



# Better Service. Better Price.

**How privatization can streamline government, improve services, and reduce costs for Kansas taxpayers.**

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## Executive Summary

In May 2012, Kansas Governor Sam Brownback signed a historic tax reform package into law that lowered income tax rates across the board, increased tax deductions and exemptions, and enacted other changes that, in total, create a more competitive tax environment in the state as a result. Kansas will be better positioned amongst its peers in terms of economic growth and job creation.

Section one explains the fiscal impact of these tax reforms. One analysis finds a one-time spending reduction of approximately 8.5 percent, or just over \$500 million, is all that is needed for implementation. Another analysis finds that short-term cuts will need to approach \$700 million.

Both studies agree that policymakers will need to find near-term savings in the budget. Finding savings becomes manageable when one considers that government spending has increased dramatically in Kansas in recent years. For example, from 2003 to 2012 general fund spending increased nearly \$2 billion, or 48 percent.<sup>1</sup> Prior to recent spending hikes core functions of government were provided at much lower levels of spending. In this study, Kansas Policy Institute and Reason Foundation provide a range of possible reforms, namely public-private partnerships and privatization, for Kansas' policymakers to consider.

Section two outlines policy tools, such as contracting, franchising and divesting. It then outlines potential benefits of these policy tools, including lower costs, improved service quality, enhanced risk management, innovation, accommodating fluctuating peak demand, timeliness, and access to outside expertise. It goes on to explain where these benefits can be leveraged across a broad range of policy areas in state and local government and highlights recent success stories across the United States.

Section three provides specific opportunities by policy area, including non-instructional K-12 services, parks

operations and maintenance, solid waste collection, real property inventory management, correctional services, infrastructure, roads, K-12 infrastructure, parking infrastructure and asset management, water and wastewater, public buildings infrastructure, facility and grounds maintenance, and higher education facilities and services. The opportunities proposed throughout this section include corresponding case studies.

Section four details lessons learned from public-private partnership and privatization reforms. Privatization is a powerful tool, but implementing it in practice—taking potential opportunities from concept through to contract—is neither easy nor linear. Best practices demonstrate that there is no standard “cookie cutter” approach, as every context is unique, and the tool itself is, by design, malleable and can be adapted to specific circumstances. Decades of successful privatization experiences have shown that, when implemented properly with transparency, accountability and with the delivery of high-performance services in mind, the likelihood of achieving success is greatly enhanced. Finally, it's important to differentiate myths and facts when considering public-private partnerships and privatization, which are amorphous concepts that can often be misunderstood.

Kansas policymakers, like their peers around the U.S., must confront the “new normal” in governance, one based on a constrained fiscal environment with looming cost increases and challenges in areas like healthcare and pensions. Meanwhile taxpayers want government to deliver better service at a better price.

While not a panacea, these tools are being used at all levels of government to improve public service delivery and reduce costs by driving greater efficiency. With proper attention to best practices, due diligence, and case studies in implementation, policymakers can use privatization as a powerful way to streamline government, improve services, and lower costs for taxpayers.

## Introduction

In May 2012, Kansas Governor Sam Brownback signed a historic tax reform package into law that lowered income tax rates across the board, increased tax deductions and exemptions, and enacted other changes that, in total, create a more competitive tax environment in the state. Kansas will be better positioned amongst its peers in terms of economic growth and job creation.

One analysis prepared by Kansas Policy Institute and The Beacon Hill Institute at Suffolk University suggests that decreased revenue from the tax reduction will be partially offset by new state and local government tax collections derived from increased consumer demand and expanded business investment—an expected outcome given the more competitive tax structure. It concluded that a one-time spending reduction of approximately 8.5 percent, (just over \$500 million) will be necessary to match revenues with expenditures at the onset of implementation.<sup>2</sup> The November 2012 Consensus Revenue Estimates says implementation will result in revenue losses of \$705 million in Fiscal Year (FY) 2014.<sup>3</sup>

Certainly, the imperative to cut costs presents a challenge for state and local policymakers, in Kansas and across the country, who have already been through several years of tight budgets. (However, considering Kansas General Fund spending increased a staggering 48 percent between 2003 and 2012, an 8.5 percent to 11.4 percent cut seems feasible.<sup>4</sup>) Local governments nationwide have responded to this new reality by making trade-offs in the current fiscal environment, shifting funding from parks and other amenities to help shore up their public safety budgets, for example, or deferring the long-term maintenance of their assets in order to free up revenues for current operations. States have been in a similar predicament, as spending on Medicaid, education, and public safety increasingly crowd out many other functions of state government in the budgeting process.

However, the need to reduce costs also creates new opportunities to transform government operations amid the “new normal” of ongoing, post-recessionary fiscal constraints. While they may be tempted by the expediency of using across-the-board spending reductions and other crude fiscal tools, public sector managers at the state and local level should instead avail themselves of a more robust set of tools—like privatization and public-private partnerships—that are being used at all levels of government to make them work better and more efficiently, with the added benefit of cutting the costs of public service delivery.

Privatization—an umbrella term referring to some shift in the delivery of public services or assets from the public sector to the private sector—has taken on a plethora of forms at the state and local level in the United States. In the wake of the 2008 recession it has been a topic of increasing interest to policymakers because it offers a powerful tool to lower costs and improve service delivery if implemented properly, with attention to due diligence and best practices in implementation. At the same time, privatization is often a complex subject for many policymakers, given the variety of forms it can take and the fact that it tends to evolve over time as governments refine its use and learn new lessons in implementation. Chicago Mayor, and prominent national politician, Rahm Emanuel is only the latest Democratic voice to engage in privatization, reaffirming the bipartisan nature of efforts to streamline government operations.

To help state and local policymakers in Kansas better understand the complexities of privatization and consider its expanded use as a way to balance budgets without sacrificing service quality, this paper provides an overview of this complex subject of privatization and its many forms, including best practices, lessons learned, and selected case studies.

## What is Privatization

Privatization—variously referred to as contracting out, outsourcing, competitive sourcing or public-private partnerships (PPPs)—is an umbrella term describing a variety of arrangements between governments and private sector entities in which some or all aspects of public service delivery are shifted from government to private sector provision, typically as a strategy to lower the costs of government and achieve higher performance compared to tax dollars spent. Though often involving a government partnering with for-profit firms to deliver state and local services or assets, privatization can also involve partnering with non-profit organizations or volunteers to achieve some public sector aim.

Though originally perceived as radical and ideologically based when the term came to prominence in the 1980s—largely due to champions on the political right such as Ronald Reagan and Margaret Thatcher—privatization has become ubiquitous in recent decades and has become established in public sector management as a proven policy management tool when implemented properly. At every level of government, both in the U.S. and in most countries around the world, policymakers from the left, right, and other political persuasions have used privatization to deliver higher quality public services at lower costs, improve government efficiency, deploy private capital to deliver public assets, and much more.

There has been a growing awareness among public administrators in recent decades that government's role has evolved from being a direct service provider to that of either a provider or broker of services, as the public sector is increasingly relying far more on networks of public, private, and non-profit organizations to deliver services.<sup>5</sup> In fact, there are very few government services—outside of inherently governmental functions such as lawmaking, policymaking, rulemaking, criminal sentencing, and the like—that have not been successfully privatized at some point in time somewhere in the world.

Privatization can take a variety of forms. It can range from simple outsourcing contracts to large-scale asset sales and leases, or even government exiting a service altogether. In some forms, it can be used to drive down service delivery costs through competitive bidding, while in others it could be used to tap private capital to deliver public assets for cash-strapped governments. Some of the more common forms of privatization include:

**Contracts:** In the United States, the most common form of privatization at all levels of government occurs when governments enter into contracts with private sector firms, both for-profit or non-profit, to deliver individual public services, such as highway maintenance, health care and child welfare services, library operations, and food and custodial services in schools. Since 1996

Kansas has contracted with non-profits, such as KVC Health Systems in Olathe and TFI in Topeka, for child welfare and family crisis services.<sup>6</sup> Governments at all levels also routinely contract with private firms to provide administrative support functions, such as information technology, accounting, human resources and vehicle fleet maintenance. At the local level, governments are also increasingly experimenting with “bundled” service contracts that integrate more functions or responsibilities into a single contract, such as a contract to outsource an entire city public works department. Some cities—like Sandy Springs, Georgia; Weston, Florida; and Central, Louisiana—are known as “contract cities” because they contract out for the vast majority of non-public-safety-related public services.

**Franchises:** In a franchise arrangement—also referred to as a lease or concession—government typically awards a private firm an exclusive right to provide a public service or operate a public asset, usually in return for an annual lease payment (or a one-time, upfront payment) and subject to meeting performance expectations outlined by the public sector. As an example, in many jurisdictions common utility services—such as telecommunications, gas, electricity, and water—are provided through long-term franchise agreements. Franchise-based privatization initiatives may involve the privatization of an existing government asset, such as a toll road, water/wastewater plant, or airport, though similar arrangements can be used to finance, build, and deliver new infrastructure assets as well. For example, states like Florida, Texas, and Virginia each have over \$2 billion in new transportation projects under construction today that are being delivered (and in many cases, financed) through long-term concession agreements between governments and private consortia.

**Divestiture:** Some forms of privatization involve governments getting out of a service, activity, or asset entirely through outright sales. Local governments routinely sell off aging or underutilized land, buildings, and equipment, returning them to private commerce where they can re-enter the tax rolls and enter more economically productive use. For example, in 2012 Sedgwick County (Kansas) sold a radio tower the county no longer needed, raising \$610,000.<sup>7</sup> On a larger scale the State of Georgia sold off surplus land and assets totaling over \$15 million between 2007 and 2008, and Orange County, California raised more than \$300 million through real asset sales and asset sale-leaseback arrangements over the course of 18 months to help recover from bankruptcy in 1995. In 2011, policymakers in Oklahoma passed a law requiring an inventory of state-owned properties—including a list of the five percent most underutilized properties, the value of those properties, and the potential for purchase



if sold—and a separate law created a building maintenance revolving fund to which proceeds from any state asset sales will be deposited to fund the maintenance and repair of the state’s aging buildings and properties.

Privatization can take place at different levels, including the:

- Service/function level (e.g., outsourcing contracts for discrete services or functions);
- Agency level (e.g., bundling a range of agency services and functions into one contract; spinning off a government agency into a non-profit, as Ohio, Arizona, Wisconsin, and others have recently done with their state economic development agencies); or,
- Project/asset level (e.g., selling or leasing state government land and buildings; long-term concession agreements to build highways and bridges or to operate public parks and recreation areas).

