THE CASE FOR INFRASTRUCTURE & REFORM

Why and How the Federal Government Should Continue to Fund Vital Infrastructure in the New Age of Public Austerity

AGC of America
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
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INTRODUCTION

We are in a new period where the need to tackle ever-larger federal deficits and the growing debt they create will drive many of the decisions being made in Washington. This new era is forcing many officials to reflect on the proper role for the federal government and what type of infrastructure projects ought to qualify for limited federal investments. While these questions might prompt considerable worry among some special interest groups, they also present a tremendous opportunity to reshape our current approach to infrastructure investment that in many ways has become inefficient, unfocused, and ineffective.

This document is designed to ask many of the same questions federal officials are likely to ask about the size and structure of the federal role in investing in infrastructure. It explores the rationale for continued federal infrastructure investments. It examines many of the significant economic, safety, environmental and health benefits of investing in infrastructure. It identifies many of the problems with our current approach. It also offers a series of reform proposals that the Associated General Contractors of America feel are vital to improving infrastructure programs and refocusing federal investments on where they are most-needed and most-appropriate.

If enacted, these proposals should significantly improve the efficiency of federal infrastructure programs, allowing officials to deliver greater improvements per dollar invested. They will ensure the federal investments are focused on national priorities. They will accelerate the time it takes to approve, or reject, proposed projects, eliminate unnecessary red tape, allow local officials greater flexibility and make it easier to supplement public investments with private sector capital. As important, these reforms will help win back the confidence taxpayers once had in the federal government's ability to invest their infrastructure dollars both wisely and well.

PART I: INVESTING IN INFRASTRUCTURE IS A FEDERAL RESPONSIBILITY

With a growing political consensus in Washington for the need to cut federal spending to rein in federal deficits and the national debt, officials will increasingly need to decide between supporting programs that are in the federal interest and those that should more properly be handled at the state and local level.

One area where this question is likely to arise is federal investments in infrastructure, including highways, transit systems, airports, dams, levees, federal buildings and drinking & wastewater systems. Some are likely to wonder why federal taxpayers should help subsidize financing for drinking water in Louisville, pay into a pool of funds that will add new highway capacity in Richmond, or use general treasury funds to prevent flooding and speed barge traffic by improving locks along the Ohio River.

The answer is that it is clearly in the national interest to invest in infrastructure. For example, there is a clear, constitutionally defined federal role for supporting interstate commerce by investing in transportation infrastructure. Likewise, there is a strong argument to be made that the federal government has a vital role to play in maintaining our national economic security by investing in the infrastructure that is vital to commerce.

Indeed, the Constitution is quite clear that it is the responsibility of the federal government to facilitate interstate commerce. Today, the vast majority of that interstate commerce travels on America's vast, interconnected network of highways, airports and waterways. That means that if Congress and the Administration want to fulfill their Constitutional obligation to facilitate interstate commerce, they must continue to make the investments needed to maintain sufficient quality and capacity along our interstate highway network, our waterways and ensure the safety of air travelers.

It also is important to note that the federal programs for investing in highway and transit projects has traditionally been self-funded. Since the 1950s, highway users have, through a mixture of gas taxes and other use-related fees, provided all of the funds that go into the Highway Trust Fund. Until only recently all federal surface transportation investments had come from this self-funded Trust Fund. In other words, structured correctly, the federal surface transportation program does not have to cost anyone that doesn't use the highway system a single penny.

As important, there is a strong argument to be made for the fact that the proper role of the federal government is to create and set conditions favorable to private sector job creation. For example, in an economy where the difference between success and failure is often measured by a company's ability to deliver goods quickly and efficiently, maintaining transportation infrastructure is as important to the success of the private sector as are stable and low tax rates, minimal red tape and regulations and consistent and stable rule of law.

Officials in Washington also need to understand that allowing our transportation infrastructure to deteriorate will serve as an added tax on private citizens and the business community alike. That is because added congestion, shipping delays and transportation uncertainty will raise commuting costs, the price of most retail and grocery goods and the cost of getting supplies and delivering products for most U.S. businesses.

