Privatization of infrastructure assets: financial structures, participant motivations, and lessee tax benefits

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Abstract

This article explores issues related to the privatization of infrastructure assets and delves into some of the details of the tax implications for buyers and sellers of infrastructure assets. In recent years, the universe of these assets has expanded beyond real assets such as toll roads to services like public parking (Razaki and Moreland 2008).

Infrastructure creation and maintenance has historically been publicly financed and government managed (Jacobius 2007). Even before the current economic tsunami constrained the economic resources of states and cities, there had been a considerable decrease in governmental spending on infrastructure projects. Governmental expenditures in other areas had been increasing while legislatures were reluctant to raise taxes for fear of taxpayer wrath.

The article describes the three major types of private-public financial relationships: Outsourcing of public infrastructure assets and services; Privatization through sale or lease of infrastructure assets; and Public-Private Partnerships (PPPs). There is an extended discussion of the advantages and disadvantages of privatization of public assets, per se. The article also examines the costs and benefits of such transactions to government sellers, private buyers, and the consumers of government services.

Key Words: Infrastructure assets, privatization of public services, public-private partnerships, tax implications of privatization.

Introduction

This article explores issues related to the privatization of infrastructure assets and delves into some of the details of the tax implications for buyers and sellers of infrastructure assets. As a starting point, a brief overview of US privatization of infrastructure assets is presented. Further, the nature and types of the "traditional" infrastructure assets are discussed. Characteristics of infrastructure assets include inelastic demand, monopolistic market positions, regulated entities, and capital intensive with low operating costs (Jain 2008). In recent years, the universe of these assets has expanded beyond real assets such as toll roads to services like public parking (Razaki and Moreland 2008). Chicago's parking meter privatization of the city's street parking meters and street-side parking concessions, has seemingly redefined what constitutes an infrastructure asset (Moreland and Razaki 2009). In a sense, this transaction has taken infrastructure investments into the virtual world, where access to parking on public streets can be monetized or securitized. This is analogous to the issuance of casino licenses and the sale of broadcast spectra (Ibid). This transaction is also notable because it is the first $1 billion plus business deal of its kind (Chicago Tribune, June 17, 2012).

This article also analyzes the motivations of the governmental entities that sell or lease these assets and the private entities that purchase them. One primary incentive for selling is the infusion of substantial monies that can be used for other governmental purposes (Chiyere and Xu 2012; Forrer et al 2010; Moreland and Razaki 2008). In the current fiscal crisis faced by cities and states nationwide, sale of infrastructure assets is providing an important source of funds. From the buyer's perspective, the purchase of these types of assets results in low risk returns and guarantees. Further, the differential tax benefits accruing to private parties are substantial. This private party tax advantage enables governmental entities to obtain a higher price (Moreland and Razaki 2008). Further, some of the tax implications for sellers (lessors) and buyers (lessees) of infrastructures assets are examined.

Background and financing structures of "Infrastructure Assets"

Infrastructure creation and maintenance has historically been publicly financed and government managed (Jacobius 2007). Even before the current economic tsunami constrained the economic resources of states and cities, there had been a considerable decrease in governmental spending on infrastructure projects. Governmental expenditures in other areas had been increasing while legislatures were reluctant to raise taxes for fear of taxpayer wrath. This situation, coupled with an increase in demand for infrastructure services, made it inevitable that greater reliance would be placed on private funding sources (Engel and Galetovic 2006). US state and local governments are looking to Private-Public Partnerships (PPPs) to alleviate budget constraints (Forrer et al 2010; Orski 2008; Wettenhall 2003; Ghere 2001). PPPs are also widely used in Europe, Canada, Asia, and Australia (Gaffey 2010).

Types of financing structures for Infrastructure Assets

There are three major types of private-public financial relationships:

1. Outsourcing of public infrastructure assets and services
2. Privatization through sale or lease of infrastructure assets

3. Public-Private Partnerships (PPPs).

Outsourcing of public infrastructure assets and services

Governments often outsource certain functions (transferring their operations and maintenance to the private or nonprofit sector). Usually, this is an effort to achieve greater fiscal control and create efficiencies in public service delivery. Government outsourcing is an application of the classic make-or-buy decision to government operations and functions that have been traditionally provided by the government itself (Savas 2000). The presumption is that private vendors can provide some public services more cheaply than government agencies (Ibid). However, there is nothing intrinsic to outsourcing that requires a partnership between the public and private sectors.

