

THE NEW CENTER | POLICY PAPER

# THE PATH TO A BIPARTISAN INFRASTRUCTURE SOLUTION MAY 2021





# **THE PATH TO A BIPARTISAN INFRASTRUCTURE SOLUTION**

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# ABOUT THE NEW CENTER

## MISSION

American politics is broken, with the far left and far right making it increasingly impossible to govern.

This will not change until a vibrant center emerges with an agenda that appeals to the vast majority of the American people.

This is the mission of The New Center, which aims to establish the ideas and the community to create a powerful political center in today's America.

## HISTORY

In November 2016, Bill Galston, a senior fellow with the Brookings Institution and Bill Kristol, founder of The Weekly Standard, penned a joint memo in which they made "the case for a New Center, one that does not split the difference between Left and Right, but offers a principled alternative to both."

In subsequent months, Galston and Kristol convened an array of thinkers and leaders from across the political spectrum to help define the values and policies that animate The New Center, resulting in "Ideas to Re-Center America," which was released by the No Labels Foundation.

The New Center was created as a standalone, independent entity in 2018 that develops original policy ideas across a broad range of issue areas.



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# INTRODUCTION

## THE INFRASTRUCTURE DEBATE IN WASHINGTON HAS BEGUN, AND RECENT HISTORY PROVIDES TWO PATHS FOR WHERE IT GOES FROM HERE.

We could see a repeat of December 2020, when a bipartisan group of members worked to break a months-long stalemate between congressional leaders to pass a \$900 billion COVID-19 relief bill.

Or we could see a replay of March 2021, when Democrats passed another \$1.9 trillion COVID-19 relief bill with no Republican votes.

### Early evidence seems to suggest that the infrastructure debate is on the latter path.

On March 31, 2021, President Biden introduced his \$2.3 trillion American Jobs Plan, which includes significant investments not only in core infrastructure like roads and bridges, but also in other priorities such as affordable housing and elder care. Senate Minority Leader Mitch McConnell immediately dismissed it as a “big, [whopping](#) tax increase” and a “liberal [wish list](#)” disguised as an infrastructure plan. Then, on April 22, 2021, a group of Senate Republicans countered with a \$568 billion proposal of their own, which some congressional Democrats immediately [dismissed](#) as “totally inadequate.”

But unlike the March COVID-19 relief debate—in which an initial Republican counteroffer went nowhere—congressional Democrats and Republicans and the White House are still talking.







And in recent weeks, several key congressional Democrats—including close Biden ally Senator Chris Coons (D-DE), Senate Environment and Public Works Chairman Tom Carper (D-DE), and House Transportation Infrastructure and Public Works Chair Peter DeFazio (D-OR)—have [suggested](#) they could be open to moving a series of smaller bills, with the first one focused on the core infrastructure priorities on which there is the most agreement with Republicans.

Rep. DeFazio also responded favorably to the opening Republican offer, [saying](#), "That's not an insignificant amount of money, particularly for the things [they are] focused on."

If you are President Biden or a member of Congress, there are both principled and practical reasons to do everything possible to keep this momentum going and to try to forge a two-party infrastructure and public investment bill.

## **Let's start with the principled reason for members on both sides to take advantage of this opening.**

Democrats and Republicans have an opportunity to do something big and important together; to finally start moving back toward unity at a moment when so many forces in American politics are pulling them apart and when so many Americans have abandoned hope of Washington finding any meaningful bipartisan agreement.

America has a once-in-a-generation opportunity to repair the infrastructure we built in the 20th century and to invest in the infrastructure and the technologies we'll need to build a more sustainable and productive economy in the 21st, to create a new generation of good-paying jobs, to start turning the tide against climate change, and to outcompete a rising adversary in China. If Democrats and Republicans can align on this policy issue, it could create the space and momentum for them to align on others.



## And then there are the practical reasons.

- An infrastructure bill similar to President Biden’s American Jobs Plan—with its expansive definition of “infrastructure”—will get no bipartisan support.
- An infrastructure bill with no bipartisan support can only pass via budget reconciliation, but that process will significantly limit what can be in it. Reconciliation bills are only supposed to include provisions that pertain to taxing and spending, which is why the Senate parliamentarian didn’t allow a national minimum wage measure to be included in the recently passed COVID-19 relief bill. An infrastructure bill done through reconciliation may not be able to [include several provisions](#), ranging from land use and zoning reforms to other regulatory and permitting reforms, which would allow projects to be built more quickly and efficiently. Many of the labor and clean energy provisions in President Biden’s American Jobs Plan may be ruled out of bounds too.

This should all lead Washington to one conclusion:

Infrastructure is a two-party problem that demands a two-party solution. But getting to a two-party solution will require creative thinking to answer the tough questions that have scuttled previous attempts at a big infrastructure deal, namely:

- Which investments should we prioritize?
- How can we pay for them?

**THIS PAPER FROM THE NEW CENTER INTENDS TO ANSWER BOTH QUESTIONS AND PROVIDE A BOLD AND BIPARTISAN PLAN FOR REBUILDING AND INVESTING IN AMERICA.**



# SOLUTIONS IN BRIEF

WHY THERE’S NO SUCH THING AS “SHOVEL READY” AND WHAT TO DO ABOUT IT	WAYS TO PAY: NEW REVENUE STREAMS AND LEVERAGED FINANCING
<p><b>Prioritize the Most Important Projects:</b> Creating a nonpartisan “National Infrastructure Board”—modeled on the proven military Base Realignment and Closure (BRAC) commissions—to determine which projects to prioritize.</p>	<p><b>Closing the Tax Gap:</b> The “tax gap”—the difference between taxes owed and taxes paid—is around \$574 billion annually. Improving the IRS’s resources, technology, and funding could raise an estimated \$1.6 trillion over ten years.</p>
<p><b>Build on What We Already Have:</b> Federal “New Starts” transit funding is granted based upon a scoring system that favors a new facility over adding core capacity. The Federal Transit Administration should update the scoring system to assure that core capacity projects are competitive with new starts.</p>	<p><b>Privatize some projects without government support:</b> A certain class of infrastructure assets (e.g., airports) may be better served by privatization. These assets will, upon sale or lease, generate a financial return for investors without government support or incentives.</p>
<p><b>Remove Roadblocks to Rebuild America:</b> Congress should introduce a program to incentivize states and localities to streamline their procurement processes and speed up the delivery of infrastructure projects.</p>	<p><b>Attract private investment for some assets with government incentive or support:</b> Some assets can attract private investment if they are supported through some type of incentive or credit enhancement such as federal and state tax credits, government credit enhancements, or low-cost leverage.</p>
<p><b>Implement a Capital Budgeting System:</b> The federal budget should be separated into two parts—a capital budget for long-term investments such as research and infrastructure, and an operating budget for annual expenses.</p>	<p><b>Statutory/Regulatory Changes to Broaden Investor Base:</b> Statutory or regulatory changes (e.g., classifying certain infrastructure projects as meeting banks’ Community Reinvestment Act requirements) could broaden the pool of investors who could finance infrastructure projects.</p>



# SOLUTIONS IN BRIEF

WHY THERE’S NO SUCH THING AS “SHOVEL READY” AND WHAT TO DO ABOUT IT	WAYS TO PAY: NEW REVENUE STREAMS AND LEVERAGED FINANCING
<p><b>Empower States and Localities:</b> There are many policies—some of which can be incented federally but implemented at the state or local level—that would create and dedicate separate funding streams for infrastructure, including user fees, tax increment financing, and dedicated property or sales tax assessment to fund essential infrastructure.</p>	<p><b>Lift the Cap on Private Activity Bonds:</b> Congress should encourage the wider use of private activity bonds by eliminating state volume caps for water and other projects, and excluding private activity bonds from the Alternative Minimum Tax.</p>
<p><b>More Flexibility in Federal Funding:</b> Congress requires federal funding to be spent on particular classes of infrastructure projects (e.g., water). These restrictions should be changed or eliminated to give localities more flexibility to spend on their greatest needs.</p>	<p><b>Build America Bonds:</b> Congress should reauthorize the Build America Bonds (BAB) program, which permitted governmental bodies to issue taxable and tax-exempt bonds.</p>
	<p><b>Pooled Investment Vehicles:</b> States could pool several investments of varying risk characteristics to diversify systemic risk and reduce the cost of financing, much like infrastructure banks.</p>
	<p><b>Open Up Infrastructure Investment to Individuals:</b> Create equity instruments that allow individual investors to participate in infrastructure investment via mutual funds, ETFs, and/or 401(k)s.</p>





# FIXING WHAT IS BROKEN

Every four years, the American Society of Civil Engineers (ASCE) provides a [report card](#) with letter grades on the quality of various categories of American infrastructure. In March 2021, they provided the latest, and here's what they found:

- Aviation: D+
- Drinking Water: C-
- Roads: D
- Transit: D-

Our rail system got a B, the highest score of any infrastructure.

