

Municipalization of Public Utilities

Government bureaucrats sometimes seek to enlarge their jobs and raise revenue by “municipalizing” gas, electricity, and telecommunications utilities. This is unfair to taxpayers, it rarely works, and it saddles taxpayers with inappropriate risk.

1. Municipalization is unfair to taxpayers and private investors. Governments enjoy unfair advantages over private, tax-paying vendors:

- Regulatory power (permits, licenses, fees) over competitors, a clear conflict of interest;
- Power to condemn privately-owned facilities;
- Tax-exempt debt financing;
- Ability to mask costs of service delivery in municipal bureaucracy; and
- Use of taxpayers’ assets (rights-of-way, tax revenue, municipal employees) to compete against taxpaying private vendors.

2. Municipalization rarely works.

- Artificially low rates offered by municipalized utilities are illusory. They are subsidized by taxpayers, who pay higher taxes for other governmental services to make up for taxes not paid by tax-exempt municipalized utilities.
- The comfortable position of municipalized electricity utilities today, compared to private utilities, is not evidence of better management. For example, several years ago, the Los Angeles Department of Water and Power (DWP) was \$7.5 billion in debt. Worse yet, DWP’s executive director found that his predecessors used accounting techniques to hide \$4.8 billion of the debt from the public. DWP is thriving today only because it was exempt from the state's so-called deregulation experiment, and was able to charge customers more for electricity than were private-sector providers.

3. Municipalization saddles taxpayers with inappropriate risk.

- Investors in a private utility knowingly and willingly accept some risk, in return for expected dividends and capital gains. If the company fails, the investors take the loss. If a municipalized utility fails, bureaucrats simply pass the losses to taxpayers, who neither understand nor voluntarily accept such risk.
- Governments should not gamble taxpayers’ money by providing services that can be provided more fairly, understandably, and cost-effectively by the private sector.
- In a letter opposing the Proposition D public power measure on San Francisco’s November 2002 ballot, Senator Diane Feinstein wrote, "San Francisco has enough trouble keeping the streets clean and safe without taking on this completely new and very complicated responsibility." San Francisco voters defeated the measure.

In summary, municipalization of private utilities is unfair to taxpayers and shareowners, it rarely works, and it saddles taxpayers with inappropriate risk.