



## PRIVATE ACTIVITY BONDS



**More Information:** [tti.tamu.edu/policy/how-to-fund-transportation](http://tti.tamu.edu/policy/how-to-fund-transportation)

### Description

Private activity bonds (PABs) are a tax-exempt financing option for projects performed by or with the private sector. These bonds subsidize projects by effectively lowering the interest paid on borrowed money. The strategy provides savings to the project, reduces project risk, and/or increases the competitiveness of project bonds.

### How Will This Help?

- **Encourages private investment in transportation infrastructure.** Since PABs are exempt from taxes, they are more attractive than other privately available bonds. Including the private sector in transportation investments reduces and distributes risk.
- **Reduces the need for public funds.** Increasing private investment funds in infrastructure projects frees up public funds for other projects.
- **Lessens the need for new taxes.** Increasing public fund efficiency through PABs reduces the need for expanding or implementing new taxes.

### What's the Downside?

- While PABs free up public funds for other projects, they do not generate long-term public funds for future projects.
- Private investments require returns. Private investors need to generate a return on investment through tolling, pass-through financing, tax increment financing, or other strategies coupled with comprehensive development.

### Implementation Issues

- Current PAB amounts are limited to \$15 billion by the Federal Highway Administration (FHWA). The Secretary of Transportation allocates this amount to qualified facilities.
- PABs are generally limited to projects that are eligible for federal assistance under Title 23. Project elements funded with federal funds must follow all federal-aid requirements, but not all elements of the PAB project have to follow all federal-aid requirements.
- Financial expertise is required. PAB recipients must retain bond counsel to comply with Internal Revenue Service requirements.

### WHO



STATE

### COST TO COLLECT

N/A



### LONGEVITY

N/A

LOW ————— HIGH

### RELIABILITY

N/A

LOW ————— HIGH

### IMPLEMENTATION

EASY

MODERATE

COMPLEX

### AROUND THE STATE

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

**SH 288 (Houston area).** FHWA has allocated **\$600,000 in PABs in 2015.**

**TEXPRESS** **IH 635 Managed Lanes Project.** In 2010, the LBJ Infrastructure Group, LLC, was approved for **\$700 million in PABs to expand IH 635 and install managed lanes.** This project is to relieve congestion north of Dallas on 13 miles of IH 635 (LBJ Freeway).

The project was built under a public-private partnership between the Texas Department of Transportation and the LBJ Infrastructure Group, which will operate and maintain the facility for 52 years. **This project is unique because of the extensive use of technology to monitor traffic flow and the finance package used to build it.**

### ESTIMATED FUND YIELD

In 2012, the state ceiling for **PABs was nearly \$2.5 billion.**

