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Annual Privatization Report 2014
State Government Privatization

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A. State Budget Update

In 2013, states' fiscal health stabilized as state economies continued to recover from the impacts of the Great Recession. Overall, state revenues continued to increase for the fourth straight year off of their FY 2010 lows, and few states had to contend with budget deficits, relative to recent years. In August, ratings agency Moody's upgraded its outlook on U.S. states to "stable" from "negative," and it issued improved outlooks for a range of states that include Michigan, New York, Washington State, Minnesota, Maryland, Virginia, New Mexico and Missouri.[1] Similarly, ratings agency Fitch issued a report in December 2013 maintaining a stable outlook for most states, notwithstanding those like Illinois, Connecticut, Pennsylvania and Mississippi where unfunded pension liabilities remain a credit weakness. [2]

While the short-term trends have been relatively positive for states, several reports released in 2013 have suggested that states and local governments are going to face continued fiscal headwinds into the future—primarily driven by rising healthcare and retiree benefit costs, federal budget uncertainty and other factors.

First, the National Association of State Budget Officers (NASBO) issued its biannual state fiscal survey in December 2013, noting slow but continuing improvement in state fiscal conditions, with four straight years of modest spending growth in the wake of the Great Recession.[3] Among the findings in the report:

- General fund expenditures enacted in FY 2014 budgets increased to $721.8 billion, a 3.8 percent increase over FY 2013 spending ($695.5 billion), both of which exceed the pre-recession high of $687 billion from FY 2008 in nominal terms. However, the report notes that aggregate state spending in FY 2013 was still 8.6 percent below the FY 2008 peak when adjusted for inflation. A total of 43 states enacted FY 2014 budgets that increased spending over FY 2013 levels, with the bulk of new spending directed toward K-12 education and Medicaid. Many states increased spending on corrections, higher education and transportation as well.
- The number of states forecasting budget deficits continues to fall, from 16 in FY 2014 to 10 in FY 2015. Further, just two states report having made mid-year budget cuts thus far in 2014, compared to 11 states making mid-year budget cuts in FY 2013 and eight states in FY 2012.

- The report estimates that aggregate general fund revenue will reach $712.7 billion in FY 2014, a slight 0.8 percent increase over FY 2013 ($707 billion), indicating a slowing of revenue growth compared to the 5.7 percent gain the previous year (FY 2012 revenues totaled $669.1 billion). Though FY 2013 revenues exceeded pre-recession highs in nominal terms, they were 5.6 percent below the FY 2008 level when adjusted for inflation. A total of 36 states enacted FY 2014 budgets with greater general fund revenues than in FY 2013.
- A total of 23 states decreased taxes and fees in FY 2014, making net tax cuts of $2.1 billion and other revenue decreases totaling $203 million. Twelve states enacted net tax and fee increases in FY 2014.
- Ending account balances and the amounts in budget stabilization (e.g., "rainy day") funds continue to rise as policymakers continue to build back depleted reserves, but they still remain shy of their FY 2006 peak of $69 billion, or 11.5 percent of general fund expenditures. Balances increased in FY 2013 to $67 billion (9.6 percent of general fund expenditures) over their FY 2012 level of $55.8 billion (8.4 percent of general fund expenditures). However, balance levels are projected to fall to $56.7 billion (8.2 percent of general fund expenditures) in FY 2014 based on enacted budgets.
- However, the two states with the largest reserves—Texas and Alaska—account for nearly 44 percent of total state balance levels in FY 2014, and balances in the remaining 48 states are only projected to average 5.0 percent of general fund expenditures in FY 2014.

Looking ahead, the report suggests that despite improving fiscal conditions in recent years, revenue growth is expected to slow in FY 2014, and "states still face continued spending demands in critical areas directly impacted by the sluggish economy such as Medicaid, higher education, corrections and aid to local governments," as well as deferred capital projects.[4] Uncertainty related to how federal transfers to states will be affected by ongoing federal budget battles also remains an issue.

Next, NASBO released its latest *State Expenditure Report* in November 2013, which for the first time in its 26-year history reported a decline in total state spending in FY 2012.[5] While general fund and other state fund spending that year actually rose by 2.2 percent, federal transfers to states dropped 9.1 percent (largely due to the expiration of stimulus funds), yielding an overall 1.7 percent reduction in total state spending in FY 2012. NASBO expects a 4.7 percent increase in total state expenditures in FY 2013 due to an increase in both state and federal funds. Other findings from the NASBO report include:

- In FY 2013, the main revenue sources funding total state spending include general funds (40.5%), federal funds (30.9%), other state funds (26.1%) and bonds (2.5%).
- In terms of total state expenditures (which include federal funds), the top five spending categories in FY 2013 were Medicaid (24.5%), K–12 education (20.0%), higher education (10.0%), transportation (8.0%) and corrections (3.1%).
- In terms of the expenditure of state funds only (general funds and other state funds, excluding bonds and federal funds), the top five spending categories in FY 2013 were K–12 education (24.8%), Medicaid (15.9%), higher education (12.8%), transportation (6.7%) and corrections (4.5%).

Looking forward, the NASBO report suggests that fiscal uncertainty is likely to persist in the short and long term, given the "slow pace of economic growth, the uncertainty federal fund levels, questions regarding the future performance of state revenue, and increased spending demands."[6]

Last, the Government Accountability Office (GAO) offered a more dire long-term outlook in an April 2013 report that found that both state and local governments will continue to face near-term and long-term fiscal challenges—with a growing gap between revenue and spending—*through the year 2060*, absent significant policy changes.[7] GAO attributes the long-term fiscal challenges to "the rising health-related costs of state and local expenditures on Medicaid and the cost of health care compensation for state and local government employees and retirees."[8] GAO estimates that taking steps to close the looming fiscal gap today would require reducing overall state and local government expenditures by 14.2 percent and then holding spending essentially flat (as a percentage of GDP) for decades to come.

Overall, despite their recent economic improvements, states continue to face ongoing fiscal uncertainties and continued budget pressures in the near and long term that are likely to drive policymakers toward greater fiscal restraint and the pursuit of new ways to control costs and increase government efficiency.

B. Privatization of State Lottery Management

While all of the 44 states that operate lotteries currently outsource certain components of their internal lottery operations—including central data systems, lottery terminals, instant ticket printing and distribution, vending machines and advertising—several states have taken privatization further in the wake of the Great Recession by entering into management agreements with private service providers designed to increase net lottery revenues to the state as a means of augmenting traditional tax revenues. Federal law prohibits states from fully privatizing their lotteries through outright sales or long-term commercial leases, but leaves open the opportunity for private management agreements (PMAs) so long as the states retain ultimate business decision-making authority and remain the predominant beneficiary of lottery proceeds (generally interpreted as approximately 95 percent of net revenues).

Illinois became the first state to privatize the management of its lottery in 2011, entering into a contract with a private manager with commitments to increase net lottery revenues to the state. **Indiana** followed Illinois's lead, approving a private management agreement (PMA) for its lottery in the fall of 2012.

In June 2013, **New Jersey** became the third state—after Illinois and Indiana—to enter into a private management agreement for a significant portion of its state lottery operations. Under the 15-year contact, a private manager has taken over the lottery's marketing and sales functions in exchange for an upfront payment of $120 million to the state, as well as a contractual commitment to generate at least $1.42 billion in additional net income for the state over the life of the contract, relative to in-house operation.

In April of 2013, Gov. Chris Christie's administration issued a notice of intent to award a 15-year contract to Northstar New Jersey Lottery Group—a joint venture of GTECH Corporation, Scientific Games and the Ontario Municipal Employees Retirement System—to take over marketing and sales functions in return for the $120 million upfront payment (the first upfront payment among the three private lottery management agreements thus far) and the commitment to increase net lottery proceeds. Northstar took over full marketing and sales responsibilities in October, with the state retaining control over security, oversight, licensing, auditing and prize payments.

Like similar agreements in Illinois and Indiana, Northstar is eligible to receive annual incentive compensation if the lottery's annual net income exceeds a base income level set in the contract, subject to a cap of five percent of total net income. If Northstar fails to reach its annual revenue target in any given year, it is responsible for making a penalty payment to the state, subject to a cap of two percent of that year's net lottery income and a $20 million shortfall payment credit. Northstar is working to augment the lottery's sales and marketing staff, and state officials have noted that former state employees affected by the privatization were either offered an interview with Northstar or reassigned to other state positions.

Despite the avoidance of employee layoffs, the Communication Workers of America (CWA)—the largest union representing state government workers in New Jersey—and some legislative Democrats made several attempts to stop the deal from moving forward. In early May, Gov. Christie vetoed legislation (A3614) passed in the 2013 session that would have required prior legislative approval before the contract could proceed. That same month the state rejected a formal protest against the deal filed by the CWA claiming it ran afoul of state law. The state countered that the privatization did not violate state law since the state was only outsourcing marketing and sales functions, not relinquishing full ownership of the lottery. After that setback, the CWA filed an appeal in court to block the deal in June. A state appellate court rejected the union's request for a stay of the contract, paving the way for the contract to commence. Though the appellate court rejected a stay of the contract—noting that the CWA failed to demonstrate that allowing the deal to proceed would bring "irreparable harm"—it has yet to issue a final ruling on the union's appeal itself.

Privatized lottery management took a different course in **Pennsylvania**, where in December 2013 Gov. Tom Corbett's administration announced that it was abandoning a PMA negotiated the previous year that got stalled amid union and legislative opposition and a rejection of the contract by the state's attorney general in early 2013.

In November 2012, the Corbett administration announced that it had received a bid that included 20 years of annual profit commitments from Camelot Global Services, an international lottery operator that currently operates the U.K. National Lottery and provides consulting services for several U.S. state lotteries. In return for a 20-year contract to manage day-to-day operations of the Pennsylvania Lottery, Camelot committed to increasing net lottery revenue to the state by a minimum of $34.6 billion over the full contract term, an amount reflecting a significantly higher growth rate than the state has delivered over the last 20 years under in-house operation.

The administration originally pursued the PMA to maximize lottery revenue to the state in order to increase funding for senior citizen programs. Under state law, all net proceeds from the Pennsylvania Lottery are used to fund programs for seniors—including senior centers, in-home services, property tax and rent rebates, prescription drug assistance and long-term living services—which are likely to face rapidly growing funding pressures as Pennsylvania's senior population increases in the coming decades.

In January 2013, the Corbett administration signed the PMA contract with Camelot, but in February 2013 Pennsylvania Attorney General Kathleen Kane announced that she had rejected the agreement over concerns regarding its constitutionality and a lack of statutory authorization for an expanded set of gaming products as envisioned in the deal, which would have allowed the introduction of keno and online gaming. In response, the administration and Camelot agreed to extend the company's bid several times throughout 2013 to allow time to renegotiate the contract to address Kane's concerns and allow Corbett to seek legislative approval of a bill to address the statutory concerns. Neither ultimately came to fruition, prompting Corbett to reject another bid extension in December.

Like New Jersey, Pennsylvania's lottery PMA initiative also ran into union opposition. The American Federation of State, County and Municipal Employees (AFSCME)—the public employee union representing state lottery workers—filed a lawsuit in December 2012 claiming the governor's office lacked the statutory authority to enter into the contract and to allow the private manager to introduce keno and online games. Even as the union was suing the state, it also prepared a counterproposal claiming that current employees could outperform the private manager if lottery operations were kept in-house. However, the Corbett administration rejected the counteroffer, noting that it lacked any guarantee of new revenues or downside protections for the state, nor did it offer a credible plan to expand the player base.

Despite the original PMA's failure to launch, the issue may resurface in 2014. In walking away from the contract negotiated with Camelot, the Corbett administration suggested that a second lottery PMA effort may still be in the works via a new procurement in 2014. In December 2013, the *Pittsburgh Post-Gazette* reported that the Corbett administration had reached an agreement in principle with AFSCME on a PMA concept in which the current staff of unionized state employees would be managed by a private lottery manager, remaining public employees and not transitioning to full private employment.[9] The agreement had the effect of removing some legislative opposition to privatization, and at press time, the legislature was considering a bill that would authorize a PMA and the expansion of lottery games, which if enacted may lead to a rebidding process based on a revised agreement structure.

Other developments on state lottery PMAs include:

Illinois: Though private management has increased lottery revenue to the state to record levels in Illinois since that state's pioneering PMA launched in 2011, for a second year in a row the private manager has missed its ambitious revenue targets and been assessed penalties by the state.

As reported in Reason Foundation's *Annual Privatization Report 2013*, the Northstar Lottery Group—the private lottery manager—returned a record $757 million to the state in the first year of the PMA. While this represented a significant increase over the $690 million in net revenue in the last year of state operation, the return fell short of Northstar's $822.8 million first-year revenue commitment, which the company attributes to state actions that limited its ability to execute parts of its business plan. In early 2013, lottery officials announced they would fine Northstar $20 million for failing to meet its first-year targets, though Northstar challenged the assessment.

