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Sale of state property raises controversies in other states

Scott Walker gets power to sell state property in new budget

By Michael Phillis – June 30th, 2013

Gov. Scott Walker will have new power to sell state heating plants, highways and other properties, but privatization deals in other states have ranged widely in popularity and success.

Revenue from the sales must be put toward relieving the $8 billion state debt, according to the budget Walker planned to sign Sunday. The sale of assets could prove controversial as it has elsewhere.

Critics of privatization often point to a parking meter sale in Chicago as an example of how deals can go bad. Two days after the terms of the sale were publicly disclosed, Chicago's City Council in 2005 approved a 75-year lease on more than 35,000 of the city's parking meters for just over $1.1 billion.

That deal was later slammed.

"The short-term budget problems and the large upfront payment the city was receiving overshadowed all other legitimate, long-term, public-interest issues," an inspector general's report said a few years later. The City Council had approved a deal that, for an initial infusion of cash, lost it long-term revenue of at least $900 million compared with the expected revenue if the city had kept the meters, according to the report.

But in an interview, Walker said his main focus was on selling properties such as power plants and he would not sign off on deals that were not advantageous in the long term.

"If it doesn't make sense, we won't do it," Walker said.

He said there is enough accountability under the requirement that any deals must be approved by the state Building Committee and the Legislature's Joint Finance Committee.

"I can't just arbitrarily do it," Walker said. "(The) finance committee is still your safeguard."

Critics of privatization argue that selling state assets while helpful to fill short-term budget gaps often costs taxpayers more in the long term. The deals have immediate benefits for in-office politicians but rarely are good for the future, critics say.

"The only real advantage of (privatization) is for the short-term budget," said Phineas Baxandall, a senior analyst at the U.S. Public Interest Research Group, who wrote about problems with toll-road privatization in 2009. "Particularly, Chicago's parking deal raised a lot of awareness with what can go wrong with asset privatization deals."

Baxandall said that because sale-lease agreements can stretch 75 or 99 years, it's hard for states to predict an asset's value that far into the future, which opens them up to poor deals.

Chicago's parking meter sale caused another problem: The private company more than doubled many of the meter rates by 2013.

Under Wisconsin's budget, the governor would have to adhere to an undefined "competitive and transparent process" and submit a cost analysis.

The provision in the state budget is wide enough to allow for the sale of the state Capitol, as Democrats have noted, but Walker said such sales, or ones for campus dormitories, are not under consideration.

Advocates for privatization say that private enterprises can run some infrastructure better than the government and that either full privatization or sale-lease deals can be advantageous if used to fix long-term, not short-term, problems.

If an asset is not being used, for example, there is no reason taxpayers should continue to pay for its upkeep, said Leonard Gilroy, director of government reform at the Reason Foundation, a conservative think tank. In Wisconsin, the sale of state land earmarked for highway development that never occurred could be an example of this type of situation.

"Make sure you build in the right protections," Gilroy said. "It's not that it is an inherently good or bad thing on its own. It's how you do it."

There are varying kinds of asset sales, each with its own financial structuring and political and policy ramifications. One is a sale-lease deal, where a company pays a large amount of money up front to the government for rights to either lease the property back to it (in the case of a government building for example) or have rights to the revenue stream from those assets (like a parking meter sale or toll road).

Private companies also can buy property outright, which can happen when the state wants to offload unused resources.

Arizona sold Senate, House buildings

In Arizona in 2010, when the state was desperate to fill a more than $3 billion budget gap, officials decided to put the most symbolic of state buildings up as collateral and lease them back. Specifically, they leased the state Senate and House buildings.

"We would not have done this if we had more viable options," said Arizona Comptroller Clark Patridge, adding the decision was made seriously and as a last resort.

"I would not put forward this type of option if it wasn't absolutely necessary," he said. "We were on the ropes even with this money."

The initial deal lasted for 20 years and provided Arizona with a one-time cash infusion of about $710 million. After interest payments, the taxpayers will have to pay about $1.16 billion over the life of the lease.

"It's like expensive debt," said Baxandall.

Patridge said the just over 4% rate of the lease was good, but others disagreed.

"When buildings are sold off, when the state is under duress, it really undermines the state's ability to have leverage when they are negotiating," said Serena Unrein, an advocate at Arizona Public Interest Research Group. "We couldn't really negotiate for a good price."

Long-term focus is key

An economist at the conservative Cato Institute said public-private partnerships or asset sales can be beneficial to taxpayers, but the key is that the money from such agreements be used for long-term public interests.

"It sounds like (Walker's) proposal is a good one," said Cato's Chris Edwards. "Paying down debt now is a good frugal conservative policy that will benefit future generations."

A partnership between a private company in Virginia that funded 75% of a $2 billion highway construction project in exchange for toll revenue was praised by Edwards. He said that private funding drove the project and that such agreements can remove the risk from the taxpayer. As an example, a private toll operator in Indiana concluded that it would earn less than expected from the roads because of reduced traffic patterns.

Using the sale payments to reduce debt, Edwards said, was another form of long-term investment.

There is a range to these deals. Arizona Gov. Jan Brewer wanted to buy back the Senate and House buildings last year, saying that for the state's 100-year anniversary, the public should own its own legislative buildings, which also could save almost $50 million in interest payments. The deal was rejected.

In states where there are political pressures to keep taxes low, governments may be forced to think of unorthodox ideas for maintaining basic services, said Jeff Chapman, an economist at Arizona State University's School of Public Affairs.

"If you can't raise taxes, you can't finance basic minimal levels of services, so you look around for other places for money," Chapman said.

"People still think there is such a thing as a free lunch. We want all the services we want, but we won't raise taxes. That puts pressure on officials to look at legal but arcane ways to fix the problem."