The Complex Process of Building Infrastructure

By Michael Thomas

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With the new tax policy passed and signed into law, the president and Republicans in Congress have turned their attention to an ambitious infrastructure commitment. The president promised a $1 trillion investment during his campaign, and that number has now been raised to $1.5 trillion. GOP lawmakers are eyeing a bipartisan effort to support America's increasing infrastructure needs, and the president is dependent on Congress to provide legislative text to support his plan. Bipartisan agreement will be a complex process, as both parties are looking toward looming mid-term elections, with polls showing opportunities and challenges for each side in the battle to control Congress.

Building infrastructure has long been a major part of U.S. domestic policy; the construction of dams, harbors, roadways, and bridges is tied to the development of the economy because of the processes inherent to building infrastructure, and the productivity that can result for the private and public sectors. The administration has kicked off the budget process with an emphasis on rebuilding infrastructure, releasing a long-awaited infrastructure proposal alongside it. For now, the policy debate on rebuilding American infrastructure will center on how Congress and all other interested parties react to the president's budget and proposal.

THE PROPOSAL

On February 12, 2018, the White House issued a proposal for how it would like to address infrastructure improvement across the country. The proposal addresses five main programs and describes how $200 billion from the federal government will be used to simultaneously inject infrastructure projects with needed cash and attract additional funding from the private sector. The first three programs are structured like grants, while the other two will be used to help with financing.

Funding versus Financing. The distinction between *funding* from the federal government and *financing assistance* from the government is an important one. Funds come from grants, and bonds provide *financing*. Financing help from the federal government means that qualifying entities could borrow money under conditions to pay for projects that offer a public good or service.

Grants do not need to be paid back like loans. Generally, the federal government distributes two kinds of grants. Categorical grants are allocated by fairly specific parameters, and organizations applying for them likely have a certain kind of project in mind. These grants are usually competitive and require applications. Block grants come with fewer conditions and have broad mandates such as lowering poverty levels or reducing drug use. Block grants are often allocated through predetermined formulas, and states receive funds automatically. Financing and funding can both be useful tools and each comes with its own set of costs and benefits.

The Incentives Program. The majority of funds will be allocated to a program that issues grants to projects across the country on a competitive basis. Three key agencies — the Department of Transportation, the United States Army Corps of Engineers, and the Environmental Protection Agency — will distribute $100 billion, but other agencies can petition these three agencies for funding. One of the main purposes of the incentives program is "attracting significant new, non-federal revenue streams dedicated to infrastructure investments." The amount of federal dollars a project can receive will be capped at 20 percent of the funding generated for the project (i.e., if a local government raises $100 million non-federal dollars for a project, the incentives program could provide up to an additional $20 million). States are limited to receiving a total of 10 percent of all the funds dedicated to the incentives program (i.e., the states and localities that are able to raise the most non-federal funds are in the best position to secure a grant).

Funding from sources other than the federal government comes from two main sources: repurposing revenue streams or creating new revenue streams at the state or local level, and in the private sector. The proposal ensures that obtaining non-federal funding is a priority for states and localities vying for money by including a rubric for the merit of the project. The rubric weights "evidence supporting how the applicant will secure and commit new, non-federal revenue to create sustainable, long-term funding" at 50 percent. The proposal lists many kinds of projects as eligible to receive funding, including surface transportation and airports; passenger rail, ports, and waterways; flood control, water supply; hydropower; water resources; drinking water facilities; wastewater facilities; stormwater facilities; and Brownfield and Superfund sites.

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Rural Infrastructure Program. Half of the remaining funds after the incentives program will go to a block grant for rural locations. The money — $50 billion — will be distributed based on a set formula predicated on "rural lane miles and rural population," going to projects in areas with populations of 50,000 or less. Governors of applicable states will directly receive 80 percent of the funds to be allocated as they see fit, and the remaining 20 percent will be reserved for rural performance grants. The proposal states that these performance grants will be reserved for "eligible asset classes and according to specified criteria." The administration is counting on governors to coordinate with the applicable federal agency and their state advisors to decide where and what projects to fund. As with the incentives program, a breadth of projects can be funded, including broadband projects, power and electric facilities, roads, bridges, public transit, airports, rail, maritime and inland waterway ports.

