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**[New financing tools needed for infrastructure]**
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There is a growing recognition of America's underinvestment in its infrastructure. Many elements of our most critical systems are aging, deteriorating, and severely congested, as evidenced by the D+ grade that the American Society of Civil Engineers recently gave to the nation's infrastructure. There are continuing calls for investment in infrastructure, even from some out-spoken "budget hawks," not only to provide the basis for creating construction and manufacturing jobs, but more importantly to sow the seeds for long-run economic growth and global competitiveness.

However, in the current environment, federal infrastructure investment resources will almost certainly be scarce for many years. The nation faces substantial fiscal challenges, as the reality of persistent budget deficits and a growing national debt constrain federal spending. These circumstances suggest a continued shift to using financing mechanisms and to leveraging federal resources, even as federal funding levels for infrastructure investment stagnate or decline. For example, in the most recently enacted surface transportation authorization bill, Moving Ahead for Progress in the 21st Century Act (MAP-21), while funding was flat in real terms, federal support for financing through the TIFIA program was increased by more than eightfold.

A federal interest and purpose in a transportation system that provides regional and national connectivity has been an element of national policy since the birth of the Republic, even as the scope of that federal interest has been continuously and vigorously debated. That national interest has been reflected in federal grants for national roads and "internal improvements," canals and railroads, airports and Interstate highways, water systems and subways.

However, in the face of fiscal pressures and political constraints, it is likely that the form and scope of the federal involvement in transportation and infrastructure will change substantially. Historically, the federal government has provided strong funding for infrastructure, in the case of transportation covering 80 percent or more for many projects, like the Interstate Highway System. Until recently, except for the relatively small TIFIA program, authorized in the 1990s, there was little or no direct federal support for project financing for transportation, that is, few, if any, programs for federal loans or other forms of credit enhancement.

On the other hand, states and localities have historically financed their infrastructure investments, rather than funded on a "pay-as-you-go" basis. Going back at least as far as New York State's bonds to pay for the construction of the Erie Canal in the first decades of the 19th Century, the municipal debt market has evolved into a multi-trillion dollar venture, where private capital supports the borrowing of states, localities, and various infrastructure authorities and providers, in order that they might invest for the future.

One way to look at the difference between funding and financing is through an inter-generational lens. At the federal level, the national government provided funds to states to build transportation infrastructure. These funds were based on user fees, such as federal motor fuels taxes, so that current users were funding the building of an infrastructure network which would last for many decades. In other words, one generation of users built and paid for infrastructure that it could pass on free and clear of debt to future generations.

At the state and local levels, government or authorities typically financed capital infrastructure investment. They borrowed the costs and matched the borrowings with the expected life-spans of the assets. In this way, they effectively required the users of the transportation system to pay for it throughout its lifetime, and development costs were shared across generations.

Viewed through the lens of government budgets these different approaches, also, make sense. The federal government has a unified budget, in which all expenses (outlays) are treated equally, whether it is for buying paper clips or computers, or to provide grants to build a 100-year tunnel. States and localities, on the other hand, have separate operating and capital budgets, and 49 states require that their operating budgets be balanced annually. This practice allows states and localities to account for the long-term nature of infrastructure assets through their capital budgets.

At the federal level the historic bipartisan consensus to provide adequate revenues from current users to fund infrastructure has broken down. Neither Republican nor Democratic congressional leadership, nor the administration has been prepared to recommend increases in the typical user fees (federal motor fuels taxes), nor to propose alternative sustainable revenue sources (such as tolls or vehicle miles charges) to adequately fund the current, "pay-as-you-go," basis.

In its June 2011 report the Bipartisan Policy Center's transportation policy project called for a federal program to support and reward the development of new or expanded state financing tools and of sustainable revenue sources by states and localities. This activity represents a gradual shift away from federal funding to federal financing. In assessing this policy shift, it is important to apply certain key principles:

• Provision of federal support is not free. Financing these investments, rather than paying for them currently, should not be an attempt to "game" the federal budgetary process. Loans and credit support should be budgeted and scored properly.
• Federal support, whether in the form of credit or grants, must be invested wisely - that is, targeted on those projects that bring the greatest benefits and returns, in terms of national goals and purposes.
• Projects should be selected on the basis of merit. The project selection process should be rigorous and transparent, and those who receive the federal assistance should be accountable for outcomes, consistent with the purposes of the support.
• There should be a level playing field between eligible infrastructure modes and types, and there must be an analytical process in place that allows the comparative evaluation of eligible projects on the basis of societal benefits and costs.
• Investments in infrastructure must be targeted. New programs and financing tools cannot be "all things to all people." The broader the scope of any federal financing mechanism, the greater it available resources (qualified staff, as well as available capital) must be.

Confronting our nation's aging infrastructure is as much an opportunity as it is a challenge. As the federal government moves from a funding to a financing paradigm, we have the chance and the need to structure a new set of incentives to guide our tax dollars so that they are invested wisely. Otherwise we may find our economy as well as ourselves stuck in a traffic jam.

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