Privatization through sale or lease of infrastructure assets

Privatization of traditional state-owned or state-run infrastructure assets and public services is another widely used financing and operational strategy. Privatization involves the transfer of some activity and its assets that in the past was operated by the public sector to the private sector, through a sale, concession, or some other mechanism (Netter and Megginson 2001). In privatization, in some cases, the government cedes direct control and ownership of the function and the delivery of services (full privatization). In other instances, it retains varying degrees of influence by participating as a stockholder in the privatized firm. The fundamental objective in all such arrangements is that the day-to-day production and delivery of these goods and services will be left to private operators. This will transfer provision to the market and the government's involvement will be primarily regulatory (Forrer et al 2010). Again, there is nothing intrinsic to privatization that requires a partnership between the public and private sectors.

Public-Private Partnerships (PPPs)

Savas (2000) defined PPPs as "any arrangement between government and the private sector in which partially or traditionally public activities are performed by the private sector." Forrer et al (2010) expanded the definition of PPPs to "Public-private partnerships are ongoing agreements between government and private sector organizations in which the private organization participates in the decision-making and production of a public good or service that has traditionally been provided by the public sector and in which the private sector shares the risk of that production."

Public-private partnerships (PPPs) increasingly have become the default solution to government problems and needs, most recently for infrastructure creation and maintenance. PPPs appeal to a wide range of constituencies, even across political party lines, and throughout the world (Forrer et al 2010; Ghere 2001; Wettenhall 2003). This trend may accelerate as governments experience fiscal deficits and look for alternative ways to finance and deliver government services. PPPs are often associated with other government reforms or functions involving the private sector.

Public-Private Partnerships could be defined as an arrangement by which large-scale investment and service provision of infrastructure development is locked into a single long-term

contract (Chinyere and Xu, 2012; Grimsey and Lewis, 2002). A private group of investors raises capital to finance, invest, maintain and manage the construction of the project. The private investors also operate the facilities for a negotiated time period (typically 25 to 30 years, but it can be longer like the Chicago Parking Meter project of 75 years (Chicago tribune, June 17, 2012). At the expiration of the contract date, the public assets are transferred back to the government. During the contract period, through the operation of the project, the private partners receive a flow of payments as reimbursement. These payments not only cover both the initial investment (capital expenses (capex)) and operation and maintenance expenses (opex), but also a return on investment to the private group. These revenues are acquired not from the taxpayers but through user fees and charges such as in a toll highway or paid parking spaces (Chinyere and Xu, 2012).

Peirson and McBride (1996) noted that numerous forms of PPP include some or all of the following features:

- The public sector entity transfers facilities controlled by it to a private entity (with or without payment in return) usually for the term of the arrangement.
- The private entity builds, extends or renovates a facility.
- The public sector entity specifies the operating features of the facility.
- Services are provided by the private entity using the facility for a contracted period of time (usually with restrictions on operations and pricing).
- The private sector entity agrees to transfer the facility to the public sector (with or without payment) at the end of the arrangement.

Investment in infrastructure assets

Private infrastructure investing has been a fast growing asset class in Europe, Canada and Australia (Gaffey 2010). The U.S. with its well-developed municipal markets, thus less pressed for external financing, had been slower in its privatization efforts. The current wave of privatization of infrastructure assets is reminiscent of the way things were done in earlier times. Some practices, like private ownership of toll roads, dates back to America's earliest days. In that era, entrepreneurs were responsible for constructing these assets and paying for them by collecting tolls. In the past, the U.S. has allowed the private sector to operate the federal railroad system and the telecommunications system (Jacobius 2007). The Federal government has been backing the privatization efforts. It has recognized the efficacy of privatization for more than fifty years. Pursuant to an executive order, Circular A-76 was published requiring agencies to contract with the private sector whenever that course would result in lower taxpayer costs for comparable goods and services.

Desirable characteristics of infrastructure assets as investments

While infrastructure revenues are primarily driven by macroeconomic factors like demographic trends and GDP, which are not under the control of private parties who may wish to buy or lease them, these assets are still attractive in certain situations. Infrastructure asset characteristics that make them desirable defensive assets for private parties are listed below (Jain, 2008).