In August 2013, the *Chicago Tribune* reported an unofficial tally showing that second-year revenues under the PMA had also fallen short. While net revenues were estimated at $804 million—which would represent a second straight record return by Northstar—they fell short of the $947 million second-year target specified in the PMA, which the *Tribune* analysis suggested could result in $40 million in additional penalties assessed to Northstar.[10]

The company has disputed the *Tribune*'s findings, and more significantly, it has challenged the state's penalties and revenue calculation methods in what appears to have become an increasingly contentious relationship. According to a November 2013 article in *Crain's Chicago Business*, the company believes that its revenue targets should be lowered to reflect actions on the part of the state that have adversely impacted its ability to fully execute its business plan, including preventing the company from launching a new keno-style game.[11]

While acknowledging that it hasn't reached its net income goals, Northstar's chief executive officer, Marco Tasso, defended its performance overall, noting in a December 2013 *Chicago Tribune* letter that "[t]he lottery has been a huge success under private management [and] is one of the nation's top performing lotteries […] with our sales growth outpacing nearly every state in the nation."[12]

Tasso cited a 25 percent increase in annual lottery sales after years of flat revenues, as well as record numbers of players and retailers reached under the PMA, relative to state operation.

Indiana: July 1, 2013 marked the official start date for the Hoosier Lottery's PMA with GTECH Indiana, which will see the company provide expanded lottery marketing, sales, customer service and distribution services. Under the 15-year contract signed in October 2012, GTECH committed to generating an additional $2.1 billion for the state over the life of the contract (relative to in-house operation), increasing the Hoosier Lottery's use of contracted services from 88 percent to 95 percent of total operations. The initiative is expected to generate approximately $500 million of additional net income for the state over the first five years of the agreement. GTECH has also committed to attaining World Lottery Association certification for the lottery, bringing compliance with global standards on lottery social responsibility, transparency and third-party independent accountability. Under the PMA, the state retains responsibility for executive management and business plan approval, finance, legal, retail licensing, prize claim verification, security and information technology.

The *Indianapolis Star* reported in December 2013 that after the first six months under the PMA, lottery ticket sales were up 17 percent, though revenues were running at 96 percent of what was expected, a pace that if sustained could yield $246 million in revenue to the state the first year instead of the $256 million committed in the PMA.[13] However, lottery officials expect revenues to increase in the second six-month period due to the introduction of new games.

Oklahoma: The Oklahoma Senate passed legislation (Senate Bill 863) in February 2013 authorizing the governor to seek, accept and analyze proposals for the privatization of the Oklahoma Education Lottery. The bill would have also required a cost analysis of any preferred privatization proposal by the state's Office of Management and Enterprise Services before a final legislative approval of any privatization contract. The bill passed the House Economic Development and Financial Services Committee in March, but failed to receive a floor vote.

South Carolina: In February 2013, State Rep. Bakari Sellers introduced legislation (House Bill 3555) that would have required the South Carolina Lottery Commission to solicit bids from private entities to take over operations and management of the South Carolina Education Lottery in order to generate more revenue for higher education scholarships and K–12 programs. "We have the opportunity here to not only save millions of dollars and create a more effective and efficient lottery, but also to leverage private sector incentives that increase lottery revenues and give more of our students a shot at a college education," Rep. Sellers told a Charleston ABC News affiliate in February.[14] The bill would have required bidding to commence by July 2013, with any resulting private management agreement to take effect by the end of 2013. The bill was referred to the House Committee on the Judiciary, but failed to receive a hearing in the 2013 legislative session.

C. Social Impact Bonds Continued to Gain Steam in 2013

Over the last two years, a new public-private partnership concept known as "social impact bonds"—also known variously as "pay for success" or "social finance" initiatives—has been spreading rapidly in the U.S., capturing the attention of policymakers at all levels of government. A social impact bond (SIB) uses private sector funding to advance new public sector social service delivery models on a performance basis, and it is a conceptual variation on a theme that has been spreading rapidly in the arena of privately financed public infrastructure projects. Though pioneered in the United Kingdom, in August 2012 New York City became the first local government in the U.S. to pilot an SIB initiative (in the area of youth recidivism), and several other states and local governments have announced or advanced projects since then.

Experiments in SIBs can be expected to start spreading farther and faster in the coming years, given two major developments in 2013:

- First, in June 2013, the Rockefeller Foundation and the Social Impact Bond Technical Assistance Lab at Harvard University's Kennedy School of Government announced that six winners—Colorado/City & County of Denver, Connecticut, Illinois, New York State, Ohio and South Carolina—had won a national competition to provide technical assistance to state and local governments to develop SIB projects. A total of 28 state and local governments submitted applications for the competition. Michigan later became the seventh winner in September when more funding was made available for the effort. With this initiative, Harvard's SIB Lab will provide selected jurisdictions with a full-time government innovation fellow to work with the government for a year, information technology resources to help create systems to measure program outcome results, and ongoing technical assistance from SIB Lab staff.

- Second, in September 2013, the U.S. Department of Labor awarded nearly $24 million in Workforce Innovation Fund grants to two states—New York and Massachusetts—to support the development of "pay for success" pilots aimed at reducing recidivism among formerly incarcerated individuals (see discussion below). The New York Department of Labor received $12 million in grant funding, while the Massachusetts Executive Office of Labor and Workforce Development received nearly $11.7 million. The grants will be released in installments based on whether the targeted program outcomes were met. The U.S. Department of Justice has also announced that it plans to allocate funding toward SIB/pay-for-success-based inmate reentry programs.

Under a prototypical social impact bond, private philanthropic groups and other financiers fund social service interventions to be delivered by nonprofits and other nongovernmental organizations on behalf of governments under a pay-for-success contract model. If the privately financed interventions improve social outcomes and save public funds—essentially by getting better results than existing government social programs—investors would receive success payments from government that generate a return on investment. If outcomes do not improve, government doesn't pay, placing the focus squarely on implementing evidence-based practices that deliver results, lest investors risk their investments.

It is important to note that the term "social impact bond" is somewhat misleading, as these programs are not typically derived from government-issued bonds; rather, they are performance-based contracts in which private investors provide upfront capital to launch the programs, with costs recouped later via a government success payment only if pre-determined outcome targets are met.

1. New York, Massachusetts Launch First State-Level SIB Programs

At the state level, many jurisdictions are still in the process of exploring the SIB concept and designing initiatives, but New York State and Massachusetts leapt farther in 2013 by launching specific programs.

New York State: In December, New York State Governor Andrew Cuomo announced the launch of the first state-level SIB initiative in the country, a $13.5 million program to reduce recidivism among 2,000 recently released prisoners through delivering intensive employment training and job placement services. Services in the four-year program will be delivered in Rochester and New York City by the nonprofit Center for Employment Opportunities (CEO). Bank of America Merrill Lynch has raised $13.2 million from investors—$1.3 million of which is backstopped by the Rockefeller Foundation through guarantees—and the Robin Hood Foundation invested the remaining $300,000.

Investors will not be repaid by the state unless the program either reduces recidivism by at least eight percent or increases employment by at least five percentage points; investors stand to earn a positive return on their investment if it exceeds these thresholds, up to a 12.5 percent cap. If the initiative reaches its performance targets, the state expects to realize $7.8 million in savings for taxpayers.

Social Finance Inc., served as the intermediary organization to assemble the various partners and structure the investment, and Chesapeake Research Associates will serve as the independent validator to determine whether the initiative achieves its performance targets. Funds from a $12 million "pay for success" grant from the U.S. Department of Labor will be used to cover outcome-based payments to investors for the first half of the program, while state funds will be used to cover investor payments during the second half.[15]

According to Social Finance, the project is noteworthy in two key respects. First, it is the first SIB to be distributed through a leading wealth management platform—it was available to qualified private and institutional investor clients of Merrill Lynch and U.S. Trust—and over 40 equity investors were ultimately involved in the financing. Second, New York's will be the first SIB to use a randomized control trial in determining outcome payments.[16]

"We are proud to be the first state in the nation to launch a Pay for Success public-private partnership project to help put formerly incarcerated New Yorkers to work," Governor Cuomo said in a December press release. "This project is a win-win for our state, facilitating the reentry process of individuals into the community by boosting employment opportunities and thereby reducing recidivism rates, but requiring payment for services only if these goals are met."

New York State has been an incubator of sorts for SIBs in the United States. In 2012, New York City became the first local government in the U.S. to launch a similar SIB program focused on recidivism reduction, aimed at reducing recidivism among young adults released from the Rikers Island correctional facility. That initiative is discussed in greater detail in Reason Foundation's *Annual Privatization Report 2013*.

Massachusetts: A month after New York launched its social impact bond initiative, Massachusetts Gov. Deval Patrick announced the launch of the Massachusetts Juvenile Justice Pay for Success Initiative, a seven-year, $27 million program that represents the largest social finance investment in the U.S. thus far.

In the program, nonprofit service provider Roca Inc., will serve over 900 at-risk young men in the probation system or leaving the juvenile justice system in Boston and over a dozen other communities through intensive outreach, life skills and pre-vocational and employment training aimed at reducing recidivism. The success of the interventions will be based on reductions in the number of days young men served by the program spend in jail—the program targets a 40 percent reduction—as well as improvements in their employment and job readiness. The Public Consulting Group will serve as the independent validator to determine whether outcome targets are met.

Third Sector Capital Partners is serving as the project intermediary for this initiative, and it secured $18 million in private financing for the project, including:

- a $9 million loan from the Goldman Sachs Social Impact Fund;
- a $1.5 million loan from The Kresge Foundation;
- a $1.5 million loan from Living Cities; and
- $6 million in total grants from the Laura and John Arnold Foundation, New Profit, and The Boston Foundation.

If the program meets its target of a 40 percent reduction in days spent in jail, the state would pay out $22 million to its financiers. At that level, Goldman Sachs would recoup its $9 million investment plus an additional five percent in annual interest; the Kresge Foundation and Living Cities would recoup their $1.5 million investments and an additional two percent in annual interest. If the program exceeds its performance target, investors can receive a return on their investment—capped at $1 million in the case of Goldman Sachs—and the state has set aside a total of $27 million for potential payouts.[17]

Like New York, the Massachusetts initiative was aided by an $11.7 million pay-for-success grant from the U.S. Department of Labor awarded in September 2013. If the program is successful in meeting its goals, the federal funds will allow the state to extend the project to an additional 391 young men for an additional two years.

"By working with our partners at Roca, the Pay for Success initiative will allow us to marry smart financial solutions with programs proven successful in helping high-risk youth become employed, stay employed, and break the cycle of violence," according to Patrick.

2. State and Local SIB Update

Beyond New York and Massachusetts, other recent developments on social impact bonds include:

California: State legislation authorizing a social impact bond pilot program (Senate Bill 593) passed the California State Senate in January 2014 and was awaiting a hearing in the Assembly at press time. Additionally, several local governments are moving forward with their own initiatives. Fresno launched a social impact bond program in the spring of 2013 aimed at reducing incidents of asthma caused by indoor air pollution; the initiative represents the first U.S. social impact bond program in the area of public health. Under the two-year program, the nonprofit California Endowment has invested $660,000 in which Collective Health will work with 200 low-income children to reduce emergency room visits due to asthma through active, in-home management programs; repayment would come from a portion of state Medicaid funds formerly spent on emergency room visits.[18]

In August 2013, Santa Clara County officials approved $75,000 in funding to support continuing work with Third Sector Capital Partners to develop a social impact bond initiative in the areas of homelessness and mental health. The Sobrato Family Foundation and Silicon Valley Community Foundation agreed to match the county's funding to support the work. That same month, Santa Barbara County officials approved a feasibility study to explore a social impact bond initiative in the area of recidivism reduction.

Colorado: After being selected in 2013 as one of the social impact bond technical assistance grant recipients by the Rockefeller Foundation and Harvard's Social Impact Bond Technical Assistance Lab, the State of Colorado and the City and County of Denver both issued requests for information in September seeking recommendations and best practices on potential social impact bond opportunities. Both requests cited a particular interest in the areas of early childhood, at-risk youth and supportive housing.

Connecticut: In November 2013, the Connecticut Department of Children & Families issued a request for information interested in potentially participating in a social impact bond program designed to improve outcomes of children and families involved in the child welfare system who are also impacted by substance abuse. The department received responses from 14 different firms—a blend of nonprofits, advisors and financiers—in December and is currently working with Harvard's Social Impact Bond Technical Assistance Lab to determine next steps.