Investing in infrastructure is vital to our national economic security. America's position and power in the world is directly dependent on its economic supremacy. It is, after all, our national wealth that funds the country's highly skilled Armed Forces, that allows us to direct global trade policy and that allows our currency to dominate global marketplaces. Without continued investments to support and nurture that economic vitality, America will surely be eclipsed by other, fast-growing competitors like China, Brazil and/or India.

Given that so much of the U.S. economy has evolved into a just-in-time model where as-needed deliveries are far more efficient than expensive warehousing and storage, maintaining our transportation infrastructure is vitally important to the health of our economy. Traffic congestion and aging roads already cost U.S. businesses $80 billion a year because of deferred infrastructure maintenance and our failure to keep pace with the growth of shipping and other traffic. Allowing our transportation infrastructure to deteriorate will only further undermine our businesses and erode our national economic security.

In other cases, the federal government has an obligation to invest in infrastructure to avoid imposing costs on U.S. businesses and imposing unfunded mandates on state and local governments. For example, local governments had long been responsible for paying to maintain and operate water systems. That meant only major cities and wealthy towns had access to modern water systems. Much of that changed when the federal government began mandating quality standards for drinking water and wastewater discharge through legislation like the Clean Water Act and Safe Drinking Water Act. These standards were in the best interest of the nation, ensuring protection of public health and environmental quality. By mandating quality standards, however, the federal government forces local governments to spend billions of dollars to upgrade equipment and comply with regulatory burdens. The federal government must not foist the burden of maintaining national standards onto local ratepayers alone. Given that it is in the federal interest to set water quality standards, then so too must it be in the federal interest to provide – primarily in the form of state revolving loan funds – financing help to operators so they can meet those standards.

Federal investments in infrastructure also are often the best way to ensure the health, safety and economic vitality of sparsely populated rural communities. Many rural communities, indeed many rural states, lack the resources needed to finance the construction of major infrastructure projects like interstate highways, safe drinking water systems, irrigation facilities or floodwater protection. The federal government is uniquely suited to supporting infrastructure investments in these rural communities, especially when so much of our nation depends on the commercial traffic that travels through them and the agricultural products that come from them.

Perhaps counter intuitively, regular federal investments in infrastructure also save taxpayers money. That is because it costs a lot less to maintain infrastructure than it does to repair it. Either we can make regular investments in maintaining the quality and integrity of our existing infrastructure, or we can make significantly larger investments in repairing infrastructure once it is broken. In addition to having to pay more to repair that infrastructure, Americans are likely to bear the burden of lost or damaged lives and lost economic opportunity that inevitably come when vital pieces of infrastructure fail.

PART II: BENEFITS OF INFRASTRUCTURE INVESTMENTS

Not only is there a clear role for the federal government in investing in infrastructure, but there is also a clear national benefit from those investments. Much of our current economic prosperity derives from a long legacy of federal support for infrastructure. Federal infrastructure investments have protected thousands of towns and millions of acres of farmland from flooding and erosion, saving billions in costly repairs and lost productivity. Federal investments have irrigated farmlands, protected our drinking water, connected farmers to markets and closed the distances between our communities.

Federal transportation investments, for example, have given the United States what is inarguably the world's most efficient transportation network. Our interstate highways are the backbone of our modern economy, allowing businesses to quickly and affordably ship billions of dollars worth of goods every year. These highways have facilitated the transition to today's just-in-time economy. This has allowed employers to significantly increase their productivity by eliminating the need to stockpile large inventories. Instead, parts are delivered to factories and goods are delivered to stores only when needed. These new efficiencies, which wouldn't be possible without our highway network, have lowered the cost of consumer goods, allowed our businesses to compete globally and supported entirely new industries like overnight express delivery and supply chain management firms.

