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Don’t Expect Congress to Follow a Tax Reform Bill with Infrastructure Legislation.

WASHINGTON – Congress won’t follow tax reform legislation with a big infrastructure bill, members of the Securities Industry and Financial Markets Association meeting here were told on Monday.

During a session called, “Infrastructure Finance: The $1 Trillion Question” at SIFMA’s annual meeting, Michael Decker, a managing director and co-head of munis for SIFMA who was in the audience, asked panelists about the prospects for an infrastructure funding bill or whether infrastructure might be part of tax reform legislation.

The panel’s moderator, Chris Hamel, a managing director and head of public finance at RBC Capital Markets as well as head of SIFMA’s infrastructure policy committee, put his own spin on the question, asking, “A year from now will we be in this room discussing and celebrating the implementation of an infrastructure bill” or talking about whether there will be such a bill and what should be in it?

“No, we won’t,” said Bobby Andres, a tax and economic policy advisor to the Senate Finance Committee who stressed he was speaking personally and not on behalf of any committee or any member of Congress.

“If you want to get a bill done, you’re going to need money to do that bill,” he said. “As of right now, there is zero conversation happening about linking tax reform and infrastructure.”

“If you think that [Congress] is going to do a $5 trillion tax cut bill and then turn around in January and do an infrastructure bill of any substance … that’s just not going to happen,” he said. “And then what’s left is sort of the other regulatory changes, which would probably struggle in the Senate to get 60 votes.”Stephen Howard, a director and head of infrastructure at Barclays Capital, agreed, saying, “I don’t see a massive, transformative infrastructure bill on its own.”

“I don’t know how you pay for it,” said Robert Amodeo, head of municipals at Western Asset Management Co. “Because if we have tax reform that’s supposed to be revenue neutral and it’s not, how do you embark on another spending program without immediate returns?”

Amodeo explained that typically it takes three to five years to see returns from infrastructure spending and that there’s not an immediate boost in productivity.

However, if tax reform happens piecemeal, maybe that will increase the probability of infrastructure legislation, Amodeo said, adding, “I really think tax reform will drive whether we have infrastructure legislation or not.”

Andres said that it will be important for Congress, in debating tax reform legislation, to “do no harm to the current set-up” such as eliminating or restricting private activity bonds. “Let’s not screw up what we’re already doing right now, and then, [we can look at] what can we add on to that to make things look a little bit better.”

Amodeo and Howard said state and local governments and some private consortia are moving forward with infrastructure projects and are not waiting for federal dollars.

There was consensus among the panelists that plenty of capital exists for infrastructure projects.

Howard said that $200 billion per year is currently being invested in infrastructure projects today, if one looks at both tax-exempt and taxable bonds, bank loans and grants. “Let’s not mess it up, let’s add incrementally to it,” he said.

Howard and other panelists said there is a lot that administration officials are doing and can do to help infrastructure projects, such as Trump’s Executive Orders to streamline the permitting and the environmental process for projects.

Howard predicted the federal government will make incremental changes in grant programs such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) or Water Infrastructure Finance and Innovation Act (WIFIA) to “incentivize innovation at the state and local level” for infrastructure projects.

He also predicted the federal government will take steps to expand the use of tax-exempt private activity bonds so they can help finance projects in which private parties participate.

Howard said tax regulators should not require the redemption or defeasance of outstanding tax-exempt bonds when those bonds have financed an existing publicly-owned asset that has been privatized.

Hamel asked the panelists if public-private partnerships will be part of the mix for whatever infrastructure policy initiative is advanced next year and whether some kind of infrastructure tax credit might provide revenue.

Despite President Trump’s recent comments that he doesn’t like P3s, Robyn Boerstling, vice president of infrastructure, innovation and human resources policy for the National Manufacturers Association, said, “I don’t think public-private partnerships are going away.”

Amodeo said, “We’re going to build an American version of what we see globally, one where you can transfer the economic risk of a public asset while maintaining ownership by the public.”

In the past munis have played the key role in infrastructure projects with the public taking on all the risk, he said. Now we have to invite private capital in to help share the risk without privatizing the asset. He said munis will continue to play “a very important role.”

Howard said his firm tracks P3 infrastructure projects. It currently has a list of 43 such projects around the country. Half of those are transportation-related and half are split between social, environmental and other projects. Probably only half of the total 43 will move forward, he said, but the list is double what it was five years ago.

“I think we’re going to see a gradual increase in the number of deals that under development with a bunch of small tweaks that are going to take place at the federal level,” he said, adding that he sees his list of P3 projects growing from 43 to 50 or 60 in another few years, of which 30 will move forward.

Amodeo said he has “strong views” on tax credits. “I think they can blunt the incentive to control economic risks. I think it’s a disaster, frankly.”

He pointed to a project that involves the gasification of municipal waste. The product is to be added to jet fuel.

“The only reason this project is being built is because of the tax credits,” he said.

“It does not work economically. So you have to be judicious in how you allocate tax credits.”

Andres said tax credits have been very successful for some projects involving renewable energy and housing.

“But they are a targeted tool” and they can’t be used as a panacea, he said.

Andres talked about the Move America Act (S.1229) that was introduced by Sens. Ron Wyden, D-Ore. And John Hoeven, R-N.D., in May. The bill would offer more financial options for P3s through a combination of a new class of private activity bonds and expanded tax credits.

The Bond Buyer

By Lynn Hume

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