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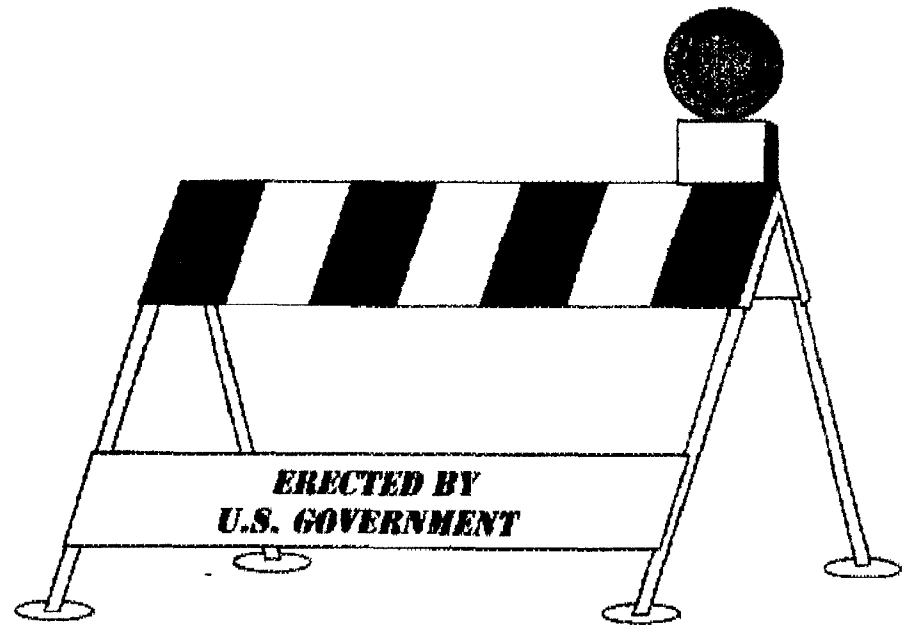
Joint Economic Committee Staff Report

The $7.7 Billion Mistake:



Federal Barriers to State & Local Privatization

Senator Connie Mack, Chairman

Available on the Internet: http://www.senate.gov/~jec/privatiz.html

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Executive Summary

State and local governments own more than $227 billion worth of assets that could be privatized and run as viable commercial businesses, including highways, airports, water companies, and electric companies. By continuing to spend too much on enterprises that private investors fund elsewhere (either in this country or abroad), state and local governments needlessly drive up public sector costs and simultaneously sacrifice service.

Privatization cuts costs and improves service because of key differences between incentives and management in the public and private sectors. Government officials are accountable to the coalitions that elected them, which may or may not represent the broader interests of taxpayers. In contrast, private firms are directly accountable to their customers, who can reject a certain company's services if it fails to offer an attractive combination of price and quality.

Privatization can also generate significant savings and benefits for state and local taxpayers. When state and local governments contract out services, they save between 16 and 77 percent, depending on the service. When they sell assets, they receive a one-time cash windfall, new investments in infrastructure, cost savings for taxpayers, and a new stream of tax revenues. Federal policies inhibiting state and local privatization also cost the U.S. Treasury as much as **$7.7 billion** each year, since government-owned enterprises do not pay federal income taxes.

So given all of the benefits of privatization, why aren't more states and localities trying it? One significant problem is that many current federal policies make privatization difficult -- and sometimes impossible. Three main federal barriers inhibit privatization of state and local enterprises:

- Grant Requirements dictate that state and local governments return any undepreciated portions of their federal grants to the federal government. This makes privatization more expensive and encourages continued government control.

- Regulatory Requirements inhibit private investment. For example, tolls are prohibited on most interstate highways. Without tolls, private investors have no way to raise revenues and investment will not occur.

- Tax Policy subsidizes government-owned enterprises but not privately-owned businesses. As a result, competition does not take place on a level playing field, which makes state-owned enterprises appear more efficient than they are and discourages private competitors.

Rejection of more efficient, privately managed alternatives has both local and national consequences. On the state and local level, citizens pay higher taxes and receive subpar service. On the national level, forgone corporate tax revenues inflate both the deficit and the national debt.