The use of privatization is not limited to any particular region, level of government, or political party, primarily for one reason: when properly undertaken, it works. Decades of successful privatization policies have proven that private sector innovation and initiative, when properly incentivized and structured, can do certain things better than the public sector, often at a lower cost. Privatization can also increase government revenue, as private companies under government contract pay income taxes and possibly higher property taxes on new business investment.

Despite the many forms of privatization, in the end they are simply policy tools; they are effective when used well and ineffective when used poorly. This works because privatization introduces a tension in the system, bringing the forces of competition to bear on the otherwise monopolistic system of public service delivery.

Governments tend to operate free from competitive forces and without a bottom line, so public sector programs and services often stagnate. Further, since state and local budgets are usually not linked to performance in a positive way, too often poor performance in government gets rewarded as budget increases follow failed or ineffective policy implementation.

When used properly, privatization and competition can offer a powerful way to lower costs and improve performance in service delivery. Private firms operating under government contracts have strong incentives to deliver on performance—after all, their bottom line would be negatively impacted by the cancellation of an existing contract or losing out to a competitor when that contract is subsequently re-bid. And from the public sector’s vantage point, applying competition forces management to identify their agency or department’s true costs of operation and prompts them to use performance measurement to track and assess the value and quality of services delivered.

## A. Potential Benefits of Privatization

When structured with care and due diligence, policymakers and public sector managers can use privatization to achieve a number of goals:

**Lower Costs:** The potential to reduce the costs of public service delivery presents a compelling opportunity for policymakers. One Reason Foundation review of over 100 privatization studies found that cost savings ranged from five percent to 50 percent, depending upon the scope and type of service. As a prudent rule of thumb, cost savings through privatization typically range between five percent and 20 percent for many types of services.<sup>8</sup> Competition among private service providers keeps costs to a minimum, and regular bidding processes encourage incumbent private providers to keep their rates in check, lest they lose contracts to more efficient, lower cost competitors. Cost savings are typically realized through some combination of economies of scale, reduced labor costs, better methods and technologies, and other marketplace innovations.

**Improved Service Quality:** While cost savings alone are important, competitive contracting can also be used to improve or transform public service delivery. Governments are increasingly using performance-based contracts to outline their performance expectations for contractors, giving them the ability to guarantee minimum quality thresholds, incentivize service quality improvements, and penalize contractor underperformance.

**Enhanced Risk Management:** One of the least heralded, but most important, benefits of privatization is the ability for governments to better manage risk. Governments can use competitive contracting to better control cost inflation risks by building cost containment provisions into contracts. Privatization can also be used to shift major liabilities from the government—and thus taxpayers—to the contractor, such as budget/revenue shortfalls (appropriation risk), construction cost overruns (financial risk), compliance with federal and state environmental regulations (regulatory risk), and poor program implementation (project execution risk).

**Innovation:** Competition provides a mechanism through which governments can tap technological and other innovations from the private sector. It also encourages service providers to create new, cutting-edge solutions to help win and retain government contracts.

**Accommodating Fluctuating Peak Demand:** Public sector staffing needs can fluctuate significantly due to seasonal changes, peak demand, and shifting economic conditions. Contracting allows governments to obtain additional help when it is most needed—without permanently increasing the labor force—in order to execute their missions.

**Timeliness:** In the world of government contracting, “time is money” if you are a contractor with project capital at risk or if your contract with the city or state

includes penalties for delays. Policymakers can use privatization to speed service delivery by seeking additional workers outside the typical government personnel system and using tools like performance bonuses that may be unavailable to in-house staff.

**Access to Outside Expertise:** Contracting allows governments to augment their staff with outside, specialized expertise that they lack in-house, on an as-needed basis. For example, it may be cheaper to retain architects, engineers, and lawyers via contract than it is to hire them as full-time public sector employees, given the significant labor and retiree benefit costs incurred with each new government worker.

The most recent state-level privatization trend survey released by the Council of State Governments (CSG) in 2003 asked state budget directors and agency directors about their primary motivations for pursuing privatization.<sup>9</sup> A majority of state budget directors cited cost savings, while agency directors ranked a lack of in-house personnel or expertise as their primary reason. Other reasons cited included flexibility and less red tape, speedy implementation, increased support from political leadership, and high quality services.

More recently, a 2011 National League of Cities survey of local government officials conducted by American University found that 93 percent of city officials support government contracting with the private sector, and 63 percent believe that most public agencies do a good job at contract management.<sup>10</sup> Further, a majority of officials cited cost savings as the greatest benefit of contracting (35 percent), followed by more flexibility in service delivery (32 percent), staffing flexibility (14 percent), and higher quality services (13 percent). Other responses indicate that officials have nuanced opinions about contracting. For example, while 69 percent said their contractors produce high-quality services to citizens, 69 percent also prefer to provide services in-house if given the option, which may reflect the often significant internal bureaucratic pressures (particularly from public employee unions) that arise when privatization initiatives are introduced.

It is important to note that privatization is not a magic wand that can guarantee governments will receive any or all of these benefits. The process can be complex and requires proper due diligence and contract structuring, transparent and competitive procurement processes, and effective government monitoring and oversight of contractor performance. Like any other type of public policy tool, privatization will fail if poorly executed, making taxpayers no better—or potentially even worse—off than before privatization. Fortunately, state and local policymakers in Kansas have the experiences of governments in the United States and around the world to learn from in order to maximize their chances of successful privatization implementation.

## B. Where Privatization Can be Applied

Governments of all political stripes have long used privatization across a wide array of government services, assets, and functions. Hence, the answer to the simple question of where privatization can be applied requires a somewhat more complicated answer.

City University of New York scholar and privatization expert E.S. Savas identified over 200 government services that have been contracted out to private firms (including for-profit and non-profit).<sup>11</sup> Some of the most prevalent areas of state and local government privatization include:

- Accounting, financial, and legal services;
- Administrative human resource functions (e.g., payroll services, recruitment/hiring, training, benefits administration, records management, etc.);
- Information technology infrastructure and networks and web and data processing;
- Risk management (claims processing, loss prevention, etc.);
- Planning, building, and permitting services;
- Printing and graphic design services;
- Road maintenance;
- Building/facilities financing and operations and maintenance;
- Park operations and maintenance;
- Zoo operations and maintenance;
- Stadium and convention center management;
- Library services;
- Mental health services and facilities;
- Animal shelter operations and management;
- School construction (including financing), maintenance, and non-instructional services;
- Correctional services (e.g., facility operations and management, health care, medical, and food services);
- Child care, child welfare, and adoption programs;
- Vehicle inspections and emissions testing;
- Environmental remediation;
- Golf course operations and management;
- Revenue-generating assets and enterprises (e.g., lottery operations, toll roads, parking assets, etc.); and,
- Major public infrastructure assets (e.g., highways, water/wastewater systems, airports, etc.).

This is just a partial list and it obscures a more important point. Privatization is a policy tool that can often be applied in some fashion and should be considered as an option in most instances. Asking, “what can governments privatize?” is in many ways the wrong question to ask; a better question is “where can’t governments apply



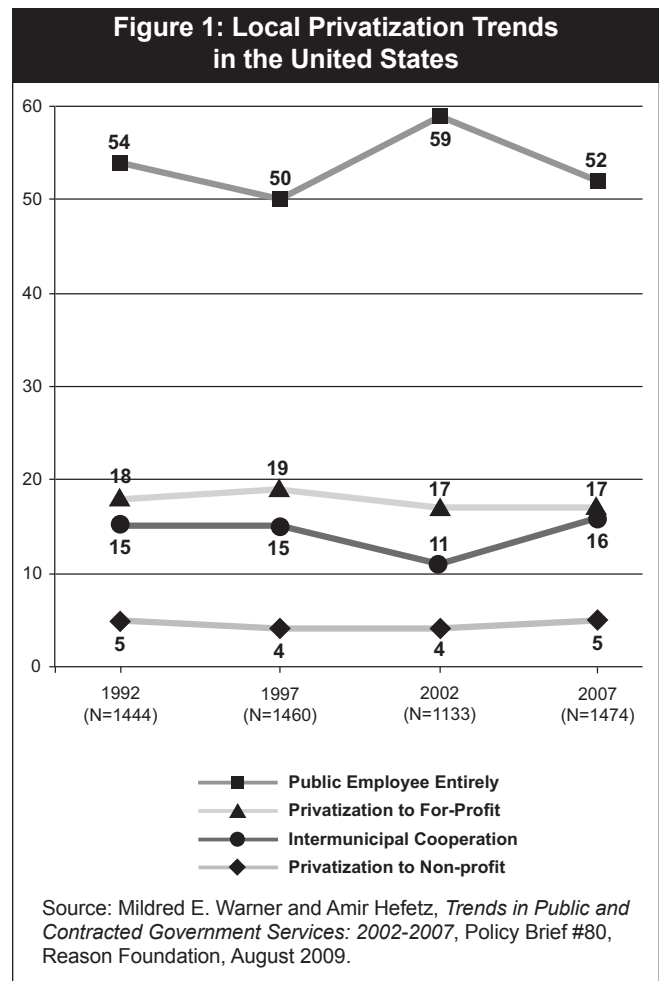
privatization?" Outside of inherently governmental activities like policymaking, rulemaking, lawmaking and performing judiciary functions, most services, functions or activities in day-to-day government operations have successfully been subjected to some form of private competition by a government somewhere around the world at some point in time.

As one example of how broadly policymakers should consider the potential scope of privatization, the administration of former Florida Governor Jeb Bush used competitive sourcing more than 130 times, saving more than \$500 million in cash-flow dollars and avoiding over \$1 billion in estimated future costs. Further, a report prepared by the consulting firm KPMG for the City of Tulsa, Oklahoma in 2010 identified a total of 298 city services or functions that could be subjected to private competition, and another 345 opportunities to pursue additional public-private partnerships.<sup>12</sup> While just two individual cases, these examples strongly suggest a wide scope of opportunity to apply privatization within state and local governments.

