



## **Construction Industry Round Table**

# **CIRT Policy Analysis: President's Infrastructure Proposal**

The state of US infrastructure and an overview of  
President Trump's \$1.5 trillion infrastructure plan

**Summer 2018**

# Roadmap

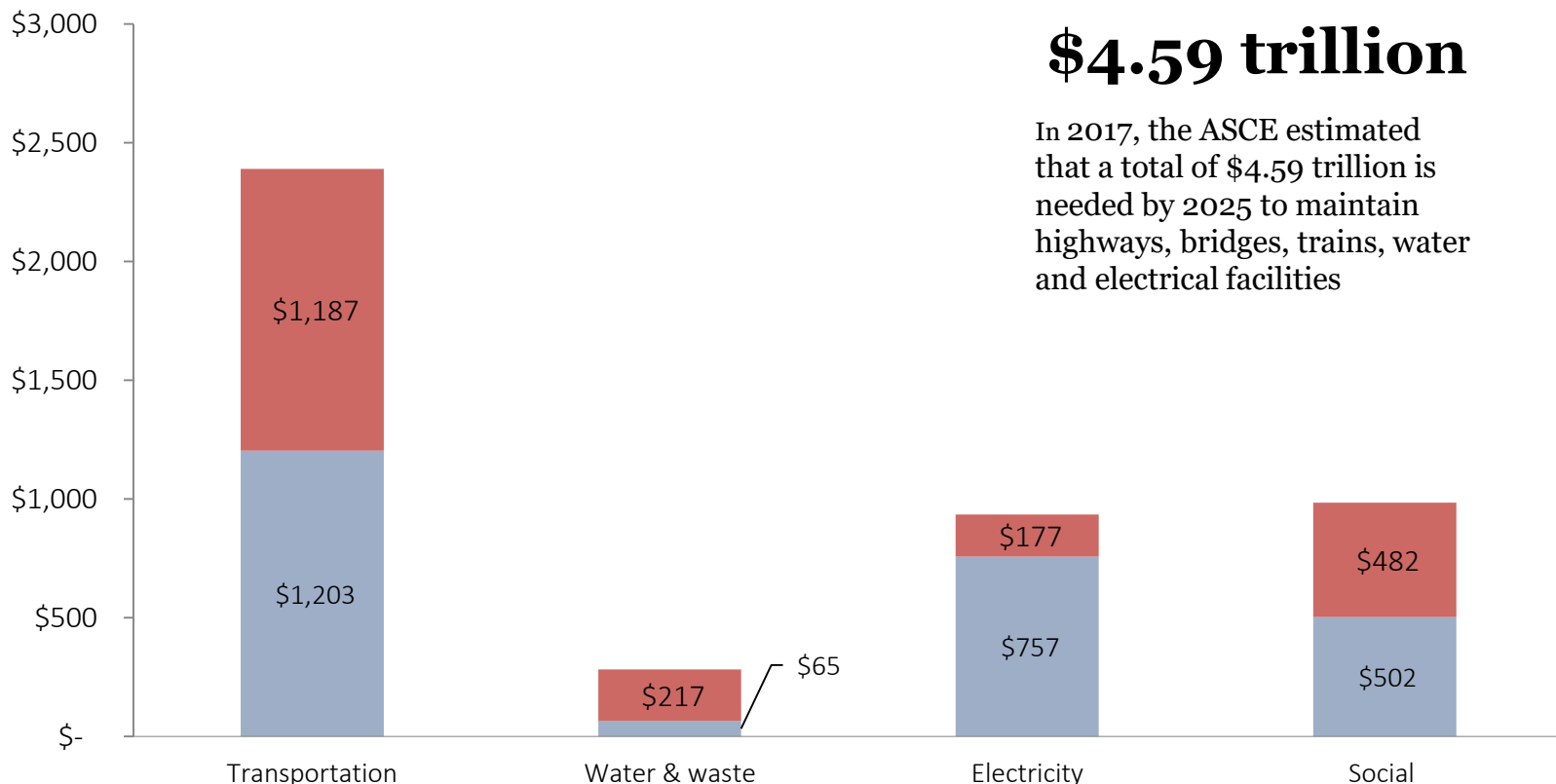
- State of US infrastructure
- Overview of President Trump's proposal
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# ASCE: US infrastructure 10-year funding gap over \$2 trillion