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THE $7.7 BILLION MISTAKE: FEDERAL BARRIERS TO STATE AND LOCAL PRIVATIZATION

WHY PRIVATIZE?

Across America, state and local governments are looking to privatization to improve service and lower costs. Privatization can accomplish both goals simultaneously, because it replaces the incentives and management methods of the public sector with the incentives and management methods of the private sector.

BENEFITS OF PROFIT-ORIENTED MANAGEMENT

"The profit motive" is often falsely blamed for all sorts of anti-social business behavior. Additionally, government provision of roads, electricity, and other services often gets justified with the superficial argument that, since government does not need to make a profit to stay in business, costs and charges can be lower. In reality, profit is the carrot that rewards private firms for reducing costs and enhancing quality. The motive for profit usually makes private businesses more responsive to their customers.

> ***"Privatization broadens the corporate tax base by turning tax-exempt public entities into private enterprises that pay corporate income taxes... Thus, current federal policies inhibiting state and local privatization cost the U.S. Treasury as much as $7.7 billion each year."***

Privatization is based on the principle that private ownership generates greater accountability than the political process. Private owners risk their own money instead of taxpayer dollars. Therefore, they have stronger incentives to provide quality service at attractive prices. If a firm fails to do so, the customers will stop buying or turn to competitors. (If the firm is a government contractor, it may still risk losing the government's business once the contract expires.)

Government administration, on the other hand, often fails to work as promised because of poor incentives and inadequate use of knowledge.

Government Failure: Poor Incentives

In the public sector, employees are held accountable by elected officials for promoting the public's welfare. Not surprisingly, the "public's welfare" is usually defined by the campaign promises made by the winning politicians. The cost and quality of service thus depends on what type of electoral coalition elected the politicians.

> ***"Private owners risk their own money instead of taxpayer dollars. Therefore, they have stronger incentives to provide quality service at attractive prices."***

Unfortunately, special interest politics is not an aberration, but an integral part of public decisionmaking. To win elections, politicians face strong incentives to confer benefits on narrow constituencies -- like particular industries, companies, or even subgroups of public employees -- and spread the costs across all taxpayers. Concentrating benefits and dispersing costs is a tried and true formula for reelection. Beneficiaries have a strong motivation to get informed and turn out the vote, but the average taxpayer usually does not keep track of and reward politicians for the savings gained by eliminating individual projects or programs. George Washington and James Madison admonished Americans to avoid special-interest politics in their famous warnings against the spirit of "party" or "faction." Nevertheless, it usually takes a financial crisis or a taxpayer revolt to shake ruling coalitions out of business as usual.

Government Failure: Poor Use of Employee Knowledge

Even if special interest politics were not a factor, governments face significant managerial problems in mobilizing employee knowledge to serve taxpayers. A private firm can give its employees the chance to use their knowledge by allowing more discretion in serving customer needs, even as they are held accountable through profit-sharing, bonuses, and other types of rewards based on profitability. If customers stop buying, that affects the employees' wallets, and lets them know it's time to improve their job performance.

> ***"Government's ability to give employees discretion is much more limited, because individual taxpayers cannot choose to stop buying particular government services."***

Government's ability to give its employees discretion is much more limited, because individual taxpayers cannot choose to stop buying particular government services. There is little or no direct accountability to individual taxpayers. In government, rigid rules and procedures substitute for market feedback. For certain governmental functions, this makes sense; after all, no taxpayer wants a traffic cop to get a bonus based on the volume of traffic tickets he issues. The original intent of this "bureaucratic red tape" was to keep public employees

accountable for their use of government power. However, in so many instances, governments have gotten too bogged down with bureaucratic procedure. Such rigidity not only inhibits incentives for employees, but also deters them from identifying and implementing cost-saving innovations and improvements.

REINVENTING GOVERNMENT THROUGH PRIVATIZATION

Current initiatives to "reinvent government" purport to overcome some of this bureaucratic inertia and borrow successful, quality-oriented management methods pioneered in the private sector. Because bureaucratic restrictions are meant to control abuses of power, reinvention will enjoy the most success in agencies that make little use of the government's sovereign power and thus can function much like private businesses. This begs the question -- if a government enterprise can be run like a private business, why should it not *become* a private business, fully substituting the profit motive for the "vote motive"?