Comprehensive surveys of state-level privatization are few and far between, but at the local level, the International City-County Management Association (ICMA) has conducted a survey of alternate service delivery by local governments every five years, measuring service delivery for 67 local services across more than 1,000 municipalities nationwide. The most recent survey in 2007 shows that public delivery is the most common form of service delivery at 52 percent of all service delivery across all local governments on average (see Figure 1).<sup>13</sup> For-profit privatization (17 percent) and intergovernmental contracting (16 percent) are the most common alternatives to public delivery. Non-profit privatization is next at 5 percent, and franchises, subsidies and volunteers collectively account for less than 2 percent of service delivery, on average. Trends in levels of for-profit privatization and non-profit contracting have remained relatively steady over the last two decades, though the 2007 survey did not capture the more recent uptick in local government privatization in the wake of the 2008 recession and subsequent proliferation of state and local fiscal crises.<sup>14</sup>

Table 1 shows the percentages of surveyed local governments using privatization across a range of public services. Among the most frequently privatized local government services are solid waste collection (residential and commercial), waste disposal, vehicle fleet management, hospitals, vehicle towing, electric utilities, drug programs, and emergency medical services.

Moving beyond simple lists of discrete functions that could be privatized, what policymakers tend to find surprising is the extent to which other communities have embraced privatization, extending the boundaries of privatization far beyond what's seen in most jurisdictions. For example, over the last seven years, five new cities



serving over 200,000 residents have incorporated in metropolitan Atlanta, Georgia as "contract cities" that have opted to contract out virtually all of their non-public safety related government services to private firms, dramatically reducing costs, and improving services along the way.<sup>15</sup>

Sandy Springs, Georgia was the first, incorporating as an independent city in 2005. Instead of creating a new municipal bureaucracy, the city opted to contract out for nearly all government services (except for police and fire services, which are required to be provided directly by the public sector under Georgia's state constitution). Originally created with just four government employees, the city's successful launch was facilitated by a \$32 million contract with a private firm to oversee and manage day-to-day municipal operations, an amount just over half of what the city had previously been charged through taxes by Fulton County.

According to Sandy Springs Mayor Eva Galambos, the city's relationship with the contractor "has been exemplary. We are thrilled with the way the contractors are performing. The speed with which public works problems are addressed is remarkable. All the public works, all the community development, all the administrative stuff, the finance department, everything is done

by CH2M-Hill,' Galambos said. 'The only services the city pays to its own employees are for public safety and the court to handle ordinance violations.'<sup>16</sup>

Sandy Springs and other contract cities like Weston, Florida and Central, Louisiana, demonstrate something very powerful from a public administration standpoint: there's hardly anything that local governments do that can't be privatized, so there's no reason policymakers shouldn't think big on privatization.

### C. Recent State and Local Privatization Developments

Since the 2008 recession and the resulting fiscal challenges that states and local governments have and will continue to face, there has been an increasing level of interest in the subject of privatization and attempts to expand its use. Some of the more noteworthy examples from recent years include:

- In December 2009, Louisiana's Commission on Streamlining Government identified 238 recommendations to save over \$1 billion through privatization, streamlining, consolidation, and elimination of government activities. Since then, the administration of Gov. Bobby Jindal has advanced numerous privatization initiatives, including the state's Medicaid program (shifting from a state-run operation to a privately-run managed care system), the operation of the state employee/retiree PPO health plan, several risk management functions, information technology support services, rental car services (to replace state vehicles), correctional pharmacy services, state-run medical and psychiatric hospitals, and medical care in veterans' homes.
- In New Jersey, Gov. Chris Christie created a New Jersey Privatization Task Force in 2010, an advisory body that issued over 40 privatization recommendations in a May 2010 report that, if fully implemented, were estimated to realize cost savings and other benefits totaling over \$210 million on an ongoing, annualized basis. Since then, the Christie administration has begun to advance privatization initiatives across a broad range of areas, including vehicle fleet operation, building code inspection, highway maintenance, contaminated site cleanup, child support payment processing, toll collection, correctional food services, and emergency roadside assistance. The administration has also sold off or entered into lease arrangements for a range of state assets, including the NJ Network TV station, state-owned golf courses, and state-owned horse racing facilities.

**Table 1: Use of For-Profit Contracting by Metro Status**

Service	Percent Use 2007			Percent Point Change 2002-2007		
	Metro	Suburb	Rural	Metro	Suburb	Rural
Res. Waste Collection	29.0	57.3	39.3	-4.6	10.4	10.0
Comm. Waste Collection	39.2	63.8	52.7	-2.1	14.5	18.9
Waste Disposal	35.3	51.9	30.4	-1.7	8.0	0.8
Hazardous Materials	32.4	29.1	36.5	-10.1	-9.0	2.5
Airport	17.1	14.7	9.0	-6.2	-15.8	-5.3
Electric Utility	42.6	56.7	36.8	26.0	16.4	19.6
Vehicle Towing	57.1	68.4	65.4	-22.3	-13.1	-9.3
Daycare	39.0	53.8	64.9	1.1	13.8	33.1
Child Welfare	8.7	10.9	8.9	-6.1	-2.4	4.6
Transit Services	24.4	17.7	13.3	-0.4	-3.4	-0.7
Job Training	9.2	7.4	2.6	-5.2	-3.0	-5.6
Welfare Eligibility	1.0	3.0	0.8	-1.3	1.7	-2.5
Hospitals	35.3	38.6	43.2	24.2	8.6	11.6
Insect Control	14.8	24.6	19.3	1.7	3.5	8.9
Drug Programs	23.6	17.0	22.0	1.1	-1.7	10.1
Emergency Medical	16.1	16.6	18.3	1.4	3.9	8.0
Museums	3.0	4.3	4.1	-0.8	-0.4	-0.8
Fleet Management	23.6	28.6	22.3	-15.3	-11.2	-8.4

Source: International County and City Management Association, *Alternative Service Delivery Surveys, 2002, 2007*; Washington DC, cited in Mildred E. Warner and Amir Hefetz, *Trends in Public and Contracted Government Services: 2002-2007*, Policy Brief #80, Reason Foundation, August 2009, pp 4-5.

- In his first year after taking office, Chicago Mayor Rahm Emanuel's administration launched the Chicago Infrastructure Trust to attract private financing for a variety of projects within a \$7 billion infrastructure modernization program. Financial institutions that include Citibank, Citi Infrastructure Investors, Macquarie Infrastructure and Real Assets Inc., and J.P. Morgan Asset Management Infrastructure Investment Group have committed at least \$1.7 billion in private capital for Chicago-area projects, and though details are still in development, it is likely that projects would involve the private firms putting up capital and then recouping their investments through user fees over a set period of years. Emanuel's administration has also implemented public-private competition within the city's recycling program allowing private companies to compete with the public sector—a move projected to lower costs over 50 percent—and it also began outsourcing the operations of the water bill call center.
- Since passing a law in 2009 to facilitate private investment in public infrastructure, Puerto Rico has aggressively pursued public-private partnerships to modernize or replace public assets, including a modernization of 100 K-12 schools, a \$1.5 billion toll road lease, the development of a new juvenile correctional

treatment facility, and an ongoing procurement for a long-term lease of San Juan's international airport. This is part of a much larger trend in infrastructure public-private partnerships. As of 2012, 33 states and Puerto Rico have passed laws authorizing privately financed transportation infrastructure since the mid-1980s, giving those states a new source of infrastructure funding amid declining revenues from traditional sources (e.g., fuel taxes).<sup>17</sup> Virginia, Puerto Rico, Texas, and others have gone even further by authorizing public-private partnerships in non-transportation assets, including K-12 schools, higher education facilities, courthouses, and other types of public facilities.

- Indianapolis and Chicago have been prime movers in privatizing parking meter systems and parking garages in recent years. Chicago generated over \$1.6 billion up front through long-term leases of its downtown parking garages and meters in 2008 and 2009, and Indianapolis launched a 50-year lease of its downtown parking meters in 2010 expected to generate over \$400 million in shared revenues for the city over the life of the deal. Both cities were also able to get an entire revamp of their parking technology through the process and will avoid capital expenditures on parking for decades. These cities' parking privatization moves prompted officials at The Ohio State University to adapt the same model in 2012, when the university announced a 50-year, \$483 million privatization deal, with the bulk of these proceeds being placed into the university's endowment to support its core academic mission for decades to come to supplement declining state appropriations to higher education.
- In 2011, Illinois became the first state to privatize the management of its state lottery, turning over lottery operations to a private manager that has committed to increasing the net lottery revenues to the state relative to in-house operation. In the first year, the lottery manager boosted net lottery revenues by \$36 million, with hundreds of millions of additional dollars anticipated over the next five years relative to what the state projected it could reap on its own. Indiana quickly followed in 2012, entering into a 15-year private

management agreement for Hoosier Lottery operations that is expected to generate an additional \$500 million in net proceeds to the state over the first five years of the contract. Pennsylvania and New Jersey launched similar procurements for private lottery management in 2012.

- In 2012, California became the first state to turn over operations of entire state parks to private, for-profit concession management companies, signing agreements with concessionaires to keep open five state parks formerly threatened with closure. Though "new" at the state-level, private concessionaires currently operate over half of the U.S. Forest Service's thousands of developed recreation areas (e.g., campgrounds, day use areas) nationwide under "whole-park" concession agreements. For example, Colorado, California, Oregon, and Washington each have over 100 USFS recreation areas and campgrounds operated by private concessionaires, with most other western states like Arizona, New Mexico, and Nevada each having dozens under private operation as well. This USFS program has been in place for over 25 years, prompted originally by fiscal pressures on the agency in the 1980s during the Reagan administration, which led it to embrace user fees and PPPs to keep its numerous recreation areas open and self-sustaining.
- After navigating several years of implementation challenges that prompted a dramatic overhaul, Indiana's privatized welfare eligibility modernization program significantly improved its performance in 2011, prompting federal officials to authorize its expansion throughout the state and award the state \$1.6 million in recognition of its progress at reducing its error rates for food stamp processing.

Though the above list offers just a few examples, they illustrate the depth and breadth of the types of privatization initiatives being advanced today in state and local governments across the country.

[For additional examples, see Reason Foundation's *Annual Privatization Report* series, available at: <http://reason.org/apr>]

## Potential State and Local Privatization Opportunities

Policymakers in Kansas have significant opportunities to improve the way state and local governments do business. There is a wealth of examples of the successful use of privatization and public-private partnerships at all levels of government that can inform policy decisions in Kansas to drive service improvement and cost efficiency. While by no means exhaustive, a representative range of such opportunities in different policy areas is discussed in the following sections.

