Rebuilding America's Infrastructure

Problem

Currently, America is facing problems among many aspects of its basic infrastructure, such as school buildings, highways, bridges and water systems. Such structures are old, deteriorating and need repair. These problems, in turn, cause difficulties for citizens and businesses.

The estimates of funds to make repairs across different areas of infrastructure are staggering.

- The American Society of Civil Engineers report that the country's infrastructure needs, such as roads, bridges, schools, water infrastructure, dams, and environmental cleanup, exceed $1.3 trillion over five years.

- The EPA estimates that drinking and wastewater infrastructure needs will increase by as much as $1.62 trillion over the next 20 years.

- The Water Infrastructure Network completed a comprehensive study showing that the cost of building, operating and maintaining drinking water and wastewater facilities is $86 billion annually for the next twenty years -- a total price tag of $1.72 trillion.

- Surveys by the General Accounting Office (GAO) and the National Center for Education Statistics (NCES) have produced cost estimates of $112 billion to $127 billion for school construction, repairs, renovations and modernizations to put schools into good overall condition.

Solution: Rebuilding America's Infrastructure Act of 2006

The Rebuilding America's Infrastructure Act of 2006 would create a low-cost federal financing mechanism to administer zero-interest loans to localities. States choose which projects to fund with the loans according to their specific needs.

The bill would create the Federal Bank for Infrastructure Modernization (FBIM). The bank, as an extension of the Federal Financing bank under the Treasury, would establish zero interest mortgage loans for states and local governments to use to fund specific projects. The loans would bear a small fee of one-quarter of one percent of the loan principle to cover the administrative costs of the FBIM.

The FBIM would be funded by purchasing the subsidized mortgage loans. These mortgages would take the place of the central bank's purchases of Treasury securities and be integrated into the bank's normal open market operations. On average, the FBIM would sell approximately $50 billion in mortgage loans every year.

This amount could be varied so these funds could be used as a tool to foster stable economic growth. During times of economic lag, the FBIM would sell more mortgage loans to spur investment. This is a more direct means of influencing the economy than by lowering interest rates. (By lowering interest rates, an incentive for investment is created. However, lower interest rates are just that: an incentive.

By selling these mortgage loans, an actual investment has already been made.)

Congress would create a set of criteria for the types of projects that could be funded with these loans. Additionally, there is a constraint that 20 percent of the funds must be used for school repair and construction. Projects would be chosen by states and localities, while the FBIM would be responsible for the administrative duties.

The total sum of available loans is $50 billion per year. The funds would be allocated according to population to each state (approximately $185 dollars per capita per year). States and localities would pay back the loan principle on a yearly basis. Historically, they have been very successful in doing so, with the default rate on municipal bonds at less than 1/8 of one percent. The time for total loan repayment would depend on the project, but would be between 10 and 30 years.

Benefits

The FBIM would give states and localities the ability to afford needed maintenance and new projects at a fraction of the cost of current financing mechanisms. With zero-interest loans, the total cost of a project is *cut in half*. School systems will have a much cheaper means of financing needed projects. Where projects were previously unaffordable, these zero-interest loans will open opportunities.

Additionally, studies have shown that public investment can spur private investment, thus helping the economy grow. Businesses choose to locate in areas that have good transportation systems, quality schools and other stable infrastructure.

In addition to the jobs created by the capital and non-capital projects, this trend will encourage long-term health of the economy. Like other infrastructure bills, this bill includes fair wage (Davis-Bacon) and Buy America requirements to make domestic economic growth a reality.