> ***"...if a government enterprise can be run like a private business, why should it not become a private business, fully substituting the profit motive for the 'vote motive'?"***

FORMS OF PRIVATIZATION

Privatization takes several forms. The most prominent are contracting out, vouchers, and sales of assets.

CONTRACTING OUT

Contracting out is the most common type of privatization at the state and local level. A Council of State Governments survey revealed that contracting out accounts for 78 percent of all privatization initiatives at the state level. One of the leaders, Massachusetts, saved $50 million in 1993 by contracting for management of state buildings, mental health services, prison health and food service, highway maintenance, and several other services. Massachusetts' state-run prison health services had failed to meet standards for national accreditation. In striking contrast, the contractors not only met accreditation standards, but they cut costs by 40 percent per inmate.[1] Massachusetts' experience is not unique. Privatization expert E.S. Savas estimates that New York's state and local governments could save $3 billion annually if they contracted out just 25 percent of their services.[2]

> ***"Privatization expert E.S. Savas estimates that New York's state and local governments could save $3 billion annually if they contracted out just 25 percent of their services."***

In recent years, cities have received more headlines for contracting out than states. In Indianapolis, Philadelphia, and Chicago, competitive contracting for city services has cut costs by between 16 and 77 percent, depending on the service. By simply forcing municipal governments to compete, savings occur even when city departments win bids to continue providing certain services. Contract services include printing, custodial service, nursing homes, sludge hauling, job training, and drug treatment. Indianapolis saves $28 million annually due to contracting; Philadelphia saves $21.5 million.[3] In Los Angeles, competitive contracting for 15 bus routes cut costs by 51 percent, increased service reliability, and cut accident rates by one-third.[4]

Despite the fears of public employee unions, the savings from contracting out do not usually entail lower wages. Private contractors generally operate more efficiently than government because they give employees the same amount of vacation that other private-sector workers get; have greater flexibility in hiring and assigning workers; use more modern equipment; and hire fewer supervisors to tell workers how to do their jobs. One expert notes, "Most taxpayers work in the private sector under these commonplace ground rules."[5]

Vouchers

Vouchers are less commonly used by state and local governments. The most prominent and controversial example is in the City of Milwaukee, where the parents of 1,000 inner-city youth can receive vouchers enabling them to choose private, nonsectarian schools instead of being locked into their neighborhood schools. The principal goal of this initiative was not to save money, but to expand the educational options of poor students. It is too early to tell how the program affects academic achievement, but reports suggest that most parents are quite satisfied with the program thus far.[6]

Asset Sales

Assets sales represent the most complete form of privatization. Private investors gain title to government-owned assets, and the newly-privatized enterprise pays for itself through user fees (or in some cases a contract with the government that sold the asset). Alternatively, state and local governments may simply opt to have the private sector build and operate new infrastructure, such as highways or sewage treatment plants, instead of spending taxpayer dollars to build the facilities in the first place.

> ***"Private investors gain title to government-owned assets, and the newly-privatized enterprise pays for itself with user fees."***

During the past decade, financial pressures have played a large part in persuading state and local officials to consider this form of privatization. State and local governments own approximately $227 billion worth of assets that could be run as free-standing, profitable businesses.[7] By holding these assets, governments tieup taxpayer dollars in enterprises that private investors fund elsewhere,

either in this country or abroad. Private ownership of infrastructure offers four types of financial benefits to state and local governments:

- **New Infrastructure**
  Many states and municipalities opt for privatization simply because they cannot generate sufficient revenues on their own to repair, replace, or expand roads, airports, sewage treatment plants, and other facilities. Across the globe, governments are selling or leasing airports, highways, and bridges for precisely this reason.

