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January 30, 2018

Three Key Questions About the Trump Infrastructure Plan

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As part of his State of the Union address on Tuesday, President Trump is expected to make a pitch for Congress to act this year on an infrastructure package that he has described as investing $1 trillion or more. His Administration has promised it will release an initial proposal to kick off the legislative process in the coming weeks.

Trump's promise to invest more than $1 trillion in infrastructure isn't new: he first made that commitment months before the 2016 election, though his Administration did not provide further details through his first year in office. But as we await a more detailed proposal, several questions should be considered in evaluating a potential infrastructure plan. First, will the plan reflect a meaningful — and much needed — boost in federal infrastructure spending, or will any new resources be offset by other policy changes the Administration favors that would reduce other support for infrastructure over time? Second, will the proposal be designed in a way that funds necessary infrastructure — or will it prioritize projects that provide profitable returns for wealthy investors and end up excluding many of the most needed investments? Finally, will the proposal include budget cuts designed to "pay for" the package that would harm low- and moderate-income people?

Will Trump's Plan Boost Federal Infrastructure Funding?

In his address, President Trump will likely tout a $1 trillion-plus infrastructure program that would be supported by $200 billion in federal resources. But his agenda to date suggests that we should be on the watch for a "bait and switch" at the heart of his proposal — proposing a high-profile new initiative with one hand while taking away important funding from infrastructure with the other.

As described below, the new commitment may be far less than advertised. Even as the White House focuses on the trillion-dollar number, the actual federal commitment will be only a small fraction of that, and it may be poorly targeted.[1] And the Administration has made clear, in its fiscal

[1] It is also a smaller boost in federal resources than other proposals that have been made in recent years, including from the Obama Administration. The final Obama budget included over $300 billion for its 21st Century Clean

year 2018 budget and other public statements, that it intends to pursue simultaneous cuts to other infrastructure spending — putting forward cuts that, even when combined with a new initiative, would eventually reduce annual federal funding for surface transportation over time.

Last week, at a conference with the U.S. Conference of Mayors, White House lead infrastructure advisor D.J. Gribbin suggested that the Administration would support cuts to programs like mass transit and Amtrak to help pay for the new initiative.[2] This approach would be consistent with the President's fiscal year 2018 budget, which proposed $2 billion in immediate cuts to discretionary funding for the Department of Transportation from 2017 to 2018, including a 49 percent cut to Amtrak, a 49 percent cut to mass transit capital investment grants, and elimination of the TIGER program, which has supported some of the most innovative local infrastructure projects over the last eight years. The 2018 Trump budget also called for an 18 percent cut to the Army Corps of Engineers' civil works programs, which support construction, maintenance, and operation of things like inland waterways, dams, flood control structures, and harbors. It also proposed eliminating Agriculture Department programs that assist rural communities in building and upgrading drinking water and wastewater treatment systems, and sharp cuts to Department of Housing and Urban Development programs that fund renovation and construction of affordable housing.

While the 2018 budget did not specify funding levels for these programs beyond 2018, the cuts would likely grow for the rest of the decade, as the budget proposed growing cuts in overall non-defense appropriations,[3] the budget category that includes a substantial share of transportation funding. If funding for the Departments of Veterans Affairs and Homeland Security (both of which the budget would increase in 2018) were to grow just with inflation between now and 2027, other domestic programs — including programs that fund infrastructure investments — would be cut in half, on average. And with the total cuts in non-defense discretionary funding growing steadily, the Transportation Department cuts almost certainly would grow after 2018 as well.

And on top of those cuts, the Trump Administration has proposed what would be in effect a major and permanent cut in the Highway Trust Fund. Currently, dedicated revenues for the Highway Trust Fund are insufficient to cover ongoing "baseline" surface transportation spending from year to year, largely due to the erosion over time of the value of the gas tax, the trust fund's main revenue source. In response, lawmakers have repeatedly passed legislation transferring money into the trust fund to keep infrastructure spending from falling, most recently in 2015 with the FAST Act, which fully funded the trust fund through 2020.[4]

President Trump's budget proposed a radical departure from that approach, proposing that — beginning in 2021 — the Highway Trust Fund spend no more in a given year than the dedicated

Transportation Plan; see https://obamawhitehouse.archives.gov/sites/default/files/omb/budget/fy2017/assets/budget.pdf.

[2] Jacob Fischler, "Trump Adviser Says Infrastructure Push Won't Have New Revenue," *Roll Call*, January 25, 2018, https://www.rollcall.com/news/politics/trump-adviser-says-infrastructure-push-wont-new-revenue.

[3] David Reich, "Trump Budget Would Cut Non-Defense Programs to Half Their 2010 Level," CBPP, May 23, 2017, https://www.cbpp.org/blog/trump-budget-would-cut-non-defense-programs-to-half-their-2010-level.