But the overall grade? C-.

**WE CAN AND MUST DO A LOT BETTER.  
AMERICA'S DECAYING INFRASTRUCTURE IS  
COSTING JOBS, IT IS COSTING LIVES, AND IT IS  
LONG PAST DUE FOR AN OVERHAUL.**



# AMERICA'S BROKEN AND OUTDATED INFRASTRUCTURE

## ACCORDING TO THE ASCE, THE U.S. HAS ONLY BEEN PAYING ABOUT HALF OF ITS ANNUAL INFRASTRUCTURE BILL, AND THE FUNDING GAP IS WIDENING.

The ASCE [estimates](#) that the U.S. would have to procure about \$2.6 trillion in additional infrastructure funds by 2029—from public or private sector sources—to close the funding gap and achieve a state of good repair across all sectors of its infrastructure.

Also standing in the way of adequate infrastructure development is the endless bureaucratic process developers and builders must navigate before breaking ground.

America's failure to close the investment gap and streamline the permitting process would bring real economic consequences for American families, jobs, and GDP.





# WHAT IS AMERICA'S FAILING INFRASTRUCTURE COSTING US?



## Costs Us Time and Money

- 41% of major roads in America are in poor or mediocre condition, costing the average driver an extra [\\$596 per year](#) in repairs, fuel, and other operating costs.
- 45% of Americans do not have access to [public transit](#).



## Jeopardizes Our Health and Safety

- Almost 900 billion gallons of [untreated sewage](#) are discharged each year due to aging pipes and inadequate capacity.
- In Flint, water testing in 2014 showed [lead levels](#) that were as much as hundreds of times higher than the Environmental Protection Agency's allowable limit. Lead exposure at any level is unsafe and can lead to permanent [brain damage](#).
  - Flint is not an isolated example. Of states that reported lead testing results in 2014, 40% had [higher rates](#) of lead poisoning among children than Flint.



## Leaves Communities Behind

- 38% of [rural Americans](#)—and 35% of low-income families with [school-aged children](#)—don't have access to high-speed internet.
  - Why does this matter? Because people who live in states with access to [high-speed internet](#) make more money and are more likely to graduate college than those who don't.



## Costs Jobs and Economic Productivity

- According to the American Society of Civil Engineers, a continued failure to invest in our infrastructure will cost the U.S. over 1.5 million jobs by 2029—and over [three million](#) by 2039.



## Wastes Our Resources

- Leaks and breaks cost water systems over [6 billion gallons](#) of water each day, or enough to fill about 9,000 Olympic swimming pools.



# INVESTING IN THE FUTURE, OUTCOMPETING CHINA

## ON OCTOBER 4, 1957, THE SOVIET UNION LAUNCHED SPUTNIK I, THE FIRST ARTIFICIAL SATELLITE.

In a [press conference](#) to reporters five days after the Sputnik launch, President Dwight D. Eisenhower attempted to minimize the political and security ramifications of the Soviet Union putting “one small ball in the air.” The United States shortly thereafter launched its first satellite, the Explorer I, on January 31, 1958. The launch of Explorer I was hailed a success, but behind the scenes, the U.S. government felt the immense pressure of the Soviet Union’s creeping technological advancements.

To rise to the challenge, Eisenhower created the Advanced Research Projects Agency (ARPA)—today known as the Defense Advanced Research Agency (DARPA)—on February 7, 1958. Then, on July 29, 1958, he signed the National Aeronautics and Space Act, which created NASA. And on August 21, 1958, Eisenhower signed the National Defense Education Act, which [appropriated](#) over \$1 billion over seven years to “insure trained manpower of sufficient quality and quantity to meet the national defense needs of the United States.”

This vigorous national effort renewed optimism about America’s future in space, so much so that before a joint session of Congress on May 25, 1961, President John F. Kennedy [announced](#) that “this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the Moon and returning him safely to the Earth.”

Today, the U.S. finds itself in a similar geopolitical and technological competition with China.





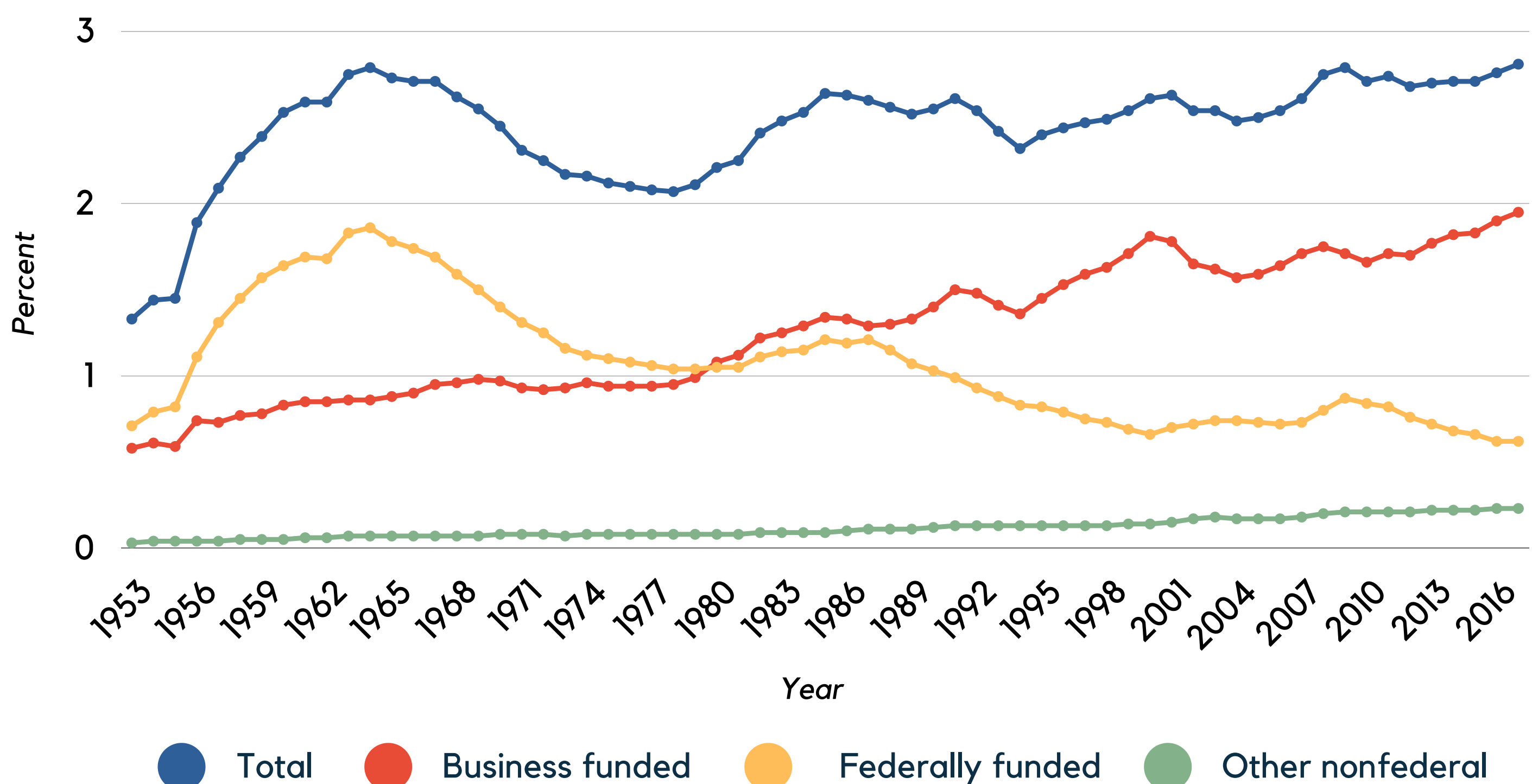
Unlike with the Soviet Union, the United States does not have to guess what China wants or where it's headed. In 2015, the Chinese government [released](#) its "Made in China 2025" plan, which outlined China's strategy for becoming a leading manufacturing power by 2049. And its "China Standards 2035 plan," which [has yet to be released](#), is expected to detail how the Chinese Communist Party (CCP) will position itself as the standard-setter for emerging technologies, including artificial intelligence (A.I.), 5G, and the Internet of Things.