Illinois: In September, Illinois Gov. Pat Quinn's administration issued a request for proposals from organizations seeking to partner with the state on SIB projects related to reducing juvenile recidivism. The concept—recommended by the Governor's Task Force on Social Innovation, Entrepreneurship and Enterprise—has seen strong private sector interest in Illinois. The state received responses from 43 organizations to a request for information released earlier in the year that sought input on potential SIB program opportunities.

The state is seeking to partner on projects across two issue areas:

- Increasing placement stability while reducing recidivism for youth in Illinois's Department of Children and Family Services system.
- Improving educational achievement and living-wage employment opportunities for justice-involved youth at highest risk of reoffending upon returning to their communities.

"Illinois's first Social Impact Bonds project will offer a critical hand of support to our state's youth who need the most help," Governor Quinn said in a press release. "This will allow us to address community needs that we otherwise might not have been able to do."

Michigan: In September 2013, Michigan issued a request for information to explore potential social impact bond program opportunities and gauge the level of private sector interest after being selected as one of the social impact bond technical assistance grant recipients by the Rockefeller Foundation and Harvard's Social Impact Bond Technical Assistance Lab that same month. "This is an exciting opportunity to continue the reinvention of Michigan. We'll be exploring how we can create cutting edge public-private partnerships to address persistent social problems, fund those programs through social impact bond financing, and save money for taxpayers," Michigan Gov. Rick Snyder said in a press release.

New Jersey: In January 2014, the New Jersey legislature approved Assembly Bill 3289 (the "NJ Social Innovation Act")—which would have established a five-year social impact bond pilot program designed to attract private funding for state preventative and early intervention healthcare programs for low-income and uninsured residents in order to lower costs to the state—but the bill was vetoed by Gov. Chris Christie, who allowed the bill to expire without executive action.

Under the bill, the New Jersey Economic Development Authority (NJEDA) would have administered the program and solicited private or philanthropic grants to fund the startup of one or more social impact bond contracts. NJEDA would have guaranteed loans made by private lenders at up to 100 percent of the value of the loan agreements, capped at $3 million annually (or $15 million total over the five-year authorization period). NJEDA would have also been responsible for establishing an internal study commission to help select a nonprofit partner to deliver program services, guide implementation and prepare annual progress reports.

Despite the setback, State Assemblyman Angel Fuentes plans to revisit the issue of social impact bonds. "I look forward to working with the Governor's office to make this a stronger piece of legislation so we can open the door to the groundbreaking opportunities outlined in the bill," Fuentes noted in a press release on the bill's veto.

South Carolina: In September 2013, the South Carolina Department of Health and Human Services (DHHS) issued a request for information on the design and development of an SIB program focused on controlling costs and improving health and other outcomes of mothers and newborns in the state's Medicaid program. The agency is open to a range of prenatal, postpartum and early childhood interventions proven to improve pregnancy outcomes and maternal health; improve child health, development and school readiness; bolster family self-sufficiency and prevent child abuse and neglect. That same month, the Institute for Child Success released a report funded by the DHSS which found that it would be feasible to use SIBs to address the state's challenges in scaling up early childhood programs, like the state's Nurse-Family Partnership.

Utah: The United Way of Salt Lake, Goldman Sachs and the J.B. and M.K. Pritzker Family Foundation announced a new social impact bond program in June designed to expand access to early childhood education for at-risk children in Utah. Goldman Sachs and Pritzker are committing a total of $7 million for a multi-year, intensive preschool program for disadvantaged youths designed to reduce the need for costly special education services later in elementary school. The United Way will deliver the preschool program, based on a pilot it implemented elsewhere in Utah in recent years that was estimated to have saved taxpayers over $2,600 per student annually (relative to the full costs of special education programs).

Washington State: Washington State will be considering legislative action on social impact bonds in the 2014 legislative session with the introduction of House Bill 2337, a bipartisan bill to establish a state-level social impact bond pilot program. The bill, introduced by State Representative Hans Zeiger along with 20 co-sponsors, would establish a 14-member social investment steering committee to develop a social impact bond implementation plan by December covering at least one pilot program to finance and deliver prevention-focused social or healthcare services. It would also require the state's Office of Financial Management or another agency to issue a request for proposals for the pilot programs by July 2015 and begin implementation by January 2016. The steering committee would also be required to produce annual reports on pilot project implementation and any recommendations for expanding the program to other prevention-focused social or healthcare services.

"The old bureaucratic models of solving problems have too often fallen short; we need to embrace creativity and innovation as we seek to address some of the most difficult issues before us," Rep. Zeiger said in a press release. "It is time we engage the private sector in solving some of our biggest public problems."

Washington D.C.: In September 2013, the administration of Mayor Vincent Gray issued a request for proposals seeking a vendor with experience as an intermediary in social impact bond initiatives to conduct a feasibility study to explore potential applications in the District.

3. Conclusion

Given the emergent nature of social impact bonds and the complexity of the agreements—challenges include defining what's measured and how, in terms of performance, as well as specifying the relationships between financiers, nonprofits and governments—ensuring competency in crafting social impact bond arrangements will be significant hurdles in moving from concept to contract. Hence, the focus of the Rockefeller/Harvard competition on technical assistance is aimed at building experience and expertise in this emerging area. Harvard's Social Impact Bond Lab has worked with the states of Massachusetts and New York in developing their early initiatives, and the seven winners of the recent competition will receive similar pro bono technical assistance to help design and implement their procurements, which will likely span a variety of social interventions that include early childhood education, homelessness, reducing childhood mortality, and other areas, according to a press release.

It is noteworthy that the social impact bond concept has taken off so rapidly, given that it still remains unproven. The first social impact bond pilot project launched in the U.K. only in 2010, when the consultancy Social Finance raised $7.8 million from social investors to fund a recidivism reduction pilot project in the U.K.'s HMP Peterborough prison. In this multi-year project, approximately 3,000 short-term male prisoners are expected to receive intensive programming both before and after release to prevent re-offending. If the recidivism rate of this population falls by more than 7.5 percentage points within six years, investors will be repaid via a share of the long-term savings from avoided re-incarceration and can receive up to a 13 percent return on investment if they exceed the targeted reductions. By contrast, if the intervention fails to meet the recidivism reduction target, investors will receive no return. As the trailblazer that has already inspired so many similar initiatives elsewhere, this high-stakes pilot program will be closely watched as a barometer of the social impact bond concept itself.

Though the first full results of the HMP Peterborough pilot will not be available until 2014, the U.K. Ministry of Justice announced in recent weeks that preliminary data show that the program already appears to be lowering recidivism rates. The publication *Civil Society Finance* reported in June 2013 that the data show a six percent drop in reconviction events for inmates released from HMP Peterborough between 2010 and 2012, compared to a 16 percent increase in reconvictions nationally over that same time period.[19] While these results are early, they at least suggest a promising start to the program that advocates of the social impact bond concept will certainly find encouraging.

D. State Liquor Privatization Update

On June 1, 2012, Washington State became the first state since the end of Prohibition in 1933 to dissolve its state-run monopoly on the distribution and sale of distilled spirits, the result of a 2011 ballot measure (Initiative 1183) enacted by voters that completely privatized the state's wholesale and retail spirits enterprises from public to private sector operation. Washington State's move toward privatization and the resulting implementation is being closely watched in other "control states"—those that have maintained some form of government-owned wholesale and/or retail monopoly in the distilled spirits market since Prohibition, as discussed in the following sections.

1. Reviewing Year One of Washington State's Liquor Privatization

As discussed in recent editions of Reason Foundation's *Annual Privatization Report*, Initiative 1183 (I-1183) produced a sea change in the distilled spirits market in Washington State. Where the state once maintained wholesale and retail monopolies in liquor, a nascent private sector market has been emerging since the onset of privatization in June 2012. Under I-1183, the state divested its 328 retail outlets and issued licenses for spirits sales at approximately 1,500 stores statewide, primarily stores larger than 10,000 square feet that include grocery stores, drugstores, alcohol retail chains and more. It also opened up the wholesale market to competition, allowing retailers to buy spirits and wine directly from manufacturers or wholesalers (while preserving the existing mandate that retailers purchase beer from wholesalers). In one symbolic bookend to the era of state monopoly control, the state's Department of Enterprise Services announced the $23.4 million sale of the state's former wholesale distribution center in the Seattle area in August 2013.

Given such a massive shift in the spirits marketplace, the transition to privatization has been remarkably smooth from an operational standpoint, though in other ways the functioning of the marketplace is still settling itself out.

Most visible from a consumer standpoint is that the privatization was accompanied by an increased volatility in spirits prices, the result not of market competition, but rather the direct result of new liquor fees imposed by the initiative. I-1183 retained the state's previous sales and per-liter taxes on spirits but added new fees—a 17 percent fee on retail sales and a two-year, 10 percent fee on wholesalers—to replace, and ultimately exceed the revenues from, the state's previous 52 percent wholesale markup that was eliminated with privatization.

The new fees prompted price increases on many spirits products, to the chagrin of many consumers. According to the Washington State Department of Revenue, the average retail price per liter of spirits rose from $21.07 in May 2012 (immediately prior to I-1183 implementation) to $23.89 by May 2013, showing signs of leveling off after peaking at $25.74 in December 2012. Prices are expected to moderate over the course of 2014, as the 10 percent wholesaler fee is set to drop to five percent.

From the state's vantage point, post-privatization spirits-related net revenues to the state increased significantly as a result of the new fees. According to the state's Economic and Revenue Forecast Council, the net spirits-related revenue to the state increased from $309 million in fiscal year 2012 (the final 11 months of state monopoly control, plus the first month of privatization in June 2012), to $434.5 million in fiscal year 2013 (July 2012 through June 2013)—a nearly 41 percent increase after privatization.[20]

Increased spirits tax revenues only accounted for a small portion of the overall net revenue increase to the state, suggesting that the newly imposed fees enacted in I-1183 account for the lion's share of state revenue growth. According to data compiled by the state Department of Revenue, sales and per-liter taxes on spirits rose from $241.7 million the year before privatization (June 2011–May 2012) to $265.2 million in the first year of implementation (June 2012–May 2013), a 10 percent increase. Most of that increase can be attributed to higher spirits prices—not increased sales—as the total number of taxed liters of spirits sold to consumers and on-premise licensees only increased by one percent during the same time periods (39.3 million liters in the year before privatization to 39.9 million liters in the first full year of privatization).

The attention to liquor prices in the wake of privatization has served to increase the awareness of Washington State's high tax and fee structure for distilled spirits. According to the Tax Foundation, Washington State's spirits excise tax rate in 2013 was the highest in the nation at $35.22 per gallon, a level significantly higher than neighboring Oregon's second-highest excise tax rate of $22.73.[21] At least one bill introduced in the 2014 legislative session—Senate Bill 6547—would attempt to relieve the consumer burden by providing a comprehensive spirits sales tax reduction in both on-premise and off-premise settings.

Looking beyond the fiscal and tax considerations with I-1183 implementation, the first year of privatization also offered some early data on the social impacts of an expanded spirits market in Washington State. Opponents of liquor privatization often cited fears that opening the spirits market would bring a commensurate uptick in associated social costs, such as binge drinking, underage alcohol abuse and DUI incidents.

An October 2013 analysis of Washington State Patrol data by the Washington Policy Center found that concerns over a potential uptick in alcohol-related arrests after privatization have not been borne out by the data.[22] In fact, as shown in the table below, alcohol-related arrests in most categories—including DUI collisions, DUI arrests, and minor in possession charges—have generally continued a downward trend since privatization. The report also found that private retail stores have held the no-sale-to-minors compliance rate to 94 percent, the same level that state-run stores were achieving prior to privatization.

Table 1: Washington State Patrol Alcohol-Related Arrest Data (2008–2013)

Period (June to June)	DUI Collisions	DUI Arrests	Drink in Public	Interlock Device DUI	Open Container	Minor in Possession	Liquor to Minor
2008-09	2,861	21,941	19	447	2,223	1,483	57
2009-10	2,584	21,057	30	486	1,679	1,289	45
2010-11	2,586	22,227	41	595	1,469	989	41
2011-12	2,576	21,577	30	778	1,382	1,010	26
2012-13	2,347	19,703	42	917	1,106	777	19

Source: Washington State Patrol data, as reported in Jason Mercier, "Alcohol-Related Arrests Continue to Decrease After Liquor Privatization," Washington Policy Center, October 2013.

2. Current U.S. Liquor Monopoly Landscape

With the exception of Washington State's full divestiture of its wholesale and retail liquor monopolies, the overall "control" vs. "license" state landscape has remained remarkably static since the repeal of Prohibition in 1933:

- A total of 32 states have allowed private firms to distribute and sell distilled spirits since the end of Prohibition, and with the recent addition of Washington State there are now 33 “license” states.
- There are 17 remaining “control” states that retain a government-run monopoly on the sale and/or distribution of distilled spirits: Alabama, Idaho, Iowa, Maine, Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, West Virginia and Wyoming. Additionally, two counties in Maryland (Montgomery and Worcester Counties) operate local government-run liquor wholesale and retail enterprises, though overall Maryland is considered a “license” state.

