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**The Future of US infrastructure
under the Trump administration**

2017 Engineering and Construction Conference

Agenda

Topic

US Infrastructure Market Overview

Trump Infrastructure Initiative and Success Stories

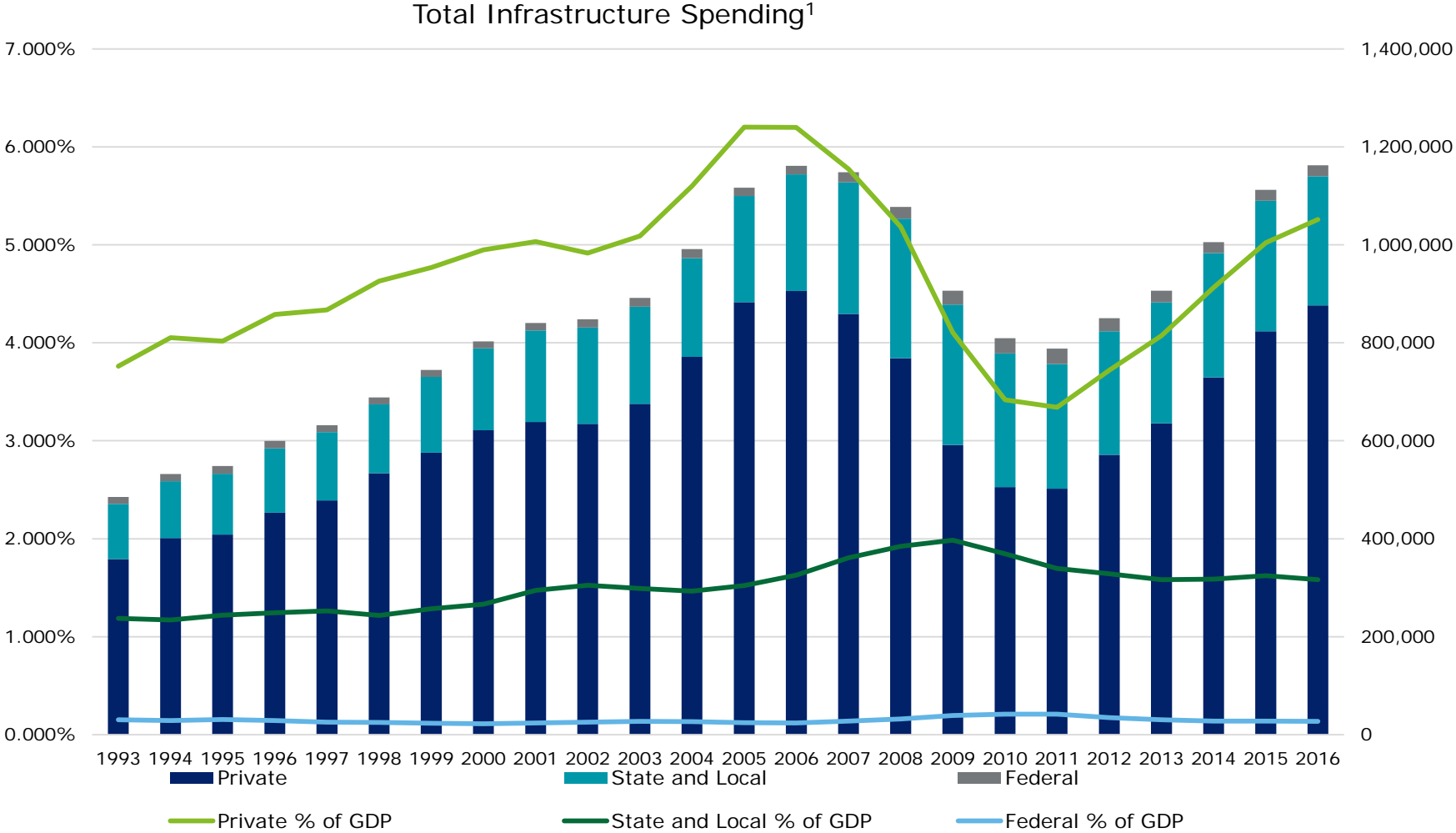
Success Stories

State of Play

US Infrastructure Market Overview

Overall Infrastructure Spending

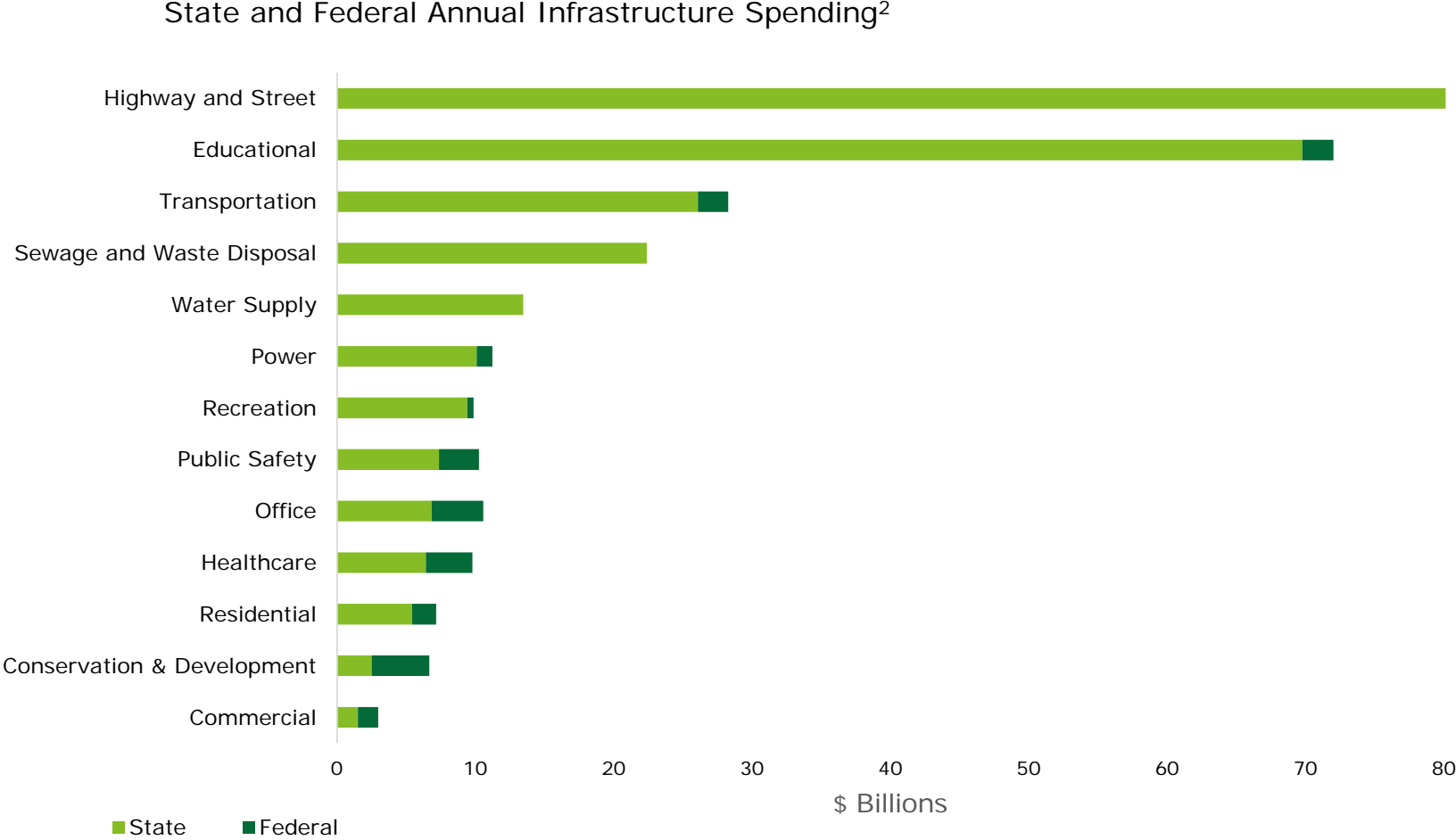
The US Spends over \$1 trillion annually on infrastructure construction, led mostly by the private sector



¹ United States Census Bureau, "Annual Construction Spending from 1993-2016" The United States Census Bureau includes total spending on construction broken out into Private, Federal, and State and Local spending. Copyright © 2017 Deloitte Development LLC. All rights reserved.

Government Infrastructure Spending

This pattern is generally repeated across asset classes, as the assets are owned at the state and local level.