Federal investments in aviation infrastructure have made air travel more affordable, more efficient, and safer than virtually anywhere else in the world. The U.S. has many world class airports, first rate runways and an air traffic network that safely handles tens of thousands of commercial flight operations every day. Our investments in aviation safety have led to the safest era in commercial aviation the world has ever known. Meanwhile, our investments in community and general aviation airports have connected communities and enabled business people to conveniently travel to virtually any part of the country to meet with clients, supervise factory operations or scout out new opportunities.

Our federal investments in locks and other navigation facilities along waterways have allowed farmers, miners and manufacturers to efficiently ship billions of dollars worth of produce and products along our rivers. They have made our ports viable and allowed exporters access to global markets. Meanwhile, our investments in flood and erosion control have protected vital farmlands, saved lives and kept communities dry. These flood control investments also represent a significant value for the taxpayer. For every dollar invested in flood control by the federal government, taxpayers save $6. That is because those flood control investments lower repair and reconstruction costs, mitigate the cost of the federal government's flood insurance program and protect vital economic interests along many of our rivers.

Federal support for drinking and wastewater systems has kept our cities and towns safe, our waterways clean and our communities healthy. Once again, these investments deliver a tremendous return for taxpayers by lowering healthcare costs, reducing the cost of cleaning up polluted waterways and contributing to increased economic vitality. And our investments in hydroelectric dams and rural irrigation projects have opened up millions of acres of once arid land to development, lowered the cost of power and helped provide water to millions of residents in vibrant communities like Las Vegas, Phoenix and Southern California.

Indeed, it is hard to imagine where our country would be today without a long legacy of vital federal infrastructure investments. We would not be as economically competitive, as prosperous, or as safe if it weren't for federal investments in the nation's infrastructure. And while some of the infrastructure we take for granted today would have been built even without federal infrastructure investments, there is little doubt that much of it would not exist today except for the federal government. Anyone who questions that premise never had to take a cross-country road trip before the Interstate Highway System was completed.

PART III: PROBLEMS WITH THE CURRENT APPROACH

Just because our federal infrastructure investments have delivered tremendous national benefits, that doesn't mean many current federal infrastructure programs aren't in need of a change. On the contrary, there is little doubt that our current federal approach to investing in infrastructure is flawed. Indeed, many of those flaws undermine and devalue federal infrastructure investments, helping reinforce public skepticism in the government's ability to efficiently and effectively meet basic needs.

Nowhere are those flaws more glaringly apparent than with our current approach to surface transportation funding. The once-focused federal program that was the envy of the world for building the Interstate Highway System has fallen out of favor with the public and many policy analysts. Yet since the completion of the original Interstate Highway System, there has been no clear role or purpose for the federal transportation program. As a result, politicians have used an ever-greater share of Highway Trust Fund revenue to pay for programs that have little or nothing to do with transportation priorities, or even with transportation at all in some cases.

Depending on who is counting, today there are over 100 different federal programs funded by the Highway Trust Fund, including programs to protect historic covered bridges, encourage students to walk to school and to build local bike lanes. While these may all be worthwhile, it is hard to understand why any of those initiatives serve a national objective and should be funded from a Trust Fund financed primarily by highway users that was intended to pay for construction and maintenance of a national highway system. As a result of these continued diversions of Highway Trust Fund revenue, today only about 68 percent of Trust Fund dollars goes to construction and maintenance of highways.

This is problematic for many reasons. First, these diversions from the primary purpose of the Trust Fund have turned the gas tax and its other funding sources from user fees into taxes. A user fee is something people pay to use a system, with the understanding that those fees will be reinvested into the system. A tax is something you pay so the government has the revenue needed to fund a host of programs. For much of its existence, the gas tax and other highway user fees were a way for drivers to pay for maintenance and upkeep of the highway system. Today it is a way for them to pay some money into the highway system and a lot of money into programs that do little or nothing to benefit them or the highways they use.

As a result of these diversions, the size of the federal surface transportation program continues to grow at rates far greater than increases in highway maintenance and expansion. So even as motorists read about hundreds of billions of dollars going into the Highway Trust Fund, they see comparatively little new capacity or maintenance work underway.

