

MAKING INFRASTRUCTURE GREAT AGAIN

“This will be a big week for Infrastructure” President Donald Trump stated via Twitter, and in traditional Trump fashion, his proposal was met with both applause and groans. The White House’s fifty-three page proposal titled, “Legislative Outline for Rebuilding Infrastructure in America” has been touted as one of the largest infrastructure development plan ever launched. The plan is simple: spend \$200 billion dollars over the next ten years to stimulate \$1.5 trillion in total new investments over the same period.

The Numbers:

- \$100 billion for *Incentive Programs*;
- \$50 billion for *Rural Infrastructure*;
- \$20 billion for *Transformative Projects Program*;
- \$20 billion to *Expanding Infrastructure Financing Programs* (\$14 billion to expand existing *Credit programs*; \$6 billion to expand existing *Private Activity Bonds*); and
- \$10 billion to a *New Federal Capital Revolving Fund*.

The President’s advisors believe the key to this proposal centers around increasing state and local power. Because federal funds will be paired up with state and local funds, the hope is that these groups will have “skin in the game” to help ensure their projects are fiscally prudent. The plan also counts on removing federal roadblocks. Here are the proposal’s main points:

Main points:

- Increase state and local authority by decentralizing the decision-making process;
- Remove regulatory barriers, shortening the process for approving projects to 2 years or less;
- Guarantee minimum levels of investment in rural infrastructure; and
- Invest in the American workforce.

Discussion

The proposal’s main component (\$100B) is the infrastructure incentive program which will be delivered in the form of grants. Applications timing, content, and format will be decided by the United States Department of Transportation (DOT), United States Army Corps of Engineers (USACE), and Environmental Protection Agency (EPA).

The rural infrastructure program (\$50B) aims to bring quality, efficiency, and access to the rural areas. Rural areas voted overwhelmingly for then candidate Trump and have largely felt left out of the process which they believe disproportionately benefits urban dwellers.

The transformative projects (\$20B) is conceived for bold, innovative, and transformative infrastructure developments that are ambitious and where state and

local governments lack sufficient funding. It will be administrated by an interagency committee chaired by the Department of Commerce (DOC).

To increase the volume of existing federal credit programs (\$20B), the plan expects to see the broader use of Private Activity Bonds (PABs). This is accomplished by spreading tax exemptions and beneficial market interest rate, together with removing state volume caps and transportation volume caps on PABs. A component of this program includes budget authority for Agriculture Rural Utilities Service (RUS) and the USDOT in order to:

- Expand Transportation Infrastructure Finance and Innovation Act (TIFIA) to offer loans to non-Federal waterways and ports and airport projects.
- Expand Railroad Rehabilitation and Improvement Financing (RRIF) and Broaden Program Eligibility to include short-line freight and passenger rail and covering of the credit risk premium.

The plan also calls for increasing EPA budget in order to:

- Expand Water Infrastructure Finance and Innovation Act (WIFIA) Funding and Broaden Program Eligibility to include:
- Non-Federal flood mitigation, navigation and water supply (currently USACE projects) – elimination of the restriction of the “community water systems” (all water providers can now access the program).
- Brownfield rehabilitation and cleanup of Superfund sites.

A New Federal Capital Revolving Fund (\$10B) would be established for the streamlined leasing of federal property (currently based on an annual appropriations process). The goal is to reduce inefficiencies by financing the purchase, construction, or renovation of Federally-owned civilian property. The agencies will repay the fund using voluntary appropriations.

The administration also seeks to expedite approval procedures, currently averaging close to five years, at one or two years. The deal to rebuild America aims “to protect the environment while at the same time delivering projects in a less costly and more time effective manner.” The administration says this will be accomplished by establishing the principle of “one agency, one decision.”

Additionally, the White House proposal wants revenue generated on public land to be made available to pay for infrastructure related capital and maintenance needs of federal lands and parks. Something that is not allowed under current law.

Infrastructure Versus Transportation?

While some have suggested much more will be needed, one has to remember this is not a transportation initiative and while transportation is infrastructure, infrastructure is much more than transportation. Although the federal government is a significant

financier of highways, roads, and bridges thanks to the Highway Trust Fund, the federal government plays a very small role when it comes to overall infrastructure investment.

When we think of infrastructure, we have to think big. Infrastructure includes the transportation and energy industries, but it also includes drinking and waste water pipelines and treatment facilities, waterways, dams, public lands, parks and recreational facilities, veteran's hospitals and treatment facilities, and more. When it comes to the broad definition of infrastructure, state governments fund nearly 80% of the total cost of these projects. The administration's proposal therefore relies on improving the efficiency and reducing costs for projects.

With respect to transportation funding, this proposal will help; but as we mentioned earlier, it is not a transportation bill. Thus, this proposal does not "fix" the tax scheme currently utilized to fund highway construction. Money spent directly for roads, bridges and highways, as well as associated federal safety programs, comes from the federal tax levied on each gallon of unleaded gasoline and diesel fuel. This money is collected by the states and sent to Washington where it is deposited into the Highway Trust fund (HTF). These amounts, 18.4 and 24.4 cents respectively, haven't changed since 1993. As automobile mileage increases and more vehicles are utilizing hybrid and electric technology, HTF revenues have fallen flat while construction and maintenance costs continue to rise. Since 2008 Congress has "shored up" the HTF by transferring \$143 billion from the country's general fund to cover budgetary shortfalls. Thus, when it comes to highway projects, the gas tax is no longer sustainable, and while state governments also collect state gas taxes, the system no longer represents a true user fee model as it was intended for the same reasons expressed above.

Conclusion

The plan does not deliver federal dollars like manna from heaven, and for many that's, a problem. A quick glance at America's mounting deficit should relieve anyone of the notion that the federal government is in any position to simply write big checks. In fact, some of the fiscal resources touted by the proposal are existing funds that have been reallocated under the belief that they were not being efficiently spent.

When presenting his project President Trump criticized his predecessors in announcing the proposal by saying, "After spending \$7 thousand billion in the Middle East, now is the time to start investing in our country." The project seems be catching fire from both parties as it seems too expensive for Republicans, constantly careful to avoid excessive repercussions on the public deficit, and too poorly financed according to Democrats who would like to see more federal funds and less reliability on state and local entities, to avoid a tax rate increase on consumers. Finally, the plan also irks environmental activists who currently utilize loopholes in review processes to stall projects, often for years. For them, any talk of streamline permitting and a shorter environmental review process is contrary to their agenda.

All in all however, President Trump campaigned hard to improve the country's infrastructure and has taken the issue more seriously than any president since Dwight

Eisenhower. Improving infrastructure is also widely popular, with over 78% of all Americans indicating their support for an infrastructure package. With 2018 mid-term elections looming around the corner, timing certainly is not the best. Yet when it comes to policy decisions in Washington, timing often takes a backseat.