### ■ Outside-the-Classroom K-12 Functions

Instructional services receive most of the attention in K-12 education policy debates, but there are many other components associated with educating students. Some of these complementary components include: food provision, transportation and custodial services, building maintenance, and various administrative support functions (e.g., information technology, etc.). Education is largely a function of local government and there are many school districts across the U.S. implementing innovative approaches.

**Charlotte-Mecklenburg School District:** One of the most innovative districts in the country in terms of partnering with the private sector. The district has been leveraging managed competition outsourcing to generate millions of dollars in savings for taxpayers. In the 2009-2010 school year alone Charlotte-Mecklenburg Schools contracted for over \$37 million in services. Table 2 below breaks down some of the district's largest contracts.

**Michigan:** Beyond managed competition, straightforward outsourcing also represents an opportunity for school districts. In Michigan, state lawmakers incentivized school districts to solicit bids from third-party vendors to provide support services in the 2012 state budget. According to the annual Mackinac Center school privatization survey, this state-level policy change yielded

results. In 2012, 61 percent of all school districts partnered with the private sector, contracting for food, custodial, and/or transportation services – this represents a 13 percent increase over 2011. This number has also nearly doubled since 2001, when only 31 percent of school districts leveraged outsourcing (see Table 3 below).

Byron Center Public Schools in Kent County, Michigan is a noteworthy example. Administrators contracted custodial services to Grand Rapids Building Services, focusing on quality and efficiency of service, achieving over \$340,000 in effective savings. This translates to approximately \$100 in savings per pupil.

As examples in Charlotte and across Michigan demonstrate, innovative administration allows districts, principals, and teachers to focus on their core mission: educating students.

### ■ Parks Operations and Maintenance

Parks have proven especially vulnerable during the ongoing fiscal crunch hitting state and local governments across the U.S. Policymakers in California, New York, Florida, Arizona, Georgia, Massachusetts, and elsewhere have closed or significantly reduced services in hundreds of state and local parks, or at minimum reduced parks budgets. Cuts like this affect daily operations and long-term parks maintenance and infrastructure. The American Society of Civil Engineers (ASCE) gave the "Public Parks and Infrastructure" a "C-" in its latest report card. ASCE attributed this poor

**Table 2: Charlotte-Mecklenburg School Board Outsourcing Update**

Service Area	Dollar Amount	Examples
Maintenance	\$7,073,053	HVAC, glass repairs, fire safety inspections, elevator inspections, roofing, lighting retrofits, etc.
Information Technology	\$5,858,197	Software programming, data architecture, data management, computer security, etc.
School Law Enforcement	\$2,899,959	School resource officers in secondary schools.
Transportation	\$1,466,027	Special needs transportation of pupils, labor for transmission removal and replacement, etc.

Source: Charlotte-Mecklenburg School Board June 7, 2011 Meeting.

**Table 3: Outsourcing by Michigan School Districts**

Year	Percentage of Districts	Number of Districts
2001	31.0	N/A
2002	N/A	N/A
2003	33.3	172 districts
2004	N/A	N/A
2005	35.5	196 districts
2006	37.6	207 districts
2007	40.2	222 districts
2008	42.5	234 districts
2009	45.0	248 districts
2010	49.2	271 districts
2011	54.0	297 districts
2012	61.0	335 districts

Source: James M. Hohman and Josiah Kollmeyer, "School Support Services Contracting Increases to 61 Percent of Districts," (Midland: Mackinac Center for Public Policy, August 13, 2012). <http://www.mackinac.org/17375>.

Note: The number of districts that responded each year varied; response rates were essentially 100% by 2005. N/A means data is not available because it was not collected.



mark to inconsistent funding sources and widespread neglect.<sup>18</sup> Meanwhile, parks remain popular. According to America's State Parks Foundation state parks receive 720 million visitors at over 7,000 sites each year.<sup>19</sup> Underfunding and insufficient maintenance, compounded with high use, is an unsustainable combination.

The challenging nature of the current political environment necessitates robust policy solutions that meet the task. There are three alternatives to traditional public ownership, and operation and maintenance of state and local parks: outsourcing, conservancy, and whole-park concession. These three options offer a range of duties for the public and private sector, while ensuring parks remain open for public enjoyment. In all three approaches the state or local governing body retains its traditional role of ownership and overseeing strategy, planning, character, and facilities for each park. The public sector also retains control over policy decisions, environmental initiatives, user fee rates, and facility and capital investment planning.

Outsourcing (or traditional concessions) is the most ubiquitous approach seen in parks, where the private sector is responsible for providing specific commercial services such as building maintenance, waste removal, janitorial services, and trail maintenance. These contracts are typically one to two years long. Outsourcing facilities operation and management often yields 20 percent to 50 percent cost savings; while landscaping and maintenance often yields 10 percent to 30 percent cost savings.<sup>20</sup> In fact, the City of Wichita, Kansas began saving \$1.3 million annually after mowing operations were outsourced in 2009.<sup>21</sup> Additional areas include food, retail, and other service concessions with for-profit providers. However, this may also include partnering with non-profits to deliver educational programming, conduct scientific research, host special events, and other activities.

A conservancy approach bundles a number of duties and assigns them to a non-profit organization, typically this means operations and maintenance duties, while public ownership and oversight stays in place. This model has been particularly successful at the local level. Non-profit conservancy groups have operated Central Park and Bryant Park in New York City for decades (after rescuing both from rampant crime and deteriorating conditions in the 1970s.) Central Park for example has been reborn under the stewardship of the Central Park Conservancy. Today the city only pays one third (\$5.4 million) of the \$15.9 million park budget. The city is also generating millions of dollars in new revenue that was unthinkable before, coming from skating rinks, food vendors, and various other businesses. The Conservancy has raised over \$100 million in private sector money since its founding 32 years ago.

The third option, whole-park concession, is proving to be the most transformative. Whole-park concessions are a form of public-private partnership (PPP) where a public agency signs a long-term contract with a private entity to operate and maintain an entire park or group of parks. These are distinct from traditional concessions, which normally are for a specific task or duty like running a marina or cabin loop. Whole-park concessions, or park operation PPPs, come in several forms. A standard park operation PPP has a five to 10 year commercial lease in which the private partner collects the gate fees to fund its operations and maintenance costs, including labor. For parks where capital investment is needed, or desired, the contract length increases to 15 to 20 years to give the private partner time to recoup its investment. These agreements tend to net the public agency a percentage of gate revenues in the form of an annual lease payment—meaning public subsidy can be reduced or eliminated.

Park operation PPPs are innovative, but they're not new. The U.S. Forest Service has been relying on park operation PPPs for over 25 years, deciding to focus on core competencies like ecology and land preservation while transferring recreational and commercial enterprises to the private sector. The agency estimates approximately half its recreation sites across the U.S. are now under park operation PPPs – and they're developing at the state level too. This year California State Parks signed five-year park operation PPP contracts with Utah-based American Land & Leisure for the operation and maintenance of three state parks. This comprehensive contract clearly delineates requirements for the public and private sector, and transfers significant costs from the state's books to the private partner. It includes a risk transfer mechanism to protect the state from lower-than-expected rent payments and it requires the private partner to maintain the premises, trails, roads, facilities, and equipment in good condition in accordance with state agency standards.

Policymakers at the federal and state level are discovering new ways to protect parks from budget cuts for the time being and also allow them to thrive for future generations.

### ■ Solid Waste Collection

Solid waste collection is one area of public service delivery that is indisputably commercial in nature. As referenced in Table 1 of this document, a 2007 survey by the International City-County Management Association (ICMA) found that anywhere from 29 percent to 64 percent of municipalities rely on for-profit contractors, depending on their metropolitan status.<sup>22</sup> According to ICMA's research, for-profit contracting for solid waste collection and disposal is growing in suburban and rural areas, and slightly declining in metro areas.

**Toronto:** One high profile privatization initiative is underway in Toronto's District 2. Mayor Rob Ford's



campaign promise to expand private trash collection began in earnest in September 2011 when the city received five bids ranging from \$17.8 million to \$26 million per year that all meet the city council's minimum requirements. The city chose to sign a \$144.3 million contract with Green For Life, who offered in its bid to collect trash for \$11.2 million less than city employees.<sup>23</sup> (All dollar figures in USD.)

Privatization had widespread political support with all but one mayoral candidate in Toronto's last election supporting the outsourcing of trash collection.<sup>24</sup> Political consensus is also aligned with public opinion, an Ipsos-Reid poll released in May found 60 percent of Toronto residents support privatization. There are strong accountability measures built into the contract, such as a \$152.40 fine for each truck that does not finish collection on time. If the city deems the pilot program in District 2 successful, they're widely expected to expand privatization in additional parts of the city.

*Outsourcing municipal garbage saves money and strengthens accountability. It is far easier for the municipal government to crack down on poor service from a private provider than it is to crack down on poor service from one of its own departments. The trade-off between cost savings and quality services is a false dichotomy. Good incentives will lead to good services. This is precisely what outsourcing garbage collection provides.*

—Steve Lafleur, policy analyst with the Frontier Centre for Public Policy<sup>25</sup>

The entrenched nature of traditional public service delivery can prompt resistance, making partnering with the private sector politically challenging. Many municipalities rely on a third way known as managed competition. Under managed competition a governing body splits service delivery up, in the case of trash collection often by geography, and allows the public and private sector to submit bids for service delivery. Under managed competition taxpayers are able to watch competition for their hard earned dollars in real-time. Public employees often embrace the opportunity to streamline operations and incorporate efficiency gains in their bid.

**Chicago:** Mayor Rahm Emanuel is overseeing a thorough managed competition program that is now operating in the Windy City. Last summer Emanuel launched a large-scale competitive bidding process where he split the city into six zones where two private companies and public employees are working to provide curbside recycling for residents. The city government reports costs fell by \$2 million in the first six months alone. In April the city explained further, "The City's crews have worked to close the gap between the private haulers' \$2.70 price per cart by reducing their costs 35 percent from \$4.77 to \$3.28 per cart."<sup>26</sup> Chicago's experience demonstrates the

power of partnering with the private sector to achieve public sector goals in new ways.

Cities like Toronto and Chicago are experiencing pronounced success, but there are privatization success stories in solid waste collection and disposal all over the country. During challenging fiscal conditions citizens are increasingly looking to policymakers to make the right decisions, instead of the politically expedient ones.

### ■ Real Property Inventory

One of the most basic duties of state and local governments is the responsible stewardship of taxpayer-funded public assets. The first step in proper asset management is answering what the state and/or local government owns by maintaining a real property inventory, a central record of government-owned land and assets and an important component of efficient property management. Effective inventory systems track acres of land, mineral resources, buildings, bridges, vehicles, heavy equipment, and furniture. These inventories are then actively managed for optimal utilization of land and assets.