Americans are savvy consumers. They know when they are getting a good deal, and they know when they aren't. And what used to be a good deal – paying a modest gas tax to finance access to the world's most efficient highway system – is now a bad deal – paying a modest gas tax to finance, among other things, fitness and recreational facilities, covered bridges and other unrelated programs that a small number of politicians favor. It is no coincidence that the gas tax now rates among the least popular of all forms of revenue collection in the U.S.

Adding to Americans' frustration, most of what they learn about the federal government's role in transportation and other infrastructure investments comes from media coverage of the proliferation of earmarks. Imagine the frustration most motorists and other taxpayers must feel when learning that the money they are paying into the Highway Trust Fund is being used to fund projects in far away parts of the country not because of need, but because some politician sits on a committee. It is hard to find fault with a commuter who asks "why should I pay more in gas taxes" while stuck in traffic on an old and aging bridge on their way to work in Cincinnati, even as residents of Alaska get a new and seemingly unneeded bridge.

While earmarks still account for a relatively small portion of the total amount invested in transportation projects nationwide, they have become a significant and debilitating problem when it comes to flood control, levy and lock and dam projects funded by the Army Corps of Engineers. The Corps and Bureau of Reclamation both conduct comprehensive reviews with merit-based criteria and public participation, and usually require local cost-sharing. Yet the Congressional practice of earmarking Corps and Bureau funds for projects favored by certain elected officials means that many vital projects languish, despite the fact they have already been vetted and are needed to protect communities or facilitate maritime commerce. These earmarks have done little to reassure taxpayers of the federal government's ability to make wise infrastructure investment decisions.

Even when their money isn't being diverted to earmarked projects or unrelated programs, many taxpayers have become jaded by a federal regulatory process that takes years to make basic decisions about whether new projects can proceed. Worse, that inefficient regulatory process also adds tremendous costs in delays and new paperwork requirements. The review process has become so out of control that the average highway project, for example, now takes 13 years to go from concept to completion. Some water and flood protection projects can take up to 20 years to complete, meanwhile, primarily because of the substantial regulatory burdens and the slow pace of funding.

Another problem is that our current policy approach is barring transportation officials from competing for billions of dollars in private sector equity that is currently being invested in infrastructure projects worldwide. That is because the federal government has done little to encourage states to enact workable enabling legislation that allows for the kind of partnerships that bring private sector funds into public infrastructure projects.

Making matters worse, federal law actually prohibits the installation of high speed electronic tolling facilities on the vast majority of state owned and operated interstate highways. The consequence of this is states that have enacted workable public private partnership laws have limited options available for them to attract private capital. As a result, many domestic and international institutional investors that would love to invest in U.S. infrastructure have instead been left with no option but to invest billions in foreign infrastructure projects.

The federal government also provides states with very limited options for crafting innovative approaches to finance complex, multi-year projects. One of the most effective alternative financing options, Transportation Infrastructure Finance Innovation Act (TIFIA) loans, which provide low interest loans to cover up to one-third of the cost of a project, is so under-funded it can only finance a fraction of the qualified projects seeking funding.

The federal government allowed another highly successful funding program, Build America Bonds, to expire last year, despite the fact the bonds helped finance $180 billion in infrastructure upgrades during the two years they were in place. Another innovative funding mechanism, Private Activity Bonds, which allow private entities to partner with municipalities to finance projects, is limited by an arbitrary cap put in place by Congress. Given the widespread interest in these bonds, it is clear that this cap is limiting the total amount of private sector capital states and municipalities can leverage into critical infrastructure projects.

Another problem with our current approach to infrastructure is that we have come to accept anti-competitive and monopolistic practices when it comes to building, maintaining and operating infrastructure. Nowhere are the problems with this approach clearer than with many of the nation's largest transit systems. While transit serves as a good example, to be fair, the problems described below are not unique to transit and can be prevalent in other forms of infrastructure, including water system operators and even state highway and tolling authorities.