Monopolistic Market Position: Usually, infrastructure assets and businesses are innate monopolies. The causes of this monopolistic power can be attributed to high barriers to entry caused by capital, legal or political considerations.

Regulated Entities: The monopolistic nature of infrastructure assets lends itself to price gouging or extra-market returns to the private investors, and to the detriment of consumers. To prevent price abuse, governments or their agencies often regulate such enterprises. Private investors (lessees) are often allowed to charge tariffs that compensate them for operating costs plus a specified return on capital. In a large number of privatization cases, for example, the Chicago Skyway, the investors have been allowed to recapture their initial investment in a fraction of the lease life. After that, it is pure gravy for the lessees. In spite of these regulations and constraints, privatization offers low risk and dependable returns to investors.

Inelastic Demand and Resilience to Economic Downturns: Infrastructure assets supply essential services for the functioning of society. They include airports, roads, power, and water. Since these goods and services are indispensible in daily life, they are relatively immune to economic downturns and price changes. They are expected to fare better and have a lower probability of suffering from a permanent decline in revenues. This characteristic also assures steady, low risk returns to private owners. Their long-term growth is caused by demographic changes and overall economic growth.

Capital Intensive, Low Operating Costs: Infrastructure assets require high levels of capital investment. But, once built or created, they generally demand low operating costs, and provide high operating margins. The higher margins and long lives are conducive to obtaining high leverage debt for private parties seeking ownership or leasing of these assets.

Low Volatility of Operating Cash Flows: There are various factors that contribute to the low volatility of the operating cash flows of infrastructure assets. Usually, this occurs due to a captive customer base, regulated pricing schedules, limited competition or licensing, or from long-term contracts. Basically, the private parties are guaranteed an effective inflation hedge.

Stable Yield: Due to the low operating costs and stable cash flows, investors typically expect dividend yields in the mid to high single digits, as well as some modest capital appreciation. During times like the current economy, these are enviable returns compared to most other asset classes.

Low Correlation with Other Asset Classes: Investment in infrastructure assets can provide valuable portfolio diversification because they have a low correlation with other asset classes. It was often assumed that infrastructure assets could be regarded as real estate. Two studies, (Newell and Peng 2008; Moreland and Razaki 2008) have provided some evidence to refute this assertion. Thus, infrastructure assets can be treated as a separate asset class in some cases and may be useful in portfolio diversification.

Inclusion of Services in Infrastructure Universe: In a sense, Chicago's sale of parking meters has taken infrastructure investments into the virtual world, where access to parking on public streets can be monetized or securitized. Analogies can be made to casino licenses and sales of broadcast spectrum in that virtual asset sense (Moreland and Razaki 2008).

Motivations for privatization of infrastructure assets

There are three major stakeholders involved in the privatization of infrastructure assets. They are: the governmental body that sells or leases the assets, the private investors who buy or

lease the assets, and the consumers who use the assets or services and pay for this privilege. Each stakeholder has his own motivation(s).

Seller's (Lessor's) perspective

The governmental rationale for divesting infrastructure assets is that the shedding of non-core or underperforming assets will improve productivity and enhance the revenue stream. The buyers of such assets hope to achieve above average returns on investment by concentrating in areas where they possess specific expertise. Savas (2000) has observed that: "Ideologically, proponents argue that the private sector is superior to the public sector in producing and delivering many goods and services. Pragmatically, government leaders see PPPs as a way of bringing in the special technical expertise, funding, innovation, or management know-how from the private sector to address complex public policy problems. The expanding domain of goods and services provided by PPPs includes private toll roads, schools, hospitals, security services, wastewater treatment, and emergency response."

They also divest to raise funds to meet critical cash needs in other areas or in more profitable pursuits. Sometimes governments sell assets to cash in the gains that have accrued over time and to take advantage of good market prices.

There are also critics of divestment of infrastructure assets. It is worth noting here that many of the critics of these asset sales appear to be focused purely on the lost net revenue figures, a mindset that may well be facilitated by municipal ownership structures. In many constituents' views (including politicians), any project that returns more than its cost of financing is deemed successful, as it adds to the city's financial coffers. With that thinking, ROE and opportunity cost concepts are overlooked in large part. The fact that the City is not subject to market pricing of "its stock" as are publicly traded corporations often prevents a corporate decision process from being employed by governmental entities. (Moreland and Razaki 2009).