Beyond the type of total privatization seen in Washington State, all other major shifts in state alcohol systems since the end of Prohibition have moved in a one-way direction toward some form of partial privatization. In fact, the private sector has long played a significant role in many “control” states, blurring the public-private distinction:

- No state has ever shifted from a private regime to a state-run liquor monopoly.
- Maine has outsourced the operation of its wholesale monopoly to a private manager since 2004.
- Iowa and West Virginia fully privatized their spirits retail monopoly in recent decades, while retaining their in-house wholesale operation. They joined three other states—Michigan, Mississippi and Wyoming—that could be considered wholesale “control”/private “license” states.
- Five states—Maine, Montana, Ohio, Oregon and Vermont—use an “agency/contract store” model in which the operation of the state’s retail liquor stores is contracted out to private operators. This is essentially a model in which the operation of state-owned stores is outsourced to private operators.
- Retail liquor operations in three states—Idaho, New Hampshire and Utah—is a blend of state-owned and operated retail outlets and agency/contract stores.
- Alabama uses a blend of state-run liquor stores and private, licensed retail outlets.
- Only three states—North Carolina, Pennsylvania and Virginia—limit spirits sales exclusively to state-run retail stores.

3. State Liquor Privatization Roundup

Other noteworthy developments in liquor privatization over the past year include:

Pennsylvania: Pennsylvania's long-simmering debate over privatizing its state-run wholesale and retail monopolies reached a new plateau in 2013 when the state House of Representatives passed House Bill 790—a privatization bill sponsored by House Majority Leader Mike Turzai—by a 105–90 vote margin. The bill would have required privatization of the state's wholesale monopoly within a year, opened up 1,200 new wine and distilled spirits licenses to beer distributors and other private retailers, allowed grocery stores and restaurants to purchase licenses to sell wine, and gradually closed the 600 existing state-run liquor stores as the number of private licensees increased.

This marked the first proposed liquor privatization bill since the end of Prohibition to receive a vote in one of the state's legislative chambers, and the House bill was strongly supported by Gov. Tom Corbett, who had made liquor privatization one of his top priorities for the 2013 legislative session. However, the state Senate balked at the House bill, ultimately gutting it and amending it with a watered down privatization plan proposed by Sen. Chuck McIlhinney that would have retained the state's wholesale monopoly, opened up wine and spirits sales only to current licensees, and made the closure of state-run liquor stores discretionary. The Senate narrowly approved the amendment to the bill, but failed to take a final vote in time to meet the state budget deadline at the end of the fiscal year in June.

After recessing for the summer, the issue went quiet in the legislature, though in January 2014 Turzai noted ongoing negotiations over a revamped liquor privatization plan between legislative leaders and Corbett's office that were being led by Lieutenant Gov. Jim Cawley, with the purpose of finding a politically viable way of expanding private sales of wine and spirits and gradually winding down the state store system.[23] At press time, a revised privatization plan or proposed legislation had not been released.

Amid the political machinations on the issue, there still seems to be continued public support for liquor privatization in Pennsylvania. A survey of more than 1,100 Pennsylvania residents and likely voters co-sponsored by the Commonwealth Foundation and Keystone Politics released in October 2013 found that 70 percent of Republicans and Independents, nearly 60 percent of liberals and 55 percent of union households favored abolishing the state-run liquor monopoly.

Oregon: Emboldened by Washington State's liquor privatization initiative, a Northwest Grocery Association-backed group called Oregonians for Competition filed five different initiative petitions in December 2013 that would end the state-run liquor monopoly and expand the sale of distilled spirits to retail outlets over 10,000 square feet. Liquor sales are currently only allowed in state-sanctioned liquor stores, which would continue to operate under the various proposed ballot measures. The five measures are variations of a proposed Oregon Liquor Control Modernization Act, and Oregonians for Competition plans to choose one version to potentially take forward to the November 2014 ballot, according to *The Oregonian*.[24]

The move to place privatization measures on the 2014 ballot intensified after a 2013 decision by the Oregon Liquor Control Commission to allow state-contracted liquor stores to apply for licenses to expand their offerings to include beer and wine sales, placing them in direct competition with private retailers for the sale of those products. In the 2014 legislative session, the state's Liquor Control Commission pushed the legislature to consider a modernization effort that could have potentially forestalled privatization, but legislators rejected the approach.

Maine: Though categorized as a "control state," Maine has leased the operation of its liquor wholesale enterprise since 2004, and its system of state-sanctioned retail liquor outlets is run via contracts with private store operators. In the summer of 2013, Maine launched a procurement to rebid its wholesale liquor warehousing and delivery operation, and in early January 2014 announced that it had selected Pine State Trading Company for a 10-year lease designed to significantly increase revenues to the state relative to the previous 10-year lease agreement.

Under the previous wholesale system lease with Maine Beverage Company, the state received an estimated $190 million in revenues over the 10-year contract period, which included a $125 million upfront payment and a share of annual revenues; the new lease agreement is expected to generate up to $450 million in revenue over the next decade, primarily due to shifting from a percentage-based revenue share model to one that pays the contractor a set fee.[25] The administration of Gov. Paul LePage sought the increased revenues to help cover nearly a half million dollars in past Medicaid debts owed to the state's hospitals.

E. As Massachusetts's "Pacheco Law" Turns 20, Several States Propose Similar Anti-Privatization Bills

The year 2013 marked the 20th anniversary of a 1993 Massachusetts law widely viewed as the most hostile statute against privatization in the country, one that has stymied privatization efforts in that state for two decades since. The "Pacheco Law"—named for its legislative sponsor—"has basically shut down all privatization efforts in state government," according to an April 2013 *Boston Globe* editorial, which also noted that, "the purpose of state government isn't to be a jobs program, particularly one that turns a blind eye to opportunities for savings."[26]

A 2009 Reason Foundation analysis explained the basic provisions of the Pacheco Law:

> *When a Massachusetts agency entertains bids for the right to deliver a service, public employees have the opportunity to submit bids to keep the work in-house. The Pacheco Law gives state workers significant advantages.*
>
> - *The cost and quality of service offered by private contractors must be compared not to existing cost and quality but to the hypothetical situation of public employees working in the most cost-effective manner and providing the highest quality possible. At no time are state employees held to these standards. If public employees win the contract, they are not held to any concessions made as part of the bid.*
> - *The contractor must add lost tax revenues to the cost of the bid if any work is to be performed outside Massachusetts. No such adjustment is made to the public sector bid for the loss of tax revenues that would be realized if the work were to be performed by a private business subject to state taxes.*
> - *Private bids must also include estimated costs of monitoring contractor performance, while no such monitoring takes place in the public sector. The likely benefits of monitoring are not considered.*
>
> *Even if a private contract scales these hurdles, the State Auditor may reject any proposal he deems not to be "in the public interest," without providing a definition or reason. The rulings are final and may not be appealed.*[27]

Government employee unions originally championed the Pacheco Law in response to 36 privatization initiatives undertaken by former Governor William Weld in the early 1990s that saved taxpayers an estimated $273 million.[28] In the first 17 years following its passage (1993–2010), the law's strict provisions prevented all but 12 privatization contracts from moving forward.[29] Further, it has prevented an untold number of privatization opportunities from ever being proposed by agencies in the first place, given how challenging it made the privatization process.

Over the last decade, a bipartisan mix of Massachusetts state legislators have attempted numerous times to loosen or repeal the law to provide the executive branch more latitude to enter into cost-saving privatization contracts, but these efforts have been largely stymied by government employee unions. According to some estimates, repealing the law would facilitate savings of up to $100 million annually.

The final FY 2014 budget passed by the House (H.3401) would have raised the contract value threshold for triggering the Pacheco Law to $750,000, up from the current $500,000. The House Ways and Means Committee had originally proposed increasing the threshold to $2 million, but relented under pressure from organized labor. The Senate rejected a budget amendment proposed by Senate Minority Leader Bruce Tarr that would have raised the threshold to $5 million, but the amendment was soundly rejected. The budget bill that emerged from the conference committee and was signed into law ultimately did not include the contract value threshold increase passed by in the House version.

In a similar spirit as the Pacheco Law, several anti-privatization bills were either proposed or enacted in other states in 2013 and early 2014:

California: In October 2013, Gov. Jerry Brown vetoed Assembly Bill 566, a bill sponsored by Assembly Member Bob Wieckowski that would have established a variety of new standards for trial courts to apply in considering potential new (or renewals of existing) service contracts through the year 2020. AB 566 would have required trial courts to clearly demonstrate that contracting would result in demonstrable cost savings relative to the court's internal costs of providing the same services. Further, any contract over $100,000 annually would be required to include specific performance standards and provisions for audits on performance and cost savings. Among the more onerous provisions, the bill would have limited what the courts would include as their overhead costs for cost comparison purposes—which could have underestimated the costs of public service provision—and would have required contractors to pay wages "at the industry's level [that] do not materially undercut trial court pay rates."

In his veto message on AB 566, Gov. Brown wrote that, "[T]his measure goes too far. It requires California's courts to meet overly detailed and—in some cases—nearly impossible requirements when entering into or renewing certain contracts. Other provisions are unclear and will lead to confusion about what services may or may not be subject to this measure. […] I am unwilling to restrict the flexibility of our courts, as specified in this bill, as they face [the challenge of doing their work at a lower cost]."

That same month, Gov. Brown signed into law Assembly Bill 906, which amends the state's Civil Service Act to prevent state agencies from executing personal service contracts until they have notified all organizations (e.g., unions) that represent state employees who perform the type of work to be contracted. It also requires the state's Department of General Services to establish a process to certify that notification.

In addition, the Senate passed a bill (Senate Bill 556) in 2013 that would have made it illegal for a government contractor performing public health or safety services on behalf of a public entity to display logos on its vehicles or uniforms that "reasonably could be interpreted as implying that the labor or services are being provided by employees of the public agency, unless the vehicle or uniform conspicuously displays a disclosure," as specified in the bill. The bill would require prominently displaying the words "SERVICE PROVIDED BY:" or "CONTRACTED BY:" near the vehicle or uniform logo, immediately followed by the contractor's name or the government client's name, respectively. The *Sacramento Bee* noted that the bill was opposed by various local government organizations—including the League of California Cities, California State Association of Counties, and California Special Districts Association—and its editorial board opined that the bill would "stigmatize private contractors with a scarlet letter" and "make it more difficult for local governments to contract for services."[30] The measure died on third reading in the House.

Louisiana: Two proposed bills introduced in the Louisiana legislature in the 2013 session—House Bill 240 (sponsored by Rep. Kenny Havard) and House Bill 519 (sponsored by Rep. Cameron Henry)—were two alternate versions of a "Privatization Review Act" that were very similar—modeled nearly word-for-word—to the Massachusetts Pacheco Law. Despite being introduced by legislators from the same party, the bills were viewed as a legislative reaction to

Gov. Bobby Jindal's aggressive privatization agenda during his two terms in office, detailed in previous editions of the *Annual Privatization Report*.

Specifically, HB 240 and HB 519 would have prohibited state agencies from entering into privatization contracts without prior legislative review and approval, and they would have subjected routine contracting decisions to onerous pre-procurement and contract review processes.

The bills would have:

- Required state agencies to provide written estimates of the direct and indirect costs of "state employees providing the subject services in the most cost-efficient manner," regardless of whether or not the "most cost-efficient manner" is actually achieved (or is even achievable) in reality.
- Required agency cost comparisons to explicitly account for potential loss of income tax and other revenue from eliminated state employee positions. (However, cost comparisons would not similarly credit contractors for any new income, property or sales tax revenues generated for the state and local governments as a result of the proposed privatization.)
- Required agencies to submit a written statement of proposed services to be contracted (including specifications on the quantity and quality of services) to the Legislative Auditor and appropriate standing legislative committees prior to initiating a procurement.
- Required contractors to offer positions to former state employees that previously handled the activity subject to privatization. (HB 240 would have gone a step further by requiring agencies to set minimum wage rates for outsourced positions prior to initiating the procurement process.)
- Required all affected contracts to be subject to a review by the Legislative Auditor within 30 days, after which approval would have been required by appropriate standing committees in each chamber of the legislature within 45 days. (HB 519 would have gone further by requiring full legislative approval of contracts, significantly increasing political risk for contractors.)

Neither bill was ultimately enacted. HB 240 passed the House in May but failed to receive a hearing in the Senate finance committee. HB 519 passed the House Appropriations Committee in April, but was subsequently referred to the House

Committee on House and Governmental Affairs, where it failed to receive a hearing.

