AGC Summary of Construction Accounts in President Obama’s FY 2017 Budget Proposal

Transportation

The FY 2017 budget request for the U.S. Department of Transportation supports FAST Act funding levels of $43.27 billion for the federal-aid highway and $9.535 billion for transit formula programs. The proposal also revives an idea previously offered by the administration to replace the existing Highway Trust Fund with a new Transportation Trust Fund. Included within the restructured trust fund is the 21st Century Clean Transportation Plan, which creates a series of new initiatives to fund infrastructure improvements and expand clean technologies and transportation planning programs.

The administration proposes a $10.25 fee per barrel of oil to pay for these new transportation initiatives as well as to provide sufficient additional revenue for the trust fund to keep it solvent until 2026. The oil fee would be phased in over five years and, in the meantime, additional revenue to support these new initiatives would come from over a trillion dollars in tax increases on businesses.

Other DOT budget highlights include:

- **Clean Transportation Plan:** The budget calls for FY 2017 funding of $17.935 billion for various programs in the different transportation modes (not much there for highways) including for regional transportation planning, climate mitigation, clean vehicles, transit oriented development, high speed rail and other similar initiatives. The Federal Transit Administration would receive an additional $5.86 billion for transit formula grants and $525 million for Bus Rapid Transit corridors.

- **TIGER:** The administration requests $1.25 billion for the Transportation Investment Generating Economic Recovery (TIGER) program. While TIGER was not reauthorized in the FAST Act, it was funded at $500 million in FY 2016.

- **TIFIA:** The Transportation Infrastructure Finance and Innovation Act (TIFIA) program is proposed at the FAST Act level of $275 million and would be funded in the future from trust fund revenue rather than general fund.

- **Aviation:** The budget proposes to decrease funding for the Airport Improvement Grant program from its current $3.35 billion level to $2.9 Billion. To make up for this cut, it is proposed that larger airports be removed from eligibility for AIP grants. Instead, the administration proposes increasing the cap on passenger facility charges from its current $4.50 to $8. PFC funding is largely available for larger airports for infrastructure projects.

- **Transit Capital Grants:** The FTA Capital Grants program is requested to be funded at $3.5 billion in FY 2017, an increase from its $2.177 billion level in FY 2016.

Federal Construction:
The president’s budget would generally decrease federal agency construction budgets across the board in FY 2017 compared to what was appropriated in FY 2016. The biggest losers in the budget proposal include the Army Corps Civil Works Program (more than $1 billion in cuts), military construction accounts (about $1 billion in cuts) and the Department of Veterans Affairs (about $700 million in cuts). The General Services Administration (GSA) would see slightly less funding under the proposal—about $171 million—but would still maintain a relatively robust construction budget for the agency—$2.172 billion.

- **Military Construction**: The budget provides $5.741 billion in military construction spending in FY 2017. When looking at all military construction accounts for the three services, the Air Force receives the lion’s share of the funding: $1.813 billion. The president requests $1.066 billion for the Navy and $805 million for the Army. The Defense-wide construction account receives $2.056 billion.

- **Army Corps Civil Works Program**: The president proposes $4.620 billion for the U.S. Army Corps of Engineers’ Civil Works program in FY 2017. Included in this number is $2.705 billion for Operation and Maintenance (including dredging activities) and $1.09 billion for Construction.

- **General Services Administration**: The president proposes slightly less funding – $171 million less – for FY 2017 than FY 2016 at $2.172 billion for GSA construction. The budget seeks $1.330 billion for the Construction and Acquisitions Account and $842 million for the Repairs and Alterations Account.

- **Department of Veterans Affairs**: Under the proposal, the VA’s Major Construction program in FY 2017 would be funded at $528 million. Following a similar line as the FY 2016 omnibus appropriation bill passed by Congress in December, the administration withholds $223 million from the VA under this account until an agreement is reached with "an appropriate non-Department of VA Federal entity" to serve as design and/or construction agent for projects at or above $100 million. The VA’s Minor Construction account also sees a cut compared to FY 2016 funds.

**Water Infrastructure**

The budget provides a mixed bag for the Environmental Protection Agency’s (EPA) state revolving loan funds (SRFs) and the Rural Utilities Service’s Rural Water and Waste Disposal Program. As for the SRFs, the budget provides $157.3 million for drinking water SRF – an 18 percent increase from 2016 enacted levels. Clean water SRFs would receive $414.5 million – a nearly 30 percent decrease from 2016 levels. The Department of Agriculture’s Rural Water and Waste Disposal Program is funded at $461.6 million – a decrease of 11.6 percent.

**Infrastructure Financing (all of these provisions have been included in the last few budget proposals by the administration)**
• **America Fast Forward Bonds:** The administration proposes to expand the eligible uses for America Fast Forward Bonds beyond those for the Build America Bond program to include financing for governmental capital projects, the refunding of prior public capital project financings, short-term governmental working capital financings for governmental operating expenses subject to a 13-month maturity limitation, financing for section 501(c)(3) nonprofit entities, and financing for the types of projects and programs that can be financed with qualified private activity bonds subject to applicable State bond volume caps for the qualified private activity bond category.

• **Qualified Public Infrastructure Bonds (QPIBs):** Under the proposal, QPIBs, a new category of tax-exempt private activity bonds, would be available for the financing of newly constructed or substantially rehabilitated infrastructure facilities owned by governmental entities and available for general public use. Infrastructure facilities eligible for QPIB financing would include airports, docks and wharves, mass commuting facilities, facilities for the furnishing of water, sewage facilities, solid waste disposal facilities, qualified highway or surface freight transfer facilities, and broadband telecommunications assets for high-speed internet access. (AGC has been working to add a private activity bond (PAB) category for public buildings and exempt both these new bonds and the water PABs from the volume caps).

• **Qualified Private Activity Bonds for Public Education Facilities:** The proposal would eliminate the private corporation ownership requirement and instead would allow any private person, including private entities organized in ways other than as corporations, either to own the public school facilities or to operate those school facilities through lease, concession, or other operating arrangements.

**Business Tax System**

The budget proposal contains several international tax proposals from prior years, but also contains new proposals, including a 19 percent minimum tax on foreign income (raises $350.4 billion) and a one-time 14 percent transition tax on previously untaxed foreign income proposal (raises $299.4 billion). Notably, the budget contains a new massive small business tax hike—increasing the top rate on active small business income from 39.6 to 43.4 percent to raise $271.7 billion for the government’s health care initiatives.

Other tax proposals in the budget include:

• Expanding expensing for small business (Section 179)
• Expanding simplified accounting for small businesses (e.g. use of the cash method of accounting in lieu of an accrual method)
• Extending and modifying WOTC (incentives for hiring veterans)
• Permanently extending the production tax credit (PTC) at current credit rates
• Modifying and extending the deduction for energy-efficient commercial building property (Section 179D)
• Modifying and extending the NMTC
• Limiting the amount of capital gain deferred under section 1031 to $1 million (indexed for inflation)
• Tax carried interest as ordinary income in certain instances
• Rationalize Net Investment Income Tax (NIIT) and Self-Employment Contributions Act (SECA) taxes on small business shareholders
• Eliminate deduction for dividends on stock of publicly-traded corporations held in employee stock ownership plans (ESOPs)
• Increase certainty with respect to worker classification (i.e. independent contractor status)