Historically, the assets in question had been slow to increase usage fees, and in some cases there had been none for years. The political process involved in passing fee increases is not insignificant, and never appreciated by the consumer constituency.

Advantages of PPPs

There are several advantages that PPPs provide. They are:

- PPPs may provide a substantial, one-time infusion of cash to governments to ease current budget constraints (Forrer et al 2010; Moreland and Razaki 2008).
- PPPs enable cash-strapped governments to shift the cost of preserving aging infrastructure and or constructing new infrastructure to the private sector (Orski 2008).
- Privatization effectively served as the mechanism for market (related) pricing, and removed an agency problem of sorts in terms of implementing market pricing on public assets and services.
- Governments use PPPs in an effort to achieve greater fiscal control over public expenditures if they cannot rein in their own unions, employees, and profligate managers.

- PPPs can create greater efficiencies in public service delivery (Savas 2000). The presumption is that private vendors can provide some public services more cheaply than government agencies (Ibid).
- PPPs may allow government access to special technical expertise, innovation, or management know-how from the private sector to solve complex public policy problems (Savas 2000).

Economic and political costs of PPPs

There are often significant costs associated with these partnerships. They include:

- Legislation is needed in many jurisdictions to enable governments to enter into PPPs and to create well-designed bidding procedures (Millerman and Reynolds 2006).
- Regulation is needed to ensure that PPPs provide at least a minimum level of service and to prevent price gouging under PPPs (Gaffey 2010)
- A political risk that governments face is that politicians backing privatization deals may be perceived as giving away revenue-generating assets that could be used to defray other costs and lower taxes (Jacobius 2007). Currently, ex-mayor Richard Daley of Chicago is facing severe criticism for virtually giving away the city parking meters (Chicago Tribune, June 17, 2012).

Tax implications for sellers or lessors (government) of infrastructure assets

Even though a governmental unit is a nontaxable entity, it is affected by the tax consequences to the purchaser of the infrastructure assets. If the tax benefits are maximized for the purchaser of the infrastructure assets, the governmental unit can elicit a higher purchase price for the infrastructure assets. Therefore, the governmental unit has an incentive to structure the sale of the infrastructure assets in such a way as to maximize the tax benefits to the purchaser

Purchaser's (Lessee's) motivation

The purchaser of the infrastructure assets expects a positive return on its investment. The expected return on the infrastructure assets can be defined as the excess of the present value of the future net cash benefits from the infrastructure assets over the cost of acquiring the infrastructure assets. A major factor in determining the future net cash benefits from the infrastructure assets is the tax consequence of the transaction.

Since ownership of the infrastructure assets reverts back to the governmental unit after the passage of time, the purchase of the infrastructure assets is technically a lease. To qualify for the preferred tax treatment, the lease of the infrastructure assets needs to be classified as a purchase of the infrastructure assets. To satisfy this condition, the purchaser must acquire all the benefits and responsibilities of ownership of the infrastructure assets for a length of time that is significantly longer than their expected remaining useful lives. The governmental unit has an incentive for the lease to qualify as a purchase. If the tax benefits are maximized for the purchaser/lessee of the infrastructure assets, the governmental unit can elicit a higher purchase price for the infrastructure assets.

Federal income tax treatment for private sector participants in public sector projects

The private party (Developer) in an infrastructure asset transaction is subject to the following tax rules (Carlisle 2010):

A. Treatment of the Developer's costs of construction

- The improvements constructed and paid for by the Developer should not be treated as rent paid to the state or local government unless the agreement expressly provides that the improvements are intended to be treated as rent. See *Blatt Co. v. United States.*
- Because the Developer has the state law rights of a lessee, it should be treated as constructing the improvements to the Facility for its own use as a tenant and should not be treated as constructing the improvements in consideration for a share of revenues from the project.
- The Developer's costs of constructing the improvements, including its capitalized construction period interest, should be included in the Developer's depreciable tax basis for the improvements.

B. Treatment of public funds as income to the Developer or the costs of leasehold improvements owned by the state or local government.

