Study Urges Private Activity Bond Changes.

WASHINGTON —Lawmakers should expand the permissible uses of tax-exempt private activity bonds and lift the PAB volume cap to facilitate financing of long-term infrastructure leases that could generate as much as $885 billion for state and local governments, according to a study released Wednesday.

The new paper, "Asset Recycling to Rebuild America's Infrastructure," called on Congress to pass legislation that would make tax-exempt PABs eligible to help private companies finance the acquisition of existing public infrastructure. The paper's author, Robert Poole of the Libertarian think tank Reason Foundation, argued that this "asset recycling" approach to public-private partnerships, which has been controversial in the past, could be a key component to addressing America's infrastructure funding woes.

"With constrained public resources at every level of government, it will take novel ideas to address our continued infrastructure investment deficit," Poole said. "Asset recycling can help fix America's serious infrastructure problems: aging, deteriorating facilities and a lack of funding for a large array of new infrastructure that would improve our quality of life.

"The basic idea calls for long-term leasing of existing facilities to well-qualified private partners and 'recycling' the lease proceeds into new, but currently unfunded infrastructure project," Poole continued. "The company pays most or all of the annual lease payments upfront, and the government uses that money on its unfunded infrastructure needs. Arguably, no other tool holds as much promise in addressing America's infrastructure deficit."

In his study, Poole argued that asset recycling is consistent with the Trump administration's stated preference for encouraging private investment in infrastructure, and pointed to a variety of infrastructure financed in this way in Australia. Billions of dollars' worth of Australian infrastructure investment were made possible through asset recycling as well as other forms of P3 in the past decade or so, according to Poole.

The study used data compiled from past commercial infrastructure transactions to produce its estimates.

Leasing the 61 largest U.S. airports to private partners could generate between $250 billion and $360 billion for state and local governments in gross upfront lease payments, according to Poole's work. Under the leases, the private companies would spend an estimated $100 billion on capital improvements over the first five years, bringing the total private-sector investment in airports to between $350 billion and $460 billion.

The study cites Baltimore/Washington International Thurgood Marshall Airport, which it finds could generate between $1.6 billion and 2.3 billion in net lease proceeds (after paying off existing bonds), and Louisville International Airport, which Poole said could be leased for over $600 million in net lease proceeds.

The study produced projections for other sectors as well, including toll roads and bridges, ports, and water/wastewater facilities.

But the program would benefit immensely from tax-exempt financing, Poole said, requiring legal changes to PABs. Under current law, PABs can only be used for certain kinds of infrastructure projects such as tunnels and are subject to a $15 billion cap. The $15 billion in exempt facility bonds is not subject to the state volume caps. The Department of Transportation is responsible for allocating the remainder among qualified projects. As of Aug. 1, 2018, approximately $8.38 billion in PABs have been issued, according to the DOT website.

PABs cannot be used to finance the acquisition through an outright purchase or long-term lease of existing brownfield infrastructure assets. Poole said both bars should be lifted to make asset recycling attractive.

Poole also recommended other policy changes, including making small federal grants available to city and state governments to hire financial and legal advisors for asset recycling projects.

Privatization of exiting government infrastructure has been controversial in the past, but P3s generally have gained increasing acceptance as one possible avenue to finance infrastructure. Muni market observers are hoping for a bipartisan infrastructure bill to emerge from Congress sometime next year.

By Kyle Glazier

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