China is already taking some concrete steps to meet its own goals:

- A [2020 Gartner report](#) found that "over the short-term, Greater China leads the world in 5G development, with 49.4% of worldwide investment in 2020 attributed to the region."
- A 2019 Allen Institute for Artificial Intelligence [analysis](#) found that China is only second to the U.S. for most-cited research papers on artificial intelligence and that, in 2006, China actually surpassed the U.S. in terms of total A.I. research papers.

Unfortunately, Washington has stepped back right as Beijing has stepped up in the race to own the future. According to [OECD data](#), overall U.S. gross domestic spending on R&D as a percentage of GDP has never been higher, reaching 3.06% in 2019. But this growth can be explained by an increase in business-sector R&D spending over the past decade.

### Ratio of U.S. R&D to gross domestic product, by roles of federal, business, and other nonfederal funding for R&D: 1953–2017



Source: [National Center for Science and Engineering Statistics](#)

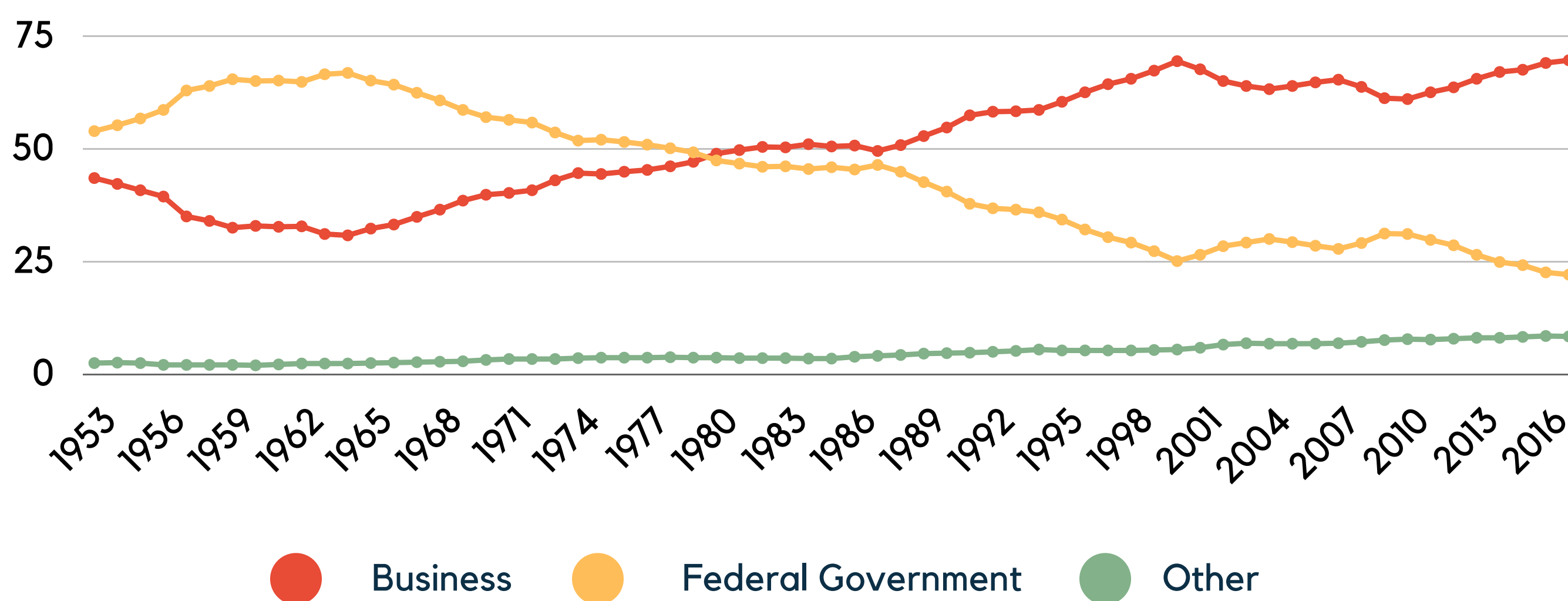


Federal funding as a percentage of GDP, on the other hand, has been on a downward trend since 2009. And in terms of raw expenditures, the federal government's share of R&D funding also keeps decreasing; even though the federal government accounted for 67% of R&D funding in 1964, the National Center for Science and Engineering Statistics (NCSES) [notes](#) that "the federal share decreased to half (49%) of all funding in the late 1970s, to a little over a third (36%) in the mid-1990s, and to a quarter (25%) by the turn of the century."

Why does this matter? The federal government has traditionally been responsible for fronting the costs of basic research, which is often too risky for the private sector to take on but can yield significant breakthroughs in scientific and technological development. Technologies ranging from the internet and satellites to hydraulic fracturing and memory foam mattresses can all be traced back to basic government R&D.

To this day, the federal government remains a leader in basic research R&D funding. In 2017, it was the [largest source](#) of funding for basic research (42%), while the business sector only funded 29% of basic research. But with the federal government contributing less and less to overall R&D funding today, it is becoming increasingly less likely that America will be the first to notch breakthroughs a decade from now.

## U.S. total R&D expenditures, by source of funds: 1953–2017



Source: [National Center for Science and Engineering Statistics](#)

And the federal government isn't doing nearly enough to attract researchers, either. According to the [2014 Life Sciences Salary Survey](#), scientists from America, Canada, and Europe who worked in private industry made 30 percent more than their academic counterparts.

If America wants to outcompete China, it will need to regain the innovation initiative just as a previous generation of Americans did over a half-century ago.



# WHY WASHINGTON NEEDS TO STEP UP

**STATES AND LOCALITIES DO MOST OF THE INFRASTRUCTURE SPENDING IN AMERICA. IN FACT, IN 2014, THREE-FOURTHS OF THE \$416 BILLION IN PUBLIC MONEY SPENT ON INFRASTRUCTURE WAS SPENT AT THE STATE OR LOCAL LEVEL.**

But according to the [Congressional Budget Office](#) (CBO), states and local governments directed “a much larger proportion of their spending for the operation and maintenance of [existing] infrastructure.”

Ultimately, there are limitations to what states and localities can do on their own, especially when it comes to tackling significant infrastructure investments such as constructing new mass-transit systems, upgrading the electric grid, or investing in cybersecurity.

These expensive projects, which often span state and local geographic lines, require coordination and operational capabilities only Washington can often provide.

Here are a few areas where it’s essential for Washington to step up.





# CYBERSECURITY

On September 4, 2019, hackers [infiltrated the networks](#) of Austin-based software company SolarWinds. Five months later, the hackers injected a malicious code known as SUNBURST within the SolarWinds Orion network management platform, which allowed the hackers to scan protected user data. By December 12, 2020, SolarWinds became aware of the infiltration and worked to respond in concert with U.S. government officials and agencies.

