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About Trump's New Thinking On Infrastructure Investment

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The president has said public-private partnerships will not work for his $1-trillion infrastructure investment plan. He is right

WASHINGTON, DC–A few weeks ago, President Donald Trump told lawmakers he had changed his mind about the structure of his $1-trillion infrastructure investment plan. Previously the plan was contingent on private sector participation; now, President Trump reportedly said, he didn't want to take that route. The reason? Certain partnerships between the private sector and federal government just don't work.

GlobeSt.com spoke with a number of experts in this area and the consensus is this: the president is correct — at best, the reviews are mixed for public-private partnerships for infrastructure projects in which the federal government takes the lead. Instead, most experts agreed P3 projects work best with the state or local jurisdiction heading the project.

In a sense it's positive that Trump is backing off from P3s, says **Kent Rowey**, a partner at **Allen & Overy** who specializes in infrastructure transactions. "The plan was a distraction, and now state and city government continue innovating with the private sector for infrastructure solutions away from the politics and drama that often accompany this administration's initiatives," he tells GlobeSt.com.

The obvious solution, most of the people who spoke with GlobeSt.com agreed, is for the federal government to distribute the funding to the cities and regional transit agencies.

The president has not said much about infrastructure since his statements at the end of September. More recently a group of Democrats from the House of Representatives have put forward a plan of their own. The group, called "21st Century Infrastructure Task Force," calls for increased investment in infrastructure — just about every political and corporate entity agrees that it is needed — and to pay for the upgrades, it proposes that the federal government use the taxes it will levy on the earnings that US companies will bring back from overseas under the proposed tax reform plan.

It is unclear how exactly this will work — although that is likely due to the vagueness surrounding tax reform itself. The proposal calls for a 10% (or thereabouts) tax on repatriated earnings, but it may be this money is already earmarked by lawmakers to pay for the tax reform itself.

These details aside, it is obvious that nothing will happen with infrastructure until a 2018 budget and tax reform is cleared. Congress and the Trump Administration have said that plainly.

For that reason,"it's at best 50/50 odds we get around to infrastructure before the midterms in 2018," **Ted Brooks**, portfolio manager of the **Global Listed Infrastructure fund** at **CenterSquare Investment Management** tells GlobeSt.com.

But while *where* the money comes from remains uncertain — and it should be noted here that Trump also reportedly mentioned possibly issuing debt to pay for it — experts have plenty to say on *how* it should be distributed.

The successful infrastructure projects have many layers of public funding using a number of different sources including federal, state, county, municipal and special taxing districts, **Mitchell Bierman**, former chair of the Greater Miami Chamber of Commerce Transportation and Infrastructure Committee and a partner at **Weiss Serota Helfman Cole & Bierman** tells GlobeSt.com.

How it usually works is that the private development consortium will finance, design, build and operate and maintain the infrastructure amenity and recover its investment over a long period of time through a combination of farebox or toll receipts, real estate development incentives and availability payments from the government entity, Bierman said. "The benefit to the taxpayer comes in the form of better financing terms and better performance where the private operator's profits are at risk to ensure that it meets quality and performance metrics."

For his part, Brooks of CenterSquare Investment Management noted that there are numerous financing options and highlighted three:

1. Federal/state spending with incentives flowing from the Feds to the states to encourage spending. This is just debt financed through a combination of federal and municipal/state bond issues.
2. A private model where states and localities are encouraged to privatize assets and allow non-governmental entities to own/operate/invest to build out certain assets.
3. A more full Public-Private Partnership model with split financing between munis/states/feds/private capital.

But, he adds, "I still believe the best model allows privatization of appropriate assets — airports, toll roads around larger metropolitan areas — with a combination of federal and state spending for assets around smaller or less densely populated areas to bring them up to snuff.

"This also gives a political win to both sides in that we'd get an injection of private capital and the gains in efficiency it represents, along with new federal investments to help areas/assets that are harder to benefit from privatization because of lower utilization."

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