(a) If:

- The public funds must be used to pay or reimburse costs of constructing the improvements and are not required to be repaid by the Developer (even if the Developer terminates the development and lease agreement before the end of its term);
- The improvements funded with the public funds will revert to the state or local government when the lease is terminated or expires; and
- The economic usefulness of the improvements funded with the public funds will not cease upon the termination or expiration of the lease:

Then:

- Public funds should be treated as amounts paid by the state or local government for leasehold improvements that it owns;
- The public funds should not be treated as income to the Developer; and
- The public funds should not be included in the Developer's depreciable basis for leasehold improvements.

C. Treatment of public funds as income to the Developer or the costs of leasehold improvements owned by the state or local government.

(b) If:

- Public funds are not excluded from the Developer's income as amounts paid by the state or local government for improvements owned by the state or local government:

Then:

- Public funds may nevertheless be excluded from the Developer's income as non-shareholder capital contributions under section 118 if the Developer is a corporation.
- Property acquired with tax-exempt capital contributions has a depreciable basis of zero.
- Section 118 does not apply to partnerships and the IRS asserts that contributions to the capital of a partnership by a non-partner constitute income to the partnership. Some argue, however, that under *Edwards v. Cuba R. Co.,* there is a common law exception that applies to non-partner contributions to the capital of a partnership.

D. Tax treatment of the Developer's capitalized costs.

- The Developer's capitalized costs of constructing the improvements to the Facility (including its capitalized construction period interest) should be treated as its depreciable costs of constructing such property and should be depreciable under MACRS or the alternative depreciation system, as described above with respect to tangible property included in brownfield projects.
- The alternative depreciation system would be mandatory for the portion, if any, of the Facility that is financed with PABs. TIFIA financing does not constitute tax-exempt bond financing.
- Under section 168(i), a tenant's costs of leasehold improvements are recovered under MACRS over the statutory recovery period without regard to the term of the lease and the tenant is allowed a deduction under section 165(a) upon the termination of the lease for any unrecovered costs.

Specific tax rules affecting private buyers (lessees) of infrastructure assets

To examine the tax consequences to the purchaser of the infrastructure assets, it is assumed that both the governmental unit and the purchaser reside in the United States.

According to the Joint Committee on Taxation (2008), for tax purposes, the purchase of the infrastructure assets is viewed as the transfer of three different assets:

(1) The infrastructure assets (the highway, bridges, toll booths, computers, buildings, parking meters, etc.),
(2) The land underlying the infrastructure assets (right of way), and
(3) An intangible franchise to collect revenues (tolls, parking fees, etc.).

The cost of acquiring the infrastructure assets is allocated to the different asset categories using their relative fair market values. The cost of the assets can be recovered through depreciation or amortization. The amount of tax depreciation or amortization differs for each of the different asset categories. The specific tax regulations are (Ibid):

- Computers, equipment, and similar assets are depreciable under the Modified Accelerated Costs Recovery System (MACRS) using the 200% declining-balance method over useful lives of 5 or 7 years.
- Highways, bridges, and similar assets are depreciable under MACRS using the 150% declining-balance method over useful lives of 15 years.
- Buildings and similar assets are depreciation under MACRS using the straight-line method over useful lives of 39 years.
- The land underlying the infrastructure assets is deductible over the term of the lease through a special calculation.
- The intangible asset for the franchise is amortizable using the straight-line method over a useful life of 15 years.

Obviously, the way in which the assets are classified can have a significant effect upon the tax benefits of the transaction. For example, it is far better for the purchase price of the infrastructure assets to be classified as an intangible asset for the franchise than the land underlying the infrastructure assets. For this reason, the governmental unit frequently assigns a high value to the franchise (and conversely a lower value to the land underlying the infrastructure assets). This enables the purchaser to receive greater tax benefits from the

transaction. This also enables the governmental unit to receive a higher price for the infrastructure assets (Moreland and Razaki, 2008).

In addition, the way in which the transaction is financed can have a significant effect upon the tax benefits of the transaction. If the transaction is financed through the issuance of taxable securities, the infrastructure assets are depreciable under MACRS and interest expense is generally deductible for tax purposes. If the infrastructure assets were originally constructed or acquired with proceeds from the issuance of tax-exempt bonds, infrastructure assets are depreciable under the Alternative Depreciation System (ADS) using the straight-line method over longer useful lives than MACRS and the deduction for interest expense may be limited. The tax rules in this area are very complex and are beyond the scope of this paper.

