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On Infrastructure, Now What? Trump's Sudden Turn Away from Public-Private Model Brings Uncertainty.

Advocates for increased spending on the nation's roads, bridges, tunnels and other infrastructure programs are considering ways to move forward after President Trump unexpectedly rejected using private money to pay for the federal program.

Trump's policy shift is significant for an administration that spent the last nine months advocating private investment as the linchpin to generating $1 trillion in infrastructure spending.

Trump told members of the House Ways and Means Committee last week that he no longer favored private investment — also known as P3s — and was focused more on using money directly from the treasury to pay for the program, according to Rep. Brian Higgins, who was in the private meeting. "He said that they were more trouble than they were worth," recounted Higgins, a Democrat from New York.

A White House official confirmed Trump's reversal, saying private financing is "certainly not the silver bullet for all our nation's infrastructure problems." The administration wouldn't make anybody available to explain the change or the timing.

The uncertainty around Trump's infrastructure plan is frustrating private investors and fund managers who were hoping for opportunities to deploy a record amount of money raised for building projects in North America — $68 billion so far this year, according to one analysis. White House officials have been advocating the use of private investment, believing that private money could get projects done faster than traditional government financing.

Public-private partnerships allow states and local governments to enter into a contract with a private investor to either renovate an existing project or build a new one. In exchange, the private entity could collect user fees like tolls or collect regular payments from the government.

Another idea pushed by the White House — called asset recycling — would have provided federal incentives to government entities that were willing to sell existing projects to private investors and then use the proceeds of the sale to build new projects.

White House officials have been pitching both ideas to transportation officials, state and city leaders and construction firms over the past few months. State and city leaders have been reluctant to embrace any ideas because of scarcity of details from the administration.

Higgins said Trump's comments came in response to his question about whether Trump would be willing to cut the tax on corporate profits kept overseas and then use the additional tax dollars to pay for infrastructure. The congressman said Trump replied that he wasn't interested in using those funds for infrastructure, adding that he needed direct federal investment for infrastructure because P3s "don't work." He said Trump pointed to Vice President Mike Pence — the former governor of Indiana — and said P3s weren't successful in that state.

“The revelation that he was rejecting public-private partnerships toward a direct federal expenditure was very, very clear,” Higgins said. “It was something that he offered, not something that was implied. It was very explicit.”

Higgins said he does not support public-private partnerships. He’d rather see federal borrowing or increasing the federal gas tax to help pay for the nation’s infrastructure needs.
Nine months into his presidency, Trump’s apparent abandonment of the model has created yet another level of uncertainty for groups pushing to build new projects across the U.S. and for the investors who have lined up tens of billions of dollars. The American Society of Civil Engineers says there’s a national need to fix the nation’s infrastructure. The group has given the system, including the nation’s roads, bridges, tunnels and sewer lines, a grade of a D+.

Most states, however, aren’t changing their approach to infrastructure planning in response to Trump’s recent comments.

Colorado officials are even thinking further ahead because it’s one of few states that has already tapped private financing for road and bridge projects.

“What we need are funding solutions, not financing solutions,” said Shailen Bhatt, executive director of the Colorado Department of Transportation. He wants to increase federal funding for road and bridge projects because Colorado is facing a $1 billion a year shortfall to maintain and build new transportation projects.

He said Trump’s initial plans for private funding would have helped Colorado accelerate one or two bigger projects in his state but “it doesn’t solve our transportation funding need.”

One obvious mechanism for the federal government to raise money to spend on infrastructure is the gas tax, which was last increased in 1993 to 18.4 cents per gallon.

Trump’s budget calls for $200 billion in federal funding with the hopes of creating $1 trillion of total infrastructure spending. The president and several members of his cabinet point out that private investors — via public pension funds, sovereign wealth funds and private equity — have billions lined up to finance projects.

But an APM Reports analysis of more than 500 projects submitted last winter to the White House shows that only a small percentage are being considered for private investment. The analysis also found the bulk of the projects considered for private financing are located in urban areas.

The appetite for the private financing of public works projects has received significant pushback in recent years. The Texas Legislature defeated a measure that would have allowed for an expansion to private financing for road projects after receiving citizen pushback over an increase in toll roads. A privately financed road project in southwest Indiana is also facing significant delays. And rural lawmakers have worried that projects in their areas will attract less interest from the private sector because there isn’t the population to pay for the projects through user fees like tolls.

Trump advocated for increased private investment during the 2016 presidential campaign. He’s also hired infrastructure investment consultant D.J. Gribbin to lead the program. Gribbin worked at two firms that pushed private investment, Macquarie Group and HDR.

Todd Herberghs, executive director of the National Council for Public-Private Partnerships, said the administration has not released a specific plan so it isn’t certain whether Trump has completely ruled out private financing or will use it in a more limited role.

Herberghs said he'll continue to remind the Trump Administration and Congress that privatization should be another option. "The current way of doing things isn't working as well as it potentially could," he said. "As an industry, we just want public entities — whether they be federal, state or local — to use (private investment) as an option."

Critics of privatization also say they aren't convinced Trump has completely ruled out including investors.

Donald Cohen, executive director of the union-backed organization In the Public Interest, said he thinks Trump will reconsider after realizing Republican party leaders don't support a gas tax hike or increased borrowing. "It's pretty challenging to do what they say they want to do, meaning $1 trillion of infrastructure spending without using private capital, if they can't get the Congress to actually spend real money," he said.

Construction firms and investment advisers are also waiting to see whether Trump's plan has any movement.

Tom Carr from data analysis firm Preqin — which estimated the $68 billion raised this year — points to the Blackstone Group as an example of a firm eager to invest money from a $40 billion fund it has built.

Stocks in the building sector skyrocketed after Election Day but trended down after Trump and Congress put the issue on the back burner of the legislative agenda.

Kathrin Heitmann, a senior analyst for Moody's Investors Service, says Trump's recent statements as to his overall plans remain unclear.

In July, Moody's said it was unlikely that an infrastructure plan would be passed into law this year and that funds wouldn't be released until 2020. Heitmann's report also found that there's been little political support for private investment on the state and local level. She said without knowing how much money the Trump Administration plans to commit and where the other funding would come from, she's not changing her outlook.

"Not having an infrastructure bill from the federal administration creates uncertainty for investors," she said. "And uncertainty is never good for the private investor."

By Tom Scheck, APM Reports

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