Facing increased construction costs, Trump administration considers options to fund infrastructure projects

Jason R. Harley | Wednesday, July 26, 2017

The Federal Highway Administration's latest quarterly National Highway Construction Cost Index includes the first major revision since it was created 10 years ago. That revision reflects steadily rising costs of highway construction and repair. Specifically, highway construction costs have increased 67 percent since 2003. That includes an increase in asphalt costs of 107 percent, an increase in concrete costs of 61 percent, and an increase in metal costs of 45 percent.

Amid those significant cost increases, the Trump administration continues to consider options to finance a $1 trillion infrastructure program.

One option that the administration is pushing is the public private partnership (PPP, or P3 as they are known in the construction industry). The administration and other P3 proponents assert that private investment in public projects increases accountability because the private sector is on the hook for cost overruns and delays and may be contractually obligated to pay fines or penalties when the results do not meet expectations.

Critics frequently contend that P3 projects simply consist of toll roads where the revenue from tolls is turned back over to a private entity. However, of the 18 P3 transportation projects since 2010, only eight involved transferring toll or revenue risk to the private sector. Most involved contracts that paid the private sector based on performance, not toll collection.

In New York, LaGuardia Airport is completely overhauling its central terminal through a P3. Almost 80 percent of the $8 billion in design and construction costs will be paid for by private financing and existing passenger fees, and the risk of cost overruns or delays is transferred from the port authority to the private sector.

P3 project owners estimate that their projects saved taxpayers an average of approximately 25 percent. That includes the Port Miami tunnel project, the expansion of Denver’s mass transit system, and the Interstate 4 highway expansion in Florida, which is on track to save $1.4 billion and be completed faster than originally projected.

Critics also frequently claim that while P3 is an option for urban areas, rural owners cannot make P3 work for their projects. These three examples prove otherwise:

- In Pennsylvania, 558 deficient rural bridges are being replaced at least 10 years early with a $1 billion P3 project.
- The University of California system is doubling the size of a rural campus in Merced with a $1 billion P3 project.
- A P3 is working with the Army Corps of Engineers in Fargo, North Dakota, to complete a $2 billion project to alleviate flooding.

Virginia is often looked upon as a leader in P3 projects, with its secretary of transportation closing five P3 deals worth $9 billion since 2007. Less than $1 billion of those costs came from public funds, with $2.5 billion coming from private equity, and the rest from privately backed debt. Secretary Aubrey Layne has been testifying before Congress and consulting with White House officials as the administration pushes for P3 to become a more prominent part of the nation’s infrastructure project financing.

The rest of the country will be on a steep learning curve. P3 is most often used on toll road projects, but according to the Congressional Budget Office, between 1989 and 2011 only 1 percent of toll road spending was done through P3 projects.

While 30 states have laws that allow for the use of some type of P3, the lack of experience is mainly due to the handling of publicly-financed projects. The U.S. is one of very few nations that exempt the interest on state and local bonds from any federal tax obligations, which makes public financing of infrastructure more affordable than in other nations.

Secretary Layne acknowledged in an interview that “The truth is P3s are not the answer to America’s infrastructure needs. They are a part of the answer.” Another part of that answer may be increased funds for the long-standing federal Transportation Infrastructure Finance and Innovation Act (TIFIA) program. TIFIA provides low-interest loans to help finance a range of transportation projects; however, since TIFIA was formed in 1998, DOT has approved loans for just 64 projects. An expansion of the TIFIA program is seen by some as the solution to those who argue P3s do not work as well in rural areas.

The 2015 Fixing America's Surface Transportation (FAST) Act expanded TIFIA eligibility to projects as small as $10 million, but no such projects have received loans so far. That may be a result of the current requirements to receive such loans. Those requirements include getting a rating from a credit agency, which can cost $300,000 to $400,000, making projects under $75 million unworkable through TIFIA loans.

Proposed improvements to the program include allowing other financial data, rather than a credit agency rating, such as projects’ cash flow or putting up collateral. Additional outreach for the program is also being considered, with the possibility of the Agriculture Department's rural development field office staff as contact points to help get the word out. Additional deadlines for DOT to process letters of interest—an early stage in the process—has also been recommended to give applicants more certainty about the timing and costs they may face as they try to drive a project through the process.

The administration is also considering a significant increase to program funding. The 2015 FAST Act authorized $275 million in 2017, $285 million in 2018 and 2019 and $300 million in 2019 and 2020. That would be the cost to the government of the loans' subsidies. Each direct federal TIFIA dollar can support an estimated $10 or more in loan volume. President Donald Trump's 2018 budget proposal included an Office of Management and Budget infrastructure fact sheet discussing $1 billion in annual direct funding for TIFIA for 10 years, which could lead to as much as $140 billion in loans.

The administration has committed to lofty infrastructure funding goals and is now considering a wide array of options to reach those goals while construction costs rise sharply. The infrastructure needs of the country will certainly offer opportunities for owners, contractors, and investors.

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