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Recycling Infrastructure Assets to Spur Infrastructure Investment.

The Trump Administration has the admirable goal of encouraging infrastructure investment. One policy it may want to consider is promoting the recycling of existing municipal infrastructure assets. This policy was developed in Australia and has been successful there.

Recycling infrastructure assets does not refer to re-using concrete blocks. Rather, it is a vernacular term that refers to the sale by a municipality of existing infrastructure assets to private investors to raise cash that the municipality can then use to construct new infrastructure assets.

Existing infrastructure assets with revenue histories are perceived as a safer investments for investors than investing in the construction of a new asset that is unknown whether or not it will be able to be operated successfully. This perception means that private investors will pay a higher price for an infrastructure asset with a revenue history than for an infrastructure asset that has yet to be constructed. Further, new infrastructure projects require years to design, approve and construct.

Under a policy of recycling infrastructure assets, municipalities are encouraged by the federal government to sell existing assets that have revenue streams. An example could be a tunnel or a port. The proceeds of the sale are required to be held in a account that can only be used to fund new infrastructure projects.

The federal government encourages the sales by providing a financial incentive to the municipality that is a percentage of the sales price, for instance 15%. So if an operating toll bridge is sold for $100 million to private investors, the federal government provides an additional $15 million. Now, the municipality has $115 million that it can use immediately to construct a new infrastructure project that either might not be suitable for private investment (e.g., improvements to public school buildings) or that private investors may be reluctant to underwrite without a revenue history.

The federal subsidy serves three purposes. First, it motivates the municipality to undertake a complicated legal and financial process, which it might otherwise opt to avoid. Second, when constituents assert that the municipality should not sell a much loved asset (e.g., a stadium), the municipal officials can respond that they care about the stadium too; however, the federal government is providing a cash subsidy for doing this. Third, it provides much needed funding for infrastructure.

Another nuance is that in Australia title in fee simple to the infrastructure asset in question is not usually sold to the private investor. Rather, the municipality enters into a long-term lease or concession contract for the asset with the private investors. Therefore, constituents who are concerned about a prized asset being in private hands can be assured that eventually (e.g., 50 years) that possession of the asset will eventually revert to the municipality. That is, the politicians can state we did not sell the beautiful toll bridge, we merely leased it to an investor.

Even more infrastructure funding could be raised if the tax-exempt bond rules in the United States were modified to permit private investors to issue tax-exempt bonds to fund a portion of the payment for the long-term lease or concession contract. The tax exemption on the bonds would enable the private investors to issue debt at lower interest rates than they could using traditional taxable debt and, thus, pay more for their interest in the infrastructure assets while earning a comparable equity return.

If the Trump Administration wants to improve America's infrastructure in an expedited manner with minimal involvement of the federal bureaucracy, then it should urge Congress to enact legislation that provides municipalities a subsidy based on the sale proceeds of assets and enables private investors to issue tax-exempt debt to fund their investment in municipal infrastructure assets.

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