With only a limited number of exceptions, urban area transit systems are operated by large public entities that have no competition and have little structural incentive to operate efficiently. Instead of being consumer driven and focused on providing the most effective service in the most efficient way, these transit operators – in some cases – provide lucrative wages yet offer unreliable service.

As a result, the cost of maintaining, expanding and operating transit systems within the U.S. has grown exponentially even as transit's total market share has continued to decline as a total percentage of the traveling public. Given the fact that the Highway Trust Fund provides considerable sums each year to the nation's transit systems, these structural problems are undermining the federal government's ability to deliver the maximum amount of infrastructure work per total dollars invested.

PART IV: ESSENTIAL REFORMS TO VITAL PROGRAMS

Given the essential role the federal government clearly must play in investing in the nation's infrastructure, as well as the significant problems with our current approach, it is clear that we need to rethink and reform virtually every aspect of our approach to infrastructure. That is why the Associated General Contractors of America has undertaken an exhaustive review of the many ideas currently being offered for reforming infrastructure. We've met with leading policy thinkers and former members of the President's Council of Economic Advisors, reviewed reports from two Congressionally-chartered study commissions, and even convened, in cooperation with *The Weekly Standard*, our own policy panel to discuss the best way to reform our approach to infrastructure.

The association compiled those many reform proposals and has selected many of the most promising ones. In addition, we crafted new proposals based on many of the insights and observations others have made about our current infrastructure approach. In assembling and crafting these recommendations, we wanted to make sure that our proposed changes also help refocus the federal role exclusively on areas and projects that are clearly in the federal interest, and get the federal government out of other potentially worthwhile undertakings that should more suitably be handled at the state or local levels.

Our recommendations include:

- **Eliminate Transportation Spending Programs that Are Not Truly Federal**

  Since the completion of much of the Interstate Highway System in the 1980's, the federal surface transportation program has lost focus. Too many politicians have diverted gas tax revenue away from highway maintenance and expansions and instead use them to fund personal priorities. As a result, gas tax payers are being forced to fund programs designed to encourage children to walk to school, to preserve covered bridges that handle little to no interstate commerce, and to finance fitness and recreational facilities. As a result, less than 70 percent of Highway Trust Fund dollars go to road maintenance or capacity projects of any kind. Congress and the Administration should either eliminate these programs that are not truly federal and/or devolve them to state and local governments where they would be more appropriate.

- **Establish Public Benefit Bonds**

  International commercial banks, pension funds, life insurance companies and other similar institutions that cannot benefit from and/or hold tax-exempt private activity bonds have billions of dollars that they would love to invest in U.S. infrastructure. Given the overall economic, political and legal stability within the U.S., infrastructure investments represent the kind of guaranteed, low risk, long-term returns these institutions crave. Establishing Public Benefit Bonds would allow these institutions to invest their billions in U.S. infrastructure, instead of in overseas infrastructure projects, as many of them currently do.

- **Exempt Construction from the Private Activity Bond Cap**

  Private Activity Bonds are a form of financing that allows private entities to partner with state or municipal governments to receive tax-exempt financing for private- or publicly-owned projects in the public's interest. However, because these bonds are exempt from federal taxes the rules governing these bonds limit the total dollar amount that can be issued based on a state's population. Eliminating those caps would allow local governments to leverage significantly more private sector capital to help finance water, sewer and mass transit projects, among others.

- **Give State and Local Officials More Flexibility**

  Federal infrastructure programs have become overly prescriptive and insistent on one-size fits-all solutions. This limits the ability of state and local officials to create projects that meet federal needs while accommodating often unique situations. Aside from setting minimum safety standards and ensuring high levels of design and construction quality, federal infrastructure programs should eliminate the high cost of accepting federal funds by eliminating uniform requirements, including Buy America provisions, and the tremendous amount of paperwork that comes with those requirements.

