

THE BOND BUYER

Infrastructure funding hopes dim as talks hit dead end

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Though lawmakers are introducing bills aimed at everything from reinstating [advance refunding](#) to raising gas taxes, politics appear to be getting in the way of any comprehensive infrastructure bill pushing through.

President Donald Trump, House Speaker Nancy Pelosi and Senate Democratic Leader Chuck Schumer were squared away to discuss how to fund a \$2 trillion infrastructure plan proposed by Trump earlier this month. But that took a turn Wednesday when Trump said Pelosi, D-Calif., accused him of engaging in a “cover-up” following a comment Pelosi made earlier Wednesday morning. Pelosi was referring to Trump's apparent efforts to hinder investigations House Democrats are leading into Trump's personal taxes and Russian interference in the 2016 election.

The Democrats said Trump left Wednesday's White House infrastructure meeting abruptly without giving them a chance to talk, and Schumer said Trump wasn't serious about infrastructure.

“He just took a pass and it just makes me wonder why he did that,” Pelosi told reporters at the Capitol after the incident. “In any event, I pray for the president of the United States and I pray for the United States of America.”

The apparent breakdown in the bipartisan infrastructure effort comes less than a month after Trump, Pelosi and Schumer agreed to work toward an ambitious infrastructure investment that muni market participants badly want. The sudden breakdown of that endeavor highlights the political obstacle to infrastructure funding, sources said.

Political conditions were not right for an infrastructure bill, said Rich Moore, a partner at Orrick and president-elect of the National Association of Bond Lawyers.

“Other than the abrupt nature of it, I’m not that surprised by the result here,” Moore said. “We will have to tackle infrastructure as a country certainly in our generation.”

An infrastructure bill passing this year is unlikely said Bill Oliver, the National Federation of Municipal Analysts media and industry liaison. He said it was puzzling that one can’t pass because it should be bipartisan.

In response to the idea of impeachment talks obstructing passage of an infrastructure bill, Oliver said that that can’t get in the way.

“Infrastructure doesn’t need anything to get in the way of it,” Oliver said. “In the past it’s never been able to generate the support that it should have.”

Just a day earlier, Rep. Earl Blumenauer, D-Ore. introduced a bill to increase gas taxes by five cents over five years and index it to inflation. Dubbed the Rebuild America Act of 2019, it would raise federal gas taxes for the first time since 1993. The American Society of Civil Engineers has estimated more than \$1.1 trillion is needed in surface transportation investment by 2025.

If a gas tax hike goes through, it could bring more confidence to the municipal market and to private companies wanting to invest in infrastructure, potentially paving the way for an increase in public-private partnerships.

“Federal funding can often fill the gap between what can be funded by state and local governments and what can’t be,” Moore said. “I think this can increase infrastructure investment.”

Oliver said the gas tax should be higher and the fact that some states have already increased their gas taxes means that they are “tired of waiting” for the federal government.

Since 2010, 35 states have voted to raise their gas taxes, according to Blumenauer’s press release.

“It (an infrastructure plan) needs leadership from the federal level,” Oliver said. “There has to be state involvement, but there has to be federal leadership. We really haven’t seen that.”

With any plan, such as a gas tax, a commitment on the federal level as a revenue source could mean more investment in infrastructure and increasing borrowing, said Mike Parker, EY Americas infrastructure leader.

For public private partnerships, Parker said the idea that an underfunded program leads to more private investment isn’t necessarily the case. He referred

to projects such as airports that have begun to move towards public private partnerships to get funding.

Parker said an increase in federal funding, like the gas tax, could create more confidence in the market.

“Many public agencies lack the confidence that their revenue bases would keep pace with inflation, let alone grow,” Parker said.

So agencies now have a lack of confidence that they would be able to repay without federal support, Parker said.

The Bond Dealers of America welcomes all debate that will lead to infrastructure investment, said BDA CEO Mike Nicholas. The group said it wants to continue to get greater access to tax-exempt financing tools and have that be a part of the infrastructure discussions, specifically reinstating municipal advance refundings and an increased use of private activity bonds.

“The challenges of our nation’s extraordinary infrastructure deficit are so complex that a single solution is not enough,” Ken Bentsen, Securities Industry and Financial Markets Association president and CEO wrote in a statement.

SIFMA also emphasized the need for restoring advance refunding.

“By allowing state and local governments to reduce their debt service expenses and free up their borrowing capacity for new investments in infrastructure, this financial management tool offers a meaningful way to boost investment in and maintenance of critical public projects,” Bentsen wrote.

Rep. Peter DeFazio, D-Ore., released a statement after the brief meeting with Trump Wednesday and said that an infrastructure crisis will only be resolved when Trump “agrees to put partisan politics aside” and gets serious about investing in infrastructure.

“After our initial meeting at the White House several weeks back, I was hopeful we were seeing the first signs of political courage that is so badly needed to make progress and turn a campaign trail talking point into real action,” DeFazio said. “It’s disappointing that today the President and his team walked back from both the \$2 trillion proposal and from showing leadership on how to pay for the package.”