Leveraging Public Finance for Spaceports: An Analysis of Recent Amendments for Commercial Space Infrastructure Under IRC § 142

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The immense capital expenditure required to establish and maintain terrestrial space infrastructure has long represented a significant financial barrier for the commercial space industry. Historically, funding for such ambitious projects has been dependent on direct government contracts or the high-cost capital of venture equity markets. A pivotal change in United States federal tax law, however, has introduced a sophisticated public finance mechanism designed to lower this barrier, fundamentally altering the calculus for investing in the ground-based assets that underpin the space economy. The amendment of Internal Revenue Code § 142 to include spaceports as a class of "exempt facility" for which tax-exempt private activity bonds may be issued marks a strategic integration of the space sector into the mainstream of American infrastructure finance. This legislative action effectively signals a policy determination that private space infrastructure now serves a public purpose akin to airports and docks, meriting access to the same advantageous financing tools.

Legal Framework: The "Exempt Facility Bond"

The legal foundation of this opportunity lies within the concept of the exempt facility bond itself. Section 142 of the U.S. Internal Revenue Code carves out specific exceptions to the general rule that bonds issued to benefit private entities are taxable. This section enumerates a select list of privately operated or utilized facilities, such as airports, docks, wharves, and mass commuting facilities, which are deemed to provide a significant public benefit. By adding "a spaceport" to this list, the U.S. Congress has enabled state and local governments to issue bonds on behalf of a private enterprise for the purpose of developing space facilities, with the interest paid to bondholders being exempt from federal income tax. This tax exemption translates directly into **lower borrowing costs** for the project, as investors are willing to accept a lower interest rate in exchange for the tax benefit.

Anatomy of a "Qualified Spaceport"

Crucially, the legislation provides a comprehensive and forward-looking definition of what constitutes a "spaceport." This is not limited to the physical launchpad but is crafted to encompass an entire industrial ecosystem. The statute specifies that the term includes fixed assets, equipment, and facilities located at or near a launch or reentry site that serve a range of functions. An analysis of these functions reveals the law's broad intent. The inclusion of facilities for **"manufacturing, assembling, or repairing spacecraft, space cargo, or components thereof"** is particularly significant. It extends the benefit of tax-exempt financing beyond launch service providers to the vital upstream supply chain of hardware manufacturers and component suppliers. This provision directly enables the development of integrated "spaceparks," where design, manufacturing, testing, and launch operations can be co-located to create powerful efficiencies.

Furthermore, the definition covers infrastructure for **"flight control operations,"** acknowledging the critical and costly

ground-station and mission-control networks necessary for any space venture. It also explicitly includes facilities for **“transferring crew, spaceflight participants, or space cargo to/from spacecraft,”** a clause that directly addresses the burgeoning markets for both space tourism and in-space logistics. This statutory breadth ensures that the financing mechanism is not narrowly prescriptive but can adapt to the diverse business models emerging within the commercial space sector.

Structuring the Public-Private Partnership (P3)

A central pillar of this framework is the intricate structure designed to facilitate public-private partnerships while adhering to the tax code’s requirement of governmental ownership. To qualify, the financed facilities must be governmentally owned for tax purposes. The law, however, provides a clear and practical **“safe harbor”** that allows a private entity to lease and operate the facility without jeopardizing the bonds’ tax-exempt status. This legal architecture is critical, as it allows a public entity, like a port authority or a county economic development corporation, to serve as the issuer and legal owner while a private space company brings its specialized expertise and operational control to the project.

The safe harbor provisions are precise.

1. The lease term granted to the private operator **cannot exceed 80%** of the property’s reasonably expected economic life, ensuring the public entity retains a meaningful residual interest in the asset.
2. Any option granted to the private lessee to purchase the facility must be at a price equal to its **fair market value** at the time the option is exercised. This prevents the arrangement from functioning as a disguised installment sale at a pre-arranged, below-market price.
3. The private operator must formally **waive any right to**

claim federal depreciation deductions or investment tax credits with respect to the facility. This provision prevents a project from receiving a "double benefit" of both tax-exempt financing and private-owner tax deductions.

This carefully balanced structure provides a tested and bankable model for allocating risk, responsibility, and reward between public and private partners.

Navigating Federal Entanglement Rules

The legislation also astutely navigates the complex rules regarding federal guarantees. Generally, private activity bonds are ineligible for tax-exempt status if their payment is directly or indirectly guaranteed by the federal government. This rule prevents the federal government from using the municipal bond market to provide backdoor subsidies. However, in the context of spaceports, where federal agencies like NASA and the Department of Defense are often foundational, long-term customers, this prohibition posed a fatal obstacle. A multi-year launch services agreement or facility lease with a federal agency could easily have been interpreted as an impermissible guarantee. The amended code provides a crucial clarification: **payments made by the United States** for the use of a spaceport under ordinary rental or user-fee arrangements **will not be treated as a federal guarantee**. This carve-out is of paramount importance, as it provides the certainty needed for projects anchored by federal contracts to proceed with tax-exempt financing, thereby aligning the tax law with the business realities of the aerospace and defense sectors.

Conclusion: A Strategic Policy Shift

In sum, the inclusion of spaceports under Section 142 is far more than a minor regulatory adjustment. It is a sophisticated piece of financial engineering that creates a clear, legal pathway for channeling lower-cost capital into essential space

infrastructure. By leveraging the mature public finance market, this legislation provides a powerful new tool for economic development, enabling states and municipalities to compete for high-tech investment and job creation. For the commercial space industry, it reduces the cost of capital, a primary constraint on growth. For investors, it creates a novel, tax-advantaged asset class with exposure to a transformative economic frontier. This framework is a deliberate act of industrial policy, designed to accelerate the build-out of a robust domestic space infrastructure and secure American leadership in the commercial space domain.

Author: Sohair Saber
Title: Partner – Policy
Email: ssaber@waselandwasel.com
Profile: https://waselandwasel.com/about/sohair-saber/