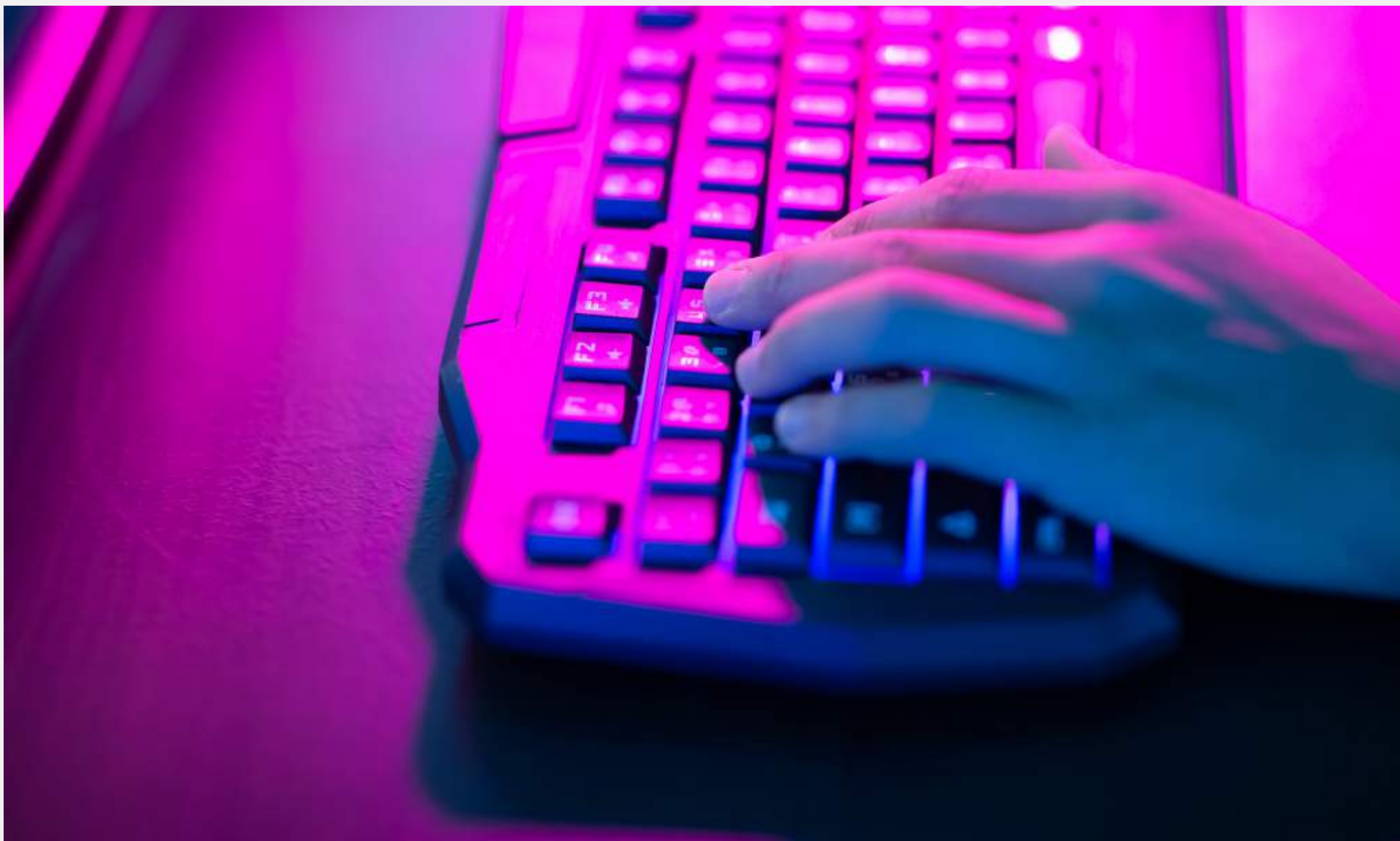
Microsoft President Brad Smith would [later tell 60 Minutes](#) that, "from a software engineering perspective, it's probably fair to say that this is the largest and most sophisticated attack the world has ever seen."

An [analysis](#) of the SolarWinds breach from BitSight and Kovr estimates "the insured losses to be \$90,000,000, which includes incident response and forensic services for companies who were impacted by this incident and have cyber insurance coverage."

The impacts of data breaches like these are rarely contained; rather, due to the connectedness of our internet systems and activity, these attacks have nationwide implications. Without federal funding to strengthen our cybersecurity, states, local communities, and businesses will continue struggling to protect themselves from potentially damaging future attacks.







# TECHNOLOGY

In a [Wall Street Journal op-ed](#) published in December 2020, former Director of National Intelligence John Ratcliffe wrote that the “People’s Republic of China poses the greatest threat to America today.”

This is especially true in the technology sector, where China has aggressively stepped up its investments in artificial intelligence, 5G, and the Internet of Things (IoT) while U.S. federal funding has fallen flat. Beating China in the 21st-century tech race requires a robust federal response.

Fortunately, one may be coming soon.

On May 21, 2020, Senator Chuck Schumer (D-NY) and Senator Todd Young (R-IN) introduced the Endless Frontier Act ([S.3832](#)). [The Endless Frontier Act](#) would expand the National Science Foundation (which would become the National Science and Technology Foundation) and create a Technology Directorate within it that “would receive \$100 billion over five years to lead investment and research in artificial intelligence and machine learning; high performance computing; robotics, automation, and advanced manufacturing; and more.”



# CLIMATE AND ENERGY

President Biden's [American Jobs Plan](#) proposes a federal investment of \$174 billion to help scale up the electric vehicle (E.V.) market by "build[ing] a national network of 500,000 EV chargers by 2030," among other provisions.

A transition towards electric vehicles could help combat climate change since transportation generates the [largest share](#) of greenhouse gas emissions (29%) of any economic sector.

But an electric vehicle is only as clean as its power source. More investments in wind and solar can help, but these sources are still intermittent and can't be relied upon to consistently deliver the baseload power every utility needs.

That's why America needs to recommit to large-scale R&D investments in nuclear technologies—including small modular reactors, sustainable fuel cycles, and advanced sensors and instrumentation.

In March 2020, Representatives Conor Lamb (D-PA) and Dan Newhouse (R-WA) introduced the bipartisan [Nuclear Energy Research and Development Act](#). The bill [recommends](#) \$162.5 million for reactor concepts research, development, and demonstration; \$255.25 million for fuel cycle research and development; and \$520 million for advanced nuclear reactor research, development, and demonstration programs, among other appropriations.







# UNIVERSAL BROADBAND

The FCC's [2020 Broadband Deployment Report](#) estimates that 18 million Americans lack access to broadband at adequate speeds.

However, a 2020 study from [BroadbandNow](#) argues that the actual number may be more than double the FCC's estimate, with this considerable disparity coming from flaws in the FCC's broadband mapping methodology. For example, the FCC defines an area as "fully served" even if just one home in a census block has broadband service, regardless of the rest of the census block's broadband access and speeds.

According to the most recent National Center for Education Statistics figures, [six percent](#) of children ages three to 18—including ten percent of Black children and 20% of Native American children—do not have internet access at home.

The good news is, almost everyone agrees that we need to do something about broadband. According to a September 2020 [Morning Consult poll](#), "over 90 percent [of Americans polled] said that the current lack of universal broadband access is a problem, with 63 percent calling it a 'major' problem. Three in five American voters (62 percent) want Congress to fix the problem 'immediately.'"

The FCC has made efforts to close the digital divide. For example, in 2020, the FCC [issued new rulemaking](#) to "establish the \$20.4 billion Rural Digital Opportunity Fund to bring high speed fixed broadband service to rural homes and small businesses that lack it." This auction would ultimately allocate \$20 billion in subsidies over the next ten years to expanding connectivity. However, the FCC [estimated in 2017](#) that it would take at least \$40 billion in immediate funding to meet 98% of broadband needs in America.