New Jersey: In July 2013, Gov. Chris Christie vetoed legislation (Senate Bill 968) that would have imposed a variety of other Pacheco Law-like privatization hurdles and restrictions on the executive branch's ability to contract out government services. For any proposed privatization contract totaling $250,000 or more, the bill included provisions that would have:

- Imposed a five-year limit on state privatization contracts;
- Required that the public not be subject to any fees, fares or other charges greater than those currently charged;
- Required that the quantity and quality of the services performed under the contract equal or exceed that provided by agency employees;
- Required that wages and employee benefits for each contracted position not be less than those for comparable agency employees;
- Required contractors to submit quarterly reports on the above items (fees, service quantity/quality and payroll) to the contracting agency;
- Allowed state employees to submit an alternate cost estimate based on a review of the agency management's cost estimate during the bidding process, and required the agency to determine whether and how much to reduce its original cost estimates, while keeping the employees' alternate cost estimates secret until the end of the bidding process.
- Required contractors to offer available employee positions to qualified public employees displaced or dismissed by the privatization contract,
- Required agencies to issue a comprehensive written analysis of the total contract cost of selected private bids, including transition costs, unemployment and retirement benefits for agency employees, monitoring and contract administration costs, and the amount of income tax revenue potentially lost by the elimination of agency employees (while not accounting for potential corporate tax revenue increases that may accrue as a result of the contract);
- Required agencies to submit the contract to the Office of the State Comptroller, along with a written certification that it had complied with the above items, found that the estimated contract cost is less than the state's internal costs, and established a total cost savings estimate;

- Allowed the Office of the State Comptroller a 30-day review period, after which it could prohibit the agency from entering into the privatization contract if the Comptroller disagreed with the findings; and
- Required the state auditor to conduct an annual post audit of each privatization contract entered and prepare an annual report to the governor and legislature regarding the contract detailing actual cost savings.

According to Christie administration spokesman Michael Drewniak, “It was plainly obvious that [bill proponents were] driven exclusively by a blind allegiance to their public employee union benefactors. That's what that bill was all about.”[31]

Washington State: In the 2014 legislative session, the Washington Federation of State Employees—an affiliate of the national American Federation of State, County and Municipal Employees union—took credit for initiating the so-called “Taxpayer Protection Act” (House Bill 2743), introduced by State Rep. Sam Hunt, which would have amended the 2011 law requiring the state’s Office of Financial Management to identify six central service functions performed by the Department of Enterprise Services (DES) to potentially contract out every two years.

The most significant change the law would have made would be to only allow DES to contract out if it would achieve cost savings of 10 percent or more of the contract value, and in calculating those cost savings DES would have been required to factor in the cost of the agency staff time and resources needed to monitor the contract and ensure compliance with performance standards in the contract.

Further, prior to issuing a request for proposals to outsource an existing activity performed by public employees, the bill would have required state agencies to conduct a comprehensive impact assessment that includes: (1) an estimate of the in-house costs of public employee service provision, (2) an estimate of the costs associated with contracting out, (3) a statement of the performance objectives to be achieved through outsourcing, and (4) an assessment of the potential adverse impacts of outsourcing, such as loss of employment, effect on social services and public assistance programs, economic impacts on local businesses and local tax revenues, and environmental impacts.

If a contract was ultimately signed, the bill would have required state agencies to include this impact assessment in a report submitted to DES, along with an itemization of performance standards contained in the contract. Every five years thereafter (or upon contract completion) the bill would have required that the agency prepare a report including documentation of the contractor's compliance with the itemized performance standards, itemization of any contract extensions or change orders that resulted in a change in contract costs, and a report of any remedial actions taken to enforce compliance with the contract and associated public sector costs.

Other bill provisions would have required state contracts to include a set of standard terms (including cancellation clauses and employment and wage disclosures for all contractor and subcontractor employees), established provisions on when DES must debar contractors, and set forth criteria the Joint Legislative Audit and Review Committee must consider in its audit of the DES contracting program.

HB 2743 passed the House by a 53–44 margin in mid-February 2014, but it was tabled for the 2014 session after a late-February hearing in the Senate Governmental Operations Committee.

F. Social Infrastructure Public-Private Partnership Legislation Update

State and local policymakers are increasingly embracing public-private partnerships (PPPs) as an alternate means to finance, design, build, operate and/or maintain new or modernized public infrastructure assets. A total of 33 states have enacted laws enabling the use of private sector financing and project delivery to deploy new transportation infrastructure through PPPs since the 1980s. More recently, states like Virginia, Texas and Connecticut (as well as the Commonwealth of Puerto Rico) have enacted laws to extend the use of PPPs to develop other types of governmental infrastructure assets and buildings, broadly defined as "social infrastructure"—e.g., non-transportation-related public facilities like government buildings, schools, higher education facilities, water and wastewater plants and more.

Noteworthy developments on social infrastructure PPPs in 2013 and early 2014 include:

Florida: In June 2013, Florida Gov. Rick Scott signed into law House Bill 85, which authorizes municipalities, counties, school boards and other political subdivisions of the state to use PPPs to develop a wide range of facilities, including schools, public buildings, ferries, mass transit facilities, parking facilities, port facilities, power generation facilities, oil or gas pipelines, medical or nursing care facilities, water/wastewater facilities, recreation facilities and more.

The legislation was intended to streamline the process of creating private investment opportunities toward public projects and to develop a consistent set of policies statewide. It authorizes both solicited and unsolicited project proposals.

HB 85 also established a Partnership for Public Facilities and Infrastructure Act Guidelines Task Force charged with researching and recommending a uniform process that public authorities can use to establish PPPs, including project selection and review procedures. The task force's final report is due to the governor and legislative leaders by July 1, 2014.

Florida has long been a leader in public-private partnerships in transportation, and at the state level it has also seen several universities implement PPPs to deliver new higher education facilities in recent years. The new legislation is expected to significantly increase interest in PPPs by local units of government in the coming years. In 2012, the Florida House of Representatives passed a similar bill authorizing local governments to use social infrastructure PPPs, but the legislation failed to advance in the Senate that legislative session.

Georgia: In March 2013, State Sen. Hunter Hill introduced Senate Bill 255—the Partnership for Public Facilities and Infrastructure Act—that would authorize state agencies, local governments, school boards and other governmental units to use PPPs to develop any infrastructure project on government-owned or leased land that serves a public purpose. The bill would also create a Partnership for Public Facilities and Infrastructure Act Guidelines Committee to prepare model guidelines for governmental authorities to use in developing PPP projects, with staff support from various executive and legislative branch offices. The bill was referred to the Senate Transportation Committee after the deadline to hear bills in the 2013 legislative session, but Sen. Hill led a temporary committee appointed by Lt. Gov. Casey Cagle to hold informational hearings and issue a set of recommendations before the 2014 session.[32] At press time, the bill was awaiting hearings in the House, after passing the Senate in February 2014.

Indiana: A bill introduced in the 2014 legislative session that would have expanded Indiana's use of public-private partnerships beyond transportation into social infrastructure projects was amended by a state Senate committee to remove the expanded PPP authority before passing the Senate in February 2014. Senate Bill 225, sponsored by state Senator Luke Kenley, was amended in the Senate Appropriations Committee in late January to remove the PPP provisions after some members raised concerns about the level of state oversight of PPP projects. According to the *Evansville Courier & Press*, Kenley may bring back revised language on PPPs to the committee in the future.[33]

Pennsylvania: In November 2013, Pennsylvania State Rep. Eli Evankovich introduced a bill (House Bill 1838) that would authorize local governments and school districts to use public-private partnerships to develop new social infrastructure projects, including schools, water and wastewater projects, parking facilities, telecommunications infrastructure, utilities and governmental agency buildings. The Pennsylvania Chamber of Business and Industry and other local government groups have announced support for HB 1838, which would offer local units of government more tools to finance facilities.[34] The bill, which has dozens of House co-sponsors, was referred to the House State Government Committee upon introduction, but at press time the committee had not taken a vote on the legislation.

Texas: Lingering controversies over proposals to redevelop parts of the state Capitol complex in Austin in 2012 prompted the passage of a bill—Senate Bill 894—to exempt Capitol grounds PPP projects from the social infrastructure PPP enabling legislation (Senate Bill 1048) enacted in 2011.

As discussed in Reason Foundation's *Annual Privatization Report 2013*, the 2011 legislation significantly expanded state and local governments' ability to use infrastructure PPPs to develop nearly any type of public infrastructure, including schools, water and wastewater projects, transit, ports and other public use facilities. However, in 2012 the Texas Facilities Commission received several unsolicited proposals for PPP projects from private firms for various projects involving redevelopment of portions the Capitol complex that generated a backlash from some legislators over concerns regarding transparency and a lack of outreach to various state agencies that oversee state real property. Senate Bill 894, signed into law by Gov. Rick Perry in June 2014, prevents the lease, sale, or any other disposition of the state's real property (or any interest in real property) located in the Capitol complex.

Separately, the state also enacted Senate Bill 211 in the 2013 legislative session, which made a variety of changes to the state's social infrastructure PPP law intended to increase transparency and adjust some of the processes related to project selection, the activities of the Partnership Advisory Commission that oversees the PPP process, and coordination with other governmental units.

G. Higher Education Public-Private Partnerships Update

Tight state budgets, competing spending priorities and persistent fiscal challenges are prompting state university systems to find creative ways to engage the private sector through various types of public-private partnerships (PPPs), ranging from outsourcing discrete operational services to bringing private sector capital and expertise to bear on the financing of university facilities. These service and asset delivery PPP models are being used to help reduce operating costs, better maintain facilities and create new tools to finance and construct new and modernized academic buildings, dormitories and other campus facilities.

Noteworthy developments on PPPs in higher education in 2013 and early 2014 include:

California: In October 2013, the University of California-Riverside issued a request for proposals seeking a private partner to take over operations of the campus bookstore by July 2014. The bookstore is currently losing over $1 million per year and has seen declining sales, and university officials are seeking a private operator to return the bookstore to profitability, make investments in the store's facilities and maintenance, and share revenues with the university.[35] Bidders will be required to hire on at least five of the current 15 store employees, with those not hired being relocated to other university positions.

Colorado: *The Coloradoan* reported in October 2013 that officials at Colorado State University (CSU) in Fort Collins are evaluating the potential lease of its parking assets to a private investor/operator as one way to help address growing parking demand.[36] According to CSU officials, any revenues from a parking asset lease would be used to fund new parking facilities and transit operations.

Florida: In August 2013, the Seminole State College District Board of Trustees announced plans for two PPPs. The first would involve a multi-phase expansion of its Altamonte Springs campus to implement a master plan to develop nine new buildings on the campus adding 1.4 million square feet of space. A second project would develop a new wellness center on the Sanford/Lake Mary campus to serve students, employees and the surrounding community.

That same month, the University of West Florida selected Balfour Beatty Campus Solutions as the lead developer for a 10-year, $500 million expansion of its main campus involving plans for a new student union, student housing, active adult housing, football stadium, parking garage, plaza and bell tower.

Georgia: In February 2014, the Georgia House Ways and Means Committee approved a bill (House Bill 788) that would refer to the ballot a proposal to extend a property tax break on state university property to potential private sector managers of university housing facilities. The move comes as the University System of Georgia is considering a large-scale privatization of the management of on-campus housing—in which private firms would operate and manage thousands of university housing units under long-term leases up to 65 years—as a way to reduce $3.8 billion in system debt.[37]

Indiana: In October 2013, Indiana University announced that it had decided not to pursue a long-term lease of its parking assets on its Bloomington and Indianapolis campuses. A financial analysis by Goldman Sachs and Walker Parking Consultants found that a long-term concession of its parking assets would yield $275 million in gross proceeds—which would be reduced to $210 million after paying off debt—to invest in a university endowment. University officials opted to instead develop a strategic business plan to optimize its parking assets in-house in order to generate similar revenue. Officials had previously stated that they were originally exploring a lease arrangement that would allow the university to defease the parking debt while generating a net upfront payment of over $250 million.

In other Indiana news:

- In January 2014, Purdue University announced a new five-year contract with Xerox to privatize on-campus print management services. According to university officials, the agreement will bring a cost reduction of an average of 10 percent to 15 percent over previous pricing for printing services. The university will avoid over $1.5 million in print shop operating costs, as well as $700,000 in combined salaries it previously paid the 16 affected employees, who all transitioned to new positions with Xerox, according to the *Journal and Courier*.[38]

- In other news, Indiana's State Budget Committee approved a 30-year PPP in December 2013 between Indiana State University and developer Thompson Thrift Development Inc., for the development of an $18.7 million mixed-use university housing and retail project in downtown Terre Haute. The university will lease (with an option to buy) the top four floors of the five-story building for university housing, with retail uses on the ground floor.[39] Construction is expected to be completed by July 2015.