Real property inventories offer a range of benefits:

- A comprehensive and current list of land and assets would allow the government to assess whether public property is being used and maintained in the most efficient manner possible.
- Inventories serve as a tool to assess the potential value of divesting underutilized or unnecessary land or assets, which can generate revenues for government and lower maintenance and operations costs. At the state level in Kansas, 80 percent of the proceeds from surplus property sales are directed to the Kansas Public Employee Retirement Fund under state law, with the remaining 20 percent held by the selling agency.
- Selling or leasing assets to the private sector can expand the tax base and encourage economic growth.
- Inventories can potentially help lower lease and maintenance costs through space consolidation and more efficient utilization.
- Inventory information helps governments plan with more precision, improves efficiency and cost effectiveness, and increases officials' ability to monitor the use of taxpayer money.

While Kansas policymakers adopted laws in 2010 and 2011 requiring the state to begin developing a comprehensive real property inventory, a November 2012 performance audit prepared by the Legislative Division of Post Audit found that the inventory developed by the Department of Administration thus far is incomplete and inaccurate, noting that "it is important for the state to have a complete list of all real property it owns."<sup>27</sup> Further, the audit found that the agency has not fulfilled its statutory directives to help agencies identify and sell

surplus property and to conduct periodic reviews to identify surplus real property. In fact, the audit found that despite a legal requirement to periodically update and verify inventory records (in K.S.A. 75-3729), the Department of Administration had no one on staff responsible for performing that work. Clearly, significant additional work remains to be done in order to develop a robust and usable state-level real property inventory in Kansas.

A 2010 Reason Foundation study outlined a number of best practices in real property inventory development that could offer Kansas officials a path forward. Recommended best practices include using Geographic Information Systems technology to map and catalogue real property data, creating standard reporting methods for all agencies and divisions, active management of the inventory to ensure that it is dynamic and up-to-date, putting the inventory online for public access, and exploring the use of private sector providers and inventory systems.<sup>28</sup>

Examples of recent, noteworthy asset management initiatives in other jurisdictions include:

**Oklahoma:** Oklahoma began taking important steps toward better real property management in 2011 with the passage of House Bill 1438 (“Oklahoma State Government Asset Reduction and Cost Savings Program”). The law requires the state’s Director of Central Services to publish a report detailing state-owned properties—including a list of the five percent most underutilized properties, the value of those properties, and the potential for purchase if sold. Separate legislation signed into law in April 2012 (House Bill 2262) established a Maintenance of State Buildings Revolving Fund to which proceeds from any sales of state assets will be deposited for expenditure on the maintenance and repair of the state’s aging buildings and properties.

**Virginia:** In 2011, Governor Bob McDonnell signed a bill (SB 1257) that formally created a real property inventory for the Commonwealth of Virginia. The bill specifically requires the Department of General Services to conduct an inventory of all real property owned by the Commonwealth’s departments, agencies, and institutions by January 1, 2012 and update the inventory at least annually thereafter. The bill also requires the Department of General Services to provide a listing of surplus properties on its website, with specific parcel identification data.

**Ohio:** In 2007 former State Treasurer Richard Cordray set out to implement a robust real property inventory program that would compile a comprehensive inventory of state-owned property and look for opportunities to put that property to more effective and efficient use. Within months of starting the inventory the state identified a 12.9-acre state-owned parcel in west Columbus that was not being used, which the state sold for \$200,000.<sup>29</sup> Asset management is difficult for any large enterprise, and government is no exception. Fortunately this

challenge also presents an opportunity, which is why policymakers at all levels of government are looking to the private sector to optimize asset management, so they can focus on core functions.

### ■ Correctional Services

Traditional correctional service privatization seeks to replicate public service delivery through the private sector – this has been occurring in various forms across the U.S. for decades. Well-structured public-private partnership (PPP) agreements have provided value throughout the correctional system, including: prison operation, inmate physical and mental healthcare, in-prison educational and vocational programming, food concessions, and more.

Kansas has an opportunity to rethink its provision of correctional facilities in particular. Today, approximately eight percent of federal and state prisoners are held in privately-operated prisons (the remaining 92 percent are held in prisons operated by the public sector). This includes neighboring states like Colorado (19.7 percent) and Oklahoma (22.9 percent). Public agencies that have the channels in place to tap the private sector through procurement have done so effectively, often allowing them to focus resources on core functions and goals.

Food concessions are considered a basic commercial service that are widely available in the marketplace, however they offer a significant opportunity for cost savings in the correctional space. When policymakers in Michigan decided to rethink their correctional service delivery by outsourcing food, they signed a deal with a private partner that is expected to generate almost \$7 million in annual cost savings.<sup>30</sup> In Surry County, North Carolina, the Board of Commissioners signed a deal with Aramark to private food services at a county jail reducing costs from \$2.41 per meal to \$1.60 per meal. This agreement saved the county \$97,000, which they used to invest in new technology for law enforcement.<sup>31</sup>

Providing physical and mental healthcare is also a demonstrated commercial service, however providing that care to an inmate population presents unique challenges. Policymakers have been able to effectively partner with the private sector to meet the challenge. The Florida Department of Corrections has recently taken steps to implement correctional healthcare privatization across its entire 100,000-plus inmate system, selecting two vendors in 2012—Wexford Health Services and Corizon Correctional Healthcare—to provide comprehensive prison health and mental health services in different regions of the state in contracts expected to save the state approximately \$60 million per year.<sup>32</sup> In addition to Florida, Arizona, Pennsylvania, and North Carolina have all had substantive conversations about correctional healthcare privatization (either for the first time or to expand the scope of existing partnerships) in the last year.

Policymakers are increasingly partnering with the private sector to operate whole correctional facilities. Today, approximately eight percent of federal and state prisoners are held in privately-operated prisons (the remaining ninety two percent are held in prisons operated by the public sector.) Prison operation PPPs are only successful when the contracts are well structured to ensure rigorous oversight. For example, in Florida the Department of Management Services recently reported that privately operated facilities cost taxpayers 10 percent to 27 percent less to operate than comparable state-run prisons.<sup>33</sup> Prison operation PPPs are proving to be a valuable tool in the toolbox for state departments of corrections across the U.S. The Ohio Department of Corrections recently conducted an innovative procurement where they sold the Lake Erie Correctional Institution to Corrections Corporation of America for \$72.7 million and will contract with the new private owner to continue to house state inmates. This agreement is the first of its kind in the U.S. and it's expected to generate \$3 million in annual savings, reducing costs by approximately eight percent. The state privatized operations for two other facilities partnering with Management and Training Corporation (MTC) yielding an estimated \$10 million in annual savings.<sup>34</sup>

The policy debate around correctional service privatization appears poised to continue the logical progression towards more sophisticated partnerships between the public and private sector. A new approach, known as "Corrections 2.0," is emerging where policymakers leverage the power of PPPs and performance-based contracting to pursue more ambitious goals.<sup>35</sup> These partnerships are structured to hold private correctional service providers directly accountable for a given outcome—such as recidivism reduction—which are pursued by a consortium of private for-profit and non-profit entities, under rigorous public oversight. The consortium of private providers would then be responsible for the entirety of an offenders care from sentencing to release from parole.

In April 2011 policymakers in the United Kingdom's Ministry of Justice announced the conclusion of procurement for the operation of four prisons, resulting in three contracts estimated to save over \$350 million (USD) over their lifetime. One of these contracts with Serco for HMP Doncaster is a Corrections 2.0-style agreement, which they're calling "payment by results" (PBR), where 10 percent of Serco's payment will be dependent on the company lowering the recidivism rate of inmates by a preset amount. Florida policymakers have discussed similar reforms that have yet to be implemented.

The demonstrated success of correctional service privatization demonstrates that no stone should be left unturned. There is room for innovation everywhere, even in areas that are perceived to be core functions of government.

## ■ Infrastructure Public-Private Partnerships

Public-partnerships (PPPs) are a policy tool, not a cure-all, but they do address many challenges preventing the public sector from adequately providing infrastructure. PPPs allow the private sector to assume responsibility for commercial components of infrastructure delivery while maintaining rigorous public oversight through contracts. Holistic PPPs allow for partnerships in every aspect of infrastructure delivery including design, build, finance, operation, and maintenance (commonly abbreviated as DBFOM).

Design and build phases are commonly contracted. Next, the private partner brings capital, which is repaid over the course of the contract. This repayment can either come from the public sector for operation and maintenance or from user fees, depending on the type of infrastructure. PPPs that task the private sector with life-cycle maintenance are able to drive down construction costs in a way that's sustainable and aligned with maximizing the value of the asset over the long-term. Lastly, day-to-day facility maintenance can be monitored for performance, not based on the amount of taxpayer, or user fee, money spent. The public expects infrastructure to work (lights to stay on, roads to be clear, fire alarms to function, etc.)—effective contracts ensure performance is met without micromanaging how it is met.

## ■ K-12 Educational Infrastructure

Unlike roads, water treatment facilities, or other infrastructure assets, traditional public schools don't generate revenue for themselves. Most school districts can't self-finance facilities up-front because they need new and/or improved capacity right now and in the current environment it can be difficult to ask taxpayers to foot the bill. Policymakers in New York, Puerto Rico, and elsewhere are focusing on the classrooms themselves by exploring public private partnerships (PPPs) for K-12 education infrastructure.

Ironically, the U.S. has among the least market-oriented education systems in the developed world and this includes educational infrastructure. Canada, New Zealand, and several European countries have used PPPs to modernize or build new schools over the last few decades, so there is a developing private sector market to deliver this service. Now, institutional investors (pension funds, state treasuries, mutual funds, etc.) and international infrastructure firms appear ready to participate as well.

In recent years, the outgoing administration of Puerto Rico Governor Luis Fortuño has overseen a wide-ranging program called "Schools for the 21st Century," which taps PPPs to replace deteriorating physical school infrastructure. The ambitious program for K-12 education infrastructure procurement is underway leading to 100 new schools in 78 municipalities across the island. PPP

Authority Executive Director David Alvarez explains this program within a broader goal of improving educational service delivery in an *Innovators in Action* interview saying, “[Our] goal is for students to perform better at school-to keep more children in school and to get better results.” Puerto Rico has suffered from poor credit and limited access to capital for infrastructure, so innovative approaches have proven necessary.

