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Decaying Roads, Bridges Attract Investor Interest.

PHILADELPHIA — Investors such as Jeffrey Gundlach's DoubleLine Capital and KKR & Co. are looking at crumbling U.S. roads — and like what they see.

DoubleLine, which oversees $64 billion, plans to start its first fund to finance infrastructure, Gundlach said last month. KKR, the private-equity firm led by Henry Kravis and George Roberts, signed a contract in December to manage the water system in Middletown, Pennsylvania, with Suez Environnement Co.'s United Water unit. Its debut infrastructure fund started buying assets in 2011, Bloomberg News reported in April.

The companies are working with states and localities fed up with federal inaction to jump-start transit projects and revamp public works suffering from decades of neglect. Such an alliance in Pennsylvania, home to the nation's highest number of deficient bridges, is letting the state replace 558 crossings more cheaply and more quickly.

"We're pretty happy with where we are," said Bryan Kendro, director of Pennsylvania Department of Transportation's Public Private Partnerships office. "It gives us confidence to continue to look at other opportunities."

Officials in Pennsylvania and Colorado, which reached agreement for its first partnership with a private operator last year, say this year will help guide future prospects for such deals.

Last year, four major transportation public-private partnerships cemented agreements, up from three in 2013, said Roderick Devlin, a project finance lawyer at Squire Patton Boggs in New York. Eight states plan transit work requiring at least $11 billion in funds combined through September, according to Public Works Financing, a newsletter.

More states will probably consider the contracts in 2015 amid concern that federal funding will fall short and as gasoline-tax receipts for projects decline, said Jim Reed, a transportation analyst for the National Conference of State Legislatures in Denver.

While private financing of public works is common in Europe and Canada, it's less so in the United States, where localities can sell tax-exempt municipal bonds to build and maintain bridges and roads. With public-private contracts, companies handle the work on the assets while governments retain ownership.

Funds are eyeing U.S. infrastructure as "a way to diversify their investment base," said Howard Cure, head of muni research in New York at Evercore Wealth Management, which oversees $5.7 billion. Projects on existing roads are appealing because there's a history of revenue, he said.

The District of Columbia passed legislation last month to encourage the transactions, according to law firm Ballard Spahr, which tracks the issue. Thirty-three states have enacted similar laws, Reed said.

There have been setbacks. Illinois Gov. Bruce Rauner, who took office this month, halted major interstate construction projects, including an effort with Indiana for a highway that may involve private partners, pending a review. In Maryland, officials delayed a deadline for bids on a light-rail project to March from January as newly elected Gov. Larry Hogan evaluates it.

Such political risks don’t dissuade international investors, said Devlin at Squire Patton Boggs. The U.S. has the potential to be the largest market globally for the partnerships because of its infrastructure needs, Moody’s Investors Service said in September.

U.S. roadways alone need $170 billion a year of improvements, according to the Federal Highway Administration.

Nine U.S. infrastructure funds raised about $14.5 billion in 2014, compared with $10.5 billion for eight funds in 2013, according to Seattle-based PitchBook Data Inc., a research firm for private equity and venture capital.

Gundlach said this month that New York’s $4 billion plan to replace the 59-year-old Tappan Zee Bridge over the Hudson River is the kind of project his Los Angeles-based fund may target. Gundlach didn’t return an e-mail seeking further comment.

The “estimates of what’s needed are mind-blowing,” he said in an interview this month.

Bloomberg News reported in April that KKR was seeking $2 billion for its second fund dedicated to infrastructure investments globally. Kristi Huller, a spokeswoman for New York- based KKR, declined to comment on the fundraising.

“We certainly believe that there is a great need and opportunity to invest in infrastructure globally,” Huller said in an email.

BlackRock Inc., the world’s biggest money manager, is expanding offerings targeting projects such as roads and bridges, Chief Executive Officer Larry Fink told Bloomberg News this month.

“There are more and more clients asking about infrastructure,” he said in an interview.

Clients “are looking to increase their allocation to global infrastructure as a way to match long-dated liabilities and provide portfolio diversification,” Josh Levine, head of BlackRock’s alternative investment strategy group, wrote in an e-mail.

Caisse de Depot et Placement du Quebec, Canada’s second- biggest pension fund manager, is also eying U.S. infrastructure for investment opportunities.

Last year, 22 states considered at least 70 bills to allow such deals or tweak existing laws, said Reed at the NCSL. Governments and the private sector have committed to about $61 billion in projects during the past 25 years, with half that amount coming during the past five, he said.

President Barack Obama has been pushing for more global private-sector involvement to meet the infrastructure needs. He announced a proposal Jan. 16 to spur private investment, including a new class of municipal bonds.

State and federal governments have relied on fuel-tax collections that have declined as cars become more efficient and motorists drive less while politicians balk at raising taxes.

State spending on surface transportation fell by $20 billion from 2002 to 2011, or 20 percent in inflation-adjusted terms, according to a September report by the Washington-based Pew Charitable

Trusts.

Congress has yet to agree on a long-term solution for the U.S. Highway Trust Fund, which pays for transportation projects; in August lawmakers passed a patch that keeps it operating through May.

States are increasingly considering private financing because “the federal partner is not as reliable as it had been in the past,” said Jonathan Gifford, director of the Center for Transportation Public-Private Partnership Policy at George Mason University in Arlington, Virginia.

Having a private operator handle several aspects of a transportation project such as design, construction, operation and maintenance can reduce costs, he said.

Pennsylvania’s bridge program, for which $800 million of bonds may be sold by March, is the nation’s first to bundle hundreds of structures into one project. It would save about $400,000 for each crossing and may be done in 2018, according to the state.

The state may award a contract later this year to develop compressed natural-gas fueling stations at public-transit agencies, said Kendro from the Department of Transportation. Officials are also considering other highway projects that could benefit from private financing, he said.

In Colorado, officials are undertaking a second public- private venture, a $1.8 billion reworking of Interstate 70, the largest highway infrastructure project in state history.

The legislature may also consider creating an entity to promote private financing for more projects, said Mike Cheroutes, director of the state’s High-Performance Transportation Enterprise division, which examines how to pay for transportation needs.

“The use of private partnerships in sectors other than transportation is also on the table in a big way in Colorado,” he said.

Feb 1, 2015

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