> ***"Private firms can usually operate infrastructure at lower costs than the public sector..."***

- **Cash Windfalls**
  Privatization creates a one-time cash windfall that governments can use to reduce debt burdens or fund other long-term projects. Sale of New York's LaGuardia and Kennedy Airports, for example, would net the city of New York $2.3 billion, and sale of the New York Thruway would generate $1 billion, according to the New York State Senate Advisory Commission on Privatization.[8]

- **Lower Costs**
  Private firms can usually operate infrastructure at lower cost than the public sector, saving taxpayer dollars in cases where the government remains the principal customer of a private facility. For instance, the sale of a sewage treatment plant in Franklin, Ohio to Wheelabrator, Inc., cut three municipalities' annual sewage costs by 17 percent.[9]

- **Greater Revenues**
  Privatization also places formerly government-owned facilities on the local tax rolls, creating an ongoing stream of new income. A Reason Foundation study estimates that if all of the assets in the following table were privatized, they would generate more than $3 billion annually in property tax revenues for local governments.[10]

> ***"Privatization... places formerly government-owned facilities on the local tax rolls, creating an ongoing stream of new income."***

Asset sales may be the most complete form of privatization, but they are also the form of state and local privatization that federal policies do the most to discourage -- much to the nation's financial detriment. As federal lawmakers scramble to reduce the budget deficit, few realize that widespread state and local asset sales would significantly broaden the federal tax base.

Privatizing State and Local Assets: The U.S. Lags

State/Local Assets and Est. Value	*Comparable US Businesses*	*Comparable Overseas Privatizations*
Highways/bridges *$102.4 billion*	Dulles Greenway (Dulles-Leesburg, VA)	Channel Tunnel (Britain/France) Franchised toll roads (France, Spain, Argentina, Mexico, Thailand, ect.)
Wastewater facilities *$30.8 billion*	Franklin, OH plant sold to Wheelabrator (1995)	Britain (privatized water utilities in 1989) Thailand (1993)
Commercial airports *$29.0 billion*	None	BAA (Britain, 1987)
Water systems *$23.9 billion*	15% of US population served by private cos.	France -- 75% privately-owned Britain -- 100% (since 1989)
Electric utilities *$16.7 billion*	PEPCO	Nova Scotia Power (Canada, 1992) British electric industry (1980s)
Ports *$11.4 billion*	Ceres Marine Terminal (Baltimore, lease)	Associated British Ports (1983)
Parking structures *$6.6 billion*	Colonial Parking	N.A.
Waste-to-energy plants *$4.0 billion*	44% privately owned	N.A.
Gas utilities *$2.0 billion*	Washington Gas	British Gas (1986)

***Sources:** Robert W. Poole Jr., David Haarmeyer, and Lynn Scarlett, "Mining the Government Balance Sheet," Reason Foundation Policy Insight No. 139 (April 1992) and "World Business" special section, The Wall Street Journal (October 2, 1995).*
N.A. = information not available.

LOCAL PRIVATIZATION REDUCES FEDERAL DEFICITS

Privatization broadens the corporate tax base by turning tax-exempt public entities into private enterprises that pay corporate income taxes. Rothschild Inc. estimates that publicly-owned water, sewer, and electric utilities would pay approximately $1 billion in federal corporate income taxes if they were private companies.[11] If all $227 billion worth of assets in the table were privatized, a conservative estimate suggests that federal corporate income tax revenues would be $4-7.7 billion higher annually.[12] *Thus, current federal policies inhibiting state and local privatization cost the U.S. Treasury as much as $7.7 billion each year.*

These financial benefits for governments bear striking testimony to the power of private-sector incentives and management. Private investors are often willing to buy or build infrastructure, pay taxes on it, and offer customers a better deal than they currently get from the government. This occurs because private firms believe they can operate infrastructure more efficiently than government. Governments betray the public interest when they fail to take firms up on the offer.

BARRIERS TO PRIVATIZATION IN THE U.S.

Privatization is a worldwide trend. Britain and New Zealand have well-deserved reputations as leaders, but others are far ahead of the United States in selected areas. Albania, formerly the last bastion of Stalinism in Europe, rivals the U.S. in airport privatization: a private firm will build and operate a $44 million expansion of the Tirana airport.[13] Countries as diverse as Iran, India, Thailand, France, and Italy have or plan to have private firms owning and operating airports, highways, wastewater treatment facilities, power plants, and many other enterprises that state and local governments run in the U.S.

> ***"Countries as diverse as Iran, India, Thailand, France, and Italy have or plan to have private firms owning and operating... enterprises that governments run in the U.S."***

If governments worldwide are scrambling to capture the benefits of privatization, why does America lag? Many state and local governments are eager to privatize assets, but current federal policies place barriers in the way. Federal policies inhibiting state and local privatization take three forms: grant requirements, regulatory requirements, and tax policy.

