[Bond Case Briefs]

Municipal Finance Law Since 1971

[Tailing Europe, U.S. Is on the Road to New Investment Bonds.]

The White House's idea to promote public- private partnerships with a new kind of investment bond could raise billions of dollars for transportation projects with relatively little fiscal effect on the government, but the big infrastructure projects carry big risks for the private sector.

The Qualified Public Infrastructure Bond the administration proposed this month would give public-private partnerships access to the low interest rates, federal tax benefits and the government protection of municipal bonds. The bonds are similar to Private Activity Bonds, which have proved successful but have been limited to $15 billion. The new program would not be capped.

The administration's idea is to combine some of the most attractive features of public-private partnerships with those of wholly public projects. Local governments would get a private equity partner willing to share the risk of a project, while the private sector would get access to low-interest loans.
The program would require congressional approval, and some observers think it may have a good chance among lawmakers looking for new ways to finance transportation and infrastructure projects because receipts from the federal excise tax on motor fuel have been inadequate. The costs are unclear since the administration has withheld details in its initial release of the plan.

The idea has support in the transportation industry, but whether the financial world comes on board is an open question.

A Game of Risk

The risks in transportation infrastructure can be considerable. Construction delays, cost overruns and other problems can be difficult to manage on a complex project. Depending on the structure of the partnership, the private investor may take on the responsibility of managing those risks.

Public-private partnerships, in which a private investor contributes equity and takes a share of risk in an infrastructure project, are widespread in Europe but have not gained a great deal of acceptance in the United States. That has led American investment funds to put money into projects overseas rather than at home.

One case in point is the California Public Employees' Retirement System, one of the world's largest investors, which owns 12.7 percent of London's Gatwick Airport.

One reason the partnerships haven't taken hold in the United States is that state and local governments benefit from a well-developed municipal bond market that allows them to borrow money cheaply. Rather than deal with the legal hassles of writing a contract with a private investor, the governments prefer to go to the bond market and keep control of their projects.

A brief run of private investment in big transportation projects in the 2000s increased interest in such public-private partnerships, but the examples fell away to financial reality. The management operation of the Indiana Toll Road, for instance, filed for bankruptcy protection last year after traffic declined and an investment by Spanish and Australian firms meant to last 75 years ran off the road.

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