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Deferred Public Spending: The Credit Card From Hell.

Kicking the can down the road is always tempting. But for infrastructure, innovative public-private partnerships offer a prudent alternative.

When infrastructure maintenance is deferred or a pension contribution is skipped, critics of imprudent public spending are quick to label it as “kicking the can down the road.” But that doesn’t really capture the essence of the practice. It’s a form of borrowing. More cash is available in the current period, but a future obligation in the same amount, plus accrued costs, is created. Just like a loan.

If done infrequently in small amounts and reversed quickly, borrowing by kicking the can is probably benign or even beneficial. State and local governments face many fiscal rules and limits; these constraints impose good discipline in the long run but can make it hard to square the circle when growth is uncertain and revenues are volatile. So a bit of slack can help hard-pressed public-sector officials cope with uncertainty and make better choices.

But the results are far from benign when this tactic morphs into a year-over-year budget gimmick that can accrue large and insidiously expensive liabilities without any plan for paying them. Kicking the can then becomes not a temporary coping strategy but an addictive credit card from hell. Deferred maintenance and underfunded pensions appear to be the high-limit platinum cards of this set, but there are others, including underfunding of future health-care obligations and delaying obviously valuable public-sector investment.

Infrastructure is a sitting duck for fiscal can-kicking. Existing infrastructure bears the brunt of maintenance deferral. New infrastructure projects, no matter how badly they are needed, don’t happen because the loss of value in delaying them is rarely as obvious as the cash saved by doing so.

Infrastructure spending is also an impetus for kicking the can, not just a target. The significant fixed and non-delayable obligations of public infrastructure can intensify fiscal constraints and increase pressure to defer critical spending elsewhere in the budget. Spending on an infrastructure asset’s basic operations, for example, might crowd out a more-or-less optional police pension contribution when a city’s budget is squeezed.

Using credit cards from hell for fiscal management is obviously unwise. But revenue volatility and low growth appear to be the new normal for the public-sector’s fiscal environment. The pressure to delay essential spending will remain or even increase. It’s easy to criticize poor choices in tough situations, but it’s more useful to ask: what better tools are available?

When infrastructure is involved, emerging forms of public-private partnerships (P3s) are a promising answer to that question. Availability-Payment P3s, for example, cut up the deferred-maintenance credit card by requiring adherence to an optimal schedule based on a project’s whole-life costing. Design-Build P3s incorporate an efficient project development and completion process that can operate outside the sometimes overly restrictive constraints of traditional procurement.

But using P3s for disciplined maintenance or faster delivery means that fixed-infrastructure payments will be higher and arrive sooner. In effect, current-generation P3s may simply shift the budget pressure away from infrastructure toward crowding out something else. Not much is gained if lower levels of deferred maintenance and delayed investment result in higher levels of underfunded pensions and health-care obligations. And the fear of being put in an even tighter budget corner, combined with the allure of yet another round of can-kicking, may cause public-sector officials to hesitate on P3s, which may be one explanation for their disappointingly slow uptake in the United States.

In this complex and frustrating situation, private-sector innovation could be transformative. The objective should be to improve P3s with respect to real-world fiscal and budget concerns. Achieving this should not be difficult given the high credit quality of most state and local governments and the excellent collateral value of infrastructure assets. For example, an Availability-Payment P3 that permits lower payments when a budget shortfall occurs but requires higher make-up payments when revenues are back to normal is financially feasible.

The value proposition for innovation is straightforward. There's clearly enormous potential for improvement over the public sector's current set of opaque, costly and dangerous credit cards from hell. It's realistic to expect that next-generation P3s could go a long way toward replacing them with transparent, cost-effective and prudent alternatives.

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