GRANT REQUIREMENTS

Federal grants often come with strings attached that inhibit privatization of whichever government entity is receiving the grant. Current policy, embodied in Executive Order 12803, permits the state or local governments to sell assets in order to recover its original investment, but then it must pay back the undepreciated portion of all federal grants.

In some cases, this policy prevents privatization because the undepreciated grants may exceed the market value of the asset. This occurs because states and localities have relatively poor incentives to spend "free" federal grant money carefully. All grant dollars have to be used for the project for which they were intended, so lower levels of government receive little reward for managing federal tax dollars carefully.

In other cases, a sale would generate enough money to pay back the undepreciated portion of grants, but the state or local government would get little of the sale proceeds. Here, privatization is theoretically possible, but state and local officials have little incentive to pursue it. They get a better political payoff from trying to attract industry with subsidies or lobbying the federal government for more grants.

They're Grants, Not Loans!

Federal grant repayment policy is especially illogical given the simple fact that these are grants, not loans. The purpose of grants is to supposedly encourage the upgrading or construction of highways, airports, wastewater plants, and other infrastructure. In most cases, private buyers want to continue using the assets for the purpose for which they were built; thus, facilities built with grant money still serve their intended purpose after privatization. If anything, privatization gives the federal government more "bang for the buck" on past grant dollars, because a private owner will operate the facility more efficiently. Nevertheless, federal policy discourages the change of ownership.

> ***"In most cases, private buyers want to continue using the assets for the purpose for which they were built; thus, facilities built with grant money still serve their intended purpose after privatization."***

Airport Grants: Special Strings Attached

Virtually all airports have an additional restriction that inhibits privatization. If an airport receives a federal grant, the owner must plough all revenues back into the airport; states and localities never use airport profits to fund tax cuts or other public services.[14] Similarly, a private buyer of a publicly-owned airport might be required to put all profits back into the airport, since virtually all significant airports have received federal grants in the past. This requirement severely limits an airport's attractiveness as an investment.[15]

Several localities have found that federal policies create insurmountable barriers to privatization. Albany County, NY had to scrap a plan to lease out its airport in 1991 when the Federal Aviation Administration decided that a $30 million lease payment could not go into the county's general fund, even though the county had invested more than $30 million in the airport.[16] Bankrupt Orange County, California could sell John Wayne Airport to help alleviate its fiscal crisis, but a county task force concluded that federal grant repayment policies make a sale impractical.[17] The mayor of Syracuse, NY, which established its own commission to study airport privatization.

likewise concluded, "If the federal government is truly interested in promoting and assisting local government in bettering service and lowering taxpayer exposure, then this barrier must be removed."[18]

REGULATORY REQUIREMENTS

Many facilities owned by state and local governments enjoy preferential treatment under federal regulation, or have other strings attached that effectively prevent privatization.

Wastewater: RCRA

A prominent example is the Resource Conservation and Recovery Act's treatment of effluent discharges. A privately-owned wastewater plant is subject to the same costly standards as an industrial plant. But the same wastewater plant owned by a municipality is subject to less costly standards, because the standards for private facilities were really intended to cover industrial plants that discharge chemicals and other hazardous wastes.

"Many facilities owned by state and local governments enjoy preferential treatment under federal regulation, or have other strings attached that effectively prevent privatization."

Highways: Toll Restrictions

Federal highway policies also inhibit privatization of roads and bridges. The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) lifted the federal ban on tolls for all but interstate highways, and let states use private funding to match federal grants. However, many of the most significant benefits from highway privatization would come on congested urban interstates, where tolls are still prohibited (with the exception of up to three pilot projects). Without toll revenues, it's hard to attract private investors for highways.

Transit: Labor Laws

Labor laws make it more difficult to privatize mass transit. No significant bus or subway lines in the United States support themselves, but some local governments have cut costs 30-60 percent by contracting bus routes to private firms. Section 13(c) of the Urban Mass Transportation Act limits these savings by requiring up to six years' severance pay for employees who lose their jobs due to increased efficiency. In effect, this provision gives public transit agencies a choice of offering huge severance payments or limiting contracting to the rate of attrition in the workforce, unless the labor agreement or state law provide otherwise.[19]

Tax Policy

Two aspects of federal tax policy make state and local privatization less attractive: differential treatment of interest on debt. and the tax-exempt status of municipal utilities.