This is an easy win—both Congress and the American people want to close the digital divide, and though the FCC has made a down payment to achieve it, a new infrastructure bill can complete the necessary investment.



# WORKFORCE

Before the pandemic, more than [7 in 10](#) U.S. companies reported having trouble finding qualified workers to fill open positions.

This speaks to the continuing difficulties America has faced in developing effective workforce training and retraining programs.

A 2018 study group convened by Opportunity America and co-sponsored by the American Enterprise Institute and the Brookings Institution [published a report](#) outlining a clear set of bipartisan proposals to strengthen working-class communities with specific federal investments. Some of these major proposals include expanding the Earned Income Tax Credit (EITC) for single workers (which recently happened under Biden's American Rescue Plan Act), subsidizing employers who provide jobs for recipients of safety-net programs, and funding education programs that focus on in-demand skills for jobs of the future.

A future paper from The New Center will explore this challenge in more detail.







# PRIORITIES.

In recent years, the [National Governors Association](#) and the House [Problem Solvers Caucus](#)—both of which have bipartisan membership—released proposals imploring legislators to take a two-pronged approach when developing an infrastructure and investment package.

That is, an infrastructure bill that adequately addresses America's needs must not only fix what is broken, but also invest in the future.

Though there are differences and varying degrees of complexity in each group's report, and neither articulates specific dollar figures for priorities, they both reiterate the same notion—investment in American infrastructure, in both the short and long run, is vital for ensuring the success of the American economy moving forward.

To get a sense of the infrastructure priorities that most lend themselves to bipartisan cooperation, The New Center conducted a side-by-side comparison of the plans from the Problem Solvers, the NGA, and the Biden Administration's [American Jobs Plan](#).



AREA	PROBLEM SOLVERS SOLUTION	NGA SOLUTION	WH AMERICAN JOBS PLAN
Surface Transportation	Deal with an excessive backlog of maintenance and surface transportation expansion projects and provide mechanisms for long-term funding, such as a vehicle miles traveled tax.	Grant states and localities maximum flexibility in determining and addressing their surface transportation needs. Preserve funding mechanisms established through the FAST Act.	Invest \$115 billion in roads and bridges, \$85 billion in public transportation, and \$80 billion in Amtrak.
Regulatory/ Permitting Reforms	Boost transparency in the project review process and set clearer standards for project approval.	Institute clear and consistent standards for regulatory review, with necessary safeguards that also enable efficient project completion.	Calls for “smart, coordinated infrastructure permitting to expedite federal decisions, while prioritizing stakeholder engagement, community consultation, and maximizing equity, health, and environmental benefits.”
Cyber Threats	Work alongside “all sectors of infrastructure” to ensure optimal levels of cybersecurity; incentivize private sector participation with information sharing programs.	Washington should help develop best practices and coordinate with state and local governments to determine their cybersecurity infrastructure needs.	N/A
Public-Private Partnerships (PPP)	Incentivize states to create public-private partnerships, which will help reduce upfront costs of investment, and provide maintenance.	Congress should give states resources and knowledge on how to best use public-private partnerships, which are currently underutilized.	No explicit mention of PPP, but does advocate for leveraging capital for expanded broadband access, electric vehicles, and technology development.

**Key:**  Strong Alignment  Possible Alignment  Uncertain Alignment



AREA	PROBLEM SOLVERS SOLUTION	NGA SOLUTION	WH AMERICAN JOBS PLAN
Ports	Build on the Water Resources Development Act by increasing federal investments in inland waterways and emerging harbors; amend the INFRA grant program to improve and develop America's ports and waterways.	Encourages investment in seaports, airports and inland waterways, calling special attention to cybersecurity in the development of such infrastructure.	\$17 billion towards "inland waterways, coastal ports, land ports of entry, and ferries."
Climate	Provide financial incentives for creating green projects and mitigating pollution runoffs during construction.	Offer to support vulnerable communities in strengthening their infrastructure to prevent the impacts of climate change.	\$174 billion for electric vehicles, \$10 billion for conservation, \$46 billion for clean energy manufacturing, and \$35 billion in investment for climate and clean energy breakthroughs.
Water Systems	Invest in programs such as the Clean Water State Revolving Fund and general research and development to ensure safe drinking water for all.	Repair aging water systems.	Invests \$45 billion in Clean Water State Revolving Fund and offers \$56 billion in grants and loans to modernize water systems.
Energy/ Electric Grid	Modernize the electric grid by increasing the authority of the DOE to build grid resiliency and "develop and deploy clean energy technologies."	No specific recommendations.	Invests \$100 billion in expanding electric transmission systems and creating jobs in industries providing clean electricity.

**Key:**  Strong Alignment  Possible Alignment  Uncertain Alignment



## PERMITTING AND REGULATORY REFORM: WHY THERE'S RARELY "SHOVEL READY" INFRASTRUCTURE IN AMERICA

As President Obama conceded in a [2010 interview](#), "there's no such thing as shovel-ready projects."

America's infrastructure permitting process is entirely [broken](#), requiring large numbers of reviews from over a dozen [federal agencies](#), along with dozens of other state and local entities, before any sort of construction can begin. The National Environmental Policy Act (NEPA), passed in 1970, requires extensive federal evaluation of the environmental impact of a proposed project.

In 2020, in response to delays of up to ten years due to permitting requirements, then-President Donald Trump altered NEPA by [setting deadlines](#) by which environmental reviews must be completed. But more must be done to modernize this well-intentioned provision and streamline the process, as NEPA reviews are often redundant and inefficient, presenting a major obstacle to infrastructure development. Efficient development and environmental protection are not mutually exclusive. In countries like [Germany and Canada](#), environmental reviews are regularly completed in two years or less.







Though much attention is given to burdensome federal regulations, they are not the only, or even the most, important impediment to building or repairing infrastructure. State and local regulations, procurement rules, or community opposition to projects are often the chief holdups.

If federal, state, and local obstacles do not deter a public project, they can just as easily [discourage](#) a private entity from investing in it via a public-private partnership. Private entities looking to invest require clearer detail on tangible local government assets and staffing quality, as well as a mitigation of risk between election cycles (that is, they must ensure that a given project will not get scrapped or significantly rearranged between administrations).

The fact that the government is often [unwilling](#) to assume some or all of that risk creates massive uncertainty among developers or investors with the resources to help finance these projects.

Although much of the recent debate in Washington has been over which infrastructure to prioritize and how to pay for it, it will be just as important for America to develop a more efficient, effective process for how to build it.

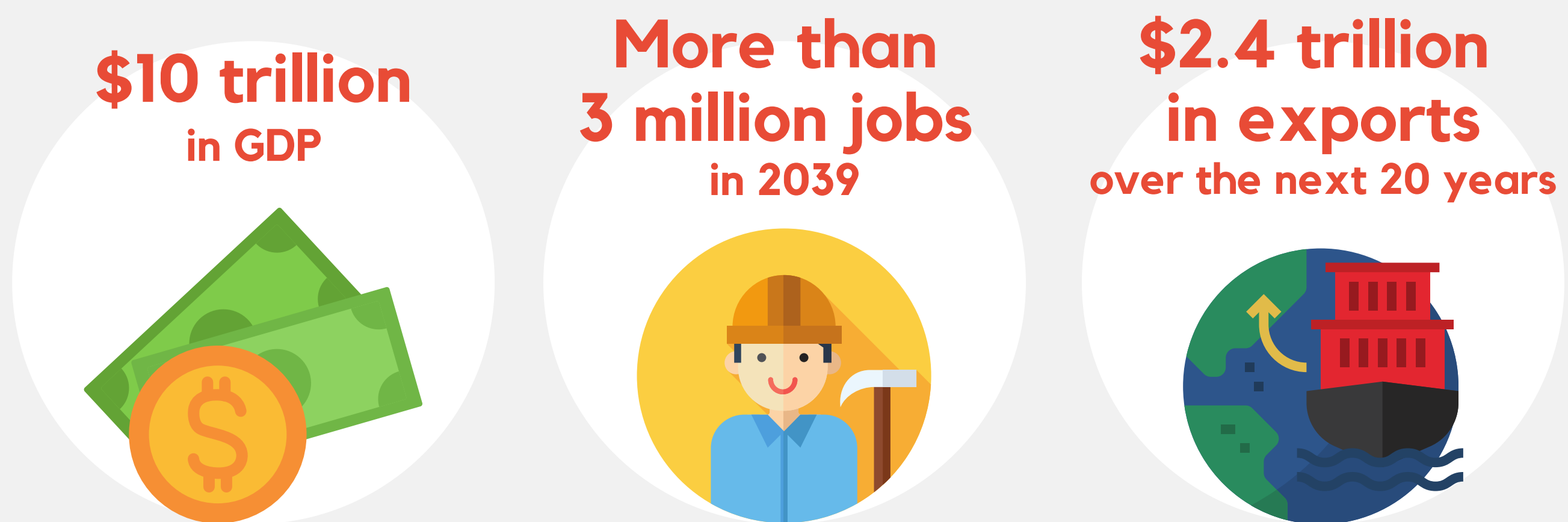
## **HERE'S HOW TO START FIXING THE PROBLEM.**