- **Streamline Federal Reviews and Set Specific Deadlines for Completing Them**

  Federal environmental and other permitting reviews have dramatically increased in complexity and the length of time it takes to complete infrastructure projects. For example, it now takes an average of 13 years for a new highway project to go from concept to completion. Nobody disagrees with the need to ask and answer tough questions about the environmental impact of new infrastructure projects. However, the current process adds significantly to the paperwork, legal and inflation cost of projects, while delaying the environmental benefits that come with new infrastructure, including reducing pollution emitting traffic, and improving leaky and inefficient water systems. Congress and the Administration should streamline the environmental review process, and set specific timelines for completion of each step of the process. They should also create higher thresholds and time limits on when specific individuals or interest groups can file lawsuits to stop or delay key projects that will provide widespread benefits.

- **Set Increasing Mobility as a Top National Transportation Priority**

  One of the problems with our current federal approach to surface transportation is that there is not one single national priority driving the program. Indeed, many of the current "livability" policy priorities in place seem designed to encourage less mobility by seeking to get fewer Americans to take advantage of our interconnected transportation network. Congress and the Administration must establish increasing mobility as a top national transportation priority. We need to identify and fund projects designed to make it easier for commuters to commute, for shippers to ship and for travelers to travel.

- **Re-Embrace the User Pays Principle**

  One of the reasons the U.S. was able to finance and complete the largest ever public works project in the world's history – the construction of the Interstate Highway System – with relatively little controversy was because it was a system entirely funded by people who benefitted from it – users. However, over the years we have moved away from the basic premise and promise of User Pays – User Benefits. Today, highway users, and increasingly general taxpayers, are being forced to subsidize forms of transportation they don't use or benefit directly from. As a result, many people rightly see the gas tax not as a user fee, but as a form of taxation on one group designed to benefit others.

  Congress and the Administration should return to a truer form of user pays where transit, rail, bicycle and highway users each contribute to the portions of the highway trust fund that finance their form of transportation. Such a return to user pays will help eliminate much of the ill will people feel today towards the gas tax, and would make more people comfortable about paying newer forms of user fees such as electronic tolls or vehicle miles traveled fees. Understanding that many transit users may not be able to pay a transit user fee on top of their subsidized fares, local governments could always decide to contribute to the transit account of the Highway Trust Fund in their stead if that is something they see as in the local community's interest.

- **Establish a Clean Water Trust Fund**

  Consistent with the need to embrace the user pays approach for funding infrastructure, the Administration and Congress should work together to establish a Clean Water Trust Fund that will allow for future investments to come from dedicated and sustainable long-term funding sources. The funding for this Fund would come from corporate, public and private sector users of water systems, helping fund these systems via the same kind of user pays approach that helped build the Interstate Highway System.

- **Establish a National Infrastructure Bank**

  Consolidate existing federal transportation infrastructure lending programs, such as the Railroad Rehabilitation and Improvement Financing (RRIF), Transportation Infrastructure Finance and Innovation Act (TIFIA), Federal Ship Financing (Title XI of the Merchant Marine Act of 1936) and other similar programs into a single national infrastructure bank. (The Ship Financing Program also should be expanded so needed port infrastructure investments can qualify.) This new independent institution would have a mandate to evaluate and make loans available to support up to 33 percent of the cost of infrastructure projects.

The bank would have sections dedicated to specific types of infrastructure and would guarantee that those percentages of loans go to specific types of infrastructure. Assuming current interest rates and performance comparable to TIFIA, if the bank were capitalized at $1.5 billion annually, it could leverage those resources into as much as $51 billion worth of infrastructure projects. This would allow certain projects an opportunity to attract and repay financing and could complement, but not substitute, more traditional funding streams.

- **Establish a Postal Rate-like Commission for Setting Transportation User Fees**

  Congress and the Administration should consider establishing a Transportation User Fee Commission that would operate along the lines of the Postal Rate Commission, which sets the rate for postage stamps based on the needs of the postal system. Establishing a similar commission for transportation infrastructure would depoliticize the process of setting transportation user fees. Congress and the Administration would have to establish criteria for evaluating the funding needs of the transportation system vs. the impact any rate increases would have on the economy.

