Streamlining Government through Privatization and Public-Private Partnerships

Solutions Summit 2013
Washington Policy Center
November 2013

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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)
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
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.