Center for American Progress

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# Accelerating Infrastructure Improvements with Better Public Policies that Tap Private Investment

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# Introduction and summary

President Barack Obama's re-election was widely viewed as a referendum on the issues he has championed in his first term, and that certainly includes rebuilding our nation's infrastructure. On the campaign trail, the president repeatedly called for directing to infrastructure the federal spending saved by ending the wars in Afghanistan and Iraq, asking for those funds to support "nation building right here at home."[1] Only one week before the election, he laid out his legislative agenda for a second term: addressing the federal deficit first, then moving on to infrastructure improvement and immigration reform.[2]

It's clear that the president and many members of Congress understand that at the heart of the world's largest and most innovative economies are advanced infrastructure networks. State-of-the-art infrastructure ensures the timely delivery of goods, supplies homes and businesses with clean water and electricity, and enables individuals and information to travel thousands of miles with incredible ease. Without this infrastructure, the continuous economic growth we have come to expect would be impossible.

Despite the clear indispensability of assets such as highways, railroads, and drinking-water systems, policymakers in the United States have underinvested in core infrastructure for decades. Traditionally the responsibility of the public sector, infrastructure spending has lagged well behind established needs for years and is now more than $129 billion per year short of required levels.[3] The president attempted to mitigate this funding gap with the American Jobs Act, pushing for more than $50 billion in additional federal investment in infrastructure and the formation of a national infrastructure bank.[4] Congress, however, refused to pass that bill,[5] which would have both supplied the country with jobs in the slumping construction sector, as well as provided needed improvements to infrastructure.

Some creative solutions have already been found to address the funding shortages for infrastructure in the United States—such as the U.S. Department of Transportation's innovative use of the Transportation Infrastructure

Financing and Innovation Act program to transform federal Transportation Investment Generating Economic Recovery grants into federal credit subsidies that support loans worth 10 times the original grant amount—but much more remains to be done.

Of course, methods of stimulating more private investment will not obviate the need for additional public spending. It is clear, for example, that only specific kinds of projects are suited for private investment. These are primarily those that involve the construction of new facilities that will be heavily used and for which designated and predictable revenue streams can be identified. These sorts of projects are also generally most amenable to tolling or fee collection such as highway and bridge improvements or where appropriate leasing revenues can be generated, including at ports and airports. Nevertheless, additional private investment in viable financeable projects can free up significant resources for critical public undertakings.

For the president to accomplish his infrastructure strategy goals, additional reforms that mobilize more private investment in infrastructure are necessary. Private investors already fund a substantial percentage of infrastructure projects by purchasing municipal bonds, but better policies could incentivize even more private investment. In this report we propose a number of common-sense reforms to help achieve this goal, including:

- Fully uncapping and standardizing federal rules that give states tolling authority
- Establishing a national infrastructure bank
- Introducing American Infrastructure Bonds with a direct federal subsidy
- Renewing the 1705 loan program and extending the production and investment tax credits for at least 10 years

By adopting our recommendations, the Center for American Progress estimates that the United States could leverage up to $60 billion in additional private investment in new infrastructure projects annually.[6] But before explaining the details of those recommendations, we must first discuss why private investment is critical to improving the country's infrastructure.

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