# 1 PRIORITIZE THE MOST IMPORTANT PROJECTS.

The American Society of Civil Engineers has identified a shortfall of [\\$2.59 trillion](#) to bring the nation's infrastructure to a state of good repair. At a time of constrained public resources, it is not reasonable to assume that we will be able to identify such an amount or to appropriate it. Thus, the key is to make "wise" investments with the resources that are available.

## The Cost of Continued Infrastructure Underinvestment



Graphic Source: [American Society of Civil Engineers](#)

Unfortunately, the planning and capital programming structures that are now in place are not well-suited to these ends. In the transportation sector, federal transportation planning processes must be reformed (there are, for example, over 400 [Metropolitan Planning Organizations](#), when there should probably only be 125 or 150 to serve the nation's largest metropolitan regions).

The current process is fragmented and short of the necessary human and technical resources to make such "wise" investment decisions.

One way to fix this problem, as explained by [Philip Howard of Common Good](#), would involve creating a nonpartisan "National Infrastructure Board," which would "decide which types of infrastructure spending are most needed for the nation," "expedite permitting," and "avoid wasteful contracting."

[He said](#) it would be "comparable to [base-closing commissions](#) that make recommendations to Congress on the closing of unnecessary military bases. Australia and other developed countries have created similar bodies to avoid distrust of backroom deals for huge infrastructure investments."

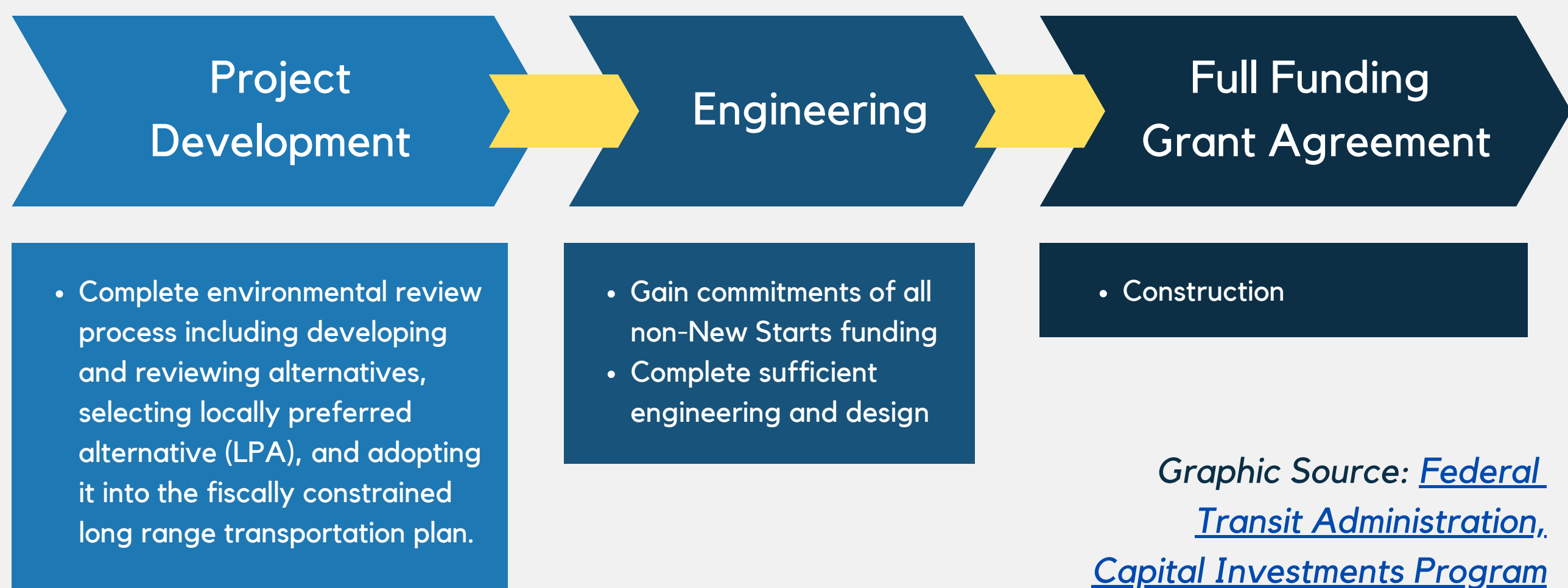


## 2

## BUILD ON WHAT WE ALREADY HAVE.

Currently, federal “[New Starts](#)” transit funding is granted based upon a scoring system that favors a new facility over adding core capacity. Most urban areas are in need of both new facilities and increased core capacity. The Federal Transit Administration should re-evaluate the scoring system to assure that core capacity projects are competitive with new starts.

### New Starts and Core Capacity Process



## 3

## REMOVE ROADBLOCKS TO REBUILD AMERICA.

Although the [2015 Fast Act](#) featured welcome regulatory reforms, more must be done. Congress should couple new infrastructure with measures to increase the effectiveness of every dollar, including the creation of the National Infrastructure Board described above. It could also introduce a program that would incentivize or reward states and localities for streamlining and improving their procurement processes and taking procedural steps that would speed up the delivery of necessary and essential infrastructure projects.

## 4

## IMPLEMENT A CAPITAL BUDGETING SYSTEM.

Unlike most businesses and many state governments, the federal government essentially treats all spending the same, despite the fact that some kinds of spending (e.g., infrastructure) deliver significant economic returns and should therefore be accounted for differently. The federal budget should be separated into two parts—a capital budget for long-term investments such as research and infrastructure, and an operating budget for annual expenses.



