INFRASTRUCTURE

How Donald Trump's Infrastructure Plan Could Be Financed

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Direct pay bonds similar to Build America Bonds may wind up forming the backbone of Donald Trump's proposed 10-year $1 trillion infrastructure investment plan.

Tax credits, public-private partnerships, and federal matching funds could also play a role in trying to bring U.S. infrastructure back to world-class levels, public finance and infrastructure experts told The Bond Buyer.

The President-elect's infrastructure plan remains fairly light on detail, limited to a short policy paper released in October. The proposed engine powering the "American Infrastructure First" plan would be $137 billion of tax credits to be authorized by Congress, available only to investors in revenue-producing projects such as toll roads, toll bridges, and airports. It would also seek to foster investment through repatriated money by allowing companies to bring their overseas earnings into the U.S. at a reduced income tax rate of 10% rather than the current 35%. The tax credits would allow companies to avoid any tax liability by investing $122 million of the repatriated profits into revenue-producing projects.

But a number of muni market and infrastructure experts are skeptical that tax credits, even if politically feasible, could actually create the massive investment needed and be adapted to fit all of the country's infrastructure requirements.

"That won't get to the infrastructure needs," said George Friedlander, a managing partner at Court Street Group Research and former chief muni strategist at Citigroup. Friedlander said that while certain types of infrastructure could be funded under the Trump campaign's model, some types of very important infrastructure do not produce an easily tapped revenue stream. Public school buildings, for example, are not easily "tolled."

Friedlander said that states and localities know best what types of infrastructure they need, and that the federal government could authorize bonds with a BABs-like structure to help get state and local issuers off the sidelines and into the infrastructure investment game.

"Getting this off the drawing board is a huge challenge," Friedlander said, predicting that public/private partnerships and an infrastructure bank providing matching federal funds for state and local issuers could also play roles, but likely not large ones.

"Tax credits are good, Build America Bonds – which were a form of tax credits—are good, but P3s are not going to solve the infrastructure funding problem," said Marcia Hale, executive director of infrastructure advocacy group Building America's Future.

"We support P3s, but there are not enough projects with a revenue stream to expect them to be a big part in resolving the infrastructure situation. There are 70,000 bridges in this county that need repairs and upgrades, but only 1,000 to 2,000 of them could be tolled. That leaves a lot of structures that states and local governments will have to fund out of their resources."

Pat Jones, chief executive officer of the International Bridge, Tunnel and Turnpike Association, said that while the prospects for toll road investment are good, he is skeptical that it could provide the path to a Trumpian level of investment.

"It might be hard to fund the $100 billion-per-year for 10 years of private investments proposed in the Trump plan because right now there are not enough projects now with a revenue stream to justify that level of investments," Jones said.

Robert Poole, director of infrastructure policy at the libertarian-leaning Reason Foundation, said that he sees revenue risk P3 concessions as having some potential to be a decent chunk of the Trump plan, not only for roads and bridges but for some other types of infrastructure that have dedicated revenue streams, such as municipal water systems. Water systems have a desperate need to replace "ancient" pipes, Poole said, and already have revenue streams available to back new bonds.

Poole said such P3s could have a lot of potential to attract pension fund investment because they need to diversify their portfolios with good, long-term investments. There has been a growing trend of pension fund investment in infrastructure projects, notably the California Public Employees' Retirement System's investment in the Indiana Toll road earlier this year.

Will Marshall, president and founder of the Progressive Policy Institute, said the challenge with the concepts laid out in the Trump plan so far is scale.

"Certainly it is a lot easier when you have a revenue stream, an obvious one," Marshall said, adding that there is some potential for performance-based government availability payments to play a role in the plan.

Joseph Kane, a senior research analyst and associate fellow at the Metropolitan Policy Program at the Brookings Institution said it seems unlikely that Congress has become any more willing to raise the federal gas tax, which has not been increased in more than two decades. Kane said the idea of an infrastructure bank that could assist with state and local bond-backed investment does appear to have some traction, because state and locals already have some momentum in wanting to make infrastructure investments.

"Many states and localities were passing ballot measures in huge totals," Kane said, pointing to large bond measures that passed in Los Angeles, Atlanta, and elsewhere. "I would anticipate seeing more of that," he said.

Kane said that political realities would probably ultimately dictate which methods might be feasible to help reach Trump's ambitious infrastructure goal, and that the public still needs more details about that plan before it becomes more clear.

"A lot of his plan is still highly uncertain at this point," Kane said.