Streamlining Government through Privatization and Public-Private Partnerships

Overview and Best Practices

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Leonard Gilroy
Director of Government Reform
Reason Foundation

“Privatization” defined

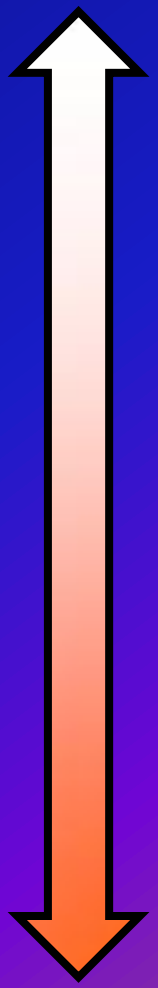
- An arrangement between governments and private sector to deliver public services & assets.
- Also called public-private partnerships (PPPs), contracting out, outsourcing, competitive sourcing, competitive tendering, etc.
- Ranges from simple partnerships to large-scale asset sales and joint ventures; taps private capital in most powerful versions.
  - Corporate sponsorships; naming rights; volunteer initiatives
  - Service contracting; outsourcing; competitive sourcing
  - Infrastructure PPPs: combination of design, construction, financing and/or O&M in delivery of assets; leveraging private capital
- Now a proven policy management tool to deliver better services at a lower cost—BUT, process is complex, requires care & best practices.
- PPPs introduce competition; promotes innovation, cost savings, efficiency in serving the shifting demands of customers.

Common goals of privatization & PPPs

- Cost Savings
  - Rule of thumb—10-25% on average (+/-)
- Service/Quality Improvements
  - Competitive bidding; performance guarantees
- Innovation
  - Static processes, red tape obstacles to public sector innovation
- Enhanced Risk Management
  - Key risks (cost, delivery, liabilities) can be transferred from public to private sector
- Accelerated Delivery
  - Competitive contracting, performance incentives
- Deploying private capital to finance assets/services
  - Toll roads, higher education facilities, parking assets, courthouses, etc.
  - Social impact bonds (aka social innovation funding) in recidivism, workforce

Privatization approaches becoming common for a range of services/assets

- Vehicle fleet operations, maintenance & ownership
- Core IT infrastructure & network, web & data processing
- Administrative support services (e.g., HR, payroll, accounting, mail, printing, etc.)
- Risk management (claims admin, loss prevention, etc.)
- Healthcare & welfare program administration & management
- Park operations & maintenance
- Asset maintenance
- Lottery operations and sub-functions
- Parks operation, maintenance and concessions
- Higher education facilities (including financing), maintenance & non-instructional services
- Facilities financing, operations & maintenance (e.g., public buildings, schools, hospitals, courthouses, parking assets)
- Core infrastructure (e.g., roads/transit, water/sewer, airports)



State policymakers are thinking bigger on privatization and PPPs

Examples:

- *Illinois*: Launched 10-year lottery management contract in 2011 to generate hundreds of millions in new state revenues. IN signed similar deal in 2012, and PA in 2013. NJ now in procurement.
- *Ohio*: converted state economic development agency into a nonprofit corporation; sold state prison to contract operator; Ohio State University entered into 50-yr, $483M lease of parking assets in 2012.
- *California*: Became 1st state to use “whole park concessions” for private operation of several state parks in 2012 to avoid closure.
- *Virginia*: has used PPPs to develop new highways, modernize state IT architecture, revamp Interstate maintenance and more.
- *Puerto Rico*: since 2010, entered into deal to rebuild 100 K-12 schools; signed $1.4 billion toll road lease; initiated San Juan airport modernization procurement.

States increasingly turning to infrastructure PPPs

- Fiscal woes expanding interest in PPPs that tap private $$ to modernize/deliver new infrastructure.
- Transportation is leading edge of U.S. infrastructure PPP market:
  - Over 35 states have passed transportation PPP enabling legislation.
  - Recent PPP legislation in Ohio, Illinois, Connecticut, Pennsylvania.
  - Over $7B in Texas highway PPP projects under construction; over $2B underway in Florida and Virginia each.
- PPP wave is starting to broaden to include social infrastructure:
  - Virginia's Public-Private Education Facilities & Infrastructure Act (2002)
  - Puerto Rico's PPP program (2009)
  - TX Senate Bill 1048 (2011): PPPs for schools, water & wastewater projects, transit, ports and other public use facilities.

State privatization spotlight: Louisiana

- December 2009: Commission on Streamlining Government identified 238 recommendations to save over $1 billion through privatization, streamlining, consolidation, and elimination of government activities.
- Numerous privatization initiatives done or underway under Gov. Jindal's administration, including:
  - Medicaid program (shift from state-run to private managed care)
  - Risk management functions (claims management & loss prevention)
  - IT support services
  - Rental car services (to replace state vehicles)
  - Correctional pharmacy services
  - Third-party admin for PPO health plan for state employees/retirees
  - Substance abuse treatment centers
  - Developmental disability group homes
  - State-run medical and psychiatric hospitals
  - Medical care in Veterans' homes

States not alone…local policymakers continue to embrace privatization

Examples:

•*Chicago*: dozens of services competed and $3B in asset leases under former Mayor Daley. Mayor Rahm Emanuel implementing managed competition for recycling services, new $1 billion infrastructure bank.

