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Should America Sell Its Existing Roads to Pay for New Ones?

Trump's infrastructure plan eases requirement that investors who buy or lease public infrastructure assets must repay all their existing tax-exempt debt

When President Donald Trump unveiled his long-anticipated infrastructure plan on Monday, there was one word that caught the attention of many investors: recycling.

It isn't the garbage variety. Since early last year, infrastructure fund managers, bankers and lobbyists have been pitching the administration on the concept of infrastructure asset recycling.

Here is how many on Wall Street hope this might play out in the U.S.: The federal government would set up a pot of money to give state and local governments a bonus payment when they privatize or lease one of their existing assets to investors. To earn the bonus, governments would have to commit to using the sale proceeds to fund new bridges, roads or other infrastructure projects in need of money.

President Trump's $1.5 trillion infrastructure plan stopped short of recommending such a fund. But it eased a requirement that investors who buy or lease public infrastructure assets must repay all of their existing tax-exempt debt—an expensive proposition that makes such deals harder to finance. The plan proposes that governments could recycle deal proceeds into new projects, and if they do, the tax-exempt debt could remain outstanding.

"Getting to $1.5 trillion without a significant asset-recycling effort will be a challenge, unless states decide to implement other revenue measures such as big tax or fee increases," said Geoff Segal, senior vice president at Macquarie Capital, the investment-banking arm of Australia's Macquarie Group Ltd.

If it takes root in the U.S., asset recycling could create a pipeline of new deal flow for Macquarie, the world's largest infrastructure fund manager, and its peers. Macquarie estimates U.S. state and local governments could earn as much as $1.25 trillion from privatizing their infrastructure assets.

Australia's ambassador to the U.S., Joe Hockey, has pitched the idea to senior administration officials, including Vice President Mike Pence, National Economic Council Director Gary Cohn, Transportation Secretary Elaine Chao and DJ Gribbin, President Trump's infrastructure-policy adviser and a former Macquarie executive.

He has also met with Rep. Bill Shuster (R., Pa.), chairman of the House Transportation and Infrastructure Committee, which will have a big say in any legislation implementing Mr. Trump's infrastructure push. A spokesman for Mr. Shuster said he believes "Australia's experience with asset recycling is something we should give serious consideration."

The idea also came up in late June, when executives from Goldman Sachs Group Inc., Morgan Stanley and a handful of other pension and infrastructure funds met with White House officials to discuss Mr. Trump's plans to jump-start investment in U.S. infrastructure. Spokeswomen for Morgan

Stanley and Goldman Sachs declined to comment.

The meeting was held to broadly discuss how to level the playing field between private investors and governments, which have long enjoyed an advantage in funding U.S. infrastructure thanks to their lower cost of borrowing. One suggestion, according to two attendees, was asset recycling.

“That’s how you get lots of cranes up in the air,” said Mr. Hockey, who says he coined the term “asset recycling” as Australia’s treasurer from 2013 to 2015.

During his tenure, Australia launched a 5 billion Australian dollar (roughly US$4 billion) asset-recycling fund to incentivize its states and territories to privatize assets and plow the proceeds into new infrastructure projects. In exchange, for doing so, they would get a bonus equal to 15% of the value of the privatized asset.

In a statement, the White House said: “The President’s plan does not contain a preference for that model or really any specific revenue raiser. The plan is designed to promote innovative and creative solutions to fund infrastructure.”

In the U.S., the need for other sources of revenue is paramount. Most of President Trump’s $1.5 trillion infrastructure plan will not be financed by the federal government but instead by state and local governments, and private investors.

That is a difficult proposition for mayors and governors. Census data show that state and local tax revenues have been recovering from the 2007 recession at the slowest rate of any economic downturn since 1980. The administration’s reduction of the state and local tax deduction, a popular tax break for residents in high-tax states, could make it even harder for those governments to raise taxes.

“He wants everybody else to spend a trillion dollars,” said Martin Klepper, who until November headed lending programs at the U.S. Department of Transportation.

Not everyone likes the idea.

“‘Asset recycling’ sounds like a fancy term for enriching investment bankers while undermining public services,” said Lee Saunders, president of the American Federation of State, County and Municipal Employees. The 1.6 million-strong public-sector union believes “infrastructure is a public good, and it should be controlled by taxpayers and built and maintained by public-service workers.”

Another worry is that governments won’t make the best use of privatization proceeds. In 2008, for example, Chicago agreed to lease its parking meters to Morgan Stanley’s infrastructure fund for $1.16 billion and then used the money to plug budget gaps.

Mr. Hockey said it is up to the federal government to craft rules that would prevent a similar situation. But ultimately, he doesn’t want to tell the U.S. what to do.

“Take it or leave it,” he said.

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