## 5

## EMPOWER STATES AND LOCALITIES.

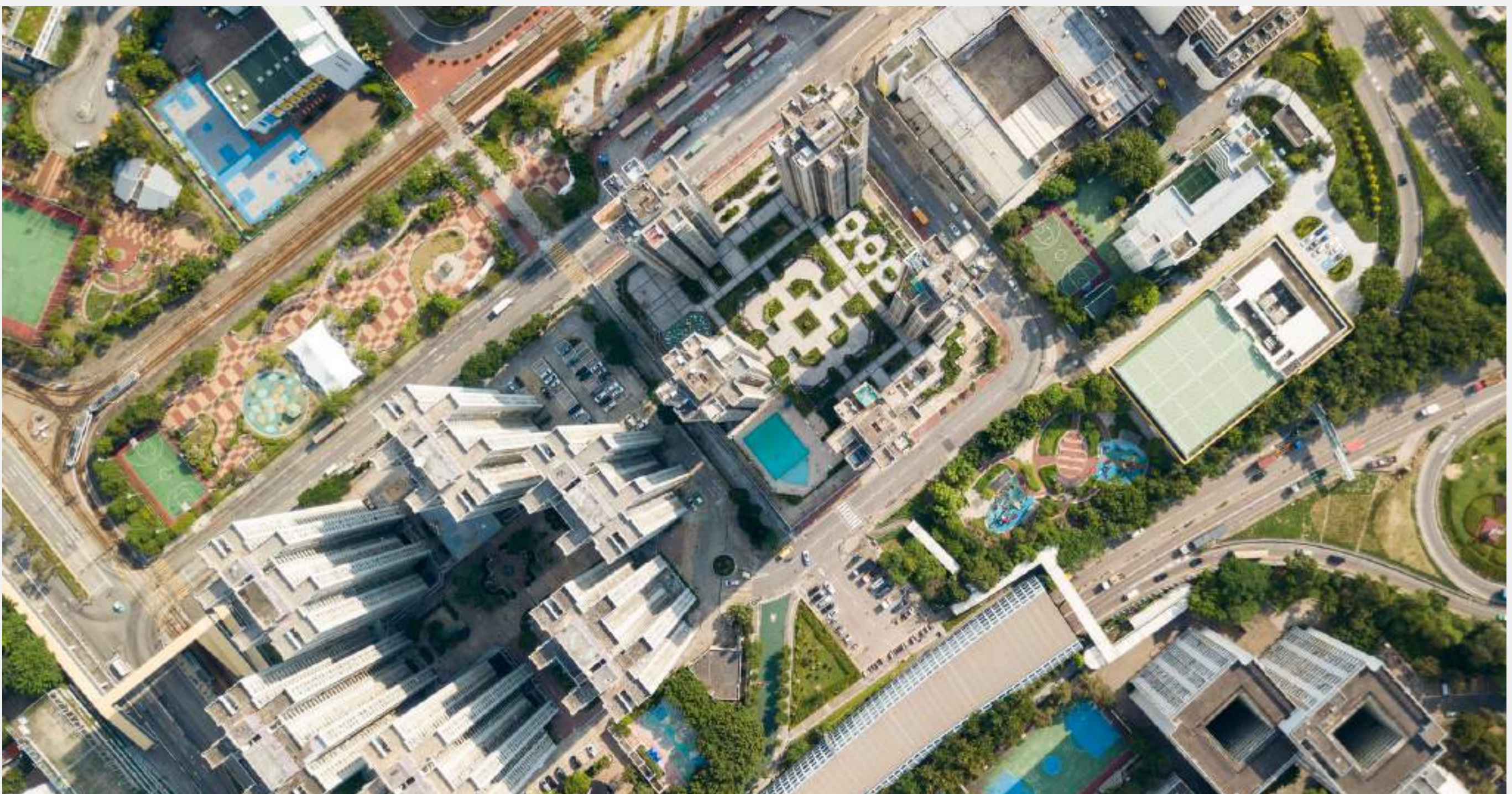
There are many policies—some of which can be incented federally but implemented at the state or local level—that would create and dedicate separate funding streams for infrastructure, including user fees, tax increment financing, and dedicated property or sales tax assessment to fund essential infrastructure.

## 6

## MORE FLEXIBILITY IN FEDERAL FUNDING.

Current and past [appropriations bills](#) have included many “buckets” of funds distributed to the state departments of transportation. Each bucket can only be utilized in that area—bridge money on bridges, interstate on interstates, etc. However, from year to year, the needs of an agency differ based upon the conditions of its assets. These “buckets” should be changed or eliminated to create the necessary flexibility for local transportation projects.

There are also unnecessary regulatory implications for states or localities that receive federal funding. Currently, if a project has received even \$1 of federal funds, all applicable federal laws and policies apply and must be followed, even when federal money isn’t the primary source of funds. Therefore, local governments often lament the costs associated with procuring a federal grant. One suggested policy change would be to make projects funded with less than 50% (or even 33%) federal funds exempt from all federal laws and policies.





# WAYS TO PAY THAT DON'T CROSS DEMOCRATIC AND REPUBLICAN RED LINES

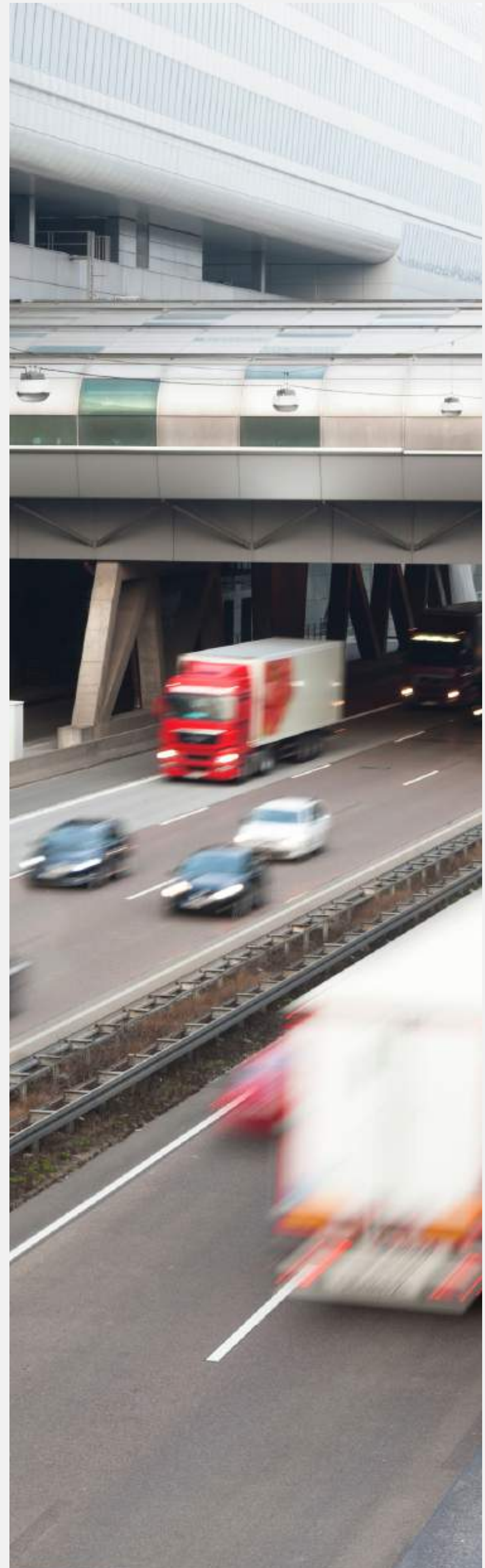
## NEW REVENUE STREAMS

At the outset of the infrastructure debate, both President Biden and congressional Republicans reinforced the red lines they would not be willing to cross to pay for an infrastructure bill.

President Biden said he would not support any proposal that raised taxes on Americans making under \$400,000 per year, while Republicans said they would not support undoing the business tax cuts signed by President Trump in 2017.

Then, each side's initial proposal promptly crossed the other side's red line. President Biden's [\\$2.3 trillion American Jobs Plan](#) includes a corporate tax rate increase from 21% to 28%, as well as several provisions that would change the tax treatment of income that American companies generate abroad. Meanwhile, Senate Republicans' [\\$568 billion proposal](#) relies on repurposing already-authorized federal funds and new user fees on items like electric vehicles without raising individual or corporate taxes.

As with any negotiation, each side may be more willing to give than they are willing to say publicly. Perhaps Republicans could sign on to an increase in the business tax rate that's less than what President Biden proposed and Democrats could embrace a user-fee approach—like a gas or miles-traveled tax—which could be structured in a way that does not burden working families. But ultimately, a two-party infrastructure solution will require more creative ways to pay for infrastructure, which The New Center has laid out here, beginning with an idea that could bring in significant revenues—mostly from wealthy taxpayers and businesses—without having to increase tax rates.







## CLOSING THE TAX GAP

According to the IRS, around [83% of taxes](#) owed by businesses and individuals are paid on time and in full. However, according to recent estimates from former IRS Commissioner Charles Rossotti, the “tax gap”—the difference between taxes owed and taxes paid—is around [\\$574 billion annually](#). That represents [more than half](#) of the 2019 budget deficit, and most of the uncollected taxes are from wealthy individuals and businesses.

