President Trump's 2018 Budget Blueprint: Takeaways for Infrastructure Investors

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On March 16, 2017, the Office of Management and Budget released "America First: A Budget Blueprint to Make America Great Again" (the Blueprint), which outlines the Trump administration's discretionary funding proposals for fiscal year (FY) 2018. As expected, the Blueprint advocates deep cuts to many discretionary programs. Somewhat surprisingly, given President Donald Trump's stated goal of attracting $1 trillion of new investment in U.S. infrastructure, those cuts affect several key infrastructure investment programs.

The Blueprint is only the first step in the monthslong process to develop and approve the annual appropriation bills that fund the federal government's departments and agencies. But it provides useful insights into President Trump's policy and spending priorities. The administration's full budget, including mandatory spending and tax proposals, is expected to be released in May 2017. Congress may ultimately restore much of the funding that is cut in the Blueprint, but infrastructure investors attempting to stay ahead of budgetary changes should concentrate on the Blueprint's proposals for those departments that most directly influence the development of, and investment in, infrastructure projects: the Department of Energy (DOE), the Department of Transportation (DOT) and the Environmental Protection Agency (EPA).

Department of Energy

The Blueprint requests $28 billion for the DOE, a 5.6 percent decrease from the FY 2017 appropriation. The budget reduction would be achieved in part by eliminating the Title 17 Innovative Technology Loan Guarantee Program (also known as the Loan Guarantee Program), the Advanced Research Projects Agency-Energy program (ARPA-E) and the Advanced Technology Vehicles Manufacturing Program. The Loan Guarantee Program, which is credited with accelerating the commercialization of utility-scale solar energy in the U.S., has not been active in originating new loan guarantees since September 2011. However, it recently provided a loan guarantee commitment to the Lake Charles Methanol Production Facility in Lake Charles, Louisiana, a petcoke-to-methanol facility that will deploy carbon capture technology.

The Blueprint proposes to refocus the Office of Energy Efficiency and Renewable Energy, the Office of Nuclear Energy, the Office of Electricity Delivery and Energy Reliability, and the Fossil Energy Research and Development program on "limited, early-stage applied energy research and development activities." Generally speaking, this suggests a return to smaller grants for noncommercial activities that are less attractive to private investors.

The Blueprint emphasizes programs that enhance grid security as well as nuclear security and waste cleanup programs. Notably, the Blueprint proposes $120 million to restart licensing activities for the Yucca Mountain nuclear waste repository, a national storage facility for high-level nuclear waste that was sidelined throughout the Obama administration. Nuclear energy faces larger challenges than just waste disposal, but establishing a long-term, large-scale waste disposal facility is of vital importance to the nuclear industry and is a threshold issue for any movement to expand the nuclear fleet in the U.S.

Department of Transportation

The Blueprint requests $16.2 billion for the DOT, a 13 percent decrease from the FY 2017 appropriation. The budget reduction would be achieved by shrinking or eliminating funding to a number of programs.

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Transit funding appears to be the biggest loser in the Blueprint, in that future funding for the Federal Transit Administration's Capital Investment Program (also called the "New Starts" program) would be limited to projects that as of now already have an executed Full Funding Grant Agreement (FFGA) in place. The FFGA commits the Federal Transit Administration to provide federal transit funding to a particular project. As has been widely reported, this limitation, if implemented, would cut significant expected but not yet committed funding for a number of marquee infrastructure projects of regional and national significance, including the $20 billion Gateway Project to build a new rail tunnel under the Hudson River in New York City, the $6 billion second phase of the Second Avenue subway project in New York City and the $5.6 billion Purple Line rail transit public-private partnership (P3) in suburban Washington, D.C. All three of these projects are included in the widely reported priority list of emergency and national security projects that was attributed to the Trump transition team. Without New Starts grant funding to help defray the cost of capital-intensive transit projects, P3s are unlikely to succeed in this sector.

The Blueprint also proposes to eliminate the popular Transportation Investment Generating Economic Recovery (TIGER) discretionary grant program. As noted in the Blueprint, grant funding would remain available under the Nationally Significant Freight and Highway Projects (NSFHP) program (created pursuant to the 2015 Fixing America's Surface Transportation Act (FAST Act)), which has been funded at an annual average level of $900 million through FY 2020. This proposal could signal a shift of federal support away from transportation projects with only local or regional impact.

The Blueprint does not include any proposals related to the vital Transportation Infrastructure Finance and Innovation Act (TIFIA) federal credit program, which currently provides financing for the vast majority of transportation P3s in the U.S. TIFIA has committed funding levels through FY 2020: $275 million in each of FY 2016 and 2017, $285 million for FY 2018 and $300 million for FYs 2019 and 2020. These funding levels represent a small portion of the actual dollar amounts available for TIFIA loans. The appropriated amounts cover the "credit subsidy cost" (similar to a loan loss reserve) associated with each loan and, for an average project, represent approximately 7 percent of the principal amount of the TIFIA loan.

Environmental Protection Agency

The Blueprint requests $5.7 billion for the EPA, a 31 percent decrease from the FY 2017 appropriation and by far the biggest percentage reduction for any federal department or agency. The budget decrease would be achieved through reductions to EPA staff and programming, including elimination of funding for the Clean Power Plan, which sets national carbon dioxide emission standards for power generators.

Infrastructure investors should note that the Blueprint proposes $20 million of funding in FY 2018 for the Water Infrastructure Finance and Innovation Act (WIFIA) program, which was created in 2014 to enhance investment in U.S. water infrastructure, including through P3 transactions. As with the TIFIA program noted above, the appropriate amounts cover the credit subsidy cost of WIFIA loans. The program, which has not yet provided any loans, is expected to have a very low credit subsidy cost, which suggests that even at a $20 million appropriation level, the program will be able to fund aggregate loans in the hundreds of millions. An initial $20 million was appropriated to the program in FY 2016, allowing EPA to hire key staff (several of whom previously worked at the TIFIA program) and develop policies and procedures for the WIFIA program. Interim final rules governing the program's administration were published in the Federal Register in December 2016. The Blueprint's inclusion of incremental funding for the WIFIA program is a positive sign that the Trump administration intends to promote investment in water infrastructure. However, the administration's moratorium on certain federal hiring and contracting activities may impact the timing for the WIFIA program's loan origination activities.

The Blueprint also proposes a $4 million funding increase for the Clean Water and Safe Drinking Water State Revolving Funds, a consistent source of low cost financing for water infrastructure, to $2.3 billion. These funds collectively provided $9.5 billion of low-interest loans and other subsidized financing in fiscal year 2016.

Next Steps

As noted above, the Trump administration's full budget proposal is expected to be released in May 2017. It remains to be seen whether the Trump administration will modify any of the budget requests outlined in the Blueprint in response to feedback from members of Congress serving on the panels that are responsible for appropriations bills for the federal departments and agencies discussed above.

For infrastructure investors, the Blueprint takes more off the table than it offers in terms infrastructure investment opportunities. The Trump administration promises that its highly anticipated infrastructure bill will replace those cuts will larger investments and opportunities. But the timing for that proposal appears to be fading into calendar year 2018, as health care and tax reforms have dominated the immediate agenda. For now, infrastructure investors should continue to focus on incremental state- and local-level P3 developments and opportunities.