- **Eliminate Federal Prohibition on Interstate Highway Tolling**

  The current prohibitions on tolling on the vast majority of the Interstate Highway System were put in place when toll collection required costly, and delay inducing toll booths. With the advent of high speed electronic tolling, tolls could easily be put in place with no impact whatsoever on traffic flow. Until those outdated prohibitions on tolling are removed however, many communities will suffer from needless congestion and ongoing maintenance backlogs because of a lack of Highway Trust Fund revenue and the massive diversions of what is left of the Fund into other priority areas. Lifting the tolling prohibition will give officials another option for bringing parts of the highway network back up to a state of good repair and relieve congestion.

  In addition to lifting restrictions on Interstate Highway Tolling, Congress and the Administration must enact legislation requiring that the use of that toll revenue must first be used to ensure that the tolled facility or facilities are being adequately maintained or improved in a way that reduces congestion. Only after these requirements have been met should state and local officials be able to use the toll revenue for other, qualified, transportation improvement projects. State and local government officials should not be allowed to use the toll revenue for non-transportation related expenditures.

- **Encourage Greater Private Operation of Transit Services**

  Most transit systems are operated by monopolistic public entities that have institutional and political disincentives to introducing operating efficiencies and/or altering service schedules and patterns to match shifting regional demographics. Congress and the Administration should put in place provisions that encourage and reward communities willing to partner with the private sector to operate, on a contract basis, transit systems, or that allow multiple private operators to run different parts of their transit systems in a competitive manner.

- **Reform the Water Resources Development Act**

  Congress must act to quickly pass a new Water Resources Development Act that allows navigation and flood control projects that have been vetted and identified by the Corps of Engineers and the Bureau of Reclamation to be funded. In addition, it should de-authorize older and unneeded projects where construction has yet to get under way. Today there are simply too many Congressionally-selected projects that are undermining investments in the projects that the Corps and Reclamation have identified as true national priorities. In addition, the new legislation should ensure that all Harbor Maintenance Trust Funds are used to maintain ports and harbors. The legislation also should include long-term funding for the Inland Waterways Trust Fund to finance needed repairs to locks and dams that protect communities and support interstate commerce along our waterways.

- **Encourage States to Enact Workable Public Private Partnership Laws**

  Congress and the Administration should establish a new Public Private Partnership Innovation Fund, which could be funded from unused transportation earmarks or other appropriate sources. The Department of Transportation would use this fund to encourage states to enact new, or revise existing, public private partnership legislation to encourage greater private-sector funding for transportation infrastructure projects. States will be able to win competitive grants from this fund based on their success in enacting workable legislation and entering into viable public private partnerships.

- **Eliminate Current Practice of Earmarking Federal Infrastructure Funding**

  Many taxpayers have lost confidence in the federal government's ability to invest their infrastructure dollars wisely because those investment decisions have become increasingly politicized. Frustration with funding shortfalls and the current approach to selecting projects has increased because the number of earmarked projects has grown exponentially, often placing political priorities above maintenance and capacity needs. Worse, since many earmarks only cover a small portion of the cost of projects, these earmarks actually reduce the total amount of money officials can use to finance construction projects while the earmarked funds sit unused. In other words, many earmarks are an ineffective way to build federally-funded infrastructure projects. Congress and the Administration must instead establish a system that allows federal, state and local officials to accurately assess and address documented infrastructure priorities.

- **Establish a Federal Multiyear Capital Budget for Public Works**

  Establishing a federal multiyear capital budget for public works will make it easier for officials to plan for, and finance, major long-term infrastructure projects. Most states already successfully use multiyear capital budgets. Such an approach is preferable to the current federal budgeting process for key infrastructure like water and wastewater facilities that discourages good long-term asset management by focusing on funding short-term needs only.