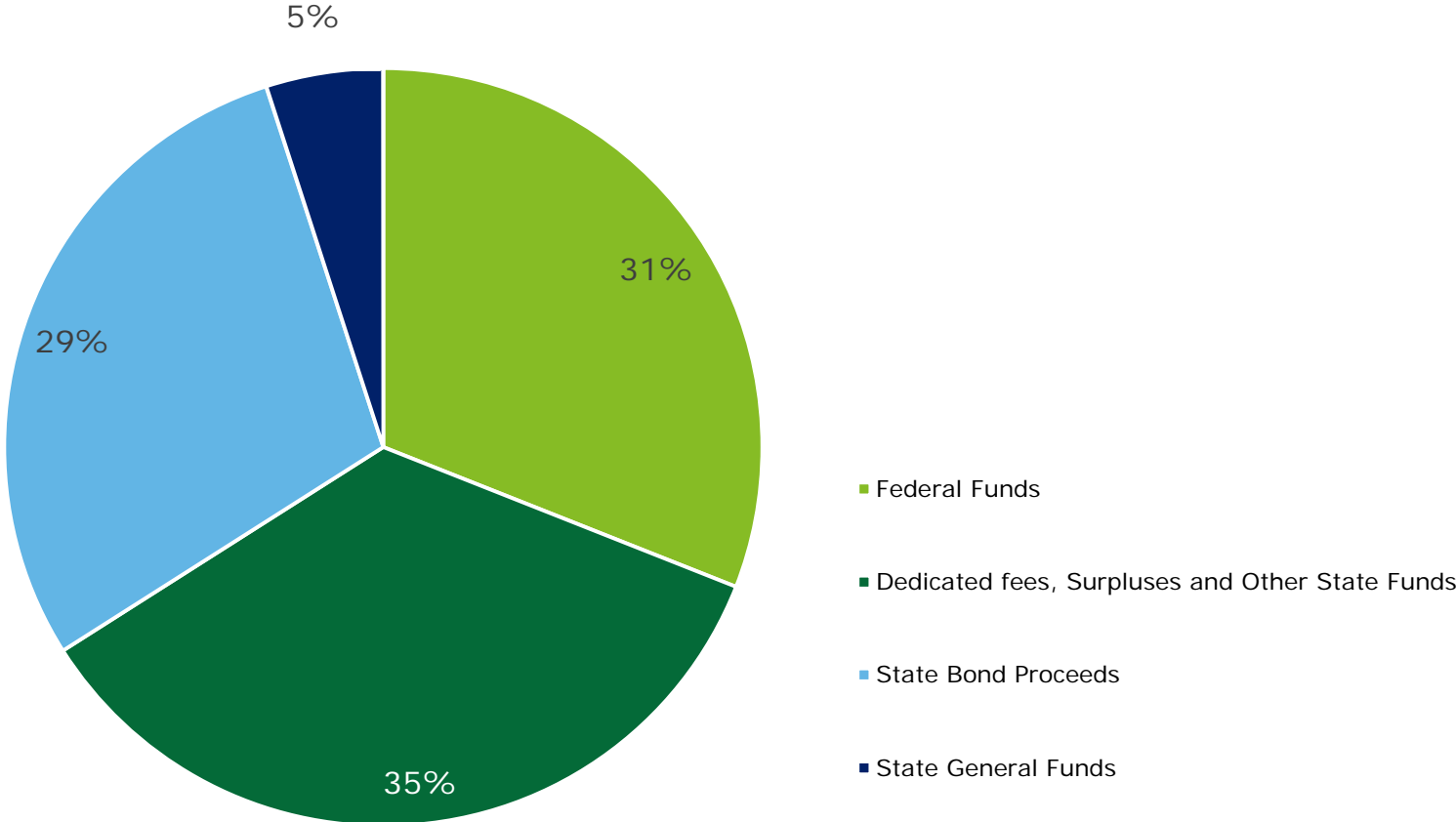


² United States Census Bureau, "Annual Construction Spending from 2008-2016" The United States Census Bureau includes total spending on construction broken out into categories by Federal and State and Local. We averaged the spending per category from 2008-2016.

The Federal Role

While money is spent at the local level, a significant proportion of state and local infrastructure spending is paid for by Federal sources

Sources of State Funding for Infrastructure, 2014³



³ National Association of State Budget Officers, "State Expenditure Report," 2015. The National Association of State Budget Officers capital spending data includes the costs of new construction, purchases of buildings and major equipment, and major repairs and improvements.

