



The Heritage Foundation Executive Memorandum

No. 618

August 4, 1999

HOW THE SENATE'S TAX BILL WOULD FACILITATE INFRASTRUCTURE PRIVATIZATION

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Much of the debate surrounding the tax bills now before Congress focuses on the magnitude of the proposed tax cuts, their impact on a family's taxes, and the President's threat of a veto. Lost in the debate is any discussion of the bills' other provisions, including some rather inexpensive but innovative pilot proposals to foster infrastructure privatization of school and highway facilities. If enacted, these provisions could lead to major improvements in how government cooperates with the private sector to deliver better public services.

Two provisions of the Senate bill offer modest tax incentives to private-sector entrepreneurs to encourage investments of up to \$15 billion in new highways and \$27 billion in new public school buildings over the next 10 years. These two provisions account for only about \$1.1 billion of the \$792 billion in tax revenue reductions the Senate bill would produce. The \$42 billion in public infrastructure investment from the private sector that this tax concession could induce should be added to whatever state, local, and federal governments plan to spend for public schools and roads. In other words, \$1.1 billion in tax incentives would allow more investment in building schools and highways without any additional government spending.

More Schools. The limited cost of the Senate's school construction proposal is even more striking when compared with the estimated revenue loss that would result from the tax incentives proposed by President Bill Clinton. The President's proposed

tax credit for public school construction would cost \$3.7 billion over five years; the Senate Finance Committee's proposal, inspired by Senator Bob Graham's (D-FL) Public School Construction Partnership Act, would cost \$992 million over 10 years. Standardizing the comparison over five years, the Senate plan would cost \$182 million over that period, or less than 5 percent of the \$3.7 billion price tag for the Clinton plan.

The Senate Finance Committee's proposal would create a nationwide demonstration program for a limited number of private investors and for-profit developers to borrow by way of tax-exempt private activity bonds for the construction and ownership of school classroom facilities. The private owners would then lease these facilities to the public school systems, which would operate them with their own teachers, administrators, principals, and students at a potentially large savings because of the cost efficiencies in development and construction compared with the inefficiencies and delays that often characterize public construction. Based on recent

Produced by
The Thomas A. Roe Institute
for Economic Policy Studies

Published by
The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C.
20002-4999
(202) 546-4400
<http://www.heritage.org>



experiences with this approach in Canada, England, Scotland, and a few school systems in the United States (notably in Florida and Texas), such an arrangement would permit the accelerated construction of public school facilities at significant savings over the traditional process.

Each state would be permitted to issue bonds according to a formula which allows the sale of \$10 in special school bonds for each resident of the state. Virginia, for example, could issue \$67 million per year, and California as much as \$330 million. By initially limiting each state to no more than a dozen or fewer public/private partnership schools per year, Congress could foster a national demonstration project that encourages innovative solutions to school facilities shortages at limited risk to taxpayers. Once a program's success is assured and any unexpected start-up problems are resolved, the project could be expanded to allow for significantly more school construction and modernization.

More Highways. Another important tax incentive in the bill would help states and local communities tap into the financial resources of the private sector to enhance transportation infrastructure and facilitate the pace of improvement more rapidly than would occur under the existing process using public money from fuel taxes. With as much as one-third of the federal fuel tax diverted to non-highway spending, additional funding sources must be found to build highways to ease the congestion that increasingly characterizes roads in many communities. For example, with fuel tax increases off-limits politically for the foreseeable future, the Highway Innovation and Cost Saving Act, introduced by Senator John Chafee (R-RI) and incorporated into the Senate's Taxpayer Refund Act, would allow the private sector to raise as much as \$15 billion for new public-access toll roads.

Privately financed toll roads, bridges, and tunnels are becoming more common in Canada, Europe, and Asia, yet the United States still lags

behind in utilizing private resources. Most U.S. toll roads have been built, owned, and operated by state transportation departments and financed with tax-exempt revenue bonds. Although a few private toll roads have been built in the United States, notably in Virginia and California, highway entrepreneurs face financial and regulatory hurdles; few can compete with state-funded and operated toll roads.

Because a state can issue tax-exempt bonds, currently yielding about 4 percent, but a private entrepreneur is limited to taxable borrowing in the 6 percent range, private toll road entrepreneurs operate at a cost disadvantage of about 30 percent compared with their public-sector counterparts. The objective of the Chafee proposal is to level the playing field—but on a temporary, experimental basis—to allow as many as 15 private toll road demonstration projects to get underway. These demonstration projects would help determine whether private ownership and operation of toll roads is a feasible approach to improving and expanding America's surface transportation system without increasing government spending.

Conclusion. Although any recommendation to extend targeted subsidies to the private sector could be criticized as corporate welfare, such subsidies also might be a useful first step in demonstrating the feasibility and advantages of private-sector solutions to school and highway needs, compared with federally subsidized local public projects. Such demonstration projects also could cost less in lost tax revenues than has been estimated, because most would be done eventually by government using tax-exempt financing or public spending. Considering the benefits of involving private capital to build more school and highway infrastructure, the risk that some tax revenue might be lost through privatization could be a risk well worth taking.

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