The tax gap has been growing increasingly large for the past ten years, while the IRS’s budget has been slashed. Since 2010, the IRS has faced a [20-percent-inflation-adjusted decline](#) in funding and lost more than [33,000 staffers](#). According to the [Center for Budget and Policy Priorities](#), “fewer than 1 in 20 individuals whose income exceeded \$1 million were audited in 2017, roughly half the share in 2010. Similarly, the share of the largest corporations (those with at least \$20 billion in assets) audited fell from 98 percent in 2010 to 58 percent in 2017.”

Over the last 18 months, former Commissioner Rossotti and several colleagues have [developed a plan](#) to shrink the tax gap by 19% over ten years. This plan would raise an estimated \$1.6 trillion over ten years—which represents almost 70% of the headline cost of the White House’s American Jobs plan.

The plan has three parts that would help bring in more owed taxes:

- **Information:** Filling in the holes in the third-party reporting of income of taxpayers in the top quartile of income (AGI) and related passthrough businesses.
- **Technology:** Upgrading IRS technology to make full use of all the information the IRS has, while improving the experience of taxpayers interacting with the IRS and increasing the efficiency and speed of the IRS compliance process.
- **Resources:** Scaling up, but also reforming, the IRS audit process to be better targeted, more efficient, and easier for taxpayers to deal with.

Former Commissioner Rossotti, working in conjunction with economists and I.T. experts, expects that this plan would return \$22 for each \$1 invested in building up the IRS’s staff and tools. It would require clear authority and direction from Congress set in law to make this plan work, along with consistent increases in IRS funding in the range of six percent per year in real terms.





## PUBLIC-PRIVATE PARTNERSHIPS

The Harvard Business Review [defines](#) public-private partnerships (P3s) as projects in which “businesses [such as contractors, developers, or service providers] supplement public investment in return for reaping rewards such as tolls and fees.” Often, the private entity in the partnership provides upfront funding for a facility or project (such as toll lanes on a highway), and the public sector repays the cost over time (for example, in the form of toll payments).

This model can be successful if the public and private sectors work together to properly design and execute a project. It can also enable governments to leverage a limited amount of funding, shift risk to the private sector, and harness private-sector technological and operational expertise that may not exist in the public sector.

**Here’s a framework for thinking about the kinds of projects that would lend themselves to these arrangements.**



# 1

## SOME ASSETS CAN BE PRIVATIZED WITHOUT GOVERNMENT SUPPORT

A certain class of infrastructure assets may be better served by privatization. These assets will, upon sale, generate a financial return for investors without government support or incentives.

The most common example is the privatization of airports. For example, Raleigh-Durham Airport provides [\\$12.6 billion](#) in economic impact annually and could be privatized at a price that should more than cover the outstanding bonds and therefore attract private investors without additional public support. While there are very few privately operated airports in the U.S., [16 percent](#) of airports in Europe are fully privatized.

Airports and ports are examples of assets where the residual cash flows are comparable to privately-owned entities and could be operated by private-sector entities. In many cases, public-private partnerships involve the government leasing an asset to a private-sector entity for a set period of time. During this period, the private-sector operator gets to earn back their investment, but well-designed public-private partnerships also place rigorous service terms on the private-sector operator. If their terms aren't met, the asset can be returned to the government entity.

Crucially, a government entity can often take the proceeds they received from selling or leasing an asset and reinvest them in other critical infrastructure priorities that don't generate the kinds of revenue that would attract private sector partners (e.g., filling potholes).





## 2

# SOME ASSETS CAN ATTRACT PRIVATE INVESTMENT WITH SOME FORM OF GOVERNMENT INCENTIVE OR SUPPORT

These assets will still attract private investment if they are supported through some type of incentive or credit enhancement such as federal and state tax credits, government credit enhancements, or low-cost leverage.

Federal tax credits should be a primary component of any infrastructure incentive project. Tax credits are a dollar-for-dollar reduction in the tax liability that a taxpayer otherwise pays. The Low-Income Housing Tax Credit, New Markets Tax Credit, and Renewable Energy tax credit all serve as successful examples of tax credits that bring private capital into projects that serve public policy objectives.

A common example in this category is toll roads. The New Jersey Turnpike, for example, generates a rate of return that is too low and a debt level that is too high to attract most private-sector operators. Tax credits can augment the financial return for investors or provide a cash subsidy in lieu of tax credits to investors who are not taxpayers. The underlying project will then provide sufficient upside through its operating performance.

This model can also be used for a new project, during which a private-sector investor thinks tax credits are needed to bridge the development and construction risk but is confident a project will be self-sustaining once it is operational.

The federal government currently uses tax credits like the Low-Income Housing Tax Credit to encourage investment in affordable housing—again, a situation where private investors would not otherwise build affordable housing on a pure returns basis.





# LEVERAGED FINANCE

This approach involves financing options that depend on using some public-sector capital to attract more capital from other entities, including individual investors, institutions (e.g. pension funds), or even other public entities.

Some compelling leveraged finance ideas include:

- **Statutory/Regulatory Changes to Broaden Investor Base:** Statutory or regulatory changes could have an important impact on broadening the pool of investors who could finance infrastructure projects (e.g., classifying certain infrastructure projects as meeting banks' Community Reinvestment Act requirements). This could broaden the investor base, driving down the costs of financing and increasing the pool of capital available to fund infrastructure.
- **Lift the Cap on Private Activity Bonds:** Congress should encourage the wider use of private activity bonds by a.) eliminating state volume caps for water and other projects, and b.) excluding private activity bonds from the Alternative Minimum Tax.
- **Build America Bonds:** Congress should reauthorize the Build America Bonds (BAB) program, which permitted governmental bodies to issue taxable and tax-exempt bonds, broadening the potential market to investors who sought taxable income. A federal subsidy would compensate governmental issuers for their increased interest costs, creating a level playing field for state and municipal governments. The cash subsidy provided by the BAB program can be used in category 2 as described above (Privatization with Public Support).
- **Pooled Investment Vehicles:** States could also pool several investments of varying risk characteristics to diversify systemic risk and reduce the cost of financing, much like infrastructure banks. Pooled investment vehicles can be especially useful in helping finance infrastructure investments that require public support, where some of the systemic risk of the project can be diversified.
- **Open Up Infrastructure Investment to Individuals:** Another solution could be to create equity instruments that allow individual investors to participate in infrastructure investment via mutual funds, ETFs, and/or 401(k)s. Individuals might receive some additional benefits or credits for participating as an incentive. Individual investors should be interested in privatizations with or without public support. Over time they may also invest in unprofitable business models as public/private solutions develop and evolve. Allowing the general public to invest in infrastructure may also mitigate some of the criticisms associated with infrastructure privatization.





# CONCLUSION

For years, infrastructure has been the one bipartisan issue hiding in plain sight where there seemed to be grounds for agreement between Democrats and Republicans. Representatives from both parties wanted better roads and bridges. And the pandemic has made the case for infrastructure investment even stronger, particularly in the case of expanding access to broadband.

The practical case for a two-party infrastructure deal—that Congress can pass a better, more comprehensive bill through a regular bipartisan legislative process than it can through a partisan reconciliation process—is a strong one.

But at this moment in our history, the principled case may be even stronger. If Washington can't get to "yes" on an infrastructure bill, it begs the question:

How could Democrats and Republicans possibly agree on anything of consequence?

It's hard to see how Congress could or would tackle policing, voting, or immigration—issues that have no chance of being moved via reconciliation and would therefore need 60 votes to pass the Senate—if they can't get there on infrastructure.

This is a chance for Washington to show it can actually work to strike a deal that appeals to the broad center of the American electorate. They should seize the opportunity and strike an ambitious, two-party deal to rebuild American infrastructure and invest in a brighter economic future.