

# PRIVATE ACTIVITY BONDS

## Description

Private Activity Bonds (PABs) allow for tax-exempt financing of projects performed by or with the private sector. These bonds subsidize projects by effectively lowering the interest paid on borrowed money; thereby, providing savings to the project, reducing project risk, and/or increasing the competitiveness of project bonds.

**TAX FREE**

## How Will This Help?

- **Incentivizes private investment in transportation infrastructure** – Through excluding PABs from taxes, their competitiveness against other privately available bonds increases. The inclusion of the private sector in transportation investments can reduce or diffuse risk.
- **Reduces the need for public funds** – Increasing private investment funds in infrastructure projects decreases the amount of funds that need to be invested by the public; allowing for public investment in other projects that may not receive much attention from private investors.
- **Lessens the need for new taxes** – Increasing the efficiency of public funds through the incorporation of private investment reduces the need for expanding or implementing new taxation strategies.

## What's the Downside?

- **Private investments require returns** – Introducing a private interest into a project financing strategy requires a revenue generating system to pay back the private investment. Means for generating a return on investment can include tolling, pass through financing, tax increment financing, or other strategies coupled with comprehensive development agreements.
- **No new long-term transportation funds generated** – Incorporating private investment into specific transportation projects allows for public spending in other projects or the construction of a project before public funds would have been available; however, this does not generate long-term public funds for future projects.

### Around the State

**IH 635 Managed Lanes Project** – In 2010, the LBJ Infrastructure Group LLC was approved for \$700 million in PABs to aid in the expansion of IH 635 and the installation of managed lanes.

**North Tarrant Express Project** – The NTE Mobility Partners LLC was approved for \$400 million in PABs in 2009.

## Estimated Funding Yield

- In 2012, the state ceiling for private activity bonds was nearly \$2.5 billion.

## Implementation Issues

Criteria for private activity bonds must be met.