Kentucky: In September 2013, the University of Kentucky issued a request for proposals seeking a private operator to potentially take over the campus dining services operation in an effort to expand the capacity of dining facilities amid a larger campus renovation effort, as well as lower the cost and improve the quality of dining services offered. Conditions sought by the university in the procurement include the retention of current dining employees and student workers, the continuation of a current local food purchasing program, and the addition of healthier food choices. The university is also seeking a 100-percent equity-backed capital investment of between $25 million to $50 million to improve and expand dining facilities on the campus in order to avoid taking on new debt.[40] The university received several private proposals in November, and in February 2014 officials directed the university's purchasing division to begin negotiations with potential vendors.

Massachusetts: In 2013, the University of Massachusetts-Dartmouth announced plans to contract out the operation of the campus bookstore to Follett, which operates bookstores on other campus branches of the university. University officials told *South Coast Today* in November that they expect the operator to generate $1 million in new revenues, in addition to contributing $575,000 in facility and technology upgrades, a one-time donation of $100,000, and a $50,000 donation for a textbook scholarship fund.[41] Current bookstore employees will be offered new positions with the private operator. The state auditor approved the contract in January 2014.

Michigan: After a nine-month analysis by financial consultant Greenhill, the University of Michigan announced in January 2014 that it would not be pursuing a proposed long-term lease of its parking assets. The university hired Greenhill to explore a potential parking asset lease as a means of lowering costs, and the firm concluded that a long-term concession could potentially generate between $260 million to $300 million up front.[42] However, the university opted to retain operation of its system after discovering through the analysis that it was already running the parking system fairly efficiently and could make some operational and technology improvements to increase efficiency moving forward.

In other news, in February 2013, Western Michigan University announced a three-year contract with Follett to take over the campus bookstore operations in return for a share of sales. As part of the deal, Follett agreed to make an upfront payment of $1.165 million that the university plans to use for infrastructure improvements and other discretionary uses.[43] According to the university, 10 of the 15 public state universities in Michigan have chosen to privatize bookstore management.

Nebraska: In June 2013, the University of Nebraska Board of Regents rejected an agreement with nonprofit healthcare provider Bryan Health to privatize the University of Nebraska-Lincoln's University Health Center. Under the proposed agreement, Bryan Health would have financed and built a $14 million replacement facility for the aging health center and would have operated the facility for 36 years. Regents voting against the deal cited several concerns, including Bryan being the only bidder to submit a proposal and the lack of similar models at other peer universities. University officials had pursued the agreement in order to stabilize student healthcare costs and better handle regulatory risks involved in implementation of the Affordable Care Act, according to the *Lincoln Journal Star*.[44]

Nevada: In January 2013, AVS Housing Group—a joint venture of several real estate companies—took over property management responsibilities for the University of Nevada-Las Vegas on-campus housing system, consisting of six residence halls containing nearly 1,500 beds. The university continues to maintain ownership of the facilities and provide programming, while AVS has taken over all marketing, resident contracts and room assignments, facility planning and management, financial and vendor management, and residence hall operations.

In other news, in October 2013, the University of Nevada-Reno reached financial close with Balfour Beatty Campus Solutions on a new $22 million graduate and family student housing project. Under the PPP, Balfour Beatty will finance, build and own the complex through a 42-year ground lease from the University, which will operate and manage the facilities. The project will include 132 one- and two-bedroom units for graduate students, both single and those with families, as well as a new community center.

Rhode Island: In June 2013, Brown University, the University of Rhode Island, and Rhode Island College—in cooperation with the State of Rhode Island and City of Providence—announced a plan to redevelop the city's former South Street Power Station through a PPP with private developer Commonwealth Venture Properties through a long-term lease arrangement. The $206 million project—to be financed through a combination of private debt and equity, state historic tax credits, new federal historic tax credits and public sector investments—is expected to deliver a new shared nursing education center, upper-level student housing, university administrative offices, restaurants, retail space and new parking facilities. The 1.76-acre property has been vacant since 1999.

South Carolina: In January 2014, the University of South Carolina's Board of Trustees approved a $119 million, 40-year PPP with developer Holder Properties to construct a new academic office building and two student housing facilities, according to Multi-Housing News Online.[45] Under the deal, the private partner will finance, design, build, maintain and operate the facilities, the housing portion of which will consist of mixed student housing and retail uses.

Texas: In February 2013, the Texas A&M University System announced that it had finalized a 12-year contract with SSC Service Solutions to provide building maintenance, landscape maintenance and custodial services at 16 different campuses within its system. The contract—which officials expect will save $92 million across the campuses over the 12-year period—comes on the heels of a similar 2012 contract with the same firm to privatize campus dining, landscaping and building maintenance services on the main Texas A&M University campus and nearby facilities, a move expected to yield approximately $260 million in cash and savings over the next decade. Over 800 former Texas A&M system workers transitioned to the private firm as part of the 2013 contract. University officials bundled the services across campuses to get better pricing, and the private partner committed to increasing the former university workers' pay by five percent.[46]

In other news across the Texas A&M University System:

- In September 2013, the university system announced a new PPP with Balfour Beatty Campus Solutions to develop a new, privately financed, $200 million student housing project at the main Texas A&M University campus in College Station, a project that will deliver approximately 4,000 new residential beds and a community support building.

- Separately, Texas A&M University affiliate Tarleton State University announced a $25 million PPP in July 2013 with Balfour Beatty Campus Solutions for a new 514-bed housing project expected to open in August 2014.
- In July 2013, the university system announced a new contract with Chartwells to manage dining services at Texas A&M University at Galveston, a deal expected to generate $11.4 million in commission revenue for the campus over the course of the 12-year contract. Chartwells will pay the university a one-time $1 million unrestricted signing bonus and agreed to invest over $1.4 million in capital improvements and equipment upgrades.

West Virginia: In March 2013, West Virginia University announced a PPP to develop a $90 million mixed-use development that will include approximately 1,100 student housing units, university dining facilities and retail and office uses. The project will complete the final phase of the university's student housing master plan. WVU has acquired approximately seven acres of property for the project from its private partner—developer MJR Evansdale Development LLC—for over $14 million. According to a university press release, the University's property costs will be reimbursed through the proceeds from the development, and the private partner will privately finance the construction costs, with project completion slated for the fall of 2015. Ownership will revert to the university after 40 years.

H. Child Welfare Privatization Update

By Lisa Snell

1. Foster Care and Child Abuse Declines

In September 2013, the federal Department of Health and Human Services released a report, *Recent Demographic Trends in Foster Care*, showing a dramatic drop in the foster care population.[47] As shown in the table below, the number of children in foster care on the last day of the federal fiscal year declined by almost a quarter (23.7%) between 2002 and 2012, from 523,616 to 399,546.

While numbers declined among all major groups, reductions among African American children were the most dramatic, declining by 47.1 percent between 2002 and 2012 and accounting for nearly three-quarters (74%) of the overall decline. In 2002, African American and Native American children had the highest rates of representation at 17.4 and 14. 1 per 1,000, compared to 5.8 per 1,000 among Hispanic children and 4.6 per 1,000 among White children. Rates for Asian children were the lowest at 1.3 per 1,000. Between 2002 and 2012, rates declined steadily for African American children, from 17.4 to 9.6 per 1,000. Rates fell modestly for White, Hispanic, Asian and Native American children between 2002 and 2012.

Table 2: Number of Children in Foster Care on September 30th by Race/Ethnicity

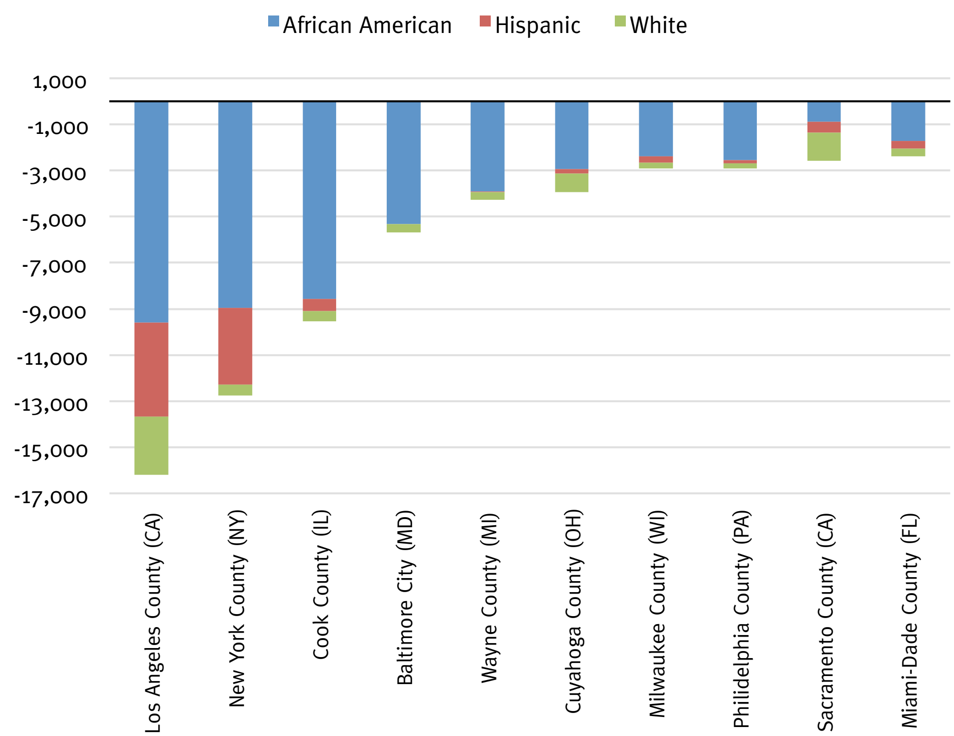
Race/Ethnicity	FY 2002	FY 2012	Percent Change
Black or African American	192,859	101,938	-47.1%
White	202,018	166,195	-17.7%
Hispanic (of any race)	86,698	84,523	-2.5%
American Indian/Alaska Native	9,735	8,344	-14.3%
Asian	3,443	2,296	-33.3%
Native Hawaiian/Other Pacific Islander	1,194	789	-33.9%
Two or More	13,857	22,942	65.6%
Missing or Unable to Determine	13,812	12,519	-9.4%
Total	523,616	399,546	-23.7%

Source: U.S. Department of Health and Human Services, *Recent Demographic Trends in Foster Care*, Data Brief 2013-1, September 2013, http://goo.gl/3wDvz5 (accessed February 10, 2014).

In addition, 10 counties made up more than 50 percent of the decline of the foster care population, both overall and among African American children. Several of the counties with the largest reductions in the foster care population, including Los Angeles, Cook County, Wayne County, Cuyahoga County, Sacramento and Miami-Dade, had federal waivers that changed the financial incentive structure for foster care that rewarded states and counties for keeping children in foster care and allowed the localities to spend money on front-end services through federal waivers.

At the same time that the foster care population is shrinking, federal data also show that child abuse is declining.[48] For example, child sexual abuse declined 62 percent since 1992, with the sharpest declines occurring during the late 1990s. But the downward path continued, with a three percent decline reported between 2009 and 2010. The National Child Abuse and Neglect Data reports a decline of 56 percent in physical abuse reports from the early 1990s through 2010. Similarly, the National Incidence Study reported a 29 percent decrease in physical abuse starting in the early 1990s.

Figure 1: Top Ten Counties Contributing to the Decrease of Children in Foster Care, 2002–2012



Source: U.S. Department of Health and Human Services, *Recent Demographic Trends in Foster Care*, Data Brief 2013-1, September 2013, http://goo.gl/3wDvz5 (accessed February 10, 2014).

2. Child Welfare Privatization in the States

In 2013 several states continued to implement privatized child welfare efforts.

Florida: In February 2014 Florida's child welfare system won approval of a five-year renewal of a federal waiver that allows the state to have more options in helping children from troubled homes.[49] The waiver is an essential component of the privatized system and enables the state to use Title IV-E federal foster care funds to pay for services it deems necessary for children in at-risk families, whether it's mental health counseling or substance abuse treatment. In the past, that money could only be used for children placed in the foster care system.

The waiver has been a factor in helping to reduce the number of kids in the state's child welfare system; foster care dropped from 20,987 in the fiscal year 2004–2005 to 15,217 in fiscal year 2010–2011.

