A Not-So-Private Problem

The slow economy may benefit L.A. by encouraging the city to turn some services over to businesses.

By ADAM B. SUMMERS

It is no secret that economic conditions are tough, and the city of Los Angeles is certainly feeling the pinch. The city is facing a $450 million budget deficit and, according to Mayor Antonio Villaraigosa, massive city layoffs may be necessary.

In an encouraging sign, however, the mayor recently indicated that the city will be considering innovative budget solutions, such as turning to public-private partnerships to save money operating the Los Angeles Zoo and the Los Angeles Convention Center.

With a significant budget deficit and more difficult economic times ahead, implementing public-private partnerships is going to be an essential part of any long-term budget solution. Looking to the private sector to operate the zoo and convention center should just be the start.

Chicago Parking Meter LLC – a consortium led by Morgan Stanley Infrastructure Partners – will maintain the city's downtown parking meters, be responsible for collections, and implement technology upgrades to allow for both cash and cashless payments at the meters

State and local governments across the country are increasingly recognizing the value in partnering with private-sector vendors to provide better, more cost-effective services to taxpayers.

Municipal governments have assets they may not have given a second thought to that are ripe for these partnerships. Chicago Mayor Richard Daley, a Democrat, recently announced a 75-year lease of the city's downtown parking meter system. In exchange for an upfront payment of $1.16 billion, Chicago Parking Meter LLC – a consortium led by Morgan Stanley Infrastructure Partners – will maintain the city's downtown parking meters, be responsible for collections, and implement technology upgrades to allow for both cash and cashless payments at the meters. The city will continue to write tickets, and retains the right to change the number of meters and their hours of operation.

"This is the best thing that has happened for us in regards to getting out of this business," said Daley. "This is not the core business of the city of Chicago."

Given the similar sizes of the two cities' parking meter systems – Los Angeles has roughly 40,000 parking meters generating approximately $20 million in annual revenue, compared with Chicago's more than 36,000 meters and $19 million in revenue – this would appear to be a great opportunity for Los Angeles, and the city could reasonably expect a similar price for such a lease.

Daley is providing an excellent blueprint for Villaraigosa. Chicago recently negotiated long-term public-private partnership leases for several downtown parking garages that will bring the city more than $563 million. A few years ago, Daley leased the Chicago Skyway, a 7.8-mile toll road, and got an upfront payment of $1.8 billion for the city. Now Chicago is in the process of leasing Midway International Airport for $2.5 billion.

Successful move

Cities have experienced success privatizing human resources, information technology, vehicle fleet maintenance, landscaping and grass cutting, parks and recreation management, building maintenance and janitorial services, water and wastewater treatment, library operations, trash and recycling collection services, and landfill operations.

Villaraigosa should look at all of the options. The question should not be "What services can be contracted out?" but rather "What services can't be contracted?"

It's time for Los Angeles' leaders to differentiate between the "core" services that government provides, and the services that are more commercial in nature. Providing public safety through sworn police officers, for example, would be considered a core government function. Janitorial services, cutting the grass at city buildings, operating golf courses and providing IT technical support are not core functions.

Public-private partnerships are a means of providing better services at lower costs, but they are not a panacea. If those cost savings are simply frittered away on other parts of the government, not much has been accomplished. During this recession, taxpayers and consumers have been forced to cut back. It is time the government scaled back as well.

Villaraigosa's move toward partnering with the private sector is much needed and should be applauded. The mayor should ask all of his department heads to use the Yellow Pages test: If companies listed in the Yellow Pages are providing the same services as the government, the government should not be in those businesses in the first place.

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Tightened Consumer Spending Will Push Recession Into 2010

By P. JACOB YADEGAR

As I drive down Melrose Avenue and Robertson Boulevard, I am astonished by the number of for-lease signs. Known for high density and low vacancy rates, West Hollywood, Beverly Hills and Brentwood are good predictors of the local economy.

