Risky Business

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In 2006, Indiana leased its 157-mile toll road to private investors for a $3.8 billion lump sum payment. The lease would last for 75 years, and the money generated from the deal would fund pent-up transportation projects (which were estimated to cost $2.6 billion).

At the time, there was an incredible amount of blowback, with the deal barely squeaking through the legislature and facing court challenges.

"The whole thing stinks," said Indiana State Rep. B. Patrick Bauer, then the House Democratic leader. The two companies, he said, "got a heck of an unbelievable deal. We got a bad deal."

And now, *Governing* magazine reports that the companies that bought the lease may not be able to make payments related to the deal. The project lost more than $260 million last year.

More astonishingly, Indiana officials say that the terms of the deal mean that if the toll road project defaults or goes into bankruptcy, the companies that bought the toll road could either find new investors, or **the toll road would be returned to the state, with Indiana keeping the $3.8 billion**.

In this case, it appears that the Indiana government got a pretty good deal.

Compare the case above to the news that developers are asking Saint Louis County to issue $7 million more in debt to finance the NorthPark development . The NorthPark development was also launched in 2006, during the height of the real estate bubble .

From the *St. Louis Post-Dispatch*:

> "The developers are not only seeking to refinance the mortgage, but they're also upping the size of it by almost 50 percent," said Brian Tournier, director of research with Ascent Investment Partners in Brentwood, which specializes in bond investments. "And the county, ultimately, will be on the hook."

As business owners know, the reward for taking on risk is the possibility of making a profit. The risk of failure is why so many of us do not set out to build a better mousetrap, be it Pets.com , Myspace , or Zynga .

What is so shocking about the Indiana toll road case is that it was a situation where government allowed the private sector to take on risk -- for a price. If the state really won't be held financially responsible if the project continues to lose money, then the state managed to shift all of the risk associated with the project to the private companies that invested in it.

In the case of NorthPark, it looks like the county is getting ready to take on more risk. And why, exactly? NorthPark could stand to profit if the development is successful. But if it isn't, the county could lose. Proponents may point to job or investment increase estimates. But those numbers frequently fail to materialize .

There is no better example of what can go wrong when government takes on risk than that of the fiasco in Harrisburg, Pa. The city took on $125 million in debt to rebuild and expand its incinerator, which it hoped would become a money-maker . Instead, the incinerator project is more than $288 million in debt. The city, bankrupt as a result, has to cancel Christmas (well, its annual Christmas parade).

When you hear elected officials talking breathlessly about taking risks for the promise of money or jobs, think about Harrisburg or Mamtek, right here in Moberly, Mo . **Though the jobs and investment numbers promised may be little more than a dream, the risk of failure is real**.

I have to say, in light of other failures, this line from Saint Louis County Councilman Steve Stenger (D-Dist. 6) about NorthPark troubles me : "The county knew the risks going in to this development. But that's a risk that you have to take if you want progress."

If officials want to get into the business game of taking on big risks with the potential to make big profits, they should get out of government. In business, if you make the wrong choices and fail, you are financially responsible. When government tries to take on the risk of private businesses, taxpayers are on the hook for failure. And sadly, government officials rarely are held accountable for bad bets.

In this case, Missouri can learn from Indiana and Mamtek. A better move is to leave risk and profit to the private sector.

About the Author

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