## Cumulative infrastructure needs by system (2016-2025)

BILLIONS OF CONSTANT 2015 DOLLARS, ESTIMATES FROM ASCE'S 2017 INFRASTRUCTURE REPORT CARD

■ Estimated available funding   ■ Funding gap

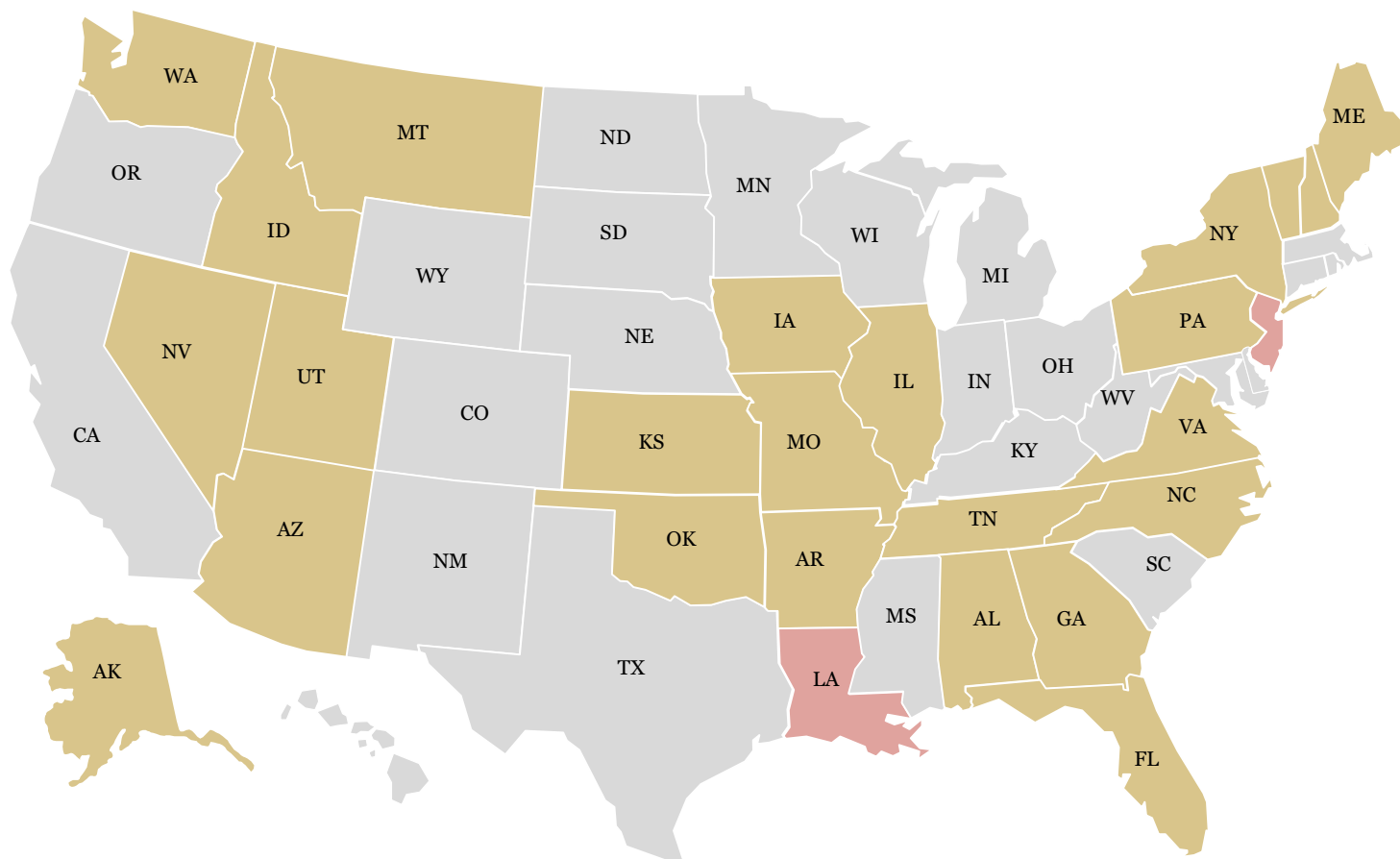


Sources: Chris Edwards, "Who Owns U.S. Infrastructure?," Cato Institute, June 1, 2017; American Society of Civil Engineers 2017 Report Card for American Infrastructure.

# No state received higher than a C for infrastructure and 24 states have not been graded since 2013

## ASCE infrastructure report card grades, by state

- A (Exceptional)
- B (Good)
- C (Mediocre)
- D (Poor)
- F (Failing)
- No recent grade available



Sources: American Society of Civil Engineers, 2017.

# United States received an average D+ grade on infrastructure

## 2017 report card for America's infrastructure

From the American Society of Civil Engineers (ASCE)

Sector	Grade	Sector	Grade
Aviation	D	Ports	C+
Bridges	C+	Public Parks and Rec.	D+
Dams	D	Rail	B
Drinking Water	D	Roads	D
Energy	D+	Schools	D+
Hazardous Waste	D+	Solid Waste	C+
Inland Waterways	D	Transit	D-
Levees	D	Wastewater	D+