Yonkers, New York is arguably the education infrastructure PPP leader in the United States right now. Earlier this year the district hired PPP advisors to help determine whether private investment/financing can be used to rehabilitate 38 schools for \$1.7 billion. 95 percent of the buildings have been deemed “unsatisfactory” according to state standards. This disrepair couldn’t be happening at a worse time. The district has over 25,000 students and is 4,000 seats short for those students. They are expected to assume another 3,000 students due to population growth over the next ten years, exacerbating their facilities shortfall.

Education infrastructure is just one piece of a larger policy debate and there is significant opportunity to rethink how it’s done.

#### ■ Parking Infrastructure and Asset Management

Over the last few years parking infrastructure and asset management has gone from an abstract opportunity to a hot topic. Several deals worth hundreds of millions dollars, and one worth over \$1 billion, have been signed for Indianapolis, The Ohio State University, and Chicago, respectively. Meanwhile, cities like New York, Pittsburgh, Sacramento, Memphis, and Harrisburg have meaningfully considered partnering with the private sector for improved parking asset management.

Public-private partnerships (PPPs) for parking infrastructure and asset management have clear appeal because they are often underutilized by the public sector; so well-structured contracts with the private sector have tremendous upside. These assets include parking meters, street-level lots, and garages. Under a PPP the public sector retains ownership, and a long-term contract with a private operator transfers responsibility for operation and maintenance. The public sector retains traditional duties, such as meter rates, while the private sector adds value in new ways like modernizing meters.

Chicago started this trend in 2009 when the city signed a 75-year lease of its downtown parking meter system for a \$1.16 billion up front payment. Under the agreement the private sector is replacing existing meters, many of which were coin operated, with modernized and credit card capable meters. The parking meter lease came only a few years after a 2006 lease of four downtown parking garages that netted the city \$563 million.<sup>36</sup>

Indianapolis adapted this concept in August 2010 when Mayor Greg Ballard announced the winner for a 50-year

lease of nearly 3,700 city parking meters in the downtown and Broad Ripple areas. The agreement will yield a \$20 million up front payment and a \$600 million share of ongoing revenues over the 50-year lease term. One of the most appealing aspects of this agreement is the risk transfer from the public sector to the private sector through revenue sharing and various contract terms that allow the city to amend the contract if necessary. Like Chicago, Indianapolis will benefit from a comprehensive meter modernization program. The new meters installed are solar-powered multi- and single-space, and the contract ensures all meters will be replaced at least once a decade through the end of the lease.<sup>37</sup>

Parking asset management evolved again in 2012 when officials at The Ohio State University voted to lease the school’s nearly 36,000 parking space system (including meters and lots) to private investors for \$483 million. The 50-year lease is expected to provide \$3.1 billion in investment earnings for academic initiatives, such as hiring more teachers, increasing scholarships, supporting the arts and humanities, etc. The deal is also expected to fund the university’s bus services and increase its long-term investment pool by \$4.9 billion.<sup>38</sup> (See the “Higher Education Facilities and Services” discussion later in this section for additional details about this initiative.)

The complexity and uniqueness of these agreements demonstrates that local governments, including institutions of higher education, have a lot to gain by consider parking infrastructure and asset management.

#### ■ Road Infrastructure Construction, Operation, and Maintenance

Kansas, like many states, has pressing surface transportation needs that include maintenance and renovation of existing infrastructure. Kansas is more successful than most of its peers in terms of state highway performance and cost-effectiveness, the state ranked third among all states in Reason Foundation’s latest *Annual Highway Report* and has ranked among the top six states since 2000.<sup>39</sup> However, the report also demonstrates room for improvement, as evidence by Table 4.

Successful states have leveraged public-private partnerships (PPPs) and more sophisticated contracting to improve surface transportation infrastructure. Surface transportation maintenance includes several areas of service delivery, such as pothole repair, landscaping, snow removal, and emergency response. Performance-based contracts can be used to solve acute challenges that the public sector has not been able to achieve on its own. Examples of performance standards include removing hazardous road kill and debris immediately upon notification, repairing potholes within 48 business hours, and arriving on the location of emergencies within two hours.



**Table 4: Kansas State Ranking for Highway Performance and Cost-Effectiveness**

Performance by Category in 2008	Rank
State-Controlled Highway Miles . . . . .	27
State Highway Agency Miles . . . . .	20
Total Disbursements . . . . .	19
Capital and Bridge Disbursements . . . . .	23
Maintenance Disbursements . . . . .	16
Administrative Disbursements . . . . .	17
Rural Interstate Condition . . . . .	1
Rural Other Principal Arterial Condition . . . . .	7
Urban Interstate Condition . . . . .	1
Urban Interstate Congestion . . . . .	10
Deficient or Functionally Obsolete Bridges . . . . .	18
Fatality Rates . . . . .	25
Narrow Rural Lanes . . . . .	8

Source: David T. Hartgen, Ph.D., P.E., Ravi K. Karanam, M. Gregory Fields and Travis A. Kerscher, *19th Annual Report on the Performance of State Highway Systems (1984-2008)*, Reason Foundation Policy Study No. 385, (Los Angeles, CA: Reason Foundation, September 2010, p. 58). [http://reason.org/files/19th\\_annual\\_highway\\_report.pdf](http://reason.org/files/19th_annual_highway_report.pdf)

**New Jersey:** In September 2011, the Department of the Treasury issued a request for proposals from private firms interested in providing privatized highway maintenance services for the state Department of Transportation (NJDOT). This procurement is a pilot program adopted from the suggestions provided by Governor Christie’s Privatization Task Force, an advisory body that issued over 40 privatization recommendations in a May 2010 report. The procurement provided the state the opportunity to hire as many as three firms under a three-year contract to provide a full range of highway maintenance services in order to compare the up to three regions of the state for the relative costs of public and private sector service delivery.<sup>40</sup>

**Virginia:** Almost 15 years ago, Virginia signed the first performance-based turnkey asset management contract in the country. This contract secured a fixed-price, long-term contract for the Commonwealth’s Interstate highway maintenance. This initial contract covered 250 miles of various segments of the Interstate, covering all maintenance, routine repairs, preventive treatments, rehabilitative and restorative maintenance, labor materials, and whatever services and equipment necessary to fulfill the contract. Numerous studies of Virginia’s still-innovative approach found savings in the range of 15 percent to 20 percent.<sup>41</sup>

**Florida:** Florida adopted a similar approach to Virginia’s beginning in 2000. From 2000-2005 the Florida Department of Transportation (FDOT) executed 17 contracts totaling \$517 million, or \$69 million annually. FDOT estimated the savings to be \$105 million,

or 17 percent, for the life of the contracts. The state realized significant savings from these efforts and dramatically increased the efficiency with which they administer highway maintenance; administrative numbers plunged across the board. According to FDOT, the number of contracts they signed went from 980 to 28; the number of invoices they processed annually went from 11,760 to 336 and the number of advertisements they posed went from 950 to four.<sup>42</sup>

Well-structured long-term asset management contracts that emphasize life cycle maintenance can take Kansas’ surface transportation performance to the next level, while reducing administrative costs.<sup>43</sup>

**Water and Wastewater Infrastructure**

The trend of increasing public-private partnerships (PPPs) for water and wastewater infrastructure has moderated in recent years, however this area still represents a substantial opportunity for policymakers. Securing water and wastewater infrastructure is essential and communities are often wholly dependent on their local government to do so. Despite this typically being a local issue, state policymakers can also have an impact.

Georgia lawmakers demonstrated the role state policymakers could play in enabling innovation at the local level. The 2011 Water Reservoir Act (Senate Bill 122) passed in May 2011 allows local officials the right to sign up to 50-year contracts with the private water and wastewater providers. The bill empowers local lawmakers by amending the state statute regarding local government public works bidding and water supply relating to environmental issues. The bill also establishes \$46 million in legislature-approved bond money to incentivize the use of private capital to meet the state’s growing water supply needs.<sup>44</sup>

Many municipalities are pursuing innovative PPPs that serve as an excellent example of what’s possible. Last year, lawmakers in Mount Olive, New Jersey signed a five-year contract with United Water to privatize maintenance and operation of the city’s water system. The agreement is expected to save taxpayers \$80,000 annually, which should add up to over \$400,000 over the course of the contract.

Beyond whole scale PPPs, there are also opportunities for smaller scale outsourcing and optimization. Tampa’s Public Works and Utilities Department is partnering with the private sector to conduct water meter reading after controversies over inaccurate billing statements were sent to customers. Steve Daignault, the city’s director of Public Works and Utilities, proposed outsourcing meter-reading duties for half the system, which is approximately 146,000 meters. The city council approved a \$367,000 per year contract with Louisiana-based AMS Utiliserv, who is expected to bring meter reading costs down from \$.90 – \$1 per meter to \$.50 per meter.<sup>45</sup>



There is clearly a range of opportunities when it comes to rethinking water and wastewater infrastructure. What's also clear is that it's one of the most vital pieces of infrastructure in a community, so policymakers that think ahead stand the most to gain.

### ■ Public Building Infrastructure and Facility and Grounds Maintenance

Federal, state, and local policymakers are using contracting for the operation and maintenance of public building infrastructure and facility and grounds maintenance to focus on existing core functions, increase productivity, and achieve cost savings. These types of contracts are widely used and can be applied to anything from whole-facility management to landscaping contracts.

Tulsa, Oklahoma Mayor Dewey Bartlett is currently engaged in a comprehensive evaluation of how the city government provides services. Bartlett partnered with KPMG to provide a thorough review of the city government seeking managed competition opportunities, paid for by the Tulsa Community Foundation. The report, published on July 1, 2010, included 1,134 recommendations. Nearly 300 of these recommendations called for managed competition, or strategic sourcing, of city services. One of these recommendations resulted in the bidding of building maintenance for City Hall (including mechanical, electrical, plumbing, and carpentry services.) City employees won the managed competition process and their bid resulted in savings of over \$900,000 over five years. The contract also includes gain-sharing components where employees will receive 50 percent of any additional savings.<sup>46</sup>

Beyond buildings, policymakers are also reevaluating facility maintenance. In June 2012 policymakers in Milpitas, California approved their first-ever public works public-private partnership (PPP) due to deteriorating park conditions (ranging from broken irrigation systems and dead shrubbery to graffiti and vandalism). The city awarded two contracts to Colorado-based Terracare Associates for park and street landscaping and repair services. The private sector will now be tasked with maintaining 24 city parks and sports fields (routine landscape maintenance services, weed removal, and trash pick-up), and all aspects of landscape and irrigation system maintenance for the city's landscaped street-scapes, medians, and rights of way.

