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Infrastructure: Navigating the Road Ahead

Following enactment of the American Rescue Plan Act (ARPA, P.L.117-2), the Biden administration indicated its next major priority was passing a comprehensive infrastructure package. The administration released the American Jobs Plan (AJP), a collection of infrastructure priorities that includes funding for road, highway and bridge projects as well as broadband expansion, water infrastructure, affordable housing projects and child care. The AJP has drawn criticism from Republican lawmakers for taking an expansive view on what encompasses infrastructure. To that end, two counterproposals were released in response to the AJP—one from Senate Republicans and another from the bipartisan Problem Solvers Caucus (PSC).

The three proposals are fundamentally different in size and scope, and each takes a unique approach to infrastructure investment. While they all share, to some degree, the same goal of investing hundreds of billions in certain projects and programs, there is little overlap between them. This alert seeks to provide clarity by comparing the three proposals and explaining where the spending and pay-fors overlap and where they diverge.

KEY TAKEAWAYS

1. **Three Potential Paths on Infrastructure.** The three infrastructure proposals take very different approaches. The AJP includes details on topline funding levels, as well as policy proposals and potential offsets. It is the most expensive proposal, with a price tag of over $2.3 trillion. It covers both traditional and nontraditional infrastructure projects, with a major focus on green energy, affordable housing and broadband. The AJP is paid for by an increase in the corporate tax rate to 28%, a major overhaul of the current international tax system, a book profits tax, and increased IRS funding for enforcement. The proposal has sparked intraparty disagreement on funding and revenue raisers, with the Biden administration and Senate Democrats taking different approaches on how to structure an international tax overhaul and disagreements on the corporate tax rate. The proposal is also unpalatable to Republicans, making budget reconciliation the only viable path forward if Democrats are unwilling to scale back on spending and eliminate partisan pay-fors.

   The Senate Republican plan is very narrowly tailored, only focusing on traditional infrastructure priorities. The proposal includes few details, with vague suggestions on potential pay-fors. The Senate Republican plan totals $568 billion over five years, as compared to $621 billion for traditional infrastructure priorities in the AJP. It also offers few specifics on pay-fors. This plan is the GOP's opening bid for a narrowly crafted bipartisan surface transportation package. Democrats would pass their other priorities through budget reconciliation.

Unlike the other two plans, the bipartisan PSC took a different approach. The PSC Plan does not include any specifics on topline numbers, choosing to focus on policy and objectives. Similar to the Senate Republican plan, it focuses mostly on traditional infrastructure priorities. However, it also includes many energy-related proposals—something not included in the Republican plan, but that was a prominent feature of the AJP. The PSC Plan also suggests specific pay-fors, including an increase in the gas tax. It stays away from making changes to the Tax Cuts and Jobs Plan.

2. **Beyond Traditional Infrastructure Priorities.** Beyond alignment on traditional infrastructure projects, there are two areas in particular that could ultimately share bipartisan appeal: reshoring manufacturing capabilities and ensuring American leadership on innovation. Although both were absent from the Senate Republican plan, the conference could support a package that contains these and similar proposals, such as the domestic content, or "Buy America," preferences outlined by the Problem Solvers Caucus. These domestic manufacturing and research and development incentives could be included in a bipartisan package.

3. **Infrastructure Bill Faces Uncertain Future.** With pressure from moderates to pursue a bipartisan infrastructure package, it is unclear how Democrats plan to move their next tranche of priorities included in the AJP. Adding a layer of complexity is President Biden's yet-to-be-released American Families Plan (AFP), which focuses on "human capital." The AFP is expected to add another $1.5 trillion in spending to the AJP's $2.3 trillion price tag. Ideally, Democrats would like to pass a narrow surface transportation bill, and pass green energy, low-income housing, child care and paid leave priorities through budget reconciliation. This would allow them to split up spending into two bills, bringing down the price tag for a reconciliation bill. Sen. Chris Coons (D-DE) has advocated for this approach. However, Republicans have little incentive to agree to a bipartisan package only to be excluded from negotiations on the next package. Without a bipartisan deal, Democrats must make difficult choices, potentially forcing moderates to vote on unpopular tax increases to pay for spending proposals.

   It is also unclear how many chances Democrats have this year to pass legislation through budget reconciliation. Last month, according to media reports, the Senate parliamentarian said Democrats potentially had multiple opportunities to use budget reconciliation. However, the ruling is still unclear and will likely have more guardrails, which could limit Democrats to only one more chance to use budget reconciliation this year, or at least significantly curtail what they are able to do through reconciliation. Until the implications of the decision are fully understood, it is unclear how Democrats will bifurcate various priorities.

The funding proposals in the chart below are in billions:

Senate Republicans	White House	Problem Solvers Caucus
Roads and Bridges		
$299 TOTAL	**$334 TOTAL**	**NA**
	$115 – Repairs to Roads and Bridges	Ensure the sustainability of the Highway Trust Fund (pay-fors below)
	$174 – Electric Vehicles	Partner with state and local governments and the private sector to ensure that sufficient infrastructure is in place to support broader use of EVs
	$25 – Project Support Fund	
	$20 – Inequities Fund	
		$0.012 – Regional Infrastructure Accelerator Demonstration Program

