Rebuilding America’s Infrastructure
Asset Recycling

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What Is Asset Recycling?

Asset recycling is a means of increasing investment in both existing and planned infrastructure. In basic terms, asset recycling is the long-term leasing of aging, existing infrastructure to vetted private partners capable of “recycling” the lease proceeds into new infrastructure. As Robert W. Poole, Jr. of the Reason Foundation wrote:

“In typical long-term leases, most or all of the lease payments are provided upfront. These proceeds are dedicated to investment in needed, but currently unfunded, infrastructure projects. Provisions in the long-term lease of an existing facility include performance requirements, which in most cases of aging infrastructure, will require significant additional private investment to refurbish and modernize the facility. Hence, asset recycling is intended to fix both of America’s serious infrastructure problems: aging and inadequate existing facilities and lack of funding for a large array of new infrastructure facilities.”

1 Robert W. Poole, Jr., “Asset Recycling to Rebuild America’s Infrastructure,” Reason Foundation, November 2016
The Australian Experience

The Australian experience has shown that asset recycling – providing financial incentives to state and local governments to sell or lease their assets – can be a fast and efficient way of injecting funds into upgrading existing infrastructure or building new infrastructure. Australia’s New South Wales state government was the first to implement a successful policy. The Australian federal government followed by implementing a national plan that promoted utilization of private capital, reduced reliance on taxation/public debt as a financing model and improved the efficiency with which existing government assets are used, while also bringing those assets into the federal taxation pool. Evidence shows that in Australia’s case, a few billion dollars in federal funding has unlocked more than US$20 billion of investment into new infrastructure projects.²

Asset Recycling in the US

While much more limited, the US does have some experience with what could be labeled infrastructure asset recycling; however, policy changes at the federal/state level would further encourage infrastructure asset recycling.

The long-term P3 lease of the Indiana Toll Road in 2006 generated US$3.8 billion in the upfront lease payment. The state of Indiana then paid off toll road bonds and funded a 10-year highway investment plan called Major Moves, in addition to creating a US$500 million trust fund to maintain the new infrastructure.³ In 2007, the Indiana Treasurer announced the state garnered more than US$287 million in interest from its investments of proceeds from the lease. By 2011, that number grew to US$755.5 million in interest income.⁴ The leasing of the Indiana Toll Road did hit a snag when the global financial crisis hit and the investors who took over operations declared Chapter 11 bankruptcy. However, it is important to note that it had no impact on the toll road – there was no interruption in service, no increase in toll rates, and no change in performance requirements. Despite the investors’ financial troubles, the state received its payment upfront and in doing so avoided any long-term liability. In March 2015, a private consortium bought the long-term lease out of bankruptcy for US$5.715 billion and has since invested more than US$300 million to rehabilitate 73 miles of pavement and 53 bridges, in addition to modernizing service plazas and improving safety.⁵

Other examples in the US include:

- Chicago Skyway lease
- San Juan International Airport lease
- Bayonne, NJ water/wastewater system lease
- Maryland’s Seagirt Marine Terminal lease
- Ohio State University parking system lease

² Rebuilding America 20/20 Infrastructure Program, Embassy of Australia, February 2017
⁵ Robert W Poole Jr, “Asset Recycling to Rebuild America’s Infrastructure,” Reason Foundation, November 2018
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