In an October 2013 policy brief, *Florida's Right For Kids Reform*, the Foundation for Government Accountability details improvements in child welfare outcomes for Florida kids.[50] One key finding is that Florida's innovative funding structure helps drive improvement in child welfare outcomes. Florida allocates a specified share of the state's total child welfare budget to each lead agency. As the policy brief explains:

> *This funding structure ensures that the lead agencies are risk-bearing entities, as their contracts require them to provide all needed services to all referred children and families, regardless of the level of funding allocated to their communities. Given the fact that entry into the child welfare system is still driven by the state's investigative functions, the state also established a risk pool to help provide lead agencies with financial relief should the protective investigation and court systems greatly increase the caseload of a particular community.*
>
> *Consistent with their risk-bearing status, lead agencies may also carry forward unused funds from one fiscal year to the next. Lead agencies are further required to meet specified outcomes and performance standards or risk losing their contracts with the state.*
>
> *Instead of being financially punished for transitioning children to a safe, forever family and home as quickly as possible, lead agencies are rewarded for meeting goals that help change kids' lives. This also makes budgeting much more predictable for the state, as the total pool of money to allocate among the lead agencies is a fixed sum.*

A few of the child welfare outcome improvement highlights detailed in the Florida policy brief include:

- *More adoptions*: Florida's adoption rate remained relatively stagnant, with just 12.6 percent of children being adopted from the foster care system between 1998 and 2005. Since 2006, however, the adoption rate has risen to an average of nearly 19 percent. Results for teenagers in the foster care system are even better. In the eight years preceding statewide reform, just 1.5 percent of kids entering care as teenagers were adopted. By 2011, this rate had more than tripled to five percent. In the years before Florida implemented community-based care statewide, roughly 28 percent of disabled children leaving the foster care system were adopted. Since the reform, however, more than 43 percent of disabled children exiting foster care have found adoptive families.

- *Less repeat maltreatment*: In fiscal year 2005, more than 11 percent of children who had been victims of maltreatment were maltreated again within six months. Since the reforms took effect statewide, the rate of repeat maltreatment has steadily declined. By 2011, just seven percent of children who had been victims of maltreatment were maltreated again within six months. This represents nearly 1,200 fewer children suffering from repeat maltreatment after they exited the child welfare system.
- *Less institutionalization*: The number of young children placed in group homes or institutions has dropped by an average of more than nine percent per year. The number of children placed in institutions—which house many more children than group homes—have dropped an average of more than 24 percent per year. Roughly 1,500 fewer kids were placed into institutions as a result of these reforms.
- *More efficient spending*: Before statewide implementation of community-based care, Florida was spending approximately 27 percent of its child welfare budget on out-of-home foster care and just two percent on front-end strategies like prevention, diversion and early intervention services. By 2011, the amount of money spent on out-of-home foster care had declined by more than 18 percent, while the amount of money spent on front-end services more than tripled.

Georgia: Senate Bill 350 would require the Division of Family and Children's Services (DFCS) to model Georgia's child welfare system after Florida's, and would turn some state-run programs over to private companies by contracting out services like adoption, case management, family reunification and foster care. The privatization plan is supported by Gov. Nathan Deal, House Speaker David Ralston and Lt. Gov. Casey Cagle as a way to improve outcomes for children in the child welfare system. In conjunction with the privatization bill, Georgia plans to apply for a Title IV-E foster care waiver, which loosens up restrictions on how states can spend federal dollars on child welfare programs. This year is the last year the federal government is issuing the waivers, a process bill co-sponsor Sen. Fran Millar (R-Atlanta) said is very competitive. Should the bill pass, DFCS would be required to submit a proposal for that waiver by April. The current privatization bill is contingent on the state receiving the IV-E waiver. The bill was approved by a Senate subcommittee on February 7, 2014 and now moves to a full Health and Human Services committee. If the privatization bill passes, changes would be phased in over a two-year period beginning July 2015.

Michigan: Kent County is on its way to being the first county in the state to completely privatize child welfare services, possibly creating a model for the rest of Michigan. The plan is based on streamlining services for abused and neglected children by relying on the five private, non-profit agencies that already provide foster care in the county. Kent County was chosen to develop the pilot program because 85 percent to 90 percent of children in foster care here already are cared for by one of the five private agencies. As part of the pilot program the state would pay the complete cost of the daily rate paid to foster care providers. The money Kent County spends, about $5.1 million yearly, would then be redirected to prevention services on the front end with the ultimate goal of reducing the foster care population in Kent County. The new plan should be fully operational by October 1, 2014, and the state would closely monitor performance outcomes in Kent County.

Nebraska: In 2013 Nebraska continued to work with a coalition of local nonprofits, the Nebraska Families Collaborative (NFC), to continue to provide foster care services in the Omaha area. The legislature's Health and Human Services Committee has extended the privatization contract through 2015 after receiving statements expressing support for NFC from nonprofit organizations, the Douglas County Attorney's Office, Omaha Mayor Jean Stothert and the Omaha City Council. NFC currently provides those services in the Omaha area (about 40 percent of total foster care cases in Nebraska), while the state Department of Health and Human Services serves foster children in all other parts of the state, following the state's difficulties with wider privatization efforts.

I. State Privatization News and Notes

Arizona

After passing legislation in 2009 authorizing the private financing of state transportation infrastructure, the Arizona Department of Transportation (ADOT) finalized its first public-private partnership project in September 2013 in a contract with Infrastructure Corporation of America (ICA) to operate and maintain14 of the state's highway rest areas. The project was spawned by an unsolicited proposal submitted by ICA in 2011, a concept later accepted by ADOT and opened to competition in 2013.

Under the agreement, ICA will generate revenue through a new sponsorship and advertising program, guaranteeing a transfer of at least $1 million in revenue to ADOT over the next 10 years through a revenue sharing agreement. The state's share of revenue will be deposited into the state's highway fund for use on other transportation projects. The contract allows ICA to add new amenities like Wi-Fi access, dog-walking areas, electric vehicle charging stations and ATM machines, and requires on-site staffing for 16 hours a day.

"This project shows that it's possible to fund transportation projects with non-traditional funding sources," noted ADOT Director John Halikowski in a press release. "This partnership is an innovative approach to both business and transportation in which everyone benefits, especially those who use Arizona's rest areas."

California

In September 2013, California state officials and the University of Southern California (USC) finalized the terms of a 98-year lease of the state-owned Los Angeles Memorial Coliseum and adjacent Sports Arena that will see the private university invest over $70 million into repairs and improvements to the Coliseum, a historic landmark. According to the *Los Angeles Times*, USC will retain ticket and concessions revenues from Coliseum events and will have limited control of parking at nearby state museums during events. In return, USC will make a $1 million annual lease payment to the state through 2015, at which point the annual payment increases to $1.3 million and will be adjusted for inflation thereafter.[51] Additionally, if the university pursues a corporate naming rights agreement for the facility, it would be required to pay five percent of the proceeds back to the state.

The lease required the agreement of a variety of players, including USC, Los Angeles Memorial Coliseum Commission, the California Science Center Board of Directors, and various state agencies and public officials, including Gov. Jerry Brown. Though the ownership of the Coliseum and Sports Arena will remain public, under the lease no tax dollars will be used to support the facilities' operations.

In other California news, the Little Hoover Commission, an independent state oversight agency, released a report in April 2013 that found the funding and operating model for California's state parks system to be "irretrievably broken" and offered a set of recommendations to put the system on a long-term path toward sustainability that included expanding the system's use of alternate management structures through partnerships with volunteer and nonprofit associations; local, regional and national government agencies; private operators, concessionaires and others to take over management of state parks.[52] The report cited the precedent set in 2012, when the California Department of Parks and Recreation entered into whole-park concession management contracts with private recreation management companies to take over operations of Brannan Island, Turlock Lake and Woodson Bridge State Recreation Areas and Limekiln State Park. As discussed in Reason Foundation's *Annual Privatization Report 2013*, these companies have taken over operations of the parks, returning a portion of their fee revenues back to the state in annual rent, which is used to fund maintenance activities in those parks.

Delaware

Delaware Gov. Jack Markell's pursuit of a long-term lease of the Port of Wilmington to the Houston-based energy corporation Kinder Morgan was scuttled in early 2013 when the company backed out of the deal over the local longshoremen's union's antagonism and impossible demands. According to the Associated Press, the proposed lease would have had Kinder Morgan investing at least $200 million, including a $16.5 million upfront payment, $142 million in lease payments, and millions more on capital projects, maintenance and port expansion.[53] The state pursued the deal as a means of shoring up the finances of the port, which for years has been losing money, requiring millions in annual subsidies. "This may have been an opportunity for increased jobs as a result of additional capital investment beyond what the state can afford," Markell noted in a statement announcing the collapse of the deal.[54]

Though the energy firm offered labor a three-year deal with no job cuts, the union representing port workers demanded that state legislators be included in its negotiations with the company, a move Markell criticized. "[I]f it's a negotiation between an operator and workers, you don't bring legislators into that room […] [t]hat doesn't make any sense," Markell told the Associated Press.[55] Markell also disputed claims made by some state legislators that the company's offer was too low, noting that it was the best offer received after reaching out to several companies.

Florida

In June 2013, Florida received final approval from the federal Centers for Medicare & Medicaid Services (CMS) to expand its current five-county privatized Medicaid managed care program statewide (see discussion in Reason Foundation's *Annual Privatization Report 2011*). The five-county privatization pilot started in 2006 under the administration of former Gov. Jeb Bush, and though statewide expansion was approved by the legislature in 2011—along with improved safeguards and oversight designed to enhance quality and patient protections—the state could not move to implementation until CMS approved the waivers of applicable federal laws necessary to allow the expanded Medicaid managed care program to proceed. Officials expect nearly three million state Medicaid recipients to start enrolling in new managed care plans in April 2014, and the state's Agency for Healthcare Administration plans to launch a competitive procurement for plan providers.

In announcing the CMS approval, Gov. Rick Scott said, "Florida is leading the nation in improving cost, quality and access in the Medicaid program. CMS's final approval of our Medicaid managed care waiver is a huge win for Florida families because it will improve the coordination of care throughout the Medicaid system. Healthcare providers can now more effectively manage chronic conditions and work with families to provide preventative treatments."

Hawaii

In Hawaii, a bill that would have created a new Public-Private Partnership Authority to identify and analyze potential public-private partnership projects passed both houses of the legislature, but ultimately failed to advance in 2013. The new authority would have been housed in the state's Department of Business, Economic Development, and Tourism, and would have been given a set of pilot projects to launch, including the development of a film production facility on state lands, a main-street project on state lands in Wahiawa, and one county-initiated project. The bill passed the House and Senate, but the two chambers were unable to reach agreement on their respective amendments to the bill, so it will be carried over to the 2014 legislative session. Opponents likened the proposed authority to the state's Public Land Development Corporation, which was—after two years in existence—killed by the legislature in 2013 in the wake of public criticism over its exemption from existing zoning and development regulations.[56]

Similarly, two bills that would have helped pave the way for the private management of Hawaii's public hospitals wound their way through both legislative chambers, but were ultimately carried over to the 2014 legislative session. House Bill 1483 would have created a task force to study the feasibility and merits of transitioning the operations of one or more regional systems of the Hawaii health systems corporation, or one or more of its individual hospitals, to public-private partnerships. HB 1483 passed both the House and Senate, but languished in conference committee and will be carried over to the 2014 session. Senate Bill 1306 took a more direct path, directly authorizing one or more regional systems of the Hawaii health systems corporation, or one or more of its individual hospitals, to transition to public-private partnerships. SB 1306 passed the Senate, but failed to advance to a final vote in the House. Overall, both bills were aimed at advancing public-private partnerships to address the public hospital system's financial constraints and improve hospitals' operational efficiency relative to public sector operation.

Indiana

In November 2013, the Indiana Court of Appeals heard oral arguments in the state's appeal of a 2012 Marion County Superior Court ruling forcing it to pay $52 million to technology giant IBM over the early cancellation of a contract to modernize the state's welfare eligibility system. As discussed in recent editions of Reason Foundation's *Annual Privatization Report*, Indiana launched a 10-year, $1.34 billion contract with IBM in 2006 to automate eligibility determinations for food stamps, Medicaid and other welfare benefits and significantly reduce face-to-face meeting requirements via more computerized processes. However, a variety of problems with the rollout ultimately prompted former Gov. Mitch Daniels to cancel IBM's contract in 2009 and implement a "hybrid" approach that relies more on face-to-face contact while enhancing some of the previous technological improvements made by IBM. The state contracted with Xerox subsidiary Affiliated Computer Services (ACS)—IBM's primary subcontractor on the original privatization—in an eight-year, $638 million service contract to implement the hybrid program.

The Superior Court ruling found that IBM's poor performance did not constitute a breach of contract, as much of the hybrid program that followed was derived from IBM's original work on the modernization. IBM was awarded $52 million in its suit, and the state lost its countersuit to recover over approximately $175 million from IBM.

