The Future of US infrastructure under the Trump administration

2017 Engineering and Construction Conference
# Agenda

<table>
<thead>
<tr>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Infrastructure Market Overview</td>
</tr>
<tr>
<td>Trump Infrastructure Initiative and Success Stories</td>
</tr>
<tr>
<td>Success Stories</td>
</tr>
<tr>
<td>State of Play</td>
</tr>
</tbody>
</table>
US Infrastructure Market Overview
Overall Infrastructure Spending
The US Spends over $1 trillion annually on infrastructure construction, led mostly by the private sector.

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

State and Federal Annual Infrastructure Spending

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, 2014

- Federal Funds: 31%
- Dedicated fees, Surpluses and Other State Funds: 29%
- State Bond Proceeds: 5%
- State General Funds: 35%

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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.
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
Infrastructure in the US – Strengths

**US Infrastructure Market Strengths**

- 2nd largest infra market in the world
- Local users decide what to build
- High credit quality
- 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
- Limited long-term funding sources
- General reluctance to raise taxes

- Locally optimal decisions may not be nationally optimal
- Permitting and requirements associated with using Federal moneys slow projects
Fixing the Challenges in US Infrastructure

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

- **Increase Funding Streams**
- **Streamline Government Oversight**
- **Adjust Regulations**
- **Strengthen Credit and Grant Programs**
- **Adopt Life-cycle Approach**

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Trump Infrastructure Initiative
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.

- Tax Credits $167 bn
- Tax credit for 82% of project equity
- Equity for PPP $203 bn
- New PPP $1 tn*
- Additional income tax $167 bn
- Job creation

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

Source: 2018 Budget: Infrastructure Initiative Fact Sheet
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

Source: 2018 Budget: Infrastructure Initiative Fact Sheet
Air Traffic Control Under AIRRA

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

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
The future of US infrastructure under the new Trump administration

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