### Grading system

**A:** Exceptional/Fit for the Future

**B:** Good/Adequate for Now

**C:** Mediocre/Requires Attention

**D:** Poor/At Risk

**F:** Failing/Critical/Unfit for Purpose

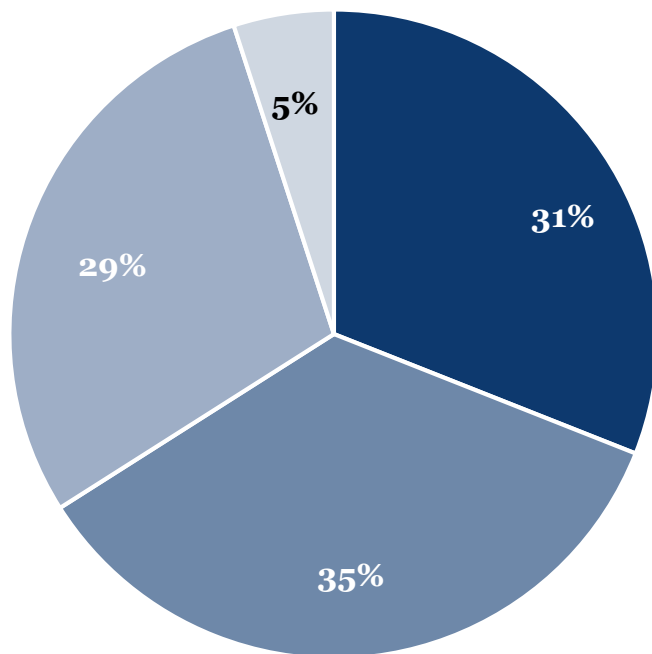
The ASCE takes into account **capacity, condition, funding, public safety, innovation, operation and maintenance**. The purpose behind the report card is to inform the public of the current condition of America's infrastructure in a concise, easily accessible manner

# Funding America's infrastructure

States rely heavily on borrowing and user fees to fund infrastructure projects

## How states pay for infrastructure projects

- State bonds
- Fees, taxes and other funds
- State general funds
- Federal funds



### Traditional bond proceeds:

Due to the large upfront costs associated with infrastructure, states borrow funds by issuing general obligation bonds to spread costs out over time instead of using annual tax collections and other revenues. These bonds are repaid through user revenues, including taxes, vehicle-related fees and tolls

### Taxes, fees and tolls:

Fuel taxes, vehicle registration fees and bridge, tunnels and road tolls contribute to funding, but only account for a small percentage of upfront costs