The Infrastructure Challenge – A Growing Crisis

Despite this level of investment, US Infrastructure is in relatively poor shape, according to the ASCE

D+

America's Infrastructure
G.P.A.

2.1

Infrastructure Spending Gap
2016 - 2025
(\$ trillions)

\$300 billion spent by US Governments annually

40% of Government Projects are late, over budget or under quality

Stretched as they are, Government needs to spend trillions more to close Infrastructure Gap

Projects have federal, state, local funding and stakeholders, so change is complex

*American Society of Civil Engineers, Infrastructure Report Card 2017, <https://www.infrastructurereportcard.org/solutions/investment/>






Infrastructure in the US – Strengths

US Infrastructure Market Strengths

-  2nd largest infra market in the world
-  High credit quality
-  Local users decide what to build
-  Growing use of P3s and “Alternative Procurement”
-  \$4 Trillion diversified municipal bond market

Infrastructure in the US – Shortcomings

US Infrastructure Market – Shortcomings

-  Design-bid-build leads to delays, overruns, change orders
-  Locally optimal decisions may not be nationally optimal
-  Limited long-term funding sources
-  Permitting and requirements associated with using Federal moneys slow projects
-  General reluctance to raise taxes

Fixing the Challenges in US Infrastructure

A number of actions can be taken to improve the effectiveness of infrastructure delivery in the US



Improve Project Planning and Delivery



Streamline Government Oversight



Increase Funding Streams



Strengthen Credit and Grant Programs



Adjust Regulations



Adopt Life-cycle Approach

Trump Infrastructure Initiative

Trump Infrastructure Stimulus Plan 1.0

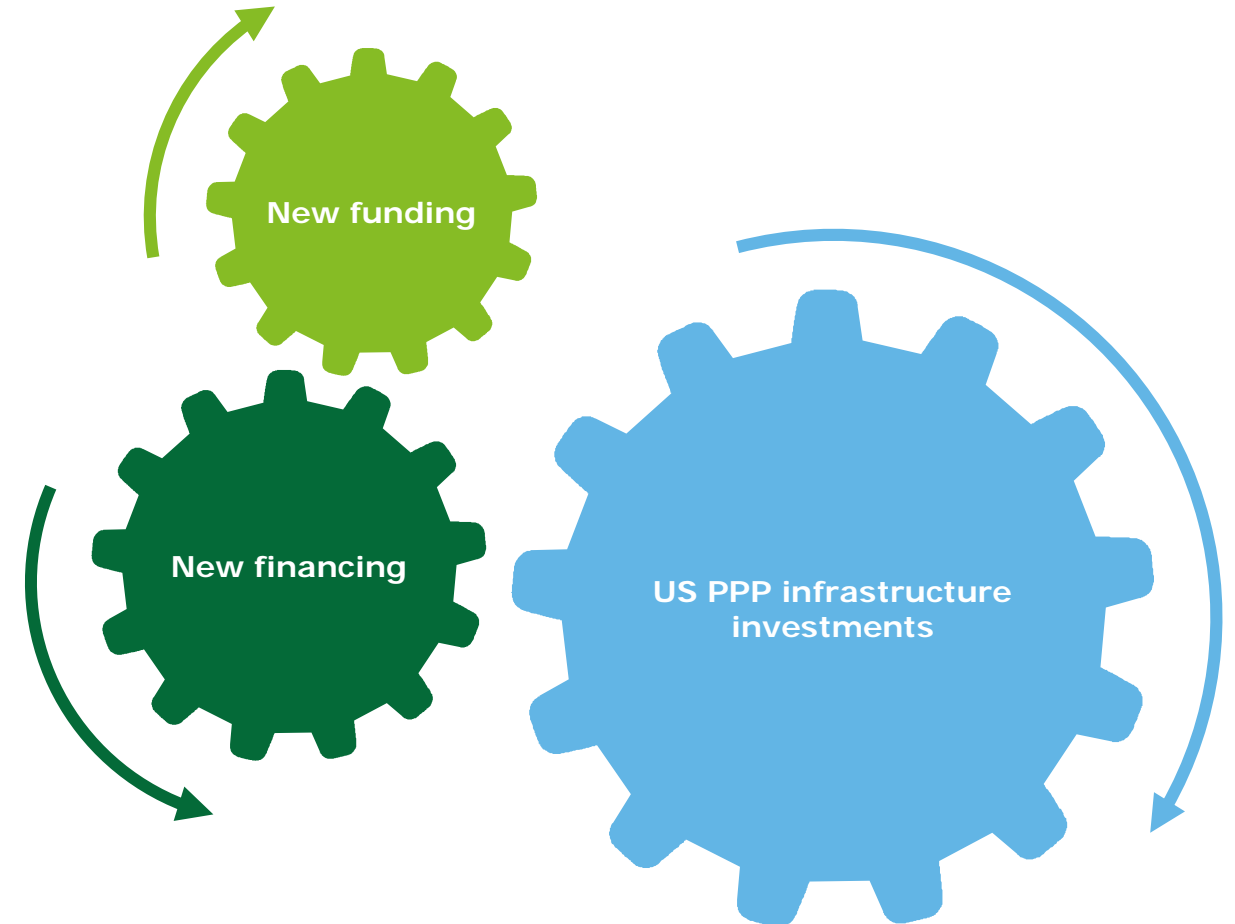
Candidate Trump's Infrastructure Plan focused on tax credits to spur private sector investment in infrastructure and more tax revenues