Meanwhile policymakers in California of all places are leading the way in PPPs for sophisticated building infrastructure like courthouses. In June 2010 the Administrative Office of Courts (AOC) of the Judicial Council of California selected a private consortium to replace an aging facility in Long Beach. The 35-year, \$492 million contract with Long Beach Judicial Partners (LBJP) entails private sector financing and project development in the first three years, followed by 32 years of operations and

maintenance. Revenue to repay the private partners will come from an annual fee paid by the state over the course of the contract, however the state retains ownership of the building and the land it's build on. Well-constructed PPPs like this transfer operational risk to the private sector, thereby eliminating budget uncertainty.<sup>47</sup>

Of all the areas to consider partnering with the private sector, building infrastructure, and facility and grounds maintenance are among the least controversial. Commercial markets are clearly developed to handle this sort of responsibility, so policymakers and taxpayers are well served when leveraging competition in this area.

### ■ Higher Education Facilities and Services

After years of ever increasing appropriations, Kansas, like other states in the wake of the recession, has seen a combination of tighter budgets in higher education, increased tuition, and growing deferred maintenance across its state universities, each of which presents a threat to the future sustainability of the state's higher education system. As one simple, but potent, indicator of the precarious financial state of Kansas state-run universities, a 2011 report by the Kansas Board of Regents estimated a backlog of over \$900 million in deferred maintenance across the university system, with an annual \$92 million required to be invested in ongoing maintenance to prevent the further accumulation of maintenance backlogs on university campuses.<sup>48</sup>

Ongoing fiscal pressures are prompting other state university systems to explore innovative service and asset delivery models to help reduce costs, better maintain facilities, and create new ways to build and modernize their assets. Some systems and schools have turned to the private sector to achieve these goals in various ways, ranging from the outsourcing of specific operational services to public-private partnerships (PPPs) that deploy private sector capital and expertise to modernize or expand university facilities.

Kansas university administrators should explore new and creative ways to tap the private sector (as they already do with intercollegiate athletics) to drive down costs and improve services. Public higher education institutions are no different than many other units of government: they tend to grow into large bureaucracies that expand into non-academic, commercial functions and activities over time, rather than strategically using competition and privatization to deliver efficiencies and cost savings.

Yet, the savings that can be generated through privatization can be significant, along with the potential for operational benefits. For example, in July 2010, the New Jersey Privatization Task Force estimated that colleges and universities in The Garden State could save approximately \$27.4 million annually through outsourcing a variety of facility maintenance functions. Elsewhere, the University of Alaska-Fairbanks

announced plans in 2010 to contract out the management of its bookstore to Follett Bookstores, citing high operating costs and Internet book downloads as impediments to a sustainable in-house operation. The privatization will return textbooks to the bookstore, improve the online store, provide new services, and a wider array of merchandise. In fact, Kansas State University turned over operation of the on-campus bookstore to a local company, Varney's, in June 2002.<sup>49</sup>

Outsourcing discrete services and operational functions is not the only way to engage the private sector to improve public education systems. State universities invest a tremendous amount of capital into new and expanded facilities—e.g., academic buildings, administrative complexes, dormitories—but ongoing fiscal pressures are making it increasingly difficult to do so in many states. State university systems across the country are beginning to look beyond traditional tax-exempt financing (e.g., bonds, etc.) towards more innovative procurement models that bring private sector capital and expertise to bear on the financing of university facilities.

At first glance, traditional tax-exempt financing may appear to present the most compelling option for public universities, as compared to taxable, private sector financing models that incur a higher cost of capital. However, according to a report by the Bay Area Economic Council in California, this analysis ignores some important points. First, financing costs usually only account for roughly 25 percent of total project costs, and a one or two percent differential in tax-exempt versus private costs of capital will only translate to five percent of total project cost, leaving 95 percent of the remaining project costs as presenting opportunities for cost savings and other efficiencies that can be better leveraged through PPPs.<sup>50</sup> Second, PPPs can deliver 15 percent to 30 percent life cycle cost savings for operations and maintenance and can be used to deliver projects significantly faster than under typical public procurement methods.<sup>51</sup> In fact, with many types of public infrastructure projects, project-level analysis often reveals that the benefits of using a PPP approach can far outweigh the limited benefits of tax-exempt public financing.

Noteworthy recent developments on privatization and PPPs in higher education include:

**Ohio:** In September 2012, The Ohio State University (OSU) announced that it had reached financial close on a groundbreaking 50-year, \$483 million lease of its parking assets (totaling nearly 36,000 spaces in garages, surface lots, and metered spaces) to a private consortium composed of QIC Global Infrastructure—an Australian infrastructure investment fund—and parking operator LAZ Parking.<sup>52</sup> The bulk of the \$483 million upfront payment will be placed into OSU's endowment and invested to support its long-term academic mission.

The investment is expected to provide over \$3 billion for academic initiatives in coming decades, to be used for scholarship support, academic hiring, and similar educational uses. Under the deal, the concessionaire will operate, maintain, manage, and collect revenue from the parking spaces for 50 years and the deal caps rate increases on parking at 5.5 percent annually for the first 10 years of the lease.

OSU's parking deal is the first transaction completed as part of a larger, comprehensive review of all of its non-core assets to see how they could be leveraged to generate additional revenue to support the university's academic mission. After parking, the OSU administration has announced that it will review the university's airport, golf courses, and other large tracts of land not necessary to the core academic mission to determine if leasing or selling them could benefit the school's *raison d'être*.

**Indiana:** Following on the heels of the Ohio State University's \$483 million parking asset lease, Indiana University's board of trustees announced in October 2012 that it had hired Goldman Sachs to serve as a financial advisor to evaluate a potential 30- or 50-year lease of the school's parking assets on its Bloomington and Indianapolis campuses. University officials began to explore a parking lease in early 2012, seeking a potential deal that would decrease current university parking-related debt by \$75 million and generate an upfront payment totaling over \$250 million. Indiana University President Michael McRobbie told the Associated Press in October 2012 that, "I think we have to take a look at this [...] Every single source of revenue open to the university is open to threat. So we have to be creative."<sup>53</sup> A final decision on whether or not to move forward with a parking system lease is anticipated by March 2013.

**Louisiana:** In August 2011, RICOH took over operations of university mail and copying services at Louisiana State University in an initiative officials expect will eliminate an annual operating subsidy for these services of over \$400,000.<sup>54</sup> The company has renovated the ground floor of the LSU Student Union, creating a central location for students to receive mail and utilize copying and related services. The 10-year contract sets maximum rates that RICOH can charge students for mailboxes and gives the university approval over postal rates charged to customers.

**Texas:** In June 2012, Texas A&M University announced the privatization of its campus dining, landscaping, and building maintenance services in a contract officials expect to yield approximately \$260 million in cash and savings for the university in the coming decade, through both cash payments by the vendor and avoided expenditures on staff, benefits, and other operating costs.<sup>55</sup> In a separate move, the university issued a request for qualifications in October 2012 to private firms interested in taking over management and fixed-

base operator services at the university-owned Easterwood airport.

**Kentucky:** In October 2012, the University of Kentucky announced plans to enter into a PPP for the development of five new residence halls through 2014 as part of the university's ongoing effort to add thousands of new dorm beds.<sup>56</sup> Under the agreement, the university's private partner—the real estate firm Education Realty Trust—will finance the construction of new dorms, with the private partner managing the new housing and recouping its investment via the collection of student housing fees over the life of the development agreements. Earlier in 2012, the university and Education Realty Trust broke ground on their first privately financed housing project, the new, 601-bed, \$25 million New Central dormitory.

**Florida:** In August 2011, Florida Atlantic University (FAU) opened the Innovation Village Apartments, a 1,216-bed student residential and mixed-use project on the Boca Raton campus developed under a \$123 million PPP with Balfour Beatty Campus Solutions, LLC and Capstone Companies. Accelerated construction on the

\$123 million project began in March 2010 and was delivered on schedule for the start of the 2011–2012 academic year. Under the PPP, the private partner developed the new facility and will co-manage both it and the other existing student housing facilities on the Boca Raton campus in tandem with the university. Though this project was financed through a combination of tax-exempt and Build America Bonds issued by the FAU Finance Corporation, partner Balfour Beatty invested in the project by purchasing \$3.4 million of tax-exempt bonds.

Kansas public higher education institutions need not face a future defined by perpetual tuition hikes and mounting deferred maintenance. Privatization and public-private partnerships in infrastructure will not solve all of the state's higher education funding challenges, but they offer two powerful tools that prestigious institutions and innovative policymakers are increasingly embracing across the country as they confront a "new normal" of constrained state funds.

## Lessons Learned

Privatization is a powerful tool, but implementing it in practice—taking potential opportunities from concept through to contract—is neither easy nor linear. Depending on the government service, asset, or function there are usually a range of privatization options that could be pursued, each with its own nuances and structural complexities. Often, there are a variety of previous or current examples in which governments have used privatization in a given area, offering policymakers an array of models and case studies in implementation that may range from success to failures, each of which can provide important insights on what to do and what not to do in adapting a privatization model to a new jurisdiction.

Public managers often find that a privatization concept that they start off with may change significantly along the way, as the various steps along a procurement process yield new insights, opportunities, and constraints as part of an emergent feedback loop between the public and private sectors. Pushback from public employee unions and public opinion can stall even the most sensible privatization ideas in their tracks before they're fully implemented. And there are many potential failure points along the way in any procurement process, as general intentions become operationalized and refined into specific contract language that may or may not ultimately be perceived as a workable or attractive endeavor for potential private bidders. The devil, as they say, is in the details.

However, there have been enough privatization successes in practice, smart government procurements and policy approaches used by governments that some powerful lessons have emerged regarding how to maximize the chances of success and minimize execution risks. This section provides an overview of proven best practices in privatization, as well as a review of some prominent misunderstandings about privatization as applied in practice.