		Increase funding to TIFIA
		Invest in innovative solutions, such as signal optimization
		Expand funding for National Highway System Projects
	Tax credit to incentivize investment in disaster resiliency	
	Asks Congress to authorize investments in extreme weather mitigation, climate-smart technologies, coastal resiliency, etc.	
Public Transit Systems		
$61 TOTAL	**$85 TOTAL**	**NA**
	$85 – Transit	Provide additional funding to state departments of transportation for project completion
Airports		
$44 TOTAL	**$25 TOTAL**	**NA**
	$25 – Airports	
		Support the development and deployment of innovative technologies to keep passengers and aviation workers safe
		Maintain strong oversight of the implementation of COVID-19 programs
Rail		
$20 TOTAL	**$80 TOTAL**	**NA**
	$80 – Amtrak	
		Establish an independent Passenger Rail Trust Fund for rail projects
		Fix the Railroad Rehabilitation & Improvement Financing (RRIF) financing program
Inland Waterways and Ports		
$17 TOTAL	**$17 TOTAL**	**NA**
	$17 – Ports and Inland Waterways	
		Fund the Navy's Shipyard Optimization and Improvement Plan
		Strong oversight of Harbor Maintenance Trust Fund resource allocation
		Congress should amend the INFRA Grant program and Freight Formula Program to enable the selection of more multimodal projects
		Federal, state and local coordination of inland waterway projects
Safety		
$13 TOTAL	**TOTAL**	**NA**
	$20 – Road Safety	

	$50 – Resiliency	
Broadband		
$65 TOTAL	**$100 TOTAL**	**NA**
	$100 – Broadband to every American	
	100% Broadband coverage and "future proof" networks	
	Transparency and competition between ISPs	
	Broadband cost reduction	
		Address funding shortfalls within the Universal Service Fund
		Improve coordination between federal agencies, such as FCC and USDA, focused on broadband infrastructure
		Incentivize dig once policies
		Extend DOT's Smart Cities Challenge
		Encourage granular broadband mapping
Drinking Water and Wastewater Infrastructure		
$35 TOTAL	**$111 TOTAL**	**NA**
	$56 – Water System Modernization	
	$45 – Lead Removal	
	$10 – PFAS	
	Unspecified Amount – Water efficiency and recycling programs to address Western droughts	
		Increase funding for the Clean Water and Drinking Water State Revolving Funds
		Increase funding for the Water Infrastructure finance and Innovation Act (WIFIA)
		Develop demonstration program to provide assistance to states and localities to reduce burden on ratepayers
		Create a federal "Advanced Research Projects Agency – Water (ARPA-H2O)" to directly support high-risk, high-rewards technology development
		Encourage state adoption of regionalization tools, require regionalization feasibility assessments for Safe Drinking Water Act (SDWA)-noncompliant systems, and audit and amend any federal regulatory barriers that may exist to water system regionalization
		Examine ways to provide increased and expedited workforce development in the water infrastructure sector

		Examine the growing threat posed by harmful algal blooms (HABs) to many drinking water systems across the country
		Leverage existing investments in federal transportation projects to improve water quality by incentivizing the inclusion of green infrastructure
		Provide prioritized federal funding for state, local and regional governments that invest in their water-related infrastructure's resiliency and adaptability
Water Storage		
$14 TOTAL	**NA**	**NA**

PAY TOLL, EXACT CHANGE—COMPARISON OF REVENUE RAISERS

Infrastructure investment has long been a bipartisan priority. However, reaching agreement on how to pay for spending has proven a significant roadblock, causing the derailment of recent legislative efforts. The spending offsets of each proposal are summarized below.

<u>White House</u>

- Raise the corporate tax rate to 28%
- Discourage offshoring by strengthening the global minimum tax for U.S. multinational corporations
- End the race to the bottom around the world
- Prevent U.S. corporations from inverting or claiming tax havens as their residence
- Deny companies expense deductions for offshoring jobs and credit expenses for onshoring
- Eliminate a loophole for intellectual property that encourages offshoring jobs and invest in effective R&D incentives
- Enact a minimum tax on large corporations' book income
- Eliminate tax preferences for fossil fuels and make sure polluting industries pay for environmental cleanup
- Ramp up enforcement against corporations

<u>Senate Republicans</u>

- Ensure infrastructure users are contributing to program revenues
- Repurpose unspent federal funds
- Avoid increasing the federal debt
- Stabilize infrastructure trust funds
- Preserve the Tax Cuts and Jobs Act, including extending the $10,000 cap on state and local tax deductions and protecting against any corporate or international tax increases

<u>Problem Solvers Caucus</u>

- Bolster IRS enforcement
- Leverage public-private partnerships
- To ensure the sustainability of the Highway Trust Fund:

- Index the excise taxes on petroleum and petroleum products, diesel fuel, alcohol-based fuel and fuels used in certain buses to (1) inflation or the CPI, (2) National Highway Construction Cost Index and/or (3) CAFE standards
- "Modernize" the federal gasoline user fee so that it fully and sustainability funds the HTF
- "Incentivize the transition" to a VMT by supporting pilot projects, including a mileage-based user fee on fully automated vehicles
- Promote alternative user fees, including (1) a "modest" annual registration fee on EVs and (2) a user fee based on the value of freight assessed through waybill taxes, broadening the current air cargo tax to trucking services

Although small, there is limited agreement between the three pay-for proposals. For instance, the bipartisan Problem Solvers Caucus has endorsed user fees, such as a gas tax and a VMT, to raise revenue for infrastructure spending. There sis a lack of consensus in the Republican conference on the gas tax and VMTs, with some in favor and others opposed. Additionally, the White House and the Problem Solvers Caucus are aligned on the need to enhance the enforcement capabilities of the IRS. There is little agreement between the White House, which emphasized the need to raise revenue from multinational corporations, and Republicans, who released principles that focused on redirecting unspent COVID-19 program funds.

Russ Sullivan
Shareholder

Geoffrey Burr
Policy Director

Rosemary Becchi
Strategic Advisor and Counsel

Radha Mohan
Senior Policy Advisor and Counsel

Michael P. Marn
Policy Analyst