New funding

- Income and corporate taxes
- Reduced repatriation tax on overseas profits brings in new revenues (10% rate)
- Sales of Federal assets

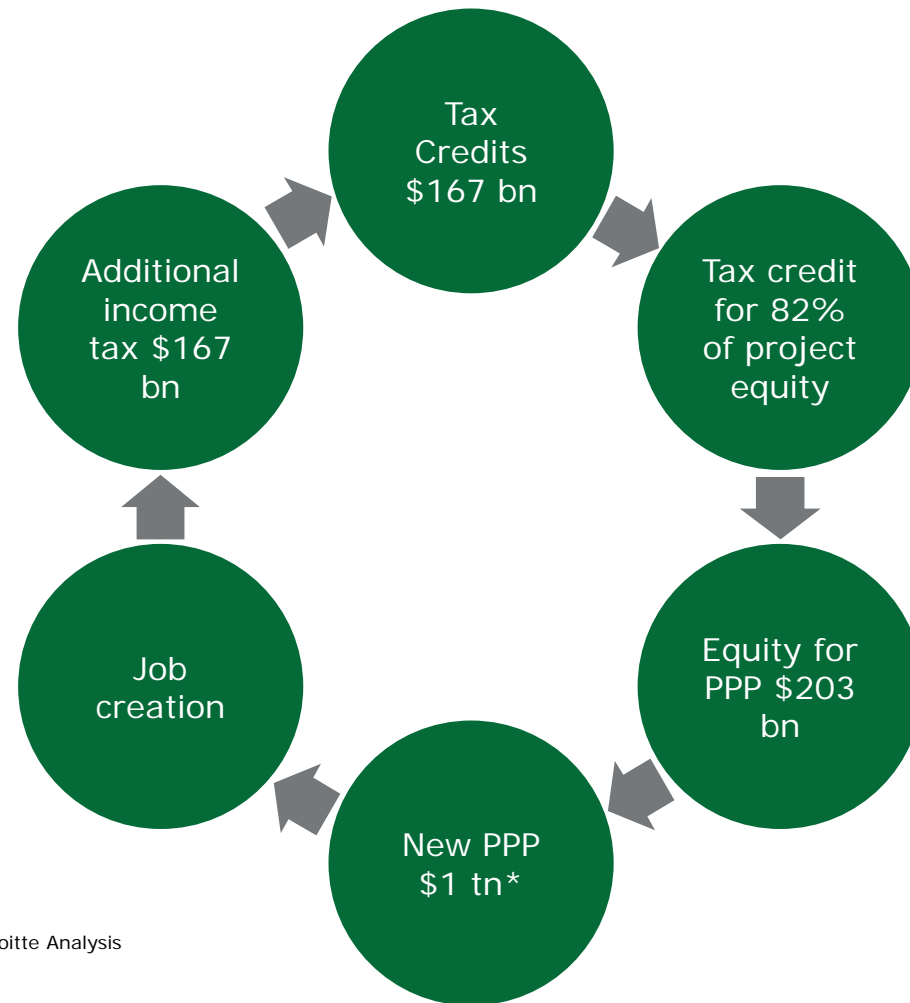
New financing

- Tax credit program for private investments (\$167 B)



Infrastructure Tax Credits – Funding Mechanism

This tax credit centerpiece of the Trump Campaign's proposed plan was designed to be tax-neutral and funded through PPP-enabling tax credits