Frequently the purchaser of the infrastructure assets is a partnership, instead of a single purchaser. This does not change the above mentioned tax consequences of the transaction to the respective parties. The taxable income of the partnership is merely allocated to the partners using their profit-and-loss sharing agreement.

Tax implications for investors in purchasers of infrastructure assets

The usual investment options for infrastructure investing include direct investing, unlisted infrastructure fund, listed infrastructure company/fund, and unlisted infrastructure security funds. Typically, pension funds invest in unlisted infrastructure funds while retail investors utilize listed infrastructure company/fund (Newell and Peng 2008).

Assuming that both the governmental unit and the investor reside in the United States, the investor realizes taxable income either through the receipts of dividends or interest from the purchaser of the infrastructure assets or through the sale of equity or other investment in the purchaser of the infrastructure assets at a gain/loss. Both dividend/interest income and capital gains (as long as they are considered long-term) are taxed at a maximum tax rate of 15%. If the investor is a corporation instead of an individual, a dividends received deduction exists to mitigate the triple taxation of the earnings of the purchaser of the infrastructure assets. The dividends received deduction is either 70% or 80% of the dividends received (depending on the percentage of the stock owned in the investee). The remaining 30% or 20% of the dividend income is taxed at the regular corporate tax rates.

If all parties to the sale do not reside in the United States, a problem arises when a U.S. citizen or a U.S. corporation earns income in a foreign country. The foreign country taxes the income because it was earned within its borders. The United States also taxes the income because it taxes the worldwide income of U.S. citizens and U.S. corporations. The United States taxes this income at the regular corporate or individual tax rates. Traditionally, it has been the responsibility of the home country of the citizen or the corporation to solve the problem of double taxation. The United States solves the problem by allowing the U.S. citizen or the U.S. corporation a tax credit for the foreign income taxes paid on the income earned in the foreign country. The tax credit is limited to the U.S. tax rates applied to the income earned in the foreign country in order to prevent the foreign income taxes in high-tax rate foreign countries from reducing the U.S. tax rates on income earned in the United States.

A similar problem arises when a foreign citizen or a foreign corporation earns income in the United States. The United States taxes the income because it was earned within its borders. The foreign country also taxes the income because it taxes the worldwide income of its citizens and its corporations. The United States taxes the income earned by a foreign corporation in the

United States at the regular corporate tax rates. The United States taxes the dividend/interest income earned by a foreign citizen in the United States at a flat rate of 30%. In addition, to ensure collectability, the U.S. corporation paying the dividend/interest must withhold the 30% tax on dividend/interest payments. Income tax treaties with foreign countries usually reduce the withholding rate to 15% or less. The foreign country solves the problem of double taxation by either allowing the foreign citizen or the foreign corporation a tax credit for the U.S. income taxes paid on the income earned in the United States or by allowing the foreign citizen or the foreign corporation to exclude the income earned in the United States from foreign taxation.

Returns to private investors in infrastructure assets

Infrastructure fund managers have not been quick to clarify their equity investment return expectations in the popular press. The few expected return citations have been in the high single digits, but have not been "endorsed" by any of the privatizing entities (Moreland and Razaki 2009). Alec Montgomery, a U.S. executive director at the Australian infrastructure firm Industry Funds Management (IFM), has stated that infrastructure investment returns fall between 10% and 15% (Hamerman 2008).

Efforts to reverse engineer the implied expected return using very naïve (and conservative) assumptions suggest project level IRRs in the mid-single digits. The estimation approach to project level IRRs avoids issues relating to leverage factors, and cost of leverage. As with any leveraged transaction, employing significant debt financing at a cost less than the project's expected un-levered return, would significantly increase expected returns to equity (Moreland and Razaki 2009).

What also remains unclear is how these new owners intend to finance the capital improvements that each infrastructure project will ultimately require. It is assumed that significant debt financing will be required, and clearly, future disruptions to the debt markets as seen of late could materially impact investor returns and possibly the viability of these businesses.

Lastly, given the extremely long term nature of these assets even the most modest operating or cost of financing improvements become magnified when conducting NPV or IRR analysis. Hence, expected return ranges and potential variances therein seem greater than what might have been expected a priori (Moreland and Razaki 2009).

