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NYT: Cities Need to Weigh Costs of Private Partnerships.

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DealBook recently published a piece by Kent Rowey that makes a troubling argument for selling public services and infrastructure to Wall Street banks and other corporations. Under the guise of making recommendations for Detroit, Mr. Rowey tried to sell the idea that auctioning off our most vital services and assets to for-profit companies is a simple win-win solution for strapped governments.

It sounds simple, but the real track record of public-private partnerships is fraught with problems.

Mr. Rowey holds up the example of Chicago's 36,000 parking meters that were sold in a 75-year lease to an investor group backed by Morgan Stanley as a success. In fact, Chicago taxpayers, investors and mayors across the country will tell you that not only was it an unmitigated disaster, it is also Exhibit A in the folly of blindly giving up taxpayer control of services.

An after-the-fact investigation by the city's inspector general concluded that the decision to enter the lease contract lacked "meaningful public review" and neglected the city's long-term interests to solve a short-term budget crisis. Specifically, it found that "the city was paid, conservatively, $974 million less for this 75-year lease than the city would have received from 75 years of parking-meter revenue." That's nearly $1 billion that could have been used for better police and fire protection, longer library hours and many other services that would benefit the public good rather than private profits. By Dec. 31, 2009, Chicago had only $180 million left from the $1.15 billion parking meter deal, forcing the city to consider alternative sources of revenue rather than relying on long-term reserve funds generated by the parking meter lease.

Parking rates increased to as much as $8 for two hours. The initial contract required seven-day-a-week paid parking. The city was able to negotiate out of that requirement but in exchange had to extend paid parking until 10 p.m. Downtown business owners have blamed the increase in rates for a decrease in economic activity.

Taxpayers are further harmed by the contract's fine print, which says that they must reimburse Morgan Stanley and its Qatar-based business partner for any time the space is used for anything other than parking — including parades and festivals. The city is prevented from performing routine road maintenance that would occupy a parking space on all but a few days a year without paying a penalty.

Perhaps most egregious, Chicago cannot build parking lots for the entire duration of the contract because they might compete with the outsourced parking meters.

In fact, the "noncompete" and "compensation" clauses mean the city won't be able to make, for 75 years, fundamental economic development, land use or environmental policy decisions — anything that would affect the revenue of the parking company. Roderick Sawyer, alderman for Chicago’s Sixth Ward, has called this parking privatization scheme “outrageous for taxpayers, undemocratic, and un-American.”

Public-private partnership deals across the country are riddled with similar problems. In the suburbs of Denver, a 99-year contract prevents affected municipalities from making improvements to nearby roads that might compete with the privatized road and interfere with the corporate profits.

Mr. Rowey contends that infrastructure assets are “relatively straightforward to value” and represent a reliable, steady source of revenue. Not so.

In 2010, San Diego County’s privatized South Bay Expressway filed for bankruptcy, three years after it opened late and over budget. The for-profit company running the toll road blames the recession for its low traffic, but drivers have publicly blamed the company’s steep toll increases.

A privatized toll road in Texas wasn’t meeting the project revenue targets. Fewer drivers were using the costly road. In an attempt to compensate for the shortfall, the state approved a speed limit of 85 miles an hour for a 41-mile stretch between Austin and San Antonio. Similarly, Virginia officials had hoped that privatized express lanes on the 495 Beltway would generate badly needed cash for the state. Once again, traffic patterns failed to match rosy projections and the project is losing money. Last month, the state increased the speed limit to 65 miles an hour, hoping to lure more drivers and generate more revenue.

A 2009 report in the American Journal of Public Health studied traffic fatalities in the United States from 1995 to 2005 and found that more than 12,500 deaths could be attributed to increases in speed limits on all kinds of roads. These perverse incentives cause government to change speed limits simply to generate profits for infrastructure investors. Those are public decisions that should be driven by public goals, not private profit.

Cities, counties and states should enact common sense reforms that ensure taxpayers get their money’s worth when one of those entities enters a public-private partnership. Public agencies should require that an independent audit show an actual taxpayer savings before outsourcing a service or asset (a similar law to this has operated with great success in Massachusetts since 1993). They should also outlaw fine-print “noncompete” and “compensation” clauses that prevent public officials from making decisions to advance the public good.

There is no doubt that we need to rebuild and retool American infrastructure for the 21st century. It is essential for our economic competitiveness, our efforts to stem the effects of climate change and to create a better quality of life for us all. And doing so will create thousands of jobs for middle-class American families. But it is equally as important that cities and states fully consider the costs and benefits of attracting private investment in public infrastructure and ensure that public goals and the public interest remain in full control.

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