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Municipal Utilities and the Persistent Push to Privatize.

Given tax-exempt financing and other advantages, continued municipal ownership would seem the way to go. But other pressing public needs can make cashing out these valuable assets seem attractive. A new wave of privatization efforts will give localities a lot to think about.

Economics textbooks always have a subchapter on “natural monopolies,” situations where the owner of a business or a service has essentially captured the market and nobody else can effectively compete. In local government, these are most commonly associated with utility operations that were set up long ago to provide water, sewerage and electric service. Some of these operations are run better than others, but in general they reliably provide essential services at a fair cost, and often the lowest possible sustainable cost.

Nevertheless, there have always been advocates for privatizing these assets. Sometimes the motives involve local politics, sometimes operating efficiency, and sometimes financial desperation. Putting aside sheer anti-government ideology that private owners are inherently better operators, the most common justifications for private ownership are economies of scale — spreading fixed and overhead costs over a large customer base — or raising cash to pay for replacement facilities or unrelated costs like unfunded pensions. Look for these arguments to come up time and time again.

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