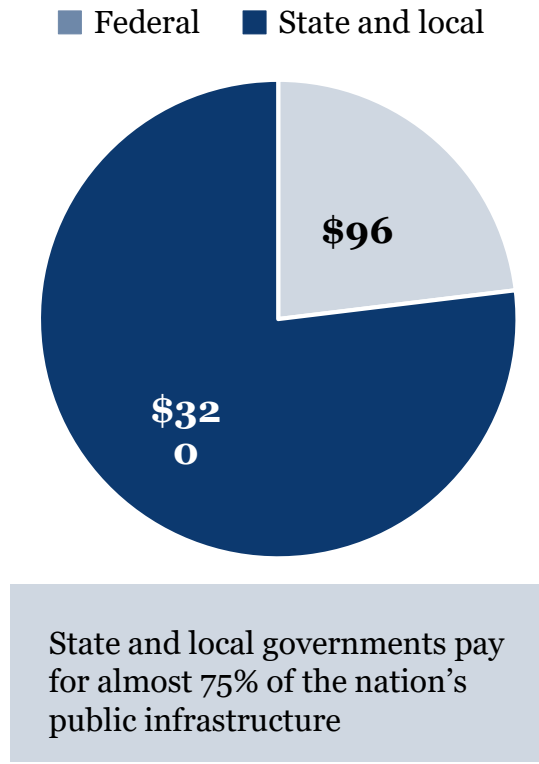
### Grants:

Federal grants compose a large portion of state funding for road and public transit projects

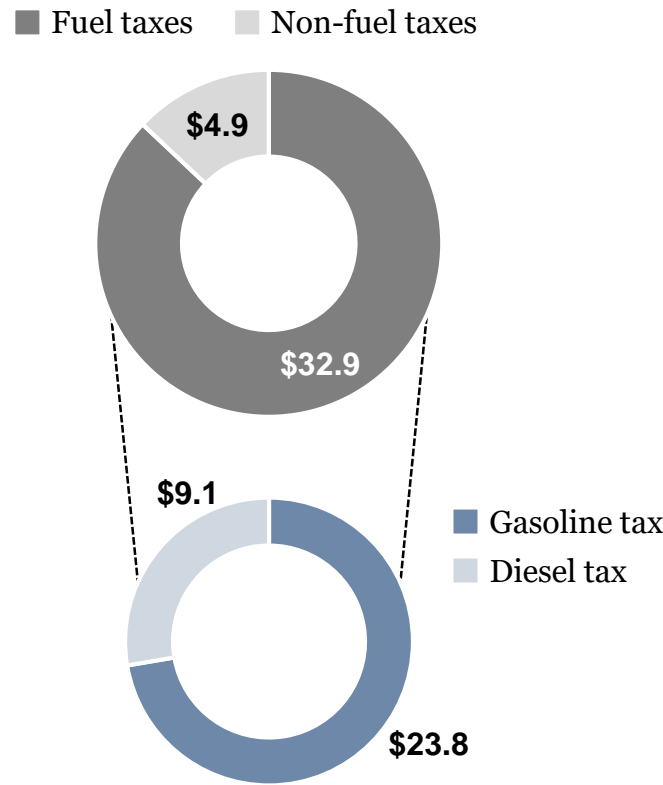
# Funding America's infrastructure

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**Breakdown of transportation and water infrastructure spending (billions of USD)**



**Sources of Highway Trust Fund Revenue (billions of USD)**



Sources: Elizabeth McNichol, "It's time for state to spend more on agriculture," Center on Budget and Policies Priorities, February 23, 2016.

