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Numbers Don't Add Up for Trump's Trillion-Dollar Building Plan.

Construction stocks soar, but the proposed funding proposal has glaring flaws

"Build it and they will come" worked like a charm in Hollywood. Washington is a different story.

Donald Trump's trillion-dollar infrastructure plan has sent investors piling prematurely into stocks that could benefit. The share prices of building materials companies Vulcan Materials and Martin Marietta Materials both hit all-time highs days after the election while construction-related companies Aecom, Tutor Perini and United Rentals did even better, appreciating between 30% and 40% since Nov. 7.

The reason for skepticism certainly isn't a lack of demand. The American Society of Civil Engineers estimates that simply repairing existing infrastructure in the coming decade would cost more than three times as much as the president-elect's proposed expenditure. The problem is paying for it. The cornerstone of the Trump plan, outlined by proposed Commerce Secretary Wilbur Ross and economist Peter Navarro, is to use tax credits to spur public-private partnerships. This would, in theory at least, be revenue neutral for the federal budget.

Such projects have fared poorly in the past. A 2015 Congressional Budget Office report counted 14 completed highway projects that relied on some form of private financing. Of the eight that have been open for more than five years, half, including projects in Texas, California, and South Carolina, have either declared bankruptcy or experienced a public buyout of the private partners. All relied on toll revenue. They built it, but not enough came.

Equity investors under the Ross-Navarro proposal might still like those odds given the sweeteners it contains, though that confidence might not extend to lenders on the projects. The proposal assumes that $1 trillion of spending would require about $167 billion of private-equity investment that would then receive an 82% tax credit. That would, they calculate, reduce the total cost of financing by 18% to 20%.

On top of that, the authors assume that projects would be cheaper simply because private-sector contractors are more efficient than government builders, even though private contractors already oversee many road and bridge projects today. The authors then calculate that the proposals would be revenue neutral because taxes on the additional wage income plus profits, even at Mr. Trump's proposed 15% corporate tax rate, would roughly equal the outlay. This ignores the impact that the tolls would have on spending by drivers on other goods and services.

Even if their math holds up, toll roads require state or local approval and are typically contentious. Those governments receive about $45 billion in federal highway funding annually and won't take kindly to it being replaced overnight. What is more, the lion's share of highway spending already benefits from indirect federal subsidies.

In 2014, for example, three-quarters of highway spending came from state and local governments that can issue tax-free bonds and have benefited from ultralow interest rates recently. Muni bonds must be attractive to buyers. The required payout has risen since yields on 10-year Treasury notes have risen by half a percentage point since the election.

Muni bonds' tax advantages would be eroded if Mr. Trump lowers the top federal income tax bracket from 39.6% to 33%. Combining the two, all else being equal, required yields on municipal bonds and the cost of debt financing will have risen by about 40%.

Meanwhile, all isn't well with the federal portion of that spending either. The CBO reported in February that the Highway Trust Fund, which is funded by motor fuel taxes, hasn't been able to make promised payments to states since 2008. In order to keep it from running dry, Congress had by that point transferred $143 billion to it from other sources. Bringing the fund back into balance might require a politically toxic 10 cent a gallon increase in gas taxes.

If the rubber on Mr. Trump's infrastructure proposals is slow to hit the road then a reversal of some or all of the gains in construction-related stocks is likely. While fundamentals already were improving for some of them, spending pledges from both presidential candidates created froth. A basket of eight companies that fetched 14.5 times projected earnings for the next 12 months on average at the beginning of 2016 now trades at 18.2 times.

Public-private partnerships seem like an easy way to build infrastructure without borrowing too much. History shows that such plans are harder than they appear.

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By SPENCER JAKAB

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Write to Spencer Jakab at spencer.jakab@wsj.com