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Fitch: Infrastructure Plan Is Hurdle for US States and Locals.

Fitch Ratings-New York-13 February 2018: The infrastructure proposal released yesterday by the Trump administration relies primarily on funding from state and local governments. Fitch Ratings believes that providing funding from tax revenues could be challenging for some state and local governments as many have already raised revenues in recent years to fund infrastructure investments and general revenue growth has been slow. The plan includes limited additional federal funding and lacks a long-term solution for the federal highway trust fund, which serves as the primary source of existing federal infrastructure funding. Highway trust fund insolvency remains a significant long-term federal infrastructure issue.

The infrastructure proposal includes approximately $200 billion in federal funding over 10 years, largely repurposed from existing transportation programs. States and locals are asked to provide up to an 80% match for competitive grants and loans for $120 billion of this total. In contrast, most current federal funding operates on a 80% federal to 20% state and local match ratio. In the proposed plan, $50 billion will go directly to governors for rural infrastructure, while $10 billion will be for federally owned infrastructure, and $20 billion will fund expansion of existing federal loan programs and private activity bonds. The $200 billion represents limited increased federal funding over the next decade with much of it reallocated from existing transportation programs including Amtrak and the Federal Transit Administration's Capital Investment Grants (New Starts).

Many states have implemented transportation funding increases in recent years at a time of federal inaction. This will limit their willingness to pursue the additional revenue increases required by the proposal. Since 2013, 26 states and the District of Columbia have implemented transportation funding changes according to the National Conference of State Legislatures. Often, the additional funding has been directed to specific initiatives with a heavy focus on maintenance of existing facilities. Fitch anticipates these states in particular will be challenged to meet the proposed 80% match requirements for new projects.

The new cap on the SALT deduction implemented with the December 2017 Tax Cuts & Jobs Act (H.R. 1) further limits state and local governments' flexibility to generate the funding called for in the administration's plan. Taxpayers in 19 states and the District of Columbia had average SALT deductions exceeding the $10,000 cap imposed by H.R. 1, according to the Government Finance Officers Association (GFOA). The average deduction exceeded $9,000 in another 12 states in the GFOA analysis, which was based on 2015 Internal Revenue Service data. Tepid growth in state tax collections, which makes meeting operating spending demands for education and health care an ongoing challenge, further complicates states' ability to dedicate funding to a new federal transportation program. Using U.S. Census Bureau data, Fitch estimates real year-over-year growth in state tax collections was less than 1% in third-quarter 2017.

Highway trust fund insolvency remains a critical long-term federal infrastructure issue in Fitch's view, and the administration's proposal lacks any measures to address it. The highway trust fund provides roughly $40 billion in highway spending and $10 billion in transit spending to states annually. The Federal Highway Administration reports that since fiscal year 2008, trust fund spending has outpaced revenues, requiring approximately $140 billion in congressional transfers from other funds, mainly the treasury's general fund. The Congressional Budget Office estimates the highway trust fund will become insolvent under current law by 2020, threatening a primary source of existing federal support for infrastructure.

The administration's infrastructure proposal, part of its fiscal year 2019 budget request, faces an uncertain path through Congress.

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