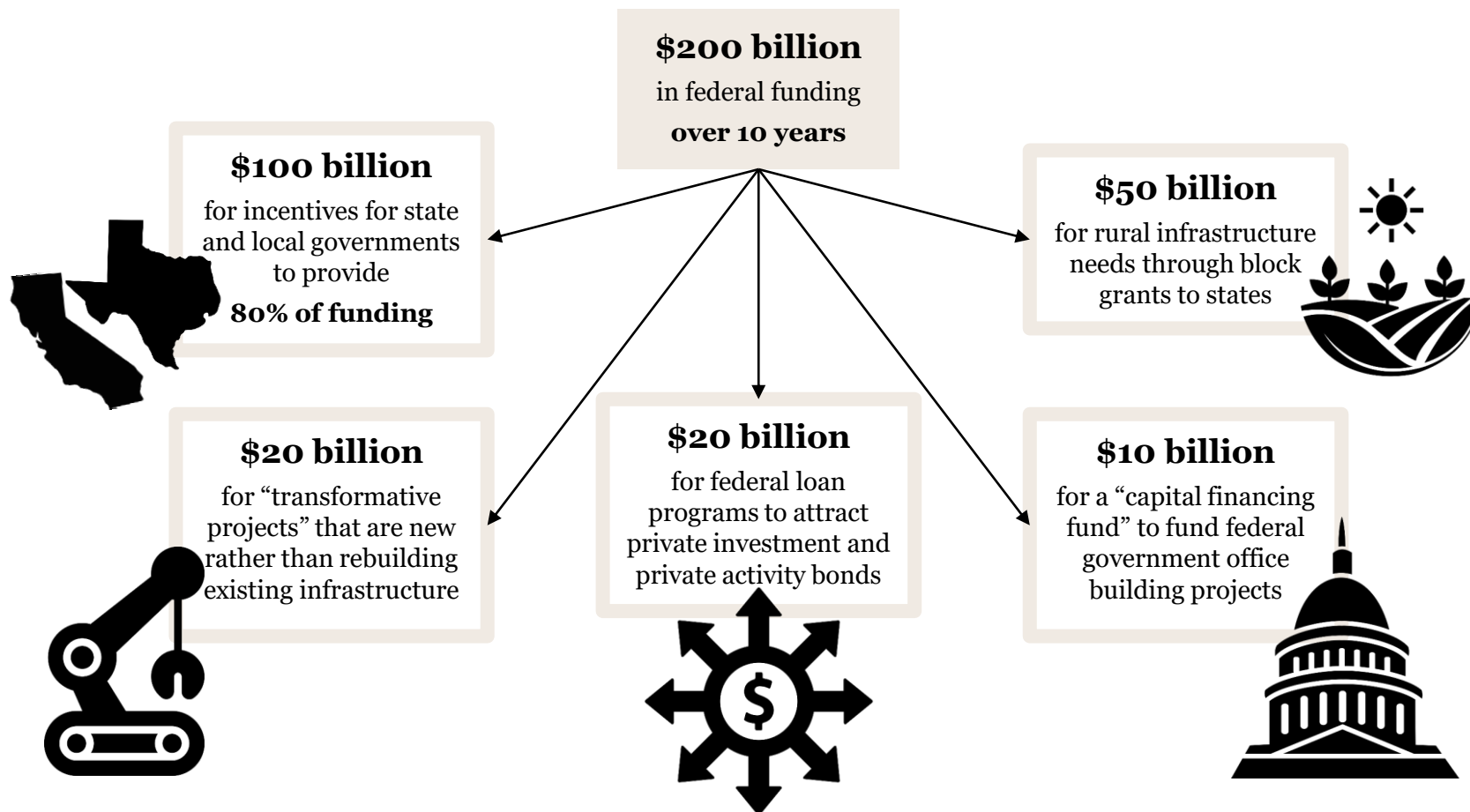
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# Trump's infrastructure plan relies on state and local governments for funding

## Distribution of funding under Trump's new plan



Sources: Julie Hirschfeld Davis, "Trump's Infrastructure Plan: Modest Federal Incentives, Facing Long Odds," NY Times, February 11 2018; David Schaper, "Trump To Unveil Long-Awaited \$1.5 Trillion Infrastructure Plan," NPR, February 11, 2018.

