

Streamlining Government through Privatization and Public-Private Partnerships



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“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



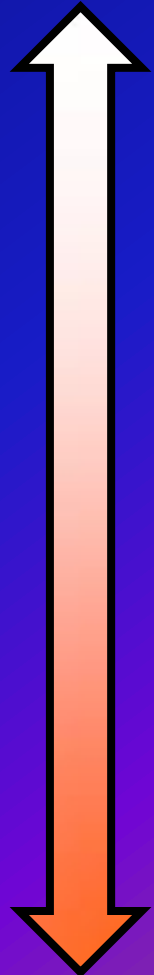
- **Cost Savings**
 - Rule of thumb—10-25% on average (+/-)
- **Service/Quality Improvements**
 - Competitive bidding; performance guarantees
- **Innovation**
 - Static processes, red tape obstacles to public sector innovation
- **Enhanced Risk Management**
 - Key risks (cost, delivery, liabilities) 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
- 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)

Outsourcing



Assets

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. Indiana and New Jersey have since signed similar contracts.
- *Ohio*: 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 PPP deals to rebuild 100 K-12 schools; signed \$1.4 billion toll road lease & \$2.1 billion San Juan airport lease.

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.
- Initiatives advanced under Gov. Jindal's administration include:
 - 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. Entered into 50-year, \$620 million parking meter system lease in 2011.
- *Charlotte*: 17+ year successful managed competition program; dozens of city services competed (public vs. private).
- *Centennial, CO*: Launched total outsourcing of public works department in 2008. Renewed in 2013 for five more years.
- *GA Contract Cities*: Sandy Springs incorporated as “contract city” in 2005; contractors provide nearly 100% of non-safety operational and admin services. Other new cities incorporated using similar model.

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.

Some keys to success in privatization: Global best practices



- Conduct business case/value-for-money analysis for projects to frame the option set; evaluate tradeoffs.
- Establish “center of excellence” to guide process, implementation.
- Central management, consolidated expertise.
- Enterprise-wide approach brings consistency.
- Use “best value” contracting.
- “Low bid” isn’t necessarily the “best” bid—governments should choose the best mix of quality, cost and other factors.
- Use performance-based contracting.
- Build performance metrics and goals into the contract.
- Tie vendor payment to performance.
- Develop strong oversight and monitoring protocols before entering into contract to ensure compliance.

Questions?



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