

Infrastructure: Congress Is \$15 Billion Short

- Congress has only about six weeks left to identify budget offsets for a \$10-15 billion transfer to the Highway Trust Fund. A House Republican proposal to use postal reform to offset Highway Trust Fund dollars seems unlikely to advance. Another option - repatriation of overseas earnings - was shot down by the Senate Finance Committee this week.
- Investors should keep in mind that in 2012 Congress used a totally unrelated shift in pension policy to keep the HTF solvent. In that vein, investors may wish to monitor the Highway Bill if they have interest in other sectors that could see relevant policy risk with respect to such funding.
- Investors should expect flat infrastructure funding for the foreseeable future. We see a succession of extensions and possibly another two-year bill from now through 2017. That's the first real window for tax reform, which most observers agree is the clearest option for instituting a long-term financing fix for federal transportation infrastructure spending.

Highway Bill Looking at Short Extensions

The Highway Bill will get a short-term extension this year, and not a traditional long-term six-year bill. The current bill expires on September 30, but the Highway Trust Fund will be out of cash by August.

The overarching issue is a lack of funds and no agreement on how to get them. In the 2005 Highway Bill, Congress increased spending but failed to address the revenue side with a gas tax increase or anything else. In 2008, 2009, and in 2012, Congress essentially bailed out the Highway Trust Fund with revenue transfers from other federal programs. The 2012 fix included a change in pension policy that allowed Congress to pass a two-year bill - in some ways, a glorified extension.

Congress is doing short-term bills and extensions is because the spending vs revenue shortfall is roughly \$15 billion annually. That means that for each year of any new Highway Bill, Congress must identify an additional \$15 billion of revenue for the bill. The 2012 Highway Bill required \$27 billion in offsets; a new six-year bill this year would require perhaps \$90 billion. Members of Congress find it easier to pursue lowest-common denominator deals that get past the next election, since Republicans and Democrats can't agree on a long-term revenue strategy anyway.

Tickers:

FDX, UPS, TPC, TEX, GVA, CAT, MLM, VMC, FLR, URS, CUB, ASTE, VMI, MTW, URI, DE, SHAW, NUE, ACM, KBR, IR, OSK, and WAB.

Our general expectation now is for Congress to pursue a three-step process on the Highway Bill:

- 1) Congress will most likely pass **a short-term 6-9 month patch** this summer, which will push the issue past the elections. How Congress pays for it is unclear, but the House GOP proposal to reform the U.S. Postal Service is at best just a piece of that pie, and may be discarded entirely. They'll then..
- 2) revisit the issue either in a postelection "lame duck" session or in the spring of 2015. That's when **a new two-year bill** could be approved, likely with additional temporary offsets. This bill would carry through the 2016 election for U.S. President. That would set up...
- 3) **A possible true six-year Highway Bill in 2017.** President Obama, House Republicans, and others have proposed paying for a long-term bill in the context of broader tax reform, where the offsets could negate the political difficulty of a tax increase. Congressional Democrats and Republicans can't pass tax reform, however, since Republicans refuse to raise the net tax burden and Democrats insist on it. In 2017, a new President may be able to bridge this divide.

Postal Reform Not Totally Dead

While the idea of trimming back Saturday delivery by the U.S. Postal Service has not inspired enthusiasm on Capitol Hill, we don't totally discount the notion of it gaining steam. It produces the right amount of money and is just clever enough to appeal to many Republicans and Democrats for what it does.

However, as a budget gimmick it may alienate some conservatives and as a cutback in service it is already fiercely opposed by postal service unions, who have the ear of Senate Majority Leader Harry Reid (D-NV). We see a roughly 40% likelihood that postal reform in some form or another will be part of the patch this summer. It's true that President Obama has proposed ending Saturday delivery, but we think this carries relatively little influence with congressional Democrats.

Previous Notes on This Topic

- [Postal Reform Could Fund Highway Trust Fund Bailout](#) - May 30, 2014
- [Ghost of Tea Party Complicates U.S. Highway Bill](#) - May 21, 2014
- [Policy Shift on Freight, Cashflow Crunch Driving Highway Bill](#) - May 14, 2014
- [Senate Highway Bill Draft: What to Watch](#) - May 9, 2014

Relevant Stocks

TPC, TEX, GVA, CAT, MLM, VMC, FLR, URS, CUB, ASTE, VMI, MTW, DE, SHAW, NUE, ACM, KBR, IR, OSK, and WAB.

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