# In addition to funding, the proposal aims to shorten review processes for projects and improve training for workers

## Additional proposals under Trump's infrastructure plan



### \$1.5 trillion investment over 10 years

Investment includes \$1.3 trillion in funding from the private sector and \$200 billion in government funding



### Encouraging federal divestment of assets

This proposal includes selling airports and highways to the private sector



### Infrastructure workforce training

The plan proposes changing licensing requirements to allow workers to move between states and expanding apprenticeships



### Streamlining regulatory review

The proposal includes a 21-month deadline for federal permitting and review and designating one lead agency to review each project

## Remaining infrastructure uncertainties



### Gas tax increase

The federal gas tax, which was intended to fund the Highway Trust Fund, has not been increased since 1993, but could be raised for infrastructure funding



### Highway Trust Fund

Congress spent \$140 billion from 2008 to 2015 and will need to allocate \$107 billion in additional funding through 2026 to maintain current infrastructure spending



### Funding sources

The White House stated that their FY2019 budget will include cuts to programs to fund infrastructure investment, but has not specified what the cuts will be

Sources: Julie Hirschfeld Davis, "Trump's Infrastructure Plan: Modest Federal Incentives, Facing Long Odds," NY Times, February 11 2018; "Trump's plan to overhaul US infrastructure faces steep hurdles," Reuters, February 12, 2018; Timothy Cama, "Trump aims to speed environmental reviews in infrastructure plan," The Hill, February 12, 2018.

# The role of private capital would be significant under the plan

Trump's plan pushes state governments to turn just \$200 billion of federal funding into \$1.5 trillion of total investment by attracting private capital and incentivizing public-private partnerships (P3s)

## \$6 billion

### Expands the use of PABs

Private activity bonds (PABs) are a low-cost financing option that is often used to support P3s. \$6 billion is allotted to expand the types of projects that can be financed with PABs, including hydroelectric power plants and facilities for flood control, rural broadband service and storm water. The plan also eliminates the alternative minimum tax preference and state volume caps on PABs

## \$14 billion

### Expands existing programs

\$14 billion will go to expanding existing credit programs, including: TIFIA, which provides direct loans to surface transportation projects; WIFIA, which provides credit to water and wastewater infrastructure; and RRIF, which helps finance railroad infrastructure. The expansion of these programs is designed to attract private capital, as they are matched with other debt and equity contributions

## 25¢ gas tax hike

### User pay models

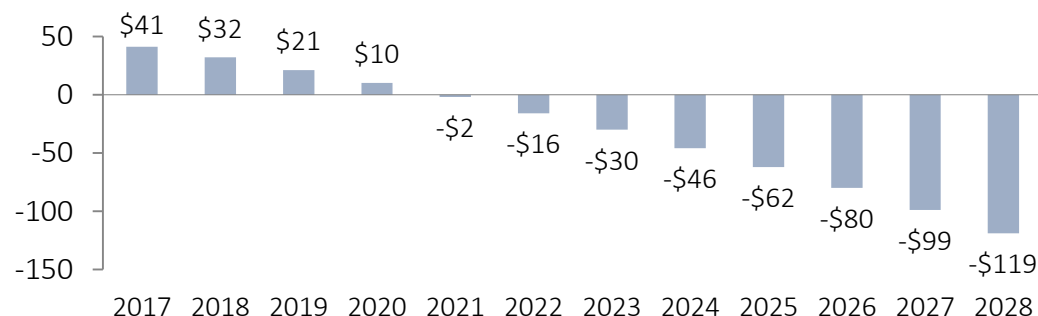
As governments may need to consider user pay models to access the federal incentives, they could be more open to participating in P3s. To provide additional infrastructure funding, Trump has endorsed raising the federal gas tax by 25¢, which would raise an estimated \$394 billion over the next 10 years. The plan also proposes removing federal restrictions on tolling interstate roads to support investment

Sources: Julie Hirschfeld Davis, "Trump's Infrastructure Plan: Modest Federal Incentives, Facing Long Odds," NY Times, February 11 2018; David Schaper, "Trump To Unveil Long-Awaited \$1.5 Trillion Infrastructure Plan," NPR, February 11, 2018.

