the Commission stated, "but we lack the policy structures to make the correct choices and investments." The proposed NIC, the authors suggested, would provide the needed allocation mechanism. Among the statement's signatories were Senators Dodd and Hagel, and Governors Rick Perry (TX), Arnold Schwarzenegger (CA), and Tom Vilsack (former governor of Iowa).

Build America Bonds

A dedicated infrastructure program backed by a large public bond issue has been also behind the "Build America Bonds" Act (S. 2021), introduced by Senators John Thune (R-SD) and Ron Wyden (D-OR) in September 2007. The senators have proposed raising \$50 billion for transportation infrastructure through a one-time bonding program. In lieu of interest, bond holders would receive tax credits. The bonds would be available to corporate and individual investors in different denominations, "providing all Americans with the opportunity to invest in upgrading America's transportation infrastructure."

"Building America's Future" Coalition

Reinforcing the call to rebuild the nation's aging infrastructure is a coalition formed by Pennsylvania Governor Edward Rendell, California Governor Arnold Schwarzenegger, and New York City Mayor Michael Bloomberg. In announcing the coalition, the three political leaders stressed that this is an issue that crosses party lines. The coalition will work with both nominated presidential candidates and the Republican and Democratic parties "to ensure that the next president understands the enormity of the infrastructure crisis, is committed to increasing federal funding, and that both party platforms reflect these commitments."

At a press conference on February 24 held in conjunction with the winter meeting of the National Governors Association, the three coalition co-chairmen were joined by six other governors: Florida's Charles Christ (R), New York's Eliot Spitzer (D), Maryland's Martin O'Malley (D), Arizona's Janet Napolitano (R), Massachusetts' Deval Patrick (D) and New Jersey's John Corzine (D). All of them emphasized the same theme: the need for national infrastructure investment. In the words of Gov. Spitzer, "we will do our part

but we need a partnership with the federal government." Or, as Gov. Schwarzenegger put it, "it's time for the federal government to step up and do its share."

Not everyone is enamored of the idea of a centrally directed program of infrastructure investment. Reason Foundation's Robert Poole, for example, thinks there is no need to expand the role of the federal government or further increase the national debt to substitute for what dozens of private infrastructure investment funds are willing, able and eager to do. "Large-scale, strategic investments in highways, bridges, water and wastewater systems are all precisely the kinds of thing that the capital markets are well-equipped to fund," he contends. He is not alone. Transportation Secretary Mary Peters likewise has argued in favor of relying more heavily on market forces to direct private investment into needed infrastructure. "Unleashing the investment locked in the private sector by partnering with business is the most efficient path to the transportation future this country needs and deserves," she said in a recent speech to the Associated General Contractors. The Rohatyn-Rudman Commission on Public Infrastructure also recognized the need for the private sector to play a more central role in infrastructure provision. "Entrepreneurs should be encouraged to put their capital at risk in order to create infrastructure that meets the needs of users," the Commission stated in its Guiding Principles.

And indeed, large portions of the needed new capacity in major travel corridors could be probably financed with a combination of private equity capital and bonds backed by toll revenue. As many as 14 states are currently considering toll revenue financing as a means of expanding road capacity. But new facilities in sparsely populated states and less heavily traveled corridors would still need public funding. Should the source of that funding be higher gasoline taxes, as recommended by the congressionally-chartered National Transportation Policy and Revenue Commission? Or should the needed funds be raised through a National Infrastructure Bank and federally guaranteed bonds?

Although the Coalition has been careful not to endorse the National Infrastructure Bank or the concept of a federal capital infrastructure budget, Sen. Obama's embrace of these concepts virtually guarantees that they will receive serious attention in the presidential campaign as an alternative to higher fuel taxes.

Please feel free to forward or reprint this item with appropriate citation. All correspondence, including requests to subscribe and unsubscribe, should be addressed to: C. Kenneth Orski, Editor/Publisher; email: korski@verizon.net; tel: 301.299.1996; fax: 301.299.4425