

Doyle Drive's Costly Pothole

Governor Schwarzenegger is willing to pour billions of public dollars into a scheme to benefit private investors

By Matt Smith
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For those wondering whether California is on its way to becoming Greece, witness an alarming pattern in which Governor Arnold Schwarzenegger comes up with ways to plunge the state further into debt, then fires public officials who cry foul.

In March, Schwarzenegger canned San Francisco State Building Authority Commissioner Don Casper, who had complained that a scheme to sell state buildings and then lease them back would cost California hundreds of millions of extra dollars in the long run. Next, Schwarzenegger fired Los Angeles State Building Authority Commissioner Jerry Epstein for voicing the same concerns.

Last week, the governor pulled Larry Zarian off the California Transportation Commission after he opposed a plan to spend an extra \$500 million — minimum — to give private companies a greater role in building the Doyle Drive onramp in the Presidio. The governor had already deep-sixed transportation commissioner Jim Ghielmetti last fall after he also raised questions about costly public-private highway partnerships.

Governors have to govern. And they must also fire and hire. But you always hope that this managerial dirty work advances a philosophy of providing less expensive and more effective public services. Schwarzenegger's stated goal of attracting private entrepreneurs to help do government work sounds reasonable, even appealing. Hey, you're tempted to imagine, why not have Apple and Google go from building information highways to building actual freeways?

But upon close examination, Schwarzenegger's privatization fixation is Grecian formula: It attempts to hide unsightly debt by slathering billions of taxpayer dollars on well-connected investors, doing less with more money, and ruining California's financial future.

As envisioned, the Doyle Drive project will replace a rickety onramp that connects the Marina District to the Golden Gate Bridge with a grass-roofed tunnel that plunges underground near the Crissy Field Center Cafe and resurfaces just northwest of the Main Post in the Presidio. Emphasizing this ersatz meadow, city boosters have backed this project with Robert Moses fervor.

The grass patch will connect the post with previously disjointed Crissy Field, they say. It will replace a dilapidated onramp with a state-of-the-art freeway. And it will erase the now-present danger of earthquake-stricken motorists plummeting into a pile of 1930s-era concrete.

Such sublime visions costs money. And, sadly, the arena of public transportation finance is a brutish place where daring and ambitious bureaucrats compete to pry money from myriad programs. When and if it comes, cash often arrives in dribs and drabs in the nick of time.

San Francisco staffers at the County Transportation Authority seem to have overcome this grueling game with a proposal, floated last year, and approved only on May 20. Cleverly, it plays into a desire by members of the Schwarzenegger administration to turn their twilight in office into a veritable privatization party.

Last year, Schwarzenegger backed legislation that made it easier to finance infrastructure projects as "public-private partnerships." Catchily, officials labeled the method "P3."

For San Francisco, P3 seemed a particularly pleasing panacea. Under normal infrastructure financing, engineers design a facility, and then officials obtain legislative approval to spend taxpayer money on it. They hold numerous contractor biddings to obtain the lowest possible price for a project's components. And eventually they get the thing built.

In a P3, a consortium of builder-investors is tapped to design, construct, and pay for the project upfront. Over the next 30 years, the state repays them at a guaranteed rate of return. This way, the project is potentially paid for and built faster.

By hastening financing and construction, city officials argued, San Franciscans get an earthquake-safe roadway sooner, possibly saving lives. Swiftly spent money will create an economic stimulus. Investors will take advantage of the current down market in construction costs. Backers claimed such a scheme could save taxpayers \$147 million.

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For Schwarzenegger and his team, privatization has other benefits, too. As a policy initiative, it creates an ideological touchstone for what has so far been an ad-hoc administration without a record of successful ideas. (Does anybody remember his fizzled government efficiency revolution called “blowing up boxes”? I didn’t think so.) By exploiting California’s abundant private-sector energy, the theory seems to go, our ex-bodybuilder governor might enjoy a legacy besides crippling debt.

That’s because this form of financing creates the illusion that it isn’t worsening California’s fiscal crisis. Instead of borrowing money, the state essentially rents, rather than owns, a freeway onramp. For a lot of money. For a long, long time.

“It will waste half a billion dollars,” said Bruce Blanning, executive director of Professional Engineers in California Government, a trade association that opposes the financing scheme.

As it happens, this is just more government borrowing by yet another name.

In a May 15 study, the California Transportation Commission lambasted the apparently faulty financial logic behind the San Francisco–Schwarzenegger scheme. Pre-P3 plans drawn up a year ago to design, bid, and then build the Doyle Drive project the normal way had an estimated price tag of \$499 million. But paying the profit-taking investment consortium to do the whole thing meant doing an end-run around ordinary piecemeal bidding procedures, which are designed to squeeze the lowest possible price out of various contractors.

Unlike government workers for Caltrans, who would ordinarily oversee construction of a freeway onramp, investors must obtain solid returns. As a result, the report said, the public-private scheme could cost as much as \$1.55 billion in payments over the next 30 years. To repay investors, the revised method would suck up as much as \$1 billion from other state road projects, according to the study. California’s future, the report suggested, would be full of potholes.

Worst of all, by promising to scrounge three decades’ worth of payments from an unspecified part of the state transportation budget — rather than seeking and gaining specific approval for funding from state and federal officials — the project evades oversight designed to guarantee “funding accountability,” the report said. This is the sort of financial deregulation future scandals are made of.

Notwithstanding, on May 20 the California Transportation Commission ignored staff advice and voted six to five to let state officials solicit bids from three private investor groups to take over a large portion of the Doyle Drive rebuild.

Zarian, a Republican, was among the naysaying five. The next day, he was yanked from the commission. He didn’t return a message left at his home requesting comment by press time.

Sometimes when public servants needlessly shove an extra \$1 billion into private pockets, malfeasance seems likely. But there’s no evident corruption here. Rather, we’re seeing perverse incentives of the same sort that have for years pulled California closer to Greece.

Taxpayers want services they’d rather not pay for. Local officials want pork, and damn the consequences. Politicians such as

Schwarzenegger covet the illusion that they’re fulfilling these irreconcilable desires — and also want to disguise the credit-card frenzy required to accomplish such a feat.

Schwarzenegger suffers additionally from having apparently become preoccupied with his legacy. And he’s assembling a Frankenstein’s monster called P3, and he’d like us to believe it will attract private “investment” to California. But it looks less like investment than yet another unproductive transfer of wealth from you and me to financiers.

There’s a remedy. It comes in the form of boring, largely overlooked commissions, boards, committees, and authorities, often populated by unexciting yet civic-minded people who simply like the idea of making a contribution to society. All they ask is not to be fired for offering their honest judgment.

But transportation commissioners are apparently on governor’s orders to ignore staff analysis calling the Doyle Drive P3 a \$1.5 billion boondoggle. The legislature needs to pull this debt scheme off the road at the first exit, and fund Doyle Drive the normal cheaper and safer, if slower, way.

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“Appointees to state or local boards or commissions should not be puppets,” Casper said. “This is not pre-2000 Albania. ... Long-serving members of boards and commissions who exercise their informed, independent judgment are sometimes better able than short-term elected officials to look out for the state’s long-term financial outlook.”

They know a Trojan horse when they see one.