•*Indianapolis*: pioneered managed competition (public/private competitions) in the 1990s; recent initiatives include grounds & facility maintenance, towing services, water maintenance, payroll management, fleet services, landscaping, payroll, HVAC & more; entered into 50-year, $620 million parking meter lease in 2011.

•*Charlotte*: 16+ year successful managed competition program; dozens of city services competed (public vs. private).

•*GA Contract Cities*: Sandy Springs incorporates as “contract city” in 2005; contractors provide nearly 100% of non-safety operational and admin services; other cities incorporated & use similar model; now ~150,000 Metro Atlanta citizens served by largely privatized city gov’t.

Local privatization spotlight: Tulsa, OK

- Mayor Dewey Bartlett faced major deficit upon taking office in late 2009.
- Hired KPMG to prepare city strategic operational review.
- KPMG identified 298 managed competition opportunities alone; more in asset PPPs. Examples:
  - Asset maintenance
  - Solid waste collection
  - Claims processing
  - Aging services
  - Water quality analysis
  - Building operations
  - Traffic operations
  - Road maintenance
  - Recreation services
  - Drainage maintenance
- Mayor created Management Review Office to guide implementation.
- City has launched managed competition program; building maintenance was first service competed.
- Sold vacant city hall for $1M; transferred zoo & animal shelter to private operators.

Keys to successful privatization: Global best practices

- Rethink the status quo.
  - Ask the “make or buy” question
  - Yellow Pages Test: compete commercially available functions
  - Conduct business case/value-for-money analysis for projects to frame the option set; evaluate tradeoffs.
- Utilize “best value” contracting.
  - “Low bid” isn’t necessarily the “best” bid—governments should choose the best mix of quality, cost and other factors
- Establish PPP “center of excellence” to guide process, implementation; can be formal or informal.
  - Central management, consolidated expertise
  - Enterprise-wide approach brings consistency
  - "Best value" selection

Keys to successful privatization: Global best practices (cont'd)

- Use performance-based contracting.
  - Develop performance metrics and goals, and build these goals and benchmarks into the contract.
  - Tie vendor payment to performance.
  - Financial incentives for increased productivity/quality, lower costs.
  - Financial penalties for poor performance, rising costs.
- Develop strong oversight and monitoring and protocols before entering into a contract to ensure compliance.
  - Government's role does not end with contract signing; rather, role shifts to rigorous monitoring and contract management.
- Seek opportunities to bundle services for better value.
  - Contracting services "piecemeal" may miss savings opps.
- Communicate early and often with stakeholders, public, media.

Keys to successful privatization: Global best practices (cont'd)

- Establish public-private cost comparison guidelines.
  - "Apples-to-apples" comparison tricky due to government accounting.
- Build and use real property inventories to actively manage asset/real estate holdings.
  - Knowing what you own: central record of public land and assets built within a geographic information system; ties maps and asset data.
  - Facilitates better asset management and divestiture opps.
  - Georgia: 2005 order for statewide inventory & admin support; state created *realpropertiesgeorgia.org;* by 2010 had sold off $43.2M in surplus property; saved $8.5M through renegotiated asset leases.
- Divest non-core government assets.
  - Asset sales and leases can right-size asset holdings; generate revenue; lower maintenance costs; improve space utilization.
  - Return tax-exempt properties to tax rolls.

Common privatization myths

Myth: *Privatization is partisan, a creature of the right*.

- Fact: Privatization is used by leaders from both major parties.
  - More federal services privatized under Clinton than Reagan.
  - Former Indy Mayor Stephen Goldsmith (R) identified $400 million in savings and opened up over 60 city services to competition.
  - Former Chicago Mayor Richard Daley (D) subjected more than 40 services to competition and generated over $3 billion in asset leases.

Myth: *Privatization brings a loss of public control*.

- Fact: In well-structured privatization contracts the government and taxpayers gain control and accountability, rather than lose it.
  - Failure to meet the contractual performance standards could expose the contractor to financial penalties, termination of the contract.
  - Can guarantee a higher level of accountability via contract than in public sector, due to civil service laws, bureaucratic inertia, etc.

Common privatization myths (cont'd)

Myth: *Privatization hurts public employees*.

•Fact: Most privatization initiatives result in few, if any, layoffs.

- Often, many employees will shift from gov't to contractor at similar pay, though less generous benefit packages.
- Remainder often move to other gov't positions or retire early.
- New opportunities for upward professional mobility in shift from gov't to private industry.

Myth: *Privatization always saves money*.

•Fact: Process matters, and poorly designed procurements tend to yield poor results.

- Lack of robust pool of competitors can limit savings potential, may be due to geography, scope of services sought, other factors.
- Sometimes, quality—not cost savings—is the primary driver, getting better results for a similar cost.

Questions?

Leonard Gilroy
Director of Government Reform
Reason Foundation

leonard.gilroy@reason.org

(713) 927-8777

reason.org