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Trump's Infrastructure Plan Draws Support, But Could Hurt Munis.

President-elect Donald Trump's promise to rebuild the nation's infrastructure is resonating with Republican and Democratic lawmakers, but could spell trouble for municipal bonds.

Trump has proposed a $1 trillion, 10year infrastructure plan, which he touted during his victory speech.

"We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals," he said. "We're going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it."

House Minority Leader Nancy Pelosi said Wednesday that infrastructure is one area on which she and Trump can agree.

But Trump's plan relies on $137 billion of tax credits that he would ask Congress to authorize and that has drawn concerns from some muni market participants.

"The little we know about Trump's plan is that it focuses on tax credits," said Jessica Giroux, BDA's general counsel. "Our concern is that it says nothing about munis."

Trump advisors Wilbur Ross, a billionaire private-equity investor, and Peter Navarro, a professor at the University of California at Irvine, said the infrastructure plan's tax credits could be used by investors to leverage $167 billion in private funds.

Companies taking advantage of the tax credits would be able to borrow money on the private market at low interest rates to finance $1 trillion of projects without the need for any new taxes, they said.

"Trump's plan will harness market forces to help raise construction funds by incentivizing private sector investors through tax credits, thereby revolutionizing American infrastructure finance," Navarro said.

Trump wants to pay for infrastructure through repatriation pf companies' overseas earnings. Companies would be able to bring overseas earnings back to the U.S. at Trump's proposed reduced tax rate of 10% rather than the current 35%. With the credits, companies could avoid any tax liability by investing $122 million of the repatriated profits in infrastructure projects, Ross and Navarro said.

Repatriation would take away a significant amount of tax revenue available for tax reform, thereby increasing the pressure on Congress to look even harder at cutting tax deductions and exemptions.

The Joint Committee on Taxation has estimated that American companies hold a total of $2.6 trillion of foreign income in overseas banks.

Transportation groups also have some concerns about Trump's infrastructure plan. Bud Wright, executive director of the American Association of State Highway and Transportation Officials, said tax credits are not a longterm solution.

"We're sort of agnostic about the tax credits," Wright said. "We're not opposed to the idea, but it is not the longterm funding solution that we need to repair the deficit in the Highway Trust Fund."

Federal tax credits are not transportation user fees, he said.

"A one-off, short-term type of program like that would be useful but it does not do anything for the long term sustainability of federal transportation funding," Wright said. "Corporate tax reform is not really a transportation issue either, but in some circles it has been linked to infrastructure funding as well. Again, it's not something we oppose but it is not a solution."

However, Wright concedes that Increases in the federal gasoline tax are not likely. "The fuel tax is the best understood and most administratively effective revenue source there is but it is about as politically volatile as any issue I've seen in Washington," he said. "That goes for Democrats as well as Republicans. There's just a knee-jerk reaction to oppose it."

Jim Tymon, chief operating officer and director of policy at AASHTO, said, "I think we'll see an infrastructure package coming out of Congress, probably not quickly but certainly within the first year."

As always, the sticking point will be how to pay for increased infrastructure spending, he said.

"We'll have to see what sort of pay-fors and offsets are available and acceptable," Tymon said.

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