Foresight

A global infrastructure perspective

52nd edition — January 2017

Navigating infrastructure opportunities under the new US administration

By Andy Garbutt, KPMG in the US

Accelerated approvals, new funding, and devolved decision-making could all be on the agenda, potentially providing a huge boost to the US infrastructure sector.

In his inauguration speech, President Trump voiced a firm commitment to improving infrastructure, pledging that, "We will build new roads, and highways, and bridges, and airports, and tunnels, and railways all across our wonderful nation." On the campaign trail he promised US$1 trillion,[1] signaling a busy time ahead for investors and engineering and construction companies.

One of his first actions in office has been to sign orders to accelerate review and approval of high-priority projects, including the US$6.1 billion Keystone XL, and the Dakota oil pipelines, to boost domestic energy production.[2,3] These initiatives aside, it is clearly too early in the new administration's tenure to know exactly how infrastructure policy will pan out, but in this special Foresight, we shall try to predict some of the possible impacts.

Expanding project pipelines

Speed of approval has long been a concern for those keen to push projects through, and the new government is intent on streamlining the environmental and permitting processes. One possible improvement would be to reduce the level of duplication in the current approvals process to promote efficiency. With greater efficiency, review times should fall, advancing projects faster to the financing and construction phases, and reactivating stalled projects that may qualify for federal funding support.

Any changes are likely to face considerable resistance from special interest groups, and realistically, their impact is unlikely to be seen before 2018–2019.

New, targeted funding may be on the agenda for nationally significant projects and already a number of informal project lists have been circulating, naming projects such as the Gateway Program, Brent Spence Bridge and locks and dams projects to name but a few. Funding may come from additional tax on repatriated corporate earnings, but infrastructure projects will face competition for this and any other cash from competing interests.

While a new transportation bill may not be in the cards, Congressional leaders have signaled a willingness to consider limited, focused new infrastructure spending that doesn't negatively impact the deficit. Depending on competing interests and availability of suitable legislative vehicles, this could happen as early as 2017 or 2018, but may not drive actual project development for several months/years.

The energy sector is set for a major boost in the form of pipeline approvals and access to federal lands. With the Keystone and Dakota reviews laying a marker for a faster pace, additional land could be opened to energy exploration, heralding increased drilling and a need for take-away capacity in these new production areas. Much of this could take place without Congressional approval, inciting a flurry of new investments in prospective leases and, ultimately, into new energy production — subject, of course, to favorable global energy prices.

[1] *What You Need to Know About Donald Trump's US$1 Trillion Infrastructure Plan,* Fortune, 21 December 2016.
[2] *Trump signs executive orders on manufacturing, infrastructure,* Reuters, 24 January 2017.
[3] *Trump signs order to move controversial oil pipelines forward,* Reuters, 24 January 2017.

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New and expanded financing tools

President Trump has spoken enthusiastically of the efficiency, knowhow and capital that private industry can bring to infrastructure development, and has surrounded himself with pro public-private partnership (PPP) and privatization advisors and professionals.

The government is likely to promote State and local level PPPs across a wide variety of sectors, offering strong political support to local officials to evaluate and pursue PPP projects and programs.

In the aftermath of the global financial crisis the Obama administration took steps to tighten the credit risk appetite for Transportation Infrastructure Finance and Innovation Act (TIFIA) loans, forcing most projects to produce bankable financial models in order to qualify for this beneficial loan program. Congress intended for TIFIA to provide credit assistance under less aggressive circumstances and the Trump administration could look to ease this to reflect actual credit performance/loan loss on the TIFIA loan portfolio to date. The result of such reduced risk scoring would mean federal dollars go further, allowing more projects to benefit. Additionally, the new administration could look to streamline the TIFIA loan process itself, to shorten approval times.

If the pressure on credit worthiness was eased and the process streamlined, a greater number of asset owners would consider pursuing TIFIA assistance, thereby improving projects' financial feasibility and driving more projects to completion.

Following the lead of other countries that have adopted the PPP model more widely to date, it is even possible that any project that uses federal dollars and is over a certain size (say, US$300–US$500 million) would be forced to consider alternative delivery methods like PPPs or design-build. Asset owners utilizing federal dollars would then need to engage in a new evaluation and justification process.

Federal PPPs are a further opportunity. While the vast majority of the proposed US$1 trillion would be invested in state and local assets, federal infrastructure is in dire need of rehabilitation and/or replacement. To date, the Office of Management and Budget (OMB) and Treasury has blocked the use of PPPs on most federal assets, citing concerns about debt issuance.[4]

President Trump may overturn or otherwise move away from this policy. This could open up the PPP pipeline at the General Services Administration, Department of Defense, Department of Veterans Affairs, Department of the Interior and other agencies. It would also demonstrate that PPPs are an approved and potentially 'best practice' procurement option.

The creation of an infrastructure bank could also stimulate investment, by offering broader financing options for a variety of asset types and, over time, building a sizeable, professional pool of bank staff. But this would require legislation, which would probably take at least a year, to start allocating taxes on repatriated dollars.

Will 'Buy America' help or hinder the infrastructure sector?

Another common theme of the new President's speech was the concept of "America First," encapsulated in the insistence that, "We will follow two simple rules; buy American and hire American." He has already signed executive orders to withdraw from the Trans Pacific Partnership (TPP) trade agreement and renegotiation of the North American Free Trade Agreement (NAFTA) is likely to follow. Additionally, the executive order reviving the Dakota Access pipeline has given the Commerce Department 180 days to maximize the use of US steel in the pipeline — as part of a move towards greater protectionism.

Consequently, 'Buy American' waivers would probably only be granted in extraordinary circumstances. The administration may choose to introduce this practice gradually — perhaps over 2–3 years — to enable markets and industries to adjust.

However, there is a danger that the onus to 'Buy American' — with restricted access to global markets — could raise the cost and time to procure materials like steel for pipeline and bridge building. Additionally, assuming the US is still exporting steel, supplies of US-built materials may be insufficient if overall worldwide demand goes up.

Aggressive enforcement of a stricter 'Buy American' stance could also fuel a broader trade war, with countries deterring US-built products by raising bureaucracy, which would adversely impact many companies and industries dependent upon exports.

President Trump has long expressed a dislike for red tape, and has promised fast action to address the US's urgent need to improve its infrastructure. Either in isolation or combined, solutions like streamlining the review process, enabling additional funding, approving pipeline projects, and partially devolving responsibility, could have a significant impact upon the market. In the early days of the new administration, investors will be watching closely for each development, in expectation of a heightened opportunity for this key sector.

[4] OMB Circular A-11 requires the full net present value of certain long term leases to be recorded on federal agency budgets in the year in which they are entered.

Contact us

Dane Wolfe
Senior Marketing Manager
Global Infrastructure
KPMG International
T: +1 416 777 3740
E: dmwolfe@kpmg.ca

Pranya Yamin
Marketing Manager
Global Infrastructure
KPMG International
T: +1 416 777 8094
E: pyamin@kpmg.ca

kpmg.com

kpmg.com/socialmedia

kpmg.com/app

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Designed by Evalueserve. Publication name: Foresight. Publication number: 133983-G. Publication date: January 2017