[4] Federal Highway Administration, "Fixing America's Surface Transportation Act of 'FAST Act': A summary of Highway Provisions," July 2016, https://www.fhwa.dot.gov/fastact/summary.cfm.

revenues it receives. In practice, that would mean significant cuts in Highway Trust Fund spending that would grow over time, reaching $20 billion a year by 2027 and extending indefinitely.[5] And importantly, while this decline in Highway Trust Fund spending is a sharp departure from past policy, it does not require any special action; it is the policy outcome that will occur if Congress doesn't act to bolster Highway Trust Fund revenues.

Within a few years, the overall net impact of these policies — the new $200 billion Trump initiative combined with the cuts to Highway Trust Fund spending and other transportation programs — would be large and growing annual cuts in infrastructure spending. As the Congressional Budget Office noted in its analysis of the President's 2018 budget, "The President's proposals for discretionary spending would reduce appropriations for other accounts that provide funding for infrastructure, such as those for ground transportation and water resources. Those reductions would largely offset the proposed increase in mandatory spending on infrastructure [the placeholder for a new initiative] over the 2018-2027 period."[6] The combined impact of the Trump Administration's policies should be considered in evaluating any infrastructure plan — especially since an infrastructure package passed now may remove future pressure for Congress to address Highway Trust Fund gaps or to provide more robust federal funding for infrastructure.

Will the Plan Support the Infrastructure Projects We Need Most?

The second question to consider in looking at a new infrastructure proposal is what kinds of projects it will support. A leaked draft of the White House's plan[7] and previous Administration statements give significant reason to be concerned that President Trump will pursue an approach that would not support many needed projects, while shifting costs to states, localities, and individuals and potentially providing opportunities for lucrative private-sector gains. And Trump's approach may be especially inadequate in providing for investment in areas that the Administration is simultaneously proposing to cut, like mass transit.

The core of this approach can be seen in the leaked draft's commitment to direct half of any new funding towards an "Infrastructure Incentives Initiative." According to the draft, this initiative would provide grants for a range of projects to entities that include states, localities, nonprofits, and private entities with public sponsorship. But the initiative would also require that any federal grant account for no more than 20 percent of a project's cost. Fully 70 percent of the selection criteria would be based on the ability to secure non-federal revenue to pay for a project. In other words, this initiative's primary purpose is to find someone else to provide most of the revenues needed to build new infrastructure.

Of course, if designed correctly, securing additional investment from non-federal entities — including states, cities, nonprofits, and the private sector — could well be part of a comprehensive

[5] Office of Management and Budget, "A New Foundation for American Greatness — President's Budget FY 2018," p. 36, May 2017, https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budget.pdf.

[6] Congressional Budget Office, "An Analysis of the President's 2018 Budget," July 13, 2017, https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52846-apb.pdf.

[7] Jonathan Swan, "Scoop: Read the draft White House infrastructure plan," Axios, January 22, 2018, https://www.axios.com/draft-white-house-infrastructure-plan-1516644555-0d43f417-6ccd-43f7-9eae-3ccbe711314d.html.

approach to rebuilding our nation's infrastructure. But focusing so much of a new initiative on outside investment stacks the deck in favor of certain projects at the expense of others, and risks underinvesting in areas of greater need.

First, any promise that the package adds up to $1 trillion or more in investment — despite providing only $200 billion in federal resources — is likely an illusion, even setting aside the potential cuts described above. It hides the fact that delivering on the President's promised infrastructure investments would be possible only by shifting the costs to states and cities, which must raise their own revenues, or to individual citizens in the form of tolls or fees that would make a project attractive for private investors. If another entity must pay for at least 80 percent of a project's cost, the Administration is effectively punting on how the revenues to pay for new infrastructure will be found. As a result, any claim that the plan is supporting a certain amount of infrastructure investment (by, for example, multiplying the appropriation by five) is far less than meets the eye — ignoring the fact that the investment will only occur if states, cities, and individuals are willing and able to pay more.

Second, this approach likely limits these grants to a pool of projects that can most easily attract outside funding, which would exclude some of the most needed investments. If states and cities are to provide financing, only those states and cities that have the ability and the political will to raise new revenues from taxes will be able to benefit, leaving some of the areas most in need of infrastructure investment even further behind. At least 30 states closed budget shortfalls this year or last year,[8] and states' fiscal situations are uncertain in the wake of the tax bill.

Alternatively, if the plan relies on public-private partnerships, it would prioritize investments that produce a commercial return (typically, those that can raise fees from users). So while the leaked plan draft suggests that a broad range of infrastructure types would be eligible, projects like repairing bridges, filling potholes, or providing clean water in low-income communities would be difficult to fund, as they don't lend themselves to tolls or other revenue streams. And other areas with pressing infrastructure needs — like renovating affordable housing or modernizing public schools by, for example, providing adequate heating and cooling or other basic repairs — aren't made eligible for grants at all in the draft plan. At the same time, the financing of these projects, including through regressive taxes, could put a greater burden on low- and moderate-income people, who already tend to pay a greater share of their income (and time) on transportation. That would be an especially troubling outcome in the wake of a tax bill that disproportionately benefits the wealthiest Americans.

