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Bill Lockyer: Public-private infrastructure fight ruinous

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The private sector's proper role in building the infrastructure that carries California into the future is a debate worth having. Unfortunately, the spotlight placed on so-called "public-private partnerships" in the state budget battle has not illuminated the issue. In fact, the single-minded drive to gin up a gold rush by increasing private companies' share of the public infrastructure market has helped push California closer to fiscal calamity.

Proponents call public-private partnerships vital to reviving our economy. But we can use infrastructure projects to stimulate the economy and not deploy a single one. Backers say these joint ventures will help balance the budget by reducing the burden of financing infrastructure. But we can pursue financing strategies that ease budget pressures and don't rely on public-private partnerships – or the costly middlemen who come with them.

How? With the same finance system we've used to build California's current infrastructure – the municipal bond market. Whenever voters have made up their minds to invest in the state's infrastructure, municipal bond financing consistently has given them their money's worth.

And get this: The system we've always used is a multitrillion dollar public-private partnership. State and local governments sell bonds to private investors and use the proceeds to build roads, schools, flood-control and other projects. Private companies construct the projects, generating tens of thousands of jobs for private-sector workers.

When the cash crisis forced the state to suspend infrastructure financing Dec. 17, that threatened billions of dollars in revenue for private companies and roughly 68,000 jobs. Those aren't government jobs; they belong to private-sector workers.

So, we already have a proven public-private partnership system that can inject billions of dollars and tens of thousands of jobs into the economy. What, then, do proponents seek to achieve with their new version, which can be described as private-equity infrastructure? They want the private sector to make more money by playing a larger role raising capital for projects, and designing, operating and maintaining them.

The question of capital raises an issue glossed over by proponents of the new public-private partnerships. Listen to them and you get the impression that backhoe-loads of free cash are there for the taking. But however California decides to finance its infrastructure, we have to find a way to pay for it. The private sector isn't going to give us money for free. It will provide that capital only if it receives a profitable return, generally 15 percent to 25 percent. The state typically pays 5 percent or less on municipal bonds, so you have to wonder how the public benefits from private-equity infrastructure.

The point is: If we want to attract capital for projects, we have to raise new revenues to ensure

profits for the private companies in infrastructure joint ventures. That means taxes or user fees, such as tolls. But a revenue source that pays private firms could be used just as easily to pay investors who buy municipal bonds. The same goes for the touted benefits of public-private partnerships.

User fees or tolls can help stabilize budgets by reducing expenditures on debt payments. But we can gain that benefit by selling fee-backed municipal bonds – without paying extra to a private-sector middleman.

The municipal bond system saves California taxpayers millions of dollars yearly by giving them access to low-cost, tax-exempt financing. That benefit is prohibited by the Internal Revenue Service when private-sector profit comes into the mix. Municipal bond financing also taps a huge pool of capital. Nationwide, investors hold more than \$2.5 trillion of tax-exempt bonds. Private investors own \$46 billion of voter-approved California infrastructure bonds.

Advocates of the new public-private partnerships have the burden of showing why the current version somehow has become insufficient. They have the burden of demonstrating how their brand will deliver projects better and more efficiently. That's the return our taxpayers deserve in exchange for increasing private profit from public works. In California, the jury's still out on whether the new public-private partnerships can deliver that return.

We can use the municipal bond market to reinvigorate our economy. We don't need private equity infrastructure to do that. We do need to solve our cash crisis and fix our budget, however.

California is standing at the poorhouse door. Will we be forced inside if the Legislature doesn't acquiesce to every single demand aimed at converting our infrastructure into a profit center for private enterprise?

That's a legitimate question to ask the proponents of new public-private partnerships. Irritated they didn't get everything they wanted, they played a prominent role in the demise of an earlier \$18 billion plan to narrow our budget shortfall. They should not be permitted to risk California's solvency and economic recovery efforts to pursue an agenda that has nothing to do with our fiscal emergency.