Source: W. Ross, P. Navarro "Trump versus Clinton on Infrastructure", Deloitte Analysis
Note: * capital on PPP is assumed to be 80% debt, 20% equity

Trump's Infrastructure Initiative (June 2017) – Guiding Principles

President Trump's Infrastructure Principles are designed to clarify the roles and responsibilities of the Federal, State and Local governments, and incentivize infrastructure development



Make Targeted Federal Investments



Encourage Self-Help



Align Infrastructure Investment with Entities Best Suited to Provide Sustained and Efficient Investment



Leverage the Private Sector

Trump's Infrastructure Initiative (June 2017) – Key Proposals

President Trump's Infrastructure Initiative proposes new funding and expanded financing, as well as an overhaul of government involvement in operating and regulating infrastructure



Funding

- \$200 B in outlays
- Allow tolling and private rest areas
- Incentivize innovation in congestion mitigation
- Encourage USACE contribution authority
- Partnership grants for Federal assets



Financing

- Expand TIFIA funding and eligibility
- Expand PABs and lift volume cap
- Fund WIFIA
- Federal Capital revolving fund



Restructuring

- Air Traffic Control Corporatization
- Increase Infrastructure Flexibility at VA
- Divestiture of the Power Marketing Administration's (PMA's) Transmission Assets



Deregulating

- Reform laws governing the Inland Waterways Trust Fund
- Improve process for environmental review / permitting
 - Environmental performance
 - Accountability
 - One Federal decision
 - Reduce unnecessary approvals
 - Judicial reform

The Aviation, Innovation, Reform, and Reauthorization Act (AIRRA) - 2016

Air Traffic Control Under AIRRA



Structure and Governance

Structure

- Non-profit organization.
- Independent from federal government

Governance

- 11 Member Fiduciary Board of Directors, representing stakeholders

Regulation

- Safety and economic regulation provided by the FAA
- Users able to challenge fees and other business decisions, with mediation from the Secretary of Transportation



Transition

Employees

- All current FAA ATO employees offered jobs in NewCo or allowed to remain with the FAA
- Secretary of Transportation, NewCo leadership, and labor unions collectively decide which employees to transfer

Assets

- Government transfers all relevant assets
- NewCo assumes asset ownership but is not required to pay a purchase price

Contracts

- NewCo will assume responsibility for all existing ATO contracts, including those associated with NextGen



Revenue and Financing

Revenue Generation

- Revenue is generated through fees collected from users
- Fees are based on international standards and set to recover costs

Financing

- NewCo can borrow on capital markets to finance capital expenditures
- Reserve funds to cover unexpected costs

Compensation

- Initial employee compensation at the same level provided by FAA ATO
- Future wages and benefits determined by collective bargaining
- Accrued pension liabilities remain with the government. NewCo will establish its own defined benefit plan

Success Stories

Increasing Funding Streams – Success Stories

When tied to specific projects that address “felt needs”, taxes to support infrastructure have been approved



Washington State Car Rental Tax



Massachusetts Bay Transportation Authority Dedicated Sales Tax



Virginia Replacement of Fixed Gas Tax



Georgia Penny Levy



Sound Transit (Washington State)



Los Angeles County Metropolitan Transportation Authority

Current State of Play

What can we be doing?

Help leaders address the infrastructure crisis with confidence.



Investment Confidence

Make decisions that strategically align with organizational objectives.



Delivery Confidence

Build a suitable structure, systems and controls to deliver capital projects.



Digital Confidence

Harness abundant data to create insights in digestible and actionable form.



Cost & Schedule Confidence

Effectively plan, manage and control project cost and schedule.

What can we be doing?

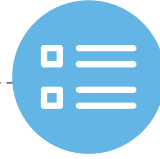
Ready. Set. Build.



Develop **revenue streams** that can be used to support projects



Pass **enabling legislation**, if necessary to enable alternative procurement mechanisms



Develop and execute **prioritization framework** for all projects.



Develop **business cases** and **benefit/cost analyses** for each significant project, demonstrating local and regional impact, using a networked lifecycle view of the project



Develop ability to implement **alternative procurement** and implement leading practices in **construction planning and management** to deliver better, faster, cheaper

Q&A



The future of US infrastructure under the new Trump administration



Avi Schwartz
Principal
Deloitte Advisory LLP



Jim Ziglar, Jr.
Specialist Leader
Deloitte Advisory LLP



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