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Privatization of Local and State Infrastructure: Selling off public assets to the highest bidder

As budget woes strike everywhere, local governments are looking under the couch cushions for money. From waste water treatment to animal control, snow removal to garbage collection, corporations are chomping at the bit to purchase or lease public assets that generate revenue through tolls, fees or other charges. Often companies lure local officials with the offer of lots of up-front cash, in exchange for the operation of our public assets and services. However, privatization can actually increase costs for a city and its residents, eliminate accountability to the public, and compromise the quality of critical services that residents regularly rely on.

The "big business" of public infrastructure and services

The services that cities and towns rely on most are major profit centers for private companies. Garbage removal is estimated to be a $50 billion a year industry, even with large cities and most of the Mid-West still relying on publicly run collection. Water and wastewater is also a huge business. In 2008, Alinda Capital Partners purchased the Santa Paula, Calif., water recycling facility for $62 million through a 20-year design-build-operate private partnership agreement.[1] In 2009, the six largest private water companies reported the collection of more than $1.6 billion in fees in the U.S. while operating only 1,757 water plants across the country.[2]

Privatization erodes public accountability and eliminates transparency

Private corporations are primarily accountable to their stockholders, not to the people they serve. With public ownership, local residents can directly express their opinions about the operation of local services with their elected official and have access to information and the ability to attend public meetings. Private operators usually restrict public access to information and do not have the same level of openness as the public sector.

- In February 2009, then Mayor Daley rushed through a contract to sell off the city's parking meters. The city council approved the measure with little to no review of its ramifications. Shortly after the council meeting, the city and Chicago Parking Meters LLC signed a 75-year concession agreement for the operation of Chicago's 36,000 parking meters. Unbeknownst to the council, the deal included a non-compete clause and gave the private company the right to raise rates at its discretion. In some parts of the city, rates increased in the first months to $7 for 2 hours of parking time.[3] In March 2013, a judge ruled that the city violated its contract by allowing a competing garage operated by a different company to open in the city. Chicago taxpayers were hit with a $57.8 million ruling in favor of the private company.[4]

- When Aramark took over operations at the Florida State Hospital in Chattahoochee in 2012, housekeeping and maintenance workers were invited to apply for the same jobs with Aramark that they previously held as state employees. When asked how many former state workers had been offered position, Aramark refused to disclose the information, citing proprietary protection and claiming exemption from state disclosure laws.[5]

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1 "Private Equity, Public Inequity: The Public Cost of Private Equity Takeovers of U.S. Water Infrastructure." FoodandWaterWatch, August 2012. Available here: http://documents.foodandwaterwatch.org/doc/PrivateEquityReport.pdf

2 "Outsourcing Market Facts." Public Works Financing. March 2010, volume 247.

3 In The Public Interest, Chicago Parking Meters case. See: http://inthepublicinterest.org/case/chicagos-parking-meters

4 Fusco, Chris and Dan Mihaloppulos. "City of Chicago hit with $57.8 million tab in parking garage snafu." Chicago Sun-Times, March 20, 2013. Available here: http://www.suntimes.com/news/metro/18993800-418/city-of-chicago-hit-with-57-million-tab-over-parking-garage-snafu.html

5 "Our Opinion: Open records, Privatization can't be an excuse to shut the door." The Tallahassee Democrat, February 22, 2013. Available here: http://www.tallahassee.com/article/20130224/opinion01/302240010/our-opinion-open-records?nclick_check=1

- In 2007, after a school bus driver with a private company was found to be a convicted sexual predator, an investigative reporter attempted to obtain a list of other drivers in the Milwaukee school district. Because the service had been privatized, the school district did not retain those records. After more than a year of legal challenges, the company was finally ordered to release a list of employees, but not without allowing a preliminary review of objection from 800 of the 1,400 drivers who protested out of privacy concerns.[6]

- In Kern County, CA, the owner and operator of Benz Sanitation, a private waste hauler, pled guilty to a felony charge of presenting a fraudulent claim for payment to the government and illegally dumping garbage collected in Los Angeles County at the Kern County disposal site. The private contractor was convicted of falsely reporting that the garbage had originated in Kern County, and ultimately defrauding the county of approximately $2 million.[7]

- In 2006, the city of Houston settled a long legal battle with its contractor, Republic, for billing the city for garbage collected in other cities. The settlement was estimated to be the amount that the city had been overcharged – nearly $2 million.[8]

- In September 2008, Indiana was required to reimburse the private Indiana Toll Road operator $447,000 for tolls that were waived for people being evacuated during a severe flood. This requirement in the contract forced the state to pay money to a private contractor in order to ensure the public's safety.[9]

- In 2008, the private contractors that operated the Northwest Parkway in Denver, Colorado, objected to improvements to a local street. The 99-year privatization contract allowed the private company to prevent improvements on city-owned and maintained roads, since the improvements "might hurt the parkway financially" by providing an alternative route for travelers, potentially reducing toll revenue.[10]

Privatization often leads to inferior services, higher costs

Corporations have different goals than a city does, often focusing on emphasizing profitability. When profit is the prime goal, services often suffer. Private contractors are obligated to meet the letter of the contract and no more. Changes in service or new services can be negotiated, but often at an increased cost. Unless it is written into the contract, private crews and equipment may not be available to provide emergency assistance like snow plowing or support for special clean-up days.

