Infrastructure Bonding: Pay Now, Or Pay More Later

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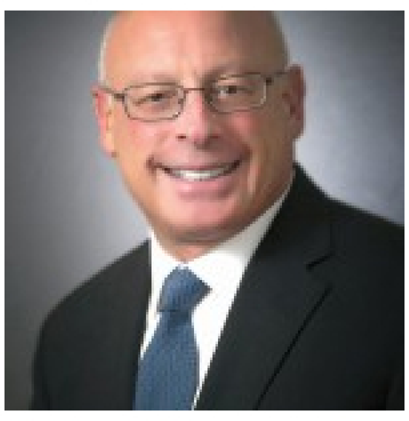
By MICHAEL SAHN//

A recent front page article in The Wall Street Journal entitled "Localities Opt for Less Debt over New Infrastructure" reports that local governments are not borrowing to pay for desperately needed infrastructure improvements – despite the fact that interest rates for government bond issues for infrastructure have dropped to their lowest levels in 20 years,



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Why? Government officials are hesitant to take on long-term debt in a fiscal environment in which they lack confidence that future tax revenues will be sufficient to pay off the debt. That means less investment in important infrastructure like roads, water systems and sewage treatment, bridges, schools and communication facilities.

That is particularly ironic given the universal acknowledgment that we desperately need to upgrade and rebuild infrastructure. Without borrowing through long term bonds, infrastructure improvements have to be funded solely through operating revenues. That's not practical, and it's not happening. The result is delayed infrastructure investment just when we need it the most, and inevitably higher costs to fix aging infrastructure when we get around to it in the future.

Delay now and pay more later. That's not good public policy.

How can we fix this? Here are some ideas:

- Share the cost of infrastructure improvements that benefit more than one municipality through intra-municipal agreements.
- Identify particular users and property owners that will benefit the most directly from needed improvements, and impose special assessments on them for the long-term bond interest and carrying charges.
- Create a statewide fund to help local municipalities pay the debt service on bonds issued for infrastructure, with the goal being to encourage projects now while avoiding the higher costs for the same improvements later.
- Through the appropriate use of impact fees and incentive zoning laws, impose an obligation on developers of major projects to make payments to dedicated municipal funds for infrastructure, and use those payments to offset the debt service on the bonds. Incentive zoning laws now exist, but let's also have specific laws for infrastructure improvements.
- Since debt service on bonds is counted towards the tax levy of municipalities (except for school districts) these costs have to be accounted for in calculating compliance with the "tax cap" law. Hint: If these costs were not counted, it would give municipalities more room under the tax cap and thus encourage infrastructure improvements.

Creative thinking is what we need to take advantage of the low cost of funding infrastructure improvements. We need to address this now, or pay more later.

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