Finally, under this structure, public funds could simply provide a windfall for projects that might occur anyway or that have little public benefit. So long as a private investor can secure the sponsorship of some public entity, it could be eligible for a federal grant — even, if it were building infrastructure that overwhelmingly benefitted wealthier communities. Further, spurring "economic and social returns on investment" would account for only 5 percent of the selection criteria, according to the leaked plan. This means that a basic idea behind government investment in infrastructure — providing for public goods with widespread benefits that would not be supported

[8] Michael Leachman and Michael Mazerov, "How Should States Respond to Recent Federal Tax Changes?" CBPP, January 23, 2018, https://www.cbpp.org/sites/default/files/atoms/files/1-23-18sfp.pdf.

through other means — would be deprioritized substantially relative to a grantee's ability to raise funds independently. The public benefits of any new investments also could be undermined if, as reported,[9] they come with a significant rollback of environmental protections.

Some other components of the draft plan, like grants for rural infrastructure, would be predominantly provided by an allocation formula. While rural areas do face special challenges, by apparently waiving federal requirements that normally apply to transportation funding, the Administration may be designing these grants largely as a political giveaway, rather than as an approach intended to support those unique needs. Combined with the other cuts to infrastructure spending described above, the likely result would be an overall shift away from the highest-need areas.

Will the Plan Be Accompanied by Harmful Offsets?

A major unknown around the Trump infrastructure plan is whether and how the Administration plans to offset the proposal's cost. Leaked White House documents don't answer the question, although Administration officials have suggested that their preferred approach includes cuts from other domestic spending, even beyond the infrastructure programs described above.[10]

That creates the possibility that any potential benefits of an infrastructure package would be offset — or more than offset — by the damage caused by painful cuts elsewhere. Both the 2018 Trump budget and congressional Republican budget proposals indicate where some of these cuts might be found; the Trump budget would have cut programs focused on low- and moderate-income households and communities by $2.5 trillion over ten years, for example.[11] But the premise that an infrastructure bill should be paid for through such cuts should be rejected, especially following the enactment of a tax bill that will cost at least $1.5 trillion over the next decade and provide tax cuts weighted towards the wealthy and large corporations.[12]

Indeed, in the context of a potential infrastructure bill, the recent tax bill was both a missed opportunity and a step backwards. Members of both parties had previously suggested that an infrastructure plan could be funded with the one-time revenue received through a mandatory

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[9] Juliet Eilperin and Michael Laris, "White House plan would reduce environmental requirements for infrastructure projects," *Washington Post*, January 26, 2018, https://www.washingtonpost.com/politics/white-house-plan-would-reduce-environmental-requirements-for-infrastructure-projects/2018/01/26/b15bd66a-0248-11e8-8acf-ad2991367d9d_story.html?utm_term=.597072822b3a.

[10] Lauren Gardner and Tanya Snyder, "Democrats cool to Trump's infrastructure pitch," *Politico,* December 14, 2017, https://www.politico.com/story/2017/12/14/democrats-trump-infrastructure-pitch-223057.

[11] Isaac Shapiro, Richard Kogan, and Chloe Cho, "Trump Budget Gets Two-Thirds of Its Cuts From Programs for Low- and Moderate-Income People," CBPP, September 29, 2017, https://www.cbpp.org/research/federal-budget/trump-budget-gets-two-thirds-of-its-cuts-from-programs-for-low-and-moderate.

[12] Chye-Ching Huang, Guillermo Herrera, and Brendan Duke, "JCT Estimates: Final GOP Tax Bill Skewed to Top, Hurts Many Low- and Middle-Income Americans," CBPP, December 19, 2017, https://www.cbpp.org/research/federal-tax/jct-estimates-final-gop-tax-bill-skewed-to-top-hurts-many-low-and-middle-income.

repatriation tax on U.S. multinational corporations' foreign profits.[13] Rather than taking that approach, however, last year's tax plan effectively used that revenue to help pay for permanent corporate tax cuts. The revenues are one-time, but the tax cuts are permanent, resulting in a long-term increase in the deficit as a result of that approach — and eliminating the possibility of using the revenues in an infrastructure package. And by making it more challenging for states to raise revenues by limiting the state and local tax deduction, the tax bill counteracts the Trump Administration's apparent push for states and localities to raise their own money to pay for new infrastructure projects.

More broadly, the question of offsetting budget cuts points to a likely problem at the center of any Trump Administration plan. As the Trump and congressional GOP budgets demonstrate, Republican leaders appear averse to both significant increases in federal spending and any increase in federal revenues. Yet addressing the major infrastructure needs we face — whether deferred maintenance or new projects — requires committing new federal resources. Without that, the Trump Administration and congressional Republicans' overall agenda remains at odds with a legislative package that could effectively address the nation's infrastructure needs.

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[13] Melanie Zanona, "Lawmakers Want Infrastructure Funded By Offshore Tax Reform," *The Hill*, March 24, 2017, http://thehill.com/policy/transportation/infrastructure/325555-lawmakers-want-infrastructure-funded-by-offshore-tax.