Consumers' Perspective

One advantage of privatization from the consumers' perspective is that infrastructure assets that are needed, but are beyond the fiscal capability of governmental bodies, can be created with private resources. Other benefits that are often cited in favor of privatization include improved quality, faster implementation, and greater flexibility to institute, discontinue or modify a service. Consumers would also benefit if the private operators passed on the savings resulting from improved efficiencies. For example, the operators of the city street parking meters plan to eliminate substantial labor costs by installing electronic meters that use credit cards.

The biggest disadvantage to consumers is the higher charges levied by the private owners of infrastructure assets (Moreland and Razaki 2009). In Australia, a country that is in the forefront of the modern privatization movement, parking revenue at the nation's five major

private airports has risen by 77%, even though passenger counts rose by 41%. In the case of Chicago privatizations, the price impact on consumers is (Chandler 2008):

- The parking rate per hour at Millennium Garage has risen by 31%, to $17, since being leased to Morgan Stanley. There are no safeguards for taxpayers on how high the new owner can raise parking rates.
- Some parking meter rates (in the city center) have increased fourfold. With respect to the parking businesses cited, it is worthy to note that adjacent private facility rates still significantly exceed those of the newly privatized businesses.

Conclusions

Municipalities facing budget issues will be increasingly forced to consider sales of infrastructure assets to private parties or PPPs in order to be able to maintain basic/core municipal services.

Given all the negative press surrounding inefficiencies in municipal run businesses, it is striking how much resistance is voiced when in fact privatization efforts do succeed. What remains to be seen is whether privatization leads to significant operating improvements and efficiencies in managing the assets privatized. It also could be, simply, a mechanism for raising utilization rates for consumers without the involvement of politicians whose constituencies prefer publicly subsidized infrastructure, where those subsidized costs are effectively hidden from objective review. We can only hope the infrastructure managers involved will at some point be willing to share their operating stories with the public, so as to justify this public to private transition from a true management efficiency perspective.

Walker (2010) concluded "Local governments in the twenty-first century face challenges regarding service delivery, finance, the workforce, and citizen engagement. While privatization was a major innovation in the last decades of the twentieth century, lack of costs savings and the loss of public values in market provision are prompting reversals in privatization, increases in regulation, and new approaches to government enterprise. The twenty- first century must focus on rebuilding the capacity of local governments to finance critical infrastructure, attract and retain a skilled labor force, and engage citizen in designing innovative solutions to address public problems. Innovations in public service delivery will move beyond public private partnerships to models that more effectively balance accountability, equity, and efficiency concerns."

Walker (2010) also predicted that reversals will occur in the privatization process of the last few decades. The prediction is based on the argument that competition is rarely present in local government service markets, and private contracts often substitute a private monopoly for a public one. Further, "Private firms' primary objective is profit, whereas governments' primary objective is the public good. Public-private partnerships can help blend public and private objectives for mutual gain, but without careful attention to accountability and a long-term perspective, these partnerships can result in collusion and privileging of private interests over the public good" (Ibid).

Local governments have been forced to seek more expensive and risky private capital to finance infrastructure maintenance and renovation. These public- private partnerships are not always cheaper. They also may sacrifice critical public planning goals to short-term financial concerns, as shown in the recent decision by the city of Chicago to lease its parking meters for 75 years for $ 1.1 billion. If the privatization transaction is not clearly analyzed and honestly negotiated, it can be very detrimental to taxpayers and service users. In the case of Chicago, not

only is the present value assessed at twice that amount, with energy and climate change, the city will likely want to convert the parking lane to new use by pedestrians, bike, or dedicated public transit, but is locked in by the 75-year contract. More alarmingly, the expected revenue to private investors of the deal is estimated to be $11 billion (ten times the cash price paid).

Given the visceral American preference for privatization, free trade, and private investment, the urge for privatization of infrastructure goods and services "must be tempered by a longer-term perspective that carefully assesses benefits and costs, and balances public goods values and long-term financial health with short-term investment opportunities" (Walker 2010).

Regarding tax benefits for private parties that buy or participate in development or operations of infrastructure assets, Carlisle (2010) concluded that though they provided needed capital to state and local governments, there were no extraordinary tax benefits for the private investors. This situation arises because the U.S. federal income tax treatment of infrastructure privatization transactions mirrors the tax treatment of other investments in U.S. businesses. There are no unique rules that enhance the tax benefits of infrastructure privatization transactions.

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