Insight

The Trump Administration's Draft Infrastructure Plan

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Introduction

A recent draft of the Trump Administration's infrastructure plan features a breakdown of the anticipated $200 billion in federal appropriations and outlines key infrastructure principles. The plan incentivizes private sector investment, targets rural infrastructure, and increases the capacity of credit assistance programs. While the White House has not commented on the draft document, Trump is expected to touch upon infrastructure during his State of the Union address, with a finalized infrastructure plan expected to be released shortly after.

Incentivizing Private Investment

The draft document outlines a plan to appropriate 50 percent of the federal money from an infrastructure bill to spur state, local, and private investment in core infrastructure through an incentive initiative. Incentives are provided in the form of grants and cannot exceed 20 percent of total project costs. Additionally, any individual state cannot receive more than 10 percent of the amount available. Receipt of grants will be contingent on achieving milestones within an identified timeframe.

The draft plan also outlines certain criteria for grant eligibility. Seventy percent of criteria weight is placed on evidence supporting how the applicant will secure and commit new, non-federal revenue. Greater weight will be given to states who have taken actions to raise revenue within the last three years. These new criteria raise questions regarding the number of states that will likely miss out on funding. An infrastructure plan should aim to provide federal funding for projects that spur economic growth and boost the economy, but have difficulty obtaining investment. By dedicating half of the anticipated $200 billion in infrastructure outlays towards projects that already have state, local, and private investment, the plan does not guarantee the most cost efficient and effective projects are being built. Additionally, the criteria fail to prioritize safety, on which transportation funding in the past has focused.

Under this draft plan state, local, and private investment are responsible for 80 percent of project costs. Officials working on the Gateway Program, which calls for building a new rail tunnel between New York and New Jersey, have claimed a grant worth 20 percent of total project costs is not enough to get the project going. Moreover, the 20 percent threshold is relatively low compared to other grant programs. For example, the Capital Investment Grants program limits large projects – total costs of $300 million or greater – to a maximum federal funding share of 60 percent, and Infrastructure for Rebuilding America grants may not exceed 60 percent of total eligible project costs. Therefore, there is concern that an incentive valued at a maximum of 20 percent of total project costs may not be enough to deliver projects.

Commitment to Rural America

The draft plan would also appropriate a large chunk of the infrastructure bill's funding to a rural infrastructure program. Approximately 25 percent of the anticipated $200 billion will be invested in rural infrastructure in the form of block grants with no federal requirements. The plan leaves room for rural areas to decide which types of infrastructure projects will be funded, including non-traditional infrastructure such as broadband. Reports often claim that residents in rural areas are left without broadband services, however, research released by the American Action Forum has found that broadband inequality has decreased. The inclusion of broadband as a program eligible for the rural infrastructure program leaves rural areas to make their own decisions on whether to use awarded grants on broadband or other infrastructure areas, which may result in grants being used for broadband instead of improving the safety of roadways and bridges. This is problematic because rural roads and bridges are critical to spurring economic growth.. Poor road and bridge conditions cause transportation delays and add costs to farmers and ranchers, hindering rural communities' ability to move their products to market. Investment in rural road and bridges can facilitate access to jobs, education, and healthcare, while improving manufacturing, agriculture, tourism, and other segments of the rural economy.

Credit Programs and Transformative Projects

The remaining infrastructure spending is allocated towards transformative projects, credit assistance programs, and a "federal capital financing fund." Ten percent of appropriations will be available for ground-breaking ideas that offer a larger reward profile. Such projects include ideas like Hyperloop, a proposed mode of passenger transportation that would carry passengers at speeds topping out over 700 miles per hour. The delivery of transformative infrastructure projects would help to drive economic growth, innovation, and productivity.

Another seven percent of the $200 billion would be appropriated to increase the capacity of existing federal credit assistance programs. Such programs include the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Water Infrastructure Finance and Innovation Act (WIFIA). TIFIA and WIFIA provide long-term, low-supplemental credit assistance to surface transportation projects and water infrastructure projects, respectively. Investment in these programs is makes sense, as both TIFIA and WIFIA loans have high investment leveraging ratios. Every $1 of TIFIA appropriated funding can leverage $42 in total investment, while every $1 of WIFIA appropriated funding can leverage over $100 in total investment. The infrastructure plan also calls for expanding the list of projects eligible for WIFIA assistance and eliminating certain requirement for WIFIA borrowers to expand access to WIFIA assistance.

What Will this Plan Accomplish?

While this may be only a draft of the administration's infrastructure plan, it appears the administration is adamant about state, local, and private investment paying for the bulk of America's infrastructure. While projects can still secure funding under the various transportation grant programs and credit assistance programs, appropriating half of the plan's total spending to a grant program rewarding state, local, and private investment indicates a push for private investment. The majority of infrastructure spending already comes from state and local governments. The Congressional Budget Office reported that in 2014, transportation and water infrastructure totaled $416 billion in 2014. State and local governments accounted for roughly 77 percent of spending, while the federal government accounted for 23 percent. Therefore, private investment will likely have to make up the difference.

While private investment has helped to successfully deliver transportation projects – e.g. the Tappan Zee Bridge replacement, Indiana Toll Road, and Virginia 95 Express Lanes – not all modes or types of infrastructure appeal to the private sector. Public-private partnerships (P3s) have been successful for surface transportation projects, due to the clear and stable performance of these types of infrastructure. This raises concern that private sector investment may not deliver infrastructure projects and investment to rural areas and often overlooked infrastructure – such as waterways, waste, and energy projects. However, the plan helps to correct this by appropriating a portion of spending for rural infrastructure.

Last, it is yet to be seen how the Highway Trust Fund (HTF) plays into the administration's infrastructure plans. The HTF was established to help pay for the Interstate System through federal excise taxes on gasoline and diesel fuel. The fund would later help to fund mass transit needs in addition to highway programs. However, since FY 2008 outlays have exceeded HTF revenues. Consequently, short term measures authorizing transfers from the General Fund of the Treasury to the HTF have been passed by Congress to cover highway spending. The most recent measure is set to expire after FY2022, threatening the solvency of the HTF. By 2026 the HTF is estimated to have a total cumulative shortfall of $111 billion.

Since the HTF is a dedicated source for highway spending, the issues surrounding its solvency should be a priority of the administration. The Problem Solvers Caucus, which recently released a report outlining bipartisan solutions to improving America's infrastructure, recommended indexing the 18.4 cents per-gallon tax to inflation or the consumer price index to ensure sustainable long-term spending for the HTF. Some proponents have questioned the effectiveness of continuing a gasoline tax given the improvements in fuel efficiency, emergence of electric cars, and the growth of ride-sharing, championing a vehicle miles traveled tax as an alternative. Other issues aside, the infrastructure bill is a prime vehicle for addressing the HTF, and the administration would be wise to make good use of the opportunity.

Conclusion

As is, the administration's draft infrastructure plan leaves many unanswered questions. These include: How many states get left behind under the outlined grant criteria? Will the solvency of the Highway Trust Fund be addressed in this infrastructure bill? Given the administration hopes to release its infrastructure bill shortly after the State of the Union address, details are expected imminently. To attract bipartisan support, the administration needs to put forward an infrastructure bill that does more than create incentives for private investment, which many Democrats have criticized. Focusing on rural spending and expanding credit assistance programs is a step toward bipartisanship. However, if the administration is not willing to spend more than the anticipated $200 billion in outlays, as included in Trump's 2018 budget, the bill may not be as easy to pass as Trump has claimed. Addressing the HTF in a finalized infrastructure bill would help to attract bipartisan support.