- **Establish a BRAC-Like Commission to Oversee Consolidation of Federal Facilities**

  As reductions in federal spending reduce the size of the workforce and render various facilities obsolete, there needs to be an effective mechanism in place for deciding which facilities are closed, which operations will be consolidated and what work is needed to improve remaining federal facilities. Given the success of the Base Realignment and Closure (BRAC) Commission in insulating elected officials from the inevitable backlash that comes with the closure of facilities, it makes sense to empower a BRAC-like commission to oversee the reduction of the federal government's inventory of building and other facilities, like obsolete FAA ground-based navigation aids. Such a commission must also have the authority, and funding, to ensure that the remaining federal facilities are efficient to operate and efficient to work in.

- **Pass Infrastructure Bills On Time**

  Congress and the Administration are now more than three years late in passing a federal aviation bill, nearly two years late in passing a surface transportation bill and 15 years late in reauthorizing state revolving funds for clean water. These legislative delays needlessly increase the cost of our infrastructure investments and make it difficult for the larger, more complex infrastructure projects that deliver the largest benefit to proceed. That is because without the legislation in place, state and local officials have no way of knowing how much they'll be able to invest in critical projects, forcing costly delays to needed projects.

- **Restore and Preserve U.S. DOT's Oversight of Transportation Planning**

  As the Administration appears to be moving away from seeing mobility as a top transportation goal, it has worked to involve both the Environmental Protection Agency and the Department of Housing and Urban Development in setting and managing transportation planning. This has added even more layers of complex bureaucratic oversight to the project review process, and put officials in charge of transportation policy that have institutional biases against broader mobility. Congress and the Administration should quickly work to restore transportation planning responsibilities where they belong, within the U.S. Department of Transportation.

- **Reform and Re-establish Build America Bonds Program**

  Build America Bonds allow state and local governments to obtain much-needed financing, at lower borrowing costs, for projects such as construction of schools, hospitals, transportation infrastructure and water & sewer upgrades. Congress should reform this now-expired bonding program by requiring a portion of the transaction fees firms collect when the bonds are issued to be set aside for a special insurance pool to cover potential defaults. This would address one of the primary concerns about the program – that it required the federal government to guarantee billions in new bonding from local governments.

- **Establish Transportation and Regional Infrastructure (TRIP) Bonds**

  TRIP bonds will provide $50 billion in new infrastructure funding through a one-time bonding program, allowing state and local governments to complete vital new projects. A Transportation Finance Corporation will issue the bonds over a six-year period. An amount of approximately $900 million from customers' user fees will be placed in an Infrastructure Finance Account and invested for the 30-year life of the bonds generating more than enough in revenue to repay them.

- **Repeal Three Percent Withholding Rule for Government Contracts**

  Beginning in 2013, federal, state and most large local government bodies will be required to withhold three percent from all payments for goods and services they purchase. Given the extremely narrow margins on which most construction firms are now operating – on average 3.2 percent – this new mandate will needlessly inflate the cost of public construction by reducing the number of contractors willing to bid on projects and forcing them to charge more to ensure they do not lose money. Worse, while the entire provision is only expected to collect $12 billion, the total cost of implementing the measure is estimated to cost $20 billion in the first five years alone.

CONCLUSION: WHAT NOW?

While we clearly would like Congress and the Administration to act on each of the reform recommendations we have provided, what is even more important is that they fundamentally rethink our current and in many ways deeply flawed approach to infrastructure investments. Even if we weren't on the brink of a new era of federal austerity, the fact is that our federal infrastructure programs have become so convoluted, unfocused and/or ineffective that public support for funding them has declined precipitously. That a nation obsessed with traffic and commuting patterns would chronically resist federal gas tax increases is a clear indication that most Americans no longer believe that the people who built the Interstate system can make it better.

Reforming the federal approach to infrastructure is crucial to ensuring America's continued prosperity and national economic security. That is because the strength of a nation's infrastructure has a direct impact on the health of its economy, especially in the supply chain driven just-in-time model most U.S. businesses have embraced over the past 40 years. In today's economic environment, allowing vital infrastructure to deteriorate further is tantamount to undermining our national economic security. That is why we urge Congress and the Administration to review this plan and quickly act on both its measures and its spirit.