### A. Best Practices in Privatization

There is no standard “cookie cutter” approach to privatization, as every context is unique, and the tool itself is, by design, malleable and can be adapted to specific circumstances. That said, decades of successful privatization experiences have shown that, when implemented properly with transparency, accountability, and with the delivery of high-performance services in mind, the likelihood of achieving success is greatly enhanced. Among the most important best practices in privatization include:

**To Identify Privatization Opportunities, Rethink the Status Quo:** “Traditional” government services or functions should neither be allowed to ossify nor should they

be automatically assumed to be necessary, effective, or efficient. Rather, they should continually have to prove their worthiness and place within government. Policymakers should routinely ask fundamental questions about the current rationale for the in-house delivery of various services, such as “if we weren’t already providing this service today, would we propose a tax increase to start providing it this way tomorrow?” Once policymakers have pared the list of government functions down to those deemed necessary, they should then ask whether government should “make or buy” those services, opting to subject as many services as possible to private sector competition to ensure the best value for taxpayers. Undertaking a commercial activities inventory that delineates between “inherently governmental” functions and those that are widely available through an existing or new business can help identify those areas in which government is engaged in the business of business, effectively competing against private sector business and undermining free enterprise and economic growth. The results can be surprising; for example, Virginia’s first commercial activity inventory in 1999 identified 205 commercial activities being performed by over 38,000 state employees, accounting for nearly half of all state workers.

**Prepare a Business Case Evaluation:** Private companies routinely perform business case evaluations before embarking on new outsourcing endeavors and so should governments. Before deciding whether or not to move forward with a particular privatization initiative, public managers should prepare a business case evaluation as part of their due diligence on privatization proposals to ensure that decisions are made for the right reasons. The business case can serve as a road map for how a particular privatization initiative should be structured, implemented, and managed by the public sector. Key elements of a business case analysis include benchmarking, the rationale for competition, key success factors (e.g., performance standards needed, etc.), transition management, and recommendations on how to proceed.

**Establish a Centralized Procurement Unit:** Global experience with privatization shows the value of having a single independent decision-making body to develop and manage privatization initiatives. Governments should maintain an expert team of procurement and competition officials to guide individual departments in developing their privatization initiatives. This central unit will help to break down the “silos” that government agencies tend to operate within, identify enterprise-wide competition opportunities that might not otherwise be considered, and disseminate best practices in contract procurement across agencies. States that have imple-



mented this “privatization center of excellence” model in the recent past include Texas (Council on Competitive Government), Florida (Council on Efficient Government), Utah (Privatization Policy Board), and Virginia (Commonwealth Competition Council).<sup>57</sup>

**Utilize “Best Value,” Not “Low Bid,” Contracting:**

Many privatization failures have been linked to a “lowest-bidder wins” selection process where the allure of increased cost savings negatively impacted service quality. As a result, best practices for government procurement and service contracting are steadily moving toward “best-value” techniques in which governments select the best combination of cost, quality, and other considerations in determining winning bids. The range of relevant criteria may range from process reinvention, financing plans, total project life-cycle costs, risk transfer, expertise and experience, and technological innovation. The more complex the service, the more important it is that best-value selection be used.

**Utilize Performance-Based Contracting:** Privatization is not just about lowering the costs of government; it is also about maintaining or improving the quality of services delivered. Hence, it is critical that state and local governments identify sound performance measures to compare competing bids in a fair manner and accurately evaluate provider performance after the contract is awarded. Performance-based contracts should be used as much as possible to place the emphasis on obtaining the results the city or state wants achieved, rather than focusing merely on inputs and trying to dictate precisely how the service should be performed. Performance standards should be built into contracts and tied to compensation through financial incentives to exceed desired performance levels and penalties for underperformance.

**Ensure Contractor Accountability Through Rigorous Monitoring and Performance Evaluation:** Governments should never sign a contract and then walk away. The public sector role does not end with privatization, but rather shifts to a position in which public managers are responsible for ensuring that their private partners live up to their contractual commitments. Regular monitoring and performance evaluations are essential to ensure accountability, transparency, and that public managers and contractors are on the same page. Sound monitoring and enforcement regimes can help address any problems that might arise early in a privatization initiative, before they become major obstacles to success.

**Bundle Services for Better Value:** Rather than treat individual services or functions separately, governments may find greater economies of scale, cost savings, and/or performance through bundling several—or even all—services in a given department (e.g., public works) or departmental subdivision (e.g., facility management and maintenance) into a single outsourcing initiative. There have been several instances of governments moving

toward this approach. For example, the city of Centennial, Colorado privatized all of its public works functions in 2008, and Bonita Springs, Florida privatized all of its community development services (e.g., planning, zoning, permitting, inspections, and code enforcement) that same year. Also, the State of Georgia has implemented a large-scale outsourcing contract for the management and maintenance of numerous secure-site facilities held by the Department of Corrections, Department of Juvenile Justice, and Georgia Bureau of Investigation.

**Establish Guidelines for Cost Comparisons:** Public and private accounting systems are fundamentally different, making it often difficult to fully assess the potential for cost savings from privatization. State and local governments should establish formal guidelines for cost comparisons to make sure that all costs are included in the “unit cost” of providing a service so that an “apples-to-apples” comparison of competing bidders may be made.

**Prepare a Real Property Inventory:** Many state and local governments in the United States cannot answer the simple question, “How much land and other property does your local, county, or state government own?,” as they have never developed a comprehensive inventory of their taxpayer-owned assets. A real property inventory is a written record of real property assets, typically land and immovable property such as office buildings, warehouses, heavy equipment, and bridges. With an inventory in hand, public managers can more easily identify which government properties are most necessary and which may be underused or poorly utilized, presenting opportunities to sell or lease less critical properties to raise capital for government and put assets back on to the tax rolls and into productive commerce.

**Divest Non-Core Government Assets:** In the private economy, financially stressed firms often find it good practice to divest non-core, non-essential assets—a regular “closet cleaning” of sorts. Divisions or subsidiaries that are poorly run by a large conglomerate often receive a new lease on life under new, leaner management, and one-time windfalls from divestiture provide the seller with new options to pay down debt or utilize new capital for other needed investments without having to raise prices or engage in new borrowing. Governments should operate in the same manner.

**Make the Case to the Public:** Taxpayers rightly want to know how privatization might affect their everyday lives, so public officials should explain the rationale behind their initiatives to the public early and often to ensure a full, transparent debate, and to build public support. Ultimately a clear communications and public relations strategy is crucial to getting buy-in for a privatization initiative. This helps to maximize the potential for successful privatization by building support up front and being clear on expectations.



## B. Privatization Myths and Facts

Privatization is an intricate policy tool offering a nearly infinite variety of options. As such, the concept is amorphous and can often be misunderstood. Some of the most prevalent privatization myths include:

**Privatization is Partisan:** Politicians of both major political parties have successfully applied privatization across the United States, as have public officials across a wide ideological spectrum. For example, the administration of former President Bill Clinton—a Democrat—privatized more functions in the federal government than did the administration of President Ronald Reagan, a Republican. Additionally, former Indianapolis Mayor Stephen Goldsmith, a Republican, identified \$400 million in savings and opened up over five dozen city services—including trash collection, pothole repair and wastewater services—to competitive bidding. Meanwhile, former Chicago Mayor Richard Daley, a Democrat, privatized more than 40 services and generated over \$3 billion in privatization deals for the Chicago Skyway toll road, four downtown parking garages, and the city’s downtown parking meter system. And when former Pennsylvania Gov. Ed Rendell, a Democrat, was mayor of Philadelphia, he saved \$275 million by privatizing 49 city services, including golf courses, print shops, parking garages, and correctional facilities.

**Privatization Implies a Loss of Public Control:** It would be a fundamental misunderstanding of the nature of privatization to assume that government loses control of an asset or service once it is privatized, since the public sector is no longer providing that service. In practice, the opposite is typically the case. In well-structured privatization initiatives, the government and taxpayers actually *gain accountability* they rarely have with public agencies, as opposed to losing it. Because privatizations are usually built on contracts that spell out all of the responsibilities and performance expectations that the government partner will require of the contractor. State and local government can actually gain more control of outcomes through well-crafted, performance-based privatization arrangements. Well-written contracts can ensure that private partners are held accountable in maintaining service expectations. Elected officials can include any number of terms or requirements into the contract to ensure that the contractor achieves the desired levels of performance. Failures to meet contractual performance standards could expose the contractor to financial penalties, and in the worst-case scenario,

termination of the contract. The potential for a terminated contract forces the contractor to self-regulate and maintain performance. Oftentimes the opposite is true in public agencies, which use poor performance as an excuse for more resources.

**Privatization Hurts Public Employees:** Well-managed privatization initiatives need not put an undue burden on public employees. Comprehensive examinations of privatization initiatives have found that they tend to result in few, if any, layoffs and those not retained by the new contractor usually either retire early or shift to other public sector positions. Further, public employees can actually benefit from privatization in the long term, as the private companies who hire former in-house public employees tend to present greater opportunities for upward career advancement, training and continuing education, and pay commensurate with performance. Nevertheless, it is important that management communicate early and often with the public employees regarding privatization initiatives. In the event that public employee jobs are at risk, the local or state government should develop a plan to manage public employee transitions.

**Privatization Always Saves Money:** Cost savings through privatization are typical, but are certainly not guaranteed. Poorly designed procurements or privatization contracts, for example, are unlikely to drive down costs. Or, limited private sector competition among bidding firms may not yield enough cost savings to make a privatization worthwhile. Again, details matter, especially so in the complex world of government contracting.

Rather than building up unrealistic expectations about potential cost savings, policymakers should focus on creating smart, well-crafted procurements that maximize competition and the likelihood of success. They should treat the procurement process as a potentially transformational opportunity that, at a minimum, can provide an independent, third-party external budget validation, highlighting areas where government’s own internal costs exceed those in the private marketplace. In the end, a procurement process is not a commitment to privatize, but rather a process that yields crucial information to guide decision-making. If procurement yields a package of bids that involve costs or rates higher than what government is spending today, then policymakers are under no obligation to proceed with a contract. In short, if public officials do not like the bids that come in, they are under no obligation to take them.

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## Conclusion

Kansas policymakers, like their peers around the U.S., must confront the “new normal” in governance, one based on a constrained fiscal environment and looming cost increases and challenges in areas like healthcare and pensions. Meanwhile taxpayers want government to deliver better service at a better price.

Privatization and public-private partnerships can play a key role in helping state and local policymakers address

the new fiscal reality and meet taxpayers’ service delivery expectations. While not a panacea, these tools are being used at all levels of government to improve public service delivery and drive greater efficiency while lowering costs. With proper attention to best practices, due diligence, and case studies in implementation, policymakers can use privatization as a powerful way to streamline government, improve services, and lower costs for taxpayers.

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