Taxable vs. Tax-Exempt Interest

When a state or local government borrows money to build infrastructure, the interest it pays is tax-free to its investors. When a private company issues debt to buy or builds an identical facility, the interest is taxable, due to changes in the Tax Reform Act of 1986. Since states and local governments pay lower interest rates than private corporations, public ownership often looks more efficient than it really is. Because the federal tax code provides a hidden subsidy, cities and states opt to own assets that could actually be operated more efficiently and effectively by private businesses.

Outstanding Bonds: Another Twist

Additional tax issues emerge when a private firm wants to acquire a facility built with tax-exempt bonds that are still outstanding. Theoretically, it is possible for the bonds to remain tax-exempt if the facility has been used for five years and the sale proceeds are used for other projects that would qualify for tax-exempt financing. In practice, the process of getting federal approval generates significant uncertainty and delays. The city of Franklin, Ohio spent a year getting IRS and OMB approval for the sale of its wastewater treatment plant to Wheelabrator, which has operated the plant under contract for several years.

> ***"When a state or local government borrows money to build infrastructure, the interest it pays is tax-free to the investors. When a private company issues debt to buy or builds an identical facility, the interest is taxable, due to changes made by the Tax Reform Act of 1986."***

The IRS is in Charge

The current tax code also gives the IRS an excuse to dictate contract terms when a government decides to contract out management and operation of a facility. A facility's bonds could lose their tax-exempt status if the management contract rewards the managers based on net profits. This provision clearly removes one of the major incentives states and municipalities can use to enhance the contractor's productivity. Without such an incentive, it is harder to achieve the benefits that private management could potentially deliver.

A single federal policy creates all these problems: the differential taxation of interest paid on corporate versus state and local debt. A fundamental tax reform like the flat tax would level the playing field by taxing all interest income in the same way.

Municipal Tax Exemptions

Municipal utilities, as government-owned entities, are generally exempt from corporate income taxes and local property taxes. The tax-exempt status of municipal utilities creates a barrier to privatization, because the local special interests that benefit from waste have a strong incentive to resist privatization

"Federal grant, regulatory, and tax policies discourage state and local governments from privatizing infrastructure..."

Subjecting municipal utilities to federal taxes or exempting investor-owned utilities are both politically unthinkable. A more limited debate, however, revolves around payments referred to as "contributions in aid of construction." New customers of utilities sometimes make up-front payments to cover the costs of initiating service. A new subdivision, for example, might pay a substantial fee to get hooked up to a larger community's water and sewer system. Under the Tax Reform Act of 1986, investor-owned utilities must count these contributions as taxable income. Municipal utilities, as tax-exempt entities, face no such constraint, and so the tax code artificially subsidizes municipal operation of water, electric, and gas companies. In New York, contributions in aid of construction to an investor-owned utility must be 70 percent higher than those to a publicly-owned utility, just to cover the extra taxes.[20]

CONCLUSION

Governments the world over make substantial use of private capital to fund infrastructure that can be fully supported by user fees. Unfortunately, the United States lags behind the rest of the world. Federal grant, regulatory, and tax policies discourage state and local governments from privatizing infrastructure assets.

State and local governments as well as private investors are eager to promote such privatization. However, states and municipalities have run up against federal grant and regulatory obstacles when they have tried to pursue privatization. Private investors are pouring money into highways, bridges, airports, utilities, and other infrastructure all around the world, and they would do so here if the federal government would simply get out of the way so states and localities can manage their assets.

In addition to stifling infrastructure investment, current policies have other, more measurable costs. Taxpayers and users of facilities pay more to make up for government waste and inefficiency. State and local governments forego about $3 billion in property tax revenues by keeping infrastructure out of the private sector. The federal government, meanwhile, loses $4-7.7 billion annually in corporate income tax receipts because of its own policies impeding state and local privatization.