Los Angeles hotels, restaurants and department stores are hurting. Luxury hotels throughout the city are offering deals because of low room occupancy. The Hilton Hotel Corp. headquarters is moving from Beverly Hills to Virginia to lower costs. The median home price in Los Angeles County has dropped 35 percent since January of last year.

Consumer spending is a major pillar of our economy and as consumers continue to tighten up, more stores will close, fewer goods will be produced and volumes will undoubtedly shrink, causing the economy to continue to contract

Given the grim picture thus far, we will probably continue to be in recession for the full calendar year, and things will continue to decline further with no stabilization in sight until mid- to late 2010. There are several major factors that lead me to this conclusion.

First, consumers are going to save more and spend less. With fears of continued job losses, depletion of wealth and lousy credit conditions, consumers will continue to tighten their belts. Consumer spending is a major pillar of our economy and as consumers continue to tighten up, more stores will close, fewer goods will be produced and volumes will undoubtedly shrink, causing the economy to continue to contract.

Circuit City is liquidating. Macy's is closing stores, one of which is located downtown in the Citigroup Plaza. Saks recently announced that it is slashing prices on luxury goods.

We need a stimulus package, but the stimulus package passed last week is simply a pork-laden, misguided piece of legislation. There isn't enough job-creating stimulus that will have a long-term effect on the economy, and this will be one of maybe two or three packages that will be required going forward. This is of major concern as the deficit is ballooning, and at some point, interest rates will have to increase dramatically to attract buyers for all of our debt. This stimulus package is creating more debt that will have to be paid by the future generation. Stimulus must include incentives for investors and businesses to take risk.

Giving tax breaks to anyone who profits from the purchase of stocks or bonds purchased in the next 36 months at a dramatically reduced tax rate would give people additional incentive to invest in the markets and would certainly move confidence in the right direction. Fortunately, the Federal Reserve is going in the right direction by lowering rates and not pushing the financial institutions to unload everything at once. They are providing ample time to the financial institutions to work through the problems, similar to the 1980s when the Fed allowed banks to hold on to their bad foreign debt until they worked through it. Had they all been forced to write down to true levels, most banks would have failed.

Loan losses

Earlier this month, the Federal Deposit Insurance Corp. seized L.A.-based Alliance Bank, which had five branches and more than $1 billion in assets. Commercial mortgages are now starting to falter, as well as auto loans and credit cards.

I have seen estimates that the banking system may need an additional $1.5 trillion of capital to stay afloat. I think that number is right on target. There is a lot more pain to come for the world financial markets and there is no way the economic conditions will improve until the banks are healthy and ready to lend.

Nothing in the economy will move without money. Our credit system has been destroyed and it will take us well into 2010 or 2011 to re-create a credit system that works. Without credit, economic recovery will take much longer and the recession will get a lot deeper and longer to work through.

Also, it's important to keep in mind that the new federal stimulus plans and the increase in federal spending is going to be accompanied by a substantial decrease in state and local spending. The majority of nonfederal entities must balance their budgets and almost all have huge deficits to resolve.

Tax receipts will continue to decline as consumers spend less; property taxes are lower as prices continue to drop; construction and development projects are down dramatically reducing fee and permit income as well. While many state and local governments are pushing tax increases of all types, consumers will revolt by spending even less.

In California, state employees will be out of work every other Friday. This will reduce income for many, therefore, negatively impacting consumer spending and ultimately government tax receipts. As you can see, this can lead to a vicious cycle.

The U.S. economy over the last eight years would have grown significantly slower had it not been for the trillions of dollars in home equity withdrawals that were spurred by the housing bubble. Financial results for the fourth quarter were dismal at best, with many companies writing off everything under the sun in the hopes of starting over. In fact, Standard & Poor's will be reporting the first negative quarter for earnings ever for U.S. companies with losses nearing $9 a share.

This year will undoubtedly be difficult. Growth prospects are dim until the credit markets improve significantly, which is unlikely until 2010. In the interim, opportunities abound for the prudent investor who has a long-term approach and outlook to investing.

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