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# Infrastructure "Recycling": An Innovative Approach to Infrastructure Finance Gains Traction with the Trump Administration

***By Stephen A. Martinko and Peter V. Nelson***

What if a solution to America's infrastructure funding challenges were right under our feet? That's the idea behind "infrastructure recycling," a concept popularized in Australia that encourages governments to fund infrastructure improvements with proceeds from the sale or lease of existing assets. As the Trump administration seeks ways to leverage as much as $1 trillion in additional infrastructure investment, this model has attracted attention from a range of prominent officials including Vice President Mike Pence, Transportation Secretary Elaine Chao, and National Economic Council Director Gary Cohn. With the administration's infrastructure plan slated for release in the coming weeks, translating infrastructure recycling from concept to reality in the United States could provide the ability to leverage relatively modest direct federal spending into a substantial source of funding to meet the enormous unmet need for infrastructure investment. The K&L Gates infrastructure team and the authors of this alert are available to help clients evaluate the opportunities presented by this model and engage in the policy debate as infrastructure funding and financing discussions move forward.

## What Is Infrastructure Recycling?

Like the forms of recycling that we are all familiar with, infrastructure recycling is about making something new out of what already exists. In the infrastructure context, the starting point is the hundreds of billions of dollars worth of public investment that has already been made in roads, bridges, airports, utilities, waterways, and other infrastructure assets. Infrastructure recycling uses public-private partnerships ("P3s") to tap this existing capital investment to fund new priorities. This process unfolds in three interrelated steps:

1. Public sector infrastructure owners **unlock** the capital investment that is "trapped" in existing infrastructure assets by selling or leasing them to private investors through P3s. The terms of the concession arrangement typically provide for the long-term maintenance and/or improvement of the asset.
2. The public sector **"recycles"** the proceeds realized from these P3 transactions to pay for new infrastructure — enabling significant investment in public infrastructure at little additional cost to taxpayers.
3. As assets mature and become good candidates for P3s, the **cycle repeats** to enable continuous investment and renewal.

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## A Proven Concept

The theory behind infrastructure recycling is that unlocking the capital investment in existing assets can provide a substantial and sustainable source of financing for upgrades, maintenance, and new projects alike. This concept has been carried out in practice both internationally and closer to home. For example, the Asset Recycling Initiative instituted in Australia in 2014 unlocked more than $20 billion worth of new infrastructure investment in just a few years.

To catalyze the recycling process, Australia's federal government offered states and territories an incentive payment equal to 15 percent of the value of existing infrastructure assets concessioned through P3s, conditioned on the reinvestment of the proceeds in new infrastructure. This incentive payment encouraged state and territorial governments to rethink their infrastructure portfolios and consider ways to unlock the value trapped in their balance sheets. It also allowed the Australian federal government to leverage a comparatively modest financial commitment to achieve an outsize increase in infrastructure investment.

During the years in which the Asset Recycling Initiative was active, it helped support a number of innovative transactions. For example, the state of New South Wales leased an interest in state-owned electric utility TransGrid to private investors, helping to optimize the utility's operations and generate approximately $7 billion to maintain and improve the public transportation system in Sydney. This kind of cross-modal investment activity is considered a chief advantage of infrastructure recycling, as it permits the use of proceeds from economic, revenue-producing infrastructure assets to support much-needed projects that may nevertheless not be self-sustaining from a revenue standpoint.

U.S. states have also experimented with forms of infrastructure recycling. A leading example is the 2005 lease of the Indiana Toll Road to private investors, which generated proceeds to enhance other transportation assets throughout the state. In the ten years since this landmark transaction, Indiana has been able to leverage $10.8 billion toward a wide variety of infrastructure improvements without taking on additional debt or imposing increased costs on taxpayers.

## Lessons for an Infrastructure Package?

In light of the experience at home and abroad, infrastructure recycling has lately gained traction as a potential element of the Trump administration's planned $1 trillion infrastructure investment program. The co-chairman of the president's infrastructure task force, Steven Roth, has said that the administration is looking carefully at the Australian model. Vice President Pence echoed this interest during a recent visit to Australia, reportedly citing his experience with P3s during his term as governor of Indiana. In addition, Transportation Secretary Elaine Chao has suggested that the monetization of government assets could be among the ways the administration leverages direct federal funding through partnerships with the private sector.

The interest expressed by these officials is a reflection of infrastructure recycling's potential to help address America's infrastructure funding challenges both today and into the future. Experts agree that our country's infrastructure gap is too wide to be filled by a single spending package. According to the American Society of Civil Engineers, more than $5 trillion dollars of additional investment will be required through 2040 — well in excess of the contemplated size of the administration’s infrastructure package. This situation requires a sustainable, long-term source of financing for infrastructure improvement and maintenance — exactly what the “virtuous cycle” of infrastructure recycling is meant to produce.

To be sure, policymakers have a number of questions to answer as they contemplate potentially moving forward with an infrastructure recycling program for the United States. For example, how much of an incentive is necessary to catalyze the process? Who should decide what transactions receive federal incentives? What kinds of infrastructure assets should qualify? What restrictions or conditions, if any, should be placed on the reinvestment of proceeds? How can the overall program be structured to support jobs and economic growth in the near term? We anticipate that resolving these and other questions will become a major focus of legislative and regulatory activity if the Trump administration pursues this approach.

America’s infrastructure gap has presented an enduring challenge over the years; bridging it will require creative thinking and an openness to new concepts and ideas. Infrastructure recycling is an innovative approach that could engage both the public and private sectors in a sustainable, long-term solution. Stakeholders should take advantage of the opportunity to engage in the infrastructure policy discussion as it moves forward.

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