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ENDNOTES

1. John O'Leary (ed.), *Privatization 1994* (Los Angeles, CA: Reason Foundation, 1994), p. 8; *Privatization in Massachusetts: Getting Results* (Commonwealth of Massachusetts, Nov. 1993).

2. E.S. Savas (ed.), *Privatization for New York: Competing for a Better Future,* Report of the New York State Senate Advisory Commission on Privatization (January 1992), p. 11.

3. John O'Leary (ed.), *Privatization 1994* (Los Angeles, CA: Reason Foundation, 1994), pp. 10-11.

4. Wendell Cox and Jean Love, "Bus Service," in E.S. Savas (ed.), *Privatization for New York: Competing for a Better Future,* Report of the New York State Senate Advisory Commission on Privatization (January 1992), p. 161.

5. E.S. Savas (ed.), *Privatization for New York: Competing for a Better Future,* Report of the New York State Senate Advisory Commission on Privatization (January 1992), p. 2.

6. John O'Leary (ed.), *Privatization 1994* (Los Angeles, CA: Reason Foundation, 1994), pp. 10-11.

7. Robert W. Poole Jr., David Haarmeyer, and Lynn Scarlett, "Mining the Government Balance Sheet," Reason Foundation Policy Insight No. 139 (April 1992).

8. E.S. Savas (ed.), *Privatization for New York: Competing for a Better Future,* Report of the New York State Senate Advisory Commission on Privatization (January 1992).

9. "First US Wastewater Privatization Nears Completion," *Environmental Business Journal* (Nov./Dec. 1994), p. 7.

10. Robert W. Poole, Jr., "Privatizing State and Local Infrastructure: Empowering Cities and States to Tap Private Capital and Rebuild America," Reason Foundation Policy Study No. 190 (May 1995), p. 3.

11. Wilbur L. Ross, Jr., "How an Internal Revenue Service Rule is Standing in the Way of Privatization," *The Bond Buyer* (April 3, 1995).

12. If private investors are to buy the assets, they will need to earn a before-tax rate of return at least equal to that on a riskless long-term investment, such as Treasury bonds. Treasuries currently pay in the neighborhood of 6.5 percent. A 6.5 percent return on assets worth $227 billion is $14.775 billion in taxable profits. A corporate income tax rate of 34 percent generates revenues of $5.02 billion. If the privatized company invests heavily, so that it is

subject to the alternative minimum tax, it might pay at the lower, 26 percent rate, with tax revenues of $3.84 billion. Of course, infrastructure is a riskier investment than Treasury bonds, and the rate of return will have to reflect this risk, so profits and tax revenues would likely be much higher than $5 billion. A 10 percent rate of return, more in line with returns available on common stocks, would generate between $5.9 billion and $7.7 billion in revenues, depending on the corporate tax rate.

13. John O'Leary (ed.), *Privatization 1994* (Los Angeles, CA: Reason Foundation, 1994), p. 34.

14. This provision is in Section 511 of the Airport and Airway Improvement Act of 1982. About 10 major airports can divert some revenues under the Act's grandfather provisions.

15. William G. Laffer III, "How to Improve Air Travel in America," in E. Hudgins and R. Utt, *How Privatization Can Solve America's Infrastructure Crisis* (Heritage Foundation, 1982), pp. 72-73.

16. E.S. Savas (ed.), *Privatization for New York: Competing for a Better Future*, Report of the New York State Senate Advisory Commission on Privatization (January 1992), p. 89; "John Wayne Airport Revenue/Sale Task Force (June 1995), p. 5.

17. Report of the John Wayne Airport Revenue/Sale Task Force (June 1995).

18. "Prepared Testimony of Roy A. Bernardi, Mayor of the City of Syracuse, before the House Subcommittee on Government Management, Information, and Technology," (March 14, 1995).

19. Wendell Cox and Jean Love, "Bus Service," in E.S. Savas (ed.), *Privatization for New York: Competing for a Better Future*, Report of the New York State Senate Advisory Commission on Privatization (January 1992), pp. 159-65.

20. Robert W. Poole, Jr., "Privatizing State and Local Infrastructure: Empowering Cities and States to Tap Private Capital and Rebuild America," Reason Foundation Policy Study No. 190 (May 1995), p. 14.