PRIVATE ACTIVITY BONDS

Who: State
Cost to Collect: N/A
Sustainability: N/A
Reliability: N/A
Implementation: Complex

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. Under Title 6 Sec. 222.035 of the Texas Transportation Code private activity bonds for highways are established within the state as a result of federal changes to the Internal Revenue Code that allow for the inclusion of highways for PABs. The state has issued over a billion dollars in PABs since inception.

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.

Reduce need for borrowing – Texas has increasingly turned to debt mechanisms such as bonds as a way to finance transportation improvements. Texas could help slow a growing trend of using the credit card to pay for roadway projects by utilizing private investment though PABs.

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.
- **Project selection is tied to private interest –** Projects that will benefit from private activity bonds are those selected by private investors, which may not select best project for the public overall. Profit motives and private benefits direct investment funds instead of public good.

Estimated Funding Yield

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

For more information, please refer to: http://mobility.tamu.edu/mip/strategies.php.

Implementation Issues

- Criteria for PABs must be met:
  - 10 percent or more of the proceeds are business use, or
  - 10 percent interest or principal payments are derived from business use, or
  - Proceeds are used to make or finance loans to non-governmental units.

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. Funds from the bonds were designated for the construction of the North Tarrant Express project.