- When private companies bid on garbage collection and fleet maintenance in Yuma, Arizona, officials found that the cost estimates were much more expensive than current costs. In fact, under the estimates and cheapest bids, residents would have paid twice the amount in fees to the private companies over what they currently pay for the same city services.[11]
- In 2011 KPMG recommended the privatization of the maintenance department in Tulsa, Oklahoma. After a snowstorm hit the area, bringing the city to a halt, city crews responded immediately by quickly clearing the snow and repairing the battered roads. City officials backed off plans to privatize, noting that public in-house crews could be deployed much faster in emergency situations than contractors.[12]

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6 Gupta, Rani. "Privatization vs The Public's Right to Know." The Reporters Committee for Freedom of the Press, Summer 2007. Available here: http://www.rcfp.org/rcfp/orders/docs/PRIVATIZATION.pdf

7 "Virginia State advocacy agency backs shifting care of disabled." The Virginian-Pilot Edition, April 7, 2012

8 Office of the City Controller, City of Houston, "Controller's audit confirms overcharges by city trash hauler." April 11, 2006. Available at:http://www.houstontx.gov/controller/pressrelease/press041106.html.

9 In the Public Interest, Pennsylvania Kids for Cash case. See: http://inthepublicinterest.org/case/pennsylvania-kids-cash-conspiracy

10 In The Public Interest, JP Morgan Investment Consulting Fraud case. See: http://inthepublicinterest.org/case/jp-morgan-investment-consulting-fraud

11 February 07, 2011. http://www.yumasun.com/news/city-67409-wilkinson-private.html

12 Barber, Brian. "Privatizing of Tulsa street crews questioned." Tulsa World, February 19, 2011. Available here: http://www.tulsaworld.com/news/article.aspx?subjectid=298&articleid=20110219_296_0_Thismo677346&allcom=1

- The South Bayside Waste Management Authority, which encompasses cities in northern California, contracted with Allied Waste for solid waste service. A 2006 annual performance review revealed that the company received 10,000 complaints from residents that year for missed trash pick-up. Seven hundred complaints failed to be cleared within the required 24-hour period. The contractor was fined due to poor performance, as the contract stipulated that Allied Waste could only have 180 missed pick-ups per year before being penalized.[13]
- According to Food & Water Watch, of the 10 largest known sales of municipal water or sewer systems to for-profit companies, water bills in these communities had nearly tripled on average after 11 years of private control - increasing a typical household's annual bill by more than $300.[14]
- A review of 18 municipalities that ended their contracts with private companies found that public operation averaged 21 percent cheaper than private operation of water and sewer services.[15]
- The International City/County Management Association (ICCMA) found that 52 percent of governments that bought services back in-house did so because of insufficient cost savings.[16]

Privatization drives down the local economy

Where money is saved, it is often due to contractors paying their employees low wages and benefits, or cutting corners on services. For private companies to deliver services and turn a profit they must often resort to hiring fewer employees and paying lower wages. These low wages hurt the local economy.

- Labor costs are the most significant operational expense for most public services, so it should be no surprise that anyone attempting to sell privatization will exaggerate labor expenses for publicly delivered services.[17]

- In June, one of the state workers at the Grand Rapids home, Emilie Perttu, 24, reluctantly left her job and took a nurse's aide position at a privatized hospital for one-forth less than she had been making. The lower wage, she says, has left her strained to cover $675 a month in rent, along with basics like food and child care. So Ms. Perttu collects $400 monthly in food stamps and child care assistance.[18]

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13 Downs, Peter. "No quick fix; Past experience of many cities suggests privatizing sanitation services wasn't a panacea for problems." The Commercial Appeal (Memphis, TN), July 10, 2011.

14 Food and Water Watch. Available here: http://www.foodandwaterwatch.org/water/private-vs-public/facts-and-figures/

15 Food and Water Watch. Available here: http://www.foodandwaterwatch.org/water/private-vs-public/facts-and-figures/

16 International City/County Management Association. See: http://icma.org/en/results/surveying/survey_research/whats_new

17 Zullo, Roland. "The Illusion of Privatization Success: An Inventory of Tricks." Institute for Research on Labor, Employment and the Economy, University of Michigan. February, 2012. Available here: http://irlee.umich.edu/Publications/Docs/IllusionOfPrivatizationSuccess.pdf

18 "Where payroll cuts may also carry a cost; Contractors' lower wages entice U.S. officials, but expenses could be hidden." The International Herald Tribune, November 7, 2011.