AMERICAN PUBLIC POWER ASSOCIATION
Powering Strong Communities

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The Honorable Joseph Biden
President of the United States
The White House
1600 Pennsylvania Ave., NW
Washington, D.C. 20500

Dear President Biden:

I write today in strong opposition to using infrastructure funding legislation to encourage the privatization of public facilities. In general, privatizing public projects reduces local control, increases costs by providing a higher rate of return for investors, and, contrary to the perception, does nothing to increase project funding, which ultimately comes from residents of the community. As a result, while communities should consider all alternatives when assessing their infrastructure, the federal government should not tip the scales of those decisions by favoring privatization.

I come to this discussion with admitted biases. I represent the more than 2,000 state and locally owned electric utilities operating in the United States. These utilities, serving more than 49 million Americans in 49 states and five territories, have made more than $70 billion in grid investments in the last decade. Nationwide, public power utilities have lower retail rates on average – and higher reliability – than other electric utility providers.

Historically, most public power utilities were formed when homes and businesses needed electric power, but for-profit companies were unable or unwilling to serve them. Instead, cities stepped up and did it themselves, helping make their communities livable and commerce possible. That is still true to today, even as many public power utilities partner with private sector entities to help design and build electric systems, to help operate such systems, to provide fuel for power, and as a source of electric power itself. Public power utilities also often jointly own power plants with private utility partners and in some cases jointly own transmission facilities as well.

My concerns, therefore, are not fueled by our partners in the utility sector. Communities have been free to choose the best delivery model for electric service. Some communities choose private, not-for-profit, rural electric cooperatives; some choose private, for-profit investor-owned utilities; and some choose to own and manage their utilities as a local government enterprise that is public, not-for-profit, and run by the city or county in which they live.

My concern is the troubling bipartisan, bicameral interest in the federal government paying states, counties, and cities to sell their roads, bridges, and utilities to raise short-term cash for other infrastructure repairs. This so-called "asset recycling" arguably failed in Australia – just four out of 16 Australian states and territories participated, and the program ended with unspent funding – and has failed to take off elsewhere.

A comprehensive review of objective, data-based analyses shows that up-front costs of privatized projects tend to be higher for several reasons, including higher transaction costs and higher financing costs. These analyses also find that real value of privatization is the extent to which the seller can shift risks onto the buyer, and that shifting those risks – which can reduce later profits – can be quite difficult to do.

Lackluster results may be driving declining public interest in privatization of infrastructure globally. Since 2006, the number and dollar value of new privatized projects has fallen by more than 70 percent in Europe, according to the European Investment Bank. Outside Europe, the number and dollar value of privatization projects in 2019 were roughly half what they were in 2012, according to the World Bank,

Conversely, private investment in U.S. infrastructure made through the purchase of tax-exempt municipal bonds has rebounded since 2011: more than $2 trillion in new investments in the last decade and $300 billion in 2020 alone. Most municipal bonds are held by retail investors, such as retirees, union workers, and average American workers with 401k plans, who receive a rate of return commensurate with the relatively low risk.

Privatizing public facilities will not get the private sector "off the bench." Often, privatized project financing comes from investors purchasing private activity bonds instead of municipal bonds. And, insofar as overseas investors or private equity firms are providing a new pool of financing, they are replacing traditional investors, but demanding a much higher rate of return.

Likewise, one governor recently defended a privatized express lane project saying it will "cost the state nothing." But, of course the "state" itself never pays for anything, people do through income taxes, sales taxes, and user fees. Privatizing a public facility doesn't change that, except perhaps to increase the costs paid as I discussed above.

Finally, I do take it as good news that it appears that in discussing asset recycling, policymakers are not discussing the sale of federal assets, such as the Power Marketing Administrations (PMAs) and the Tennessee Valley Authority (TVA). The costs to run the PMAs and TVA are paid by customers and not the federal government; none of the costs are borne by taxpayers. Furthermore, there is no factual evidence that selling the transmission assets of the PMAs would result in a more efficient allocation of resources. Rather, it is much more likely that any sale of these assets to private entities would result in attempts by the new owners to charge substantially increased transmission rates to PMA customers for the same service they have historically received.

Our nation faces challenges at all levels of government. As a result, I strongly believe that communities and their local governments should consider and choose which option is best for them.

Sincerely,

Joy Ditto

President & CEO