Transformative Projects. Administered by the Department of Commerce, $20 billion would be allocated for projects that the administration terms "transformative." These projects would "fundamentally transform the way infrastructure is delivered or operated." In this case, "transformative" seems to be another term for "high risk, high reward." The proposal goes on to describe eligible projects as "ambitious, ground-breaking project ideas that have significantly more risk than standard infrastructure projects…" . This program is similar to other federal grants like Capital Investment Grants (CIG) in that funding will be applied in funding tracks associated with the lifecycle of the project in question. There will be three tracks — demonstration, project planning, and capital construction — with federal dollars contributing 30, 50, and 80 percent of the cost to each funding track, respectively.

Infrastructure Financing Programs. In an effort to expand capital through financing, the proposal wants to dedicate $20 billion to expanding the availability of certain financing options, including:

- $6 billion allocated toward broadening the use of Private Activity Bonds (PABs) by allowing for more facilities financed by PABs to qualify for tax-exemption status. This will entail expanding existing categories and creating new ones. New categories would include flood control and stormwater facilities, and rural broadband service facilities.
- Eliminating the alternative minimum tax provision on PABs, which the proposal claims will stimulate demand and lower cost for issuers.

- Remove state volume caps on PABs for public purpose projects.
- $14 billion for expanding federal credit programs like the Transportation Infrastructure Finance and Innovation Act, Railroad Rehabilitation and Improvement Financing, the Water Infrastructure Finance and Innovation Act, and the Rural Utilities Service, effectively making more projects eligible for these programs and lowering the cost of financing.

Before the proposal was rolled out, those working on infrastructure for the administration openly talked about the need to get permitting streamlined by setting a two-year timeline on getting regulations cleared to start a project. This would be achieved by reducing the number of agencies that have input on approval for projects and by setting hard deadlines to keep the process within the two-year time frame.

Where Does the Money Come From? The plan didn't include details about how the proposed infrastructure initiatives will be funded. The administration has maintained that it will not seek new streams of revenue to support funding for the proposal and that existing funds would be repurposed. However, the White House issued its 2019 budget request on the same day as the infrastructure proposal, and the request had some details on potential funding sources. For example, the Department of Transportation is facing a 19 percent cut in funding from the previous year, roughly $3.7 billion, and programs like the Transportation Investment Generating Economic Recovery discretionary grant and the Capital Investment Grants program — which is also administered by the Department of Transportation — are facing reduction or elimination. Beyond repurposing funds, the administration has pitched expansion of toll roads as a method of fund raising. The proposal states that "providing states flexibility to toll existing interstates would generate additional revenue for states to invest in surface transportation infrastructure." However, like other new revenue-generating excise taxes, this idea has been met with mixed reviews.

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In the Weeds. Congress has started providing ideas and proposals in response to the administration's ideas. The president's proposal sufficiently emphasizes the need for rural infrastructure spending, and while it does detail some specifics on how certain communities will be helped, the proposal itself serves more as a "starting line" for elected officials. The possible funding methods that the proposal has outlined — service fees and private-sector investment — have sparked a greater conversation over how much money is being spent on the proposal, and where the funds are coming from. The White House made it clear that, despite not seeking new federal revenue streams, it was open to new funding ideas, and the president even seemed to encourage the idea of raising the federal gas tax, if Congress decided to pursue that as a funding option.

Concerns that the infrastructure proposal doesn't include enough federal money prompted Democrats in the Senate to create of a counter bill, which was released in early March. This bill outlines priorities and funding sources and relies on rolling back many of the adjustments that were recently made to the U.S. tax code through passage of the Tax Cuts and Jobs Act. This would mean making changes including reinstating the highest personal income bracket of 39.6 percent and restoring the individual alternative minimum tax.

CONCLUSIONS

House leaders believe that if the president wants to achieve an infrastructure spending package, he will need to provide consistent leadership for a bill and push hard to sell it to the American people. All kinds of ideas are coming from every direction. Beyond the core debate on funding sources — which has led to significant disagreement — there is also conflict over how a bill would be drawn up, and both chambers of Congress have voiced concern. Earlier in March, there was talk of producing a large bill by late Spring, but Senate leadership has publicly stated that getting any bill passed this year could be overly ambitious, and it might be put on hold until at least November. House Speaker Paul Ryan has discussed pursuing several smaller bills instead of the one, larger package that the administration would prefer. It is clear that consensus must be built on a multitude of issues first before progress can be expected.

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