# Neither the proposal nor the FY 2019 budget request addresses the looming insolvency of the Highway Trust Fund (HTF)

## The long-term outlook for the HTF remains highly uncertain

*Projected end-of-year account balance/shortfall of the HTF's Highway Account (billions of USD)*



Since 2008, Congress has sustained highway spending by transferring \$143 billion to the HTF, which will enable the fund to meet spending obligations through 2020. However, without further transfers, the fund will be insolvent beginning in 2021 according to the CBO

## Trump's FY 2019 budget proposes a \$122 billion reduction in HTF spending over the 2022-2028 period

*Projected cuts to HTF spending in the FY 2019 budget (billions of USD)*

<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
\$-11.9	-\$15.7	-\$16.8	-\$18.1
<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY22-28</b>
\$19.1	-\$20.0	-\$21.8	-\$122.4

While Trump has not offered a direct solution to the fund's insolvency issues, he justifies the cuts to federal HTF spending by shifting responsibility for investing in transportation infrastructure to state and local governments as well as the private sector

Sources: "Highway Trust Fund Accounts," CBO, April 2018; Joe Brady, "President Trump Releases Much Anticipated Infrastructure Plan," Infrastructure Report Card, February 12, 2018.

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# President Trump announced that infrastructure reform will likely have to wait until after the midterms

## Obstacles to infrastructure reform



### Midterm elections

With midterms approaching, Congress is unlikely to act on a major domestic policy issue such as infrastructure reform, and President Trump even announced that it “will probably have to wait until after the election.” Members of both parties could be reluctant to cosign Trump’s proposal, for fear of it hurting their chances in 2018



### Ambiguities in the plan

Trump’s proposal is based on \$200 billion in federal funding but never directly identified where that money would come from besides cutting spending to other transportation programs. In addition, it is unclear if the \$200 billion is enough to jumpstart the investment America’s infrastructure needs



### Heavy burden on state governments

The plan implies that state governments will raise \$1.3 trillion for infrastructure, which would have to come from taxes or private investors. Raising taxes is unpopular, while relying on private financing is risky, as many infrastructure projects don’t offer the revenue stream the private sector needs



### Tax reform

The decision to use budget reconciliation to pass tax reform made it difficult to include favorable provisions for infrastructure reform. Once the tax bill passed, the deficit soared, leading GOP lawmakers to begin advocating for federal spending cuts, creating another hurdle for infrastructure reform

Sources: “The Trump Infrastructure Plan: big ambitions, open questions,” PwC, February, 2018; Mallory Shelbourne, “Infrastructure overhaul will likely come after midterms,” The Hill, March 29, 2018.

# Key congressional committees for infrastructure reform

## House Committee on Transportation and Infrastructure



*“An infrastructure bill needs to be bipartisan, fiscally responsible, and make real long-term investments in our Nation. By addressing the long-term sustainability of the Highway Trust Fund, exploring new ways to invest, and ensuring the fast delivery of projects, we can rebuild and improve our highways, water infrastructure, public buildings, rail transportation, and other infrastructure.”*

— House Transportation Committee Chairman Bill Shuster (R-PA)

## Senate Committee on Environment and Public Works



*“Can we do a better job using scarce resources to leverage state and local monies? Yes. But I’m still not sure how you transform \$200 billion into \$1 trillion. You’ll have to show me.”*

— Senate Environment & Public Works Committee Ranking Member Tom Carper (D-DE)

## Senate Committee on Commerce, Science and Transportation



*“Through this guidance and letting Congress have the opportunity to write bipartisan legislation, President Trump has offered us direction to meet infrastructure needs in our nation’s states, cities, and rural communities. Aligning federal infrastructure funding with local priorities and looking at other impediments to building would increase accountability and help us meet our most critical infrastructure needs faster.”*

— Senate Commerce Committee Chairman John Thune (R-SD)

Sources: Julie Hirschfeld Davis, “Trump’s Infrastructure Plan: Modest Federal Incentives, Facing Long Odds,” NY Times, February 11 2018; “Nancy Pelosi, 2018; Brianna Gurciullo, “Trump launches \$1.5 trillion infrastructure sales pitch,” Politico, February 12, 2018.