For Trump, GOP Tax Bill Could Have Big Downside.

The GOP tax plan that is speeding through Congress could deliver a much-needed win for the White House, but it could also kill one of Trump's other top priorities: legislation to rebuild U.S. infrastructure.

Not only would the tax overhaul use up one of the potential funding options for repairing infrastructure, it would also eliminate a financing tool that states have used to back a wide range of infrastructure projects.

That could spell doom for Trump's infrastructure overhaul, which was always going to be a tough sell for fiscal conservatives on Capitol Hill.

"Preemptively removing [private activity bonds] as a financing tool for infrastructure projects would undermine Congress's stated goal of leveraging a $1 trillion investment in our nation's infrastructure," said Richard A. White, acting president and CEO of the American Public Transportation Association.

"Instead, this provision would have a chilling effect on private sector investments in infrastructure projects."

The tax package that passed the House last week would eliminate the deduction on tax-exempt private activity bonds, which are used by public-private partnerships to help build roads, highways, housing, hospitals, airports and other critical projects.

Eliminating the program would save nearly $40 billion over a decade, according to a GOP summary sheet.

But transportation advocates worry ending the deduction will directly undercut Trump's effort to revitalize the nation's infrastructure.

The White House, which has promised to release its rebuilding proposal as soon as tax reform is finished, is aiming to raise $1 trillion worth of overall infrastructure investment. The administration wants to incentivize the private sector to partner with state and local governments on transportation projects by providing $200 billion in federal seed money.

But public-private partnerships rely heavily on tax-exempt private activity bonds and other municipal bonds. Ending their preferential tax treatment could make private firms less inclined to get involved with public infrastructure projects, according to transportation advocates.

Nearly two-thirds of the core infrastructure investments in the United States are financed with some form of municipal bonds, with $400 billion in municipal bonds issued to finance projects in 2015 alone.

"[Private activity bonds] are a crucial instrument for many local governments to build infrastructure," said Marcia Hale, president of Building America's Future. "If no longer available, it would be a major loss."

Members of Congress have already been raising the issue with the administration.

During a meeting with the Congressional Women's Caucus in the Capitol last week, Transportation Secretary Elaine Chao pitched Trump's $1 trillion infrastructure plan and highlighted their preferred public-private partnership model.

But one of the participants, Rep. Elizabeth Esty (D-Conn.), raised a question: How are you going to drum up the private investment if we eliminate the preferential treatment of the private activity bonds?

"There was a long pause," Esty said, recalling the conversation last week.

But Rep. Mark Meadows (R-N.C.), chairman of the conservative Freedom Caucus, said the elimination of the private equity bonds would not be a "death knell" for Trump's public-private infrastructure model because other sources of funding, like municipal bonds, would still be available. And for many projects, he added, private equity makes up "the lion's share" of the funding.

"Private activity bonds aren't the only thing that can do public-private partnerships. Obviously, it's one vehicle, but it's not the only vehicle," he said last Thursday. "You've got a number of other things that you can [use]."

But Meadows, a member of the Congressional Caucus on Public-Private Partnerships, also suggested that House Republicans eliminated the bonds not out of an ideological opposition to them, but in an effort to find savings to pay for tax cuts in the larger package.

The Senate bill, he noted, retains the bonds' tax exemption, and Meadows said he'd support the Senate's approach — depending on the cost.

"The biggest thing for me is making sure we have a vehicle [for infrastructure funding]," he said. "Obviously it's one tool that gets removed, and I would not be surprised to see it get added back in the Senate."

Indeed, there is a wide range of support among Republicans for keeping the private activity bonds in the final bill.

Reps. Randy Hultgren (R-Ill.) and Dutch Ruppersberger (D-Md.), who co-chair the Municipal Finance Caucus, have been urging GOP leadership to keep the program.

And House Transportation and Infrastructure Committee Chairman Bill Shuster (R-Pa.) also thinks that the issue should be re-examined in the tax plan.

"It's been very beneficial in the transportation world," Shuster told The Hill this month. "I want to see them stay."

Lawmakers who are pressing to keep the private activity bonds in the final tax product are encouraged that the Senate version of the bill preserves them.

But transportation advocates also have concerns with the Senate measure, which would repeal the tax-exemption for advance refundings of municipal bonds. Eliminating that cost-saving opportunity for governments could hurt infrastructure efforts, advocates say, because the extra savings are sometimes used by transit agencies on infrastructure projects.

"We are concerned … that changing the treatment of private activity bonds, advance refunding bonds, and tax credit bonds will have a negative impact on overall infrastructure spending," said Ken Miller, Oklahoma state treasurer and president of the National Association of State Treasurers.

"As the Senate finalizes their tax-reform bill, we urge them to maintain the current treatment of these bonds to ensure the country is fully prepared to finance the administration's ambitious infrastructure plan in the year ahead."

Other roadblocks in the tax plan

Trump's infrastructure bill could hit another roadblock if the GOP tax overhaul passes: coming up with an offset to cover the cost.

While there is bipartisan agreement about the need to rebuild U.S. infrastructure, there has been less consensus over how to pay for it.

International tax reform, however, was considered one of the few viable funding options for the infrastructure plan.

A group of bipartisan lawmakers, including some members of the Freedom Caucus, had been pushing to use the revenues from repatriation, or taxing corporate earnings stored overseas at a one-time lower rate when they return to the U.S., to pay for infrastructure upgrades.

But the GOP tax bill would instead use repatriation to help pay for tax cuts — and that provision seems nearly certain to be part of the final legislation.

If the tax bill passes, that would take the potential funding option off the table for infrastructure — and that could make passing a bill difficult, if not impossible.

Fiscal conservatives have long been wary of massive federal spending on transportation, insisting that any package be fully paid for.

"If you don't put infrastructure with tax reform, then you're not going to do infrastructure — almost by definition," Rep. John Delaney (D-Md.) told The Hill this month.

But Delaney said that if Republicans are unable to pass their tax overhaul, then it's possible they will try to make a deal with Democrats on taxes — and that could include tying repatriation to infrastructure.

"Then there might be a chance for it to come back," he said.

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– Mike Lillis contributed