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Finding Funds: 5 Ways to Pay for Trump's Infrastructure Plan

David J. Fernandez
Shareholder, Public Finance | david.fernandez@bipc.com | 212.440.4432

Terrence Heubert
Principal, Government Relations | terrence.heubert@bipc.com | 202.452.6041

Any time a significant spending bill is proposed the first question that must be asked is, "How exactly are we going to pay for this?" With President Trump's unconventional infrastructure proposal last month, coming on the heels of the tax bill passed in December 2017, that question is even more important.

This infrastructure plan stands in stark contrast to almost all others that came before it. The key difference being that, with Trump's plan, funding for U.S. infrastructure improvements would come primarily from states, local municipalities and private sector partners. If this plan were to pass, a $1.5 trillion bill would be backed by just $200 billion in federal funds. This plan outlines very little about where the $200 billion will come from.

At this point, Transportation Secretary Elaine Chao said all options are on the table to fund the plan, and the administration is "open to considering all revenue sources." This position makes sense because it is unlikely that any single revenue stream would fund an infrastructure bill in its entirety.

While this plan undergoes intense debate in Congress about how to structure and pay for it with bipartisan support, we have outlined five ways the government can raise funding, at least some of the funding, to pay for infrastructure improvements.

Raising the Gas Tax

At a meeting with lawmakers in February, President Trump endorsed the idea of a $0.25 per-gallon increase to the federal gas tax, which would be the first increase to the gas tax in nearly 24 years. However, Speaker of the House Paul Ryan and many conservative decision-makers in Congress would be strongly against any such tax hike. By raising the gas tax, Congress would ensure the continued liquidity of the Highway Trust Fund, which is a major federal financing component for any surface infrastructure project. Without new revenue, the Trust Fund is slated to go bankrupt in 2020.

Introducing a Mileage Tax

With vehicles becoming more and more fuel efficient and the prevalence of electric vehicles growing, the impact of any gas tax will get smaller and smaller over time. One proposed method to address this is to introduce a mileage tax that taxes drivers based on how far they drive, not how much they spend at the pump. California has considered the idea of installing devices that would clock a driver's mileage every time they pull up to a gas pump or electric car charging station. Another option would put a tracker on every car. Though nothing has passed yet, this plan would likely be met with backlash from Republicans who do not want to see any tax increase whatsoever, as well as Democrats who do not want to be punished for purchasing more fuel-efficient, environmentally friendly cars. They would also likely be opposed by privacy advocates for obvious reasons.

Increased Tolling

Many states across the country have already implemented or are at least considering adding new tolls or toll lanes to their highways to fund their own infrastructure needs. Colorado, Florida, North Carolina, Texas and Virginia are adding some form of tolled road in 2018, while Oregon is planning to introduce congestion pricing to highways to help manage traffic in the Portland area. Tolls on interstate highways, however, would be a very controversial idea since Title 23 of the United States Code prohibits imposing tolls on any federal-aid highways. While there are a few notable exceptions to this rule, more than 90 percent of interstate highways are toll-free. Furthermore, increased tolling alone likely wouldn't be enough to cover much more than the cost of improvements to those individual roads. Further, in order to achieve the magnitude of dollars needed, states and local governments would likely be forced to examine widespread tolling of roads and bridges that are currently free. This could create significant backlash if commuting — or just going to the market — would suddenly cost a few dollars each way.

State and Locally Issued Bonds

Following the attacks on September 11, the State of New York issued "Liberty Bonds" to help fund the redevelopment of Manhattan, which needed repairs and new construction estimated to cost in the $20-50 billion range. While thankfully this infrastructure plan isn't being issued following a disaster, the same strategy that was used to rebuild New York City could, in theory, be used to fund part of Trump's proposal.

A similar option could be America Fast Forward Transportation Bonds (AFF bonds), which have been proposed as a funding source for infrastructure improvements by the Los Angeles County Metropolitan Transportation Authority, and offer opportunities for the private sector to get involved in improving our infrastructure. In fact, these taxable, direct-pay bonds were at one point promoted by the Obama administration. They would be similar to the Build America Bonds which were very popular and introduced following the 2008 financial crisis to encourage investment in the local sector. But as with almost all other options, whether issuing bonds becomes a revenue source for infrastructure improvements depends largely on Congress' ability to come together during an election year.

Asset Recycling

Popular in Australia, asset recycling involves the sale or long-term lease of revenue-generating public assets to finance the construction of new, non-revenue generating assets without incurring new debt. By either selling the asset outright or leasing it to a private operator, the government receives an upfront cash payment and the private entity takes over operation and maintenance costs—all while collecting the revenue stream. In the case of a lease, the government maintains ownership of the property, and at the end of the lease period can either resume operation or negotiate a new lease. For example, the Australian state of Victoria leased the Port of Melbourne to a local consortium and used the proceeds to pay for infrastructure improvements on state projects that do not generate revenue. For investors, asset recycling presents an opportunity to increase ROI through operating and maintenance proficiency, and for municipalities, it's a quick way to raise funds for more critical infrastructure projects.