In February 2014, the Court of Appeals largely reversed the Superior Court's ruling on the breach of contract, sending the case back down to the lower court to determine whether the state can recover all or some portion of the approximately $175 million it is seeking from IBM. However, the appeals court also ruled that the state still owed IBM approximately $50 million for services delivered under the contract.

Iowa

In August 2013, the advocacy group Disability Rights Iowa proposed that Iowa Gov. Terry Branstad privatize the operation of the state-run Iowa Juvenile Home over concerns regarding the excessive use of seclusion and restraint for its residents—foster children with serious behavioral issues, often with histories of abuse or neglect—as well as subject the facility to the same external oversight given to privately run youth homes by the state's Department of Inspections and Appeals.[57] The group also called for the creation of an oversight panel that would regularly report to the governor on incidents—including the use of seclusion and restraint—at the home.

In December, Branstad announced that the state would close the home and relocate its residents to other facilities. Shortly after the announcement, the Iowa Department of Education issued a ruling finding that the juvenile home had violated federal law by withholding educational services from residents, as well as life transition planning to help them prepare for independent living.[58]

Illinois

In June 2013, an arbitrator ruled that Illinois must cancel a $76 million contract with Maximus to verify the eligibility status of the state's Medicaid recipients on the grounds that it violates the state's contract with the American Federation of State, County and Municipal Employees (AFSCME) union. The Maximus contract resulted from the Save Medicaid Access and Resources Together Act, a 2012 state law designed to lower Medicaid costs that included provisions on contracting out enhanced eligibility verification services to root out thousands of ineligible Medicaid recipients from the program's beneficiary rolls. AFSCME filed a grievance over the contract, arguing that the move violated its agreement with the state requiring negotiations over outsourcing unionized work and that shifting the work in-house would be less costly than the Maximus contract.[59] The arbitrator agreed, requiring the contract to be cancelled before the end of 2013.

In September, Gov. Pat Quinn's administration filed an appeal of the arbitrator's ruling, but it later dropped the appeal and announced a negotiated agreement with AFSCME that will turn over the eligibility verification work to state workers and require the hiring of over 500 new state employees, while temporarily using some software and technology delivered by Maximus—all but ending the original contract. Reflecting on the effective firing of Maximus, the *Chicago Tribune* editorial board noted that the firm had helped the state purge 215,000 ineligible Medicaid recipients from its rolls and commented that "[a] private contractor that has done an extraordinary job of scrubbing the state's Medicaid rolls of ineligible people is being shown the door so unionized state workers can take over."[60]

Kentucky

Kentucky Spirit Health Plan, one of Kentucky's three Medicaid managed care providers, officially withdrew early from the state's privatized Medicaid program in July 2013 in a dispute with the state over financial losses incurred administering the program. The 125,000 Medicaid beneficiaries formerly covered by Kentucky Spirit were transitioned over to one of the state's two other managed care providers, Coventry Health Care and WellCare.

As discussed in Reason Foundation's *Annual Privatization Report 2013*, Kentucky Spirit Health Care filed a lawsuit against the state in October 2012 seeking to end its three-year contract a year early after incurring losses of $120 million, which the firm attributed to inaccurate information provided to bidders by Gov. Steve Beshear's administration during its 2011 procurement.

According to Kentucky Spirit's suit, bidders relied on faulty data provided by the state in preparing their bids, and the firm initiated the suit to avoid having to pay damages to the state for early termination of the contract. Though a lower court ruled against the firm and found that the state would be entitled to damages, the state's Court of Appeals ruled in July that Kentucky Spirit could end its contract early, according to *The Courier-Journal*.[61]

Gov. Beshear's administration launched the Medicaid privatization initiative in 2011 in an effort to save $375 million in general fund spending and $1.3 billion across all funds over the course of the three-year Medicaid managed care provider contracts, allowing the state to fully balance its Medicaid budget.

Louisiana

Despite some legislative pushback (see discussion in Section E), the administration of Louisiana Gov. Bobby Jindal continued to be a state leader on privatization in 2013. Updates on various initiatives pursued by the Jindal administration include:

- Louisiana's state-run charity hospital system is in the midst of a major transition to privatization, with nine of the 10 hospitals operated by Louisiana State University shifting to private management. The privatization initiative—developed by Gov. Bobby Jindal's administration as a way to shed costs in response to a decline in federal Medicaid funding for the state—is still early in implementation but has been proceeding smoothly and is already yielding improved patient outcomes, including reduced prescription waits and increased cancer screening and disease prevention, according to Frank Opelka, LSU's Vice President for Health Affairs and Medical Education Redesign. "What the partners have done in the transition is just beyond my imagination," Opelka told the Associated Press in September.[62] The Jindal administration has recently cited additional benefits of the privatization, including shortened emergency room waits, improved access to specialty services for the uninsured, expanded care offerings, reduced delays for needed surgeries, and increased numbers of graduate medical education residents, according to the AP.[63]

At press time, seven of the nine hospitals had converted to private management, with the remaining two anticipated in 2014. However, the state is still seeking approval for the deals from the federal Centers for Medicare and Medicaid Services, which has been delayed due to the complexity of the financial arrangements; the delay does not impact the current operation of the hospitals, however.[64]

A December 2013 report issued by the Public Affairs Research Council of Louisiana questioned the financial structure of the privatization deals, suggesting that they are reliant on federal healthcare funding that is set to be reduced in 2018. Jindal administration officials responded that the privatizations are saving the state over $100 million this year and were designed with future funding stability in mind, according to the Associated Press.[65]

- Having already turned to the private sector to take over administration of most of the state's Medicaid program, the Jindal administration announced plans in September 2013 to privatize care for the elderly and developmentally disabled. Key goals of the initiative are to improve the quality of care and to serve more beneficiaries in home settings, as opposed to institutional or community settings, according to *The Advocate*.[66] The state's Department of Health and Hospitals has created an advisory board to help craft the initiative and design the procurement, though officials caution that the exact process and design may take time, given the complexity of the effort.[67]
- A June 2013 report by the Louisiana legislative auditor found that the Jindal administration's privatization of claims processing and loss prevention services in the state's Office of Risk Management saved over $10 million in the first two years of implementation, nearly half of the $22 million in total savings the administration expects over the life of the five-year contract.[68] However, the auditor questioned whether the pace of savings would continue, given that the annual contract value was increased from $68 million to $75 million in 2011 to accelerate the project. Jindal administration officials disputed the findings, noting that the acceleration of the project would also accelerate the expected savings.[69]
- In November 2013, the Jindal administration launched a pilot program to privatize driver's license renewals in two locations (in East Baton Rouge and Jefferson Parishes, respectively), with the possibility of expanding the program statewide. According to Office of Motor Vehicles (OMV) Commissioner Stephen Campbell, customers at the private facilities may

pay a transaction fee of up to $18—on top of the regular renewal fees charged in state OMV facilities—but in return they are expected to see shorter wait times and greater convenience.[70]

- Louisiana's Legislative Auditor's Office issued two reports critical of different aspects of the Jindal administration's 2012 privatization of behavioral health services, in which it hired Magellan Health Services in a two-year $363 million contract to coordinate mental health and substance abuse services and process claims for over 150,000 program beneficiaries. An August audit cited difficulties experienced by four human services districts in getting reimbursed by Magellan for mental health and addiction services provided, adding that the state failed to assess performance penalties for the delays.[71] A December audit faulted the Jindal administration for not yet having completed an external evaluation of the Magellan contract, though administration officials plan one in 2014, in addition to internal contract reviews.[72]
- In March 2013, the Jindal administration cancelled a 10-year, $200 million contract with Client Network Services, Inc. (CNSI) to provide Medicaid eligibility determination services after learning of a federal investigation into the contract award. The administration subsequently alleged that the state's former health secretary—a former CNSI executive—had had improper phone and text message contact with the firm during the contract procurement process, and the state attorney general launched a grand jury investigation in May.[73] The former health secretary resigned shortly after the contract cancellation, though denies that the contract was improperly awarded. In May, CNSI filed a lawsuit against the state over the contract termination, claiming that the contract was properly awarded since the former secretary was not involved in the bid selection and that it was meeting the terms of the contract.[74] The Jindal administration plans to rebid the contract and plans to hire an outside consultant to develop the procurement and design the selection process. [75]

Maryland

In February 2013, the Maryland Transportation Authority issued a position paper responding to legislative proposals to lease the Intercounty Connector (ICC) toll road to a private operator to generate revenue for other statewide transportation projects. While not opposing privatization, the Authority cautioned that such asset leases are complex, require significant due diligence, and should be considered as an option for all of the state's toll facilities, not just one, according to the *Baltimore Sun*.[76] The report came in response to 2012 legislation (House Bill 1232) that would have required the state to launch a procurement to lease both the ICC and the new Interstate 95 express toll lanes to private concessionaires. The report cited the lack of long-term traffic and revenue data for the new projects—the ICC opened in 2011, and the express lanes project will not open until 2014—and the over $3 billion in outstanding debt on the projects as potential barriers to privatization at the current time.[77]

Michigan

In August 2013, the Michigan Department of Transportation (MDOT) announced that it had received 31 responses to a July request for letters of interest from private firms interested in forming public-private partnerships with the state to finance and deliver a variety of transportation projects that the state cannot afford to deliver on its own. Private firms submitted 12 letters of interest for proposed bridge work, 12 for freeway lighting projects, two for timber management and five for two US 127 rest areas.

"We're encouraged by the responses we've received and the possibilities of saving money, improving service and increasing safety," said State Transportation Director Kirk T. Steudle in a press release. "We will evaluate all of these responses and determine the viability of developing requests for qualifications and proposals."

The bridge projects include a replacement of the I 75 bridge decks over Fort Street and the Rouge River in Detroit, and the reconstruction of bridges in two segments of I 94 within Jackson and Berrien Counties, respectively. If advanced, the private partner would be responsible for designing, building, financing, operating and maintaining the bridges.

In lighting, MDOT proposed three P3 projects: the entire state freeway lighting system (covering 18,400 lights, excluding rest areas), freeway lighting in Detroit and Wayne, Oakland, Macomb and St. Clair counties (covering 80 percent of the state freeway lighting system), and freeway tunnel lighting on I 696 in Oakland County and on M 10 underneath Cobo Center in Detroit. Respondents proposed several different PPP finance models, with contract lengths ranging from five to 35 years.

The proposed timber management P3 projects would provide forest management activities to help sustain selected forested areas along segments of US 2, I 75, US 127, and US 131. Two forest management companies expressed interest in the projects, but said a timber survey would be needed to assess their viability.

Last, the two proposed US 127 rest area PPPs were the Higgins Lake and Houghton Lake facilities in Roscommon County. Some of the respondents were looking solely for advertising and sponsorship opportunities, while others were interested in providing food services or enhanced vending, or in operating and maintaining the rest areas themselves.

Michigan does not currently have enabling legislation in place authorizing transportation public-private partnerships, though MDOT's PPP consultant advisors believe that individual contracts could be negotiated since there is no law expressly forbidding PPPs.[78]

In other Michigan news, the state's Civil Service Commission upheld the privatization of approximately 150 nursing aide positions at the Grand Rapids Home for Veterans, rejecting two appeals filed by public employee unions.[79] Gov. Rick Snyder's administration estimates the privatization will lower annual operating costs by $4.2 million. The Commission's ruling was the latest in an ongoing saga over privatization at the facility. As reported in Reason Foundation's *Annual Privatization Report 2012*, in August 2012 a Michigan state appeals court dismissed a lawsuit filed by a resident of the home to stop the privatization over fears that the quality of care might suffer. A circuit court judge issued an injunction in October 2011 to stop the privatization initiative.

New Jersey

In addition to the private management agreement for the New Jersey Lottery and Gov. Chris Christie's veto of anti-privatization legislation, both discussed earlier in this chapter, other New Jersey privatization developments in 2013 include:

- In August 2013, South Jersey Transportation Authority (SJTA) officials reported that they are seeing significant savings in toll collection on the Atlantic City Expressway since contracting out that function to Faneuil, Inc, in early 2012. SJTA estimates the privatization initiative will yield nearly $7.5 million in savings by the end of 2014, translating to a 43 percent savings over three years. SJTA's Acting Executive Director Sam

Donelson told *The Press of Atlantic City*, “It’s been doing exactly what we intended it to do […] The savings have been substantial.”[80]

- A similar initiative may now be on deck for the New Jersey Turnpike Authority (NJTA) as well. In November 2013, NJTA officials announced plans to issue requests for proposals to potentially privatize electronic and cash toll collection on the New Jersey Turnpike and Garden State Parkway in 2016. According to NJTA Executive Director Veronique Hakim, the authority intends to shed its manual toll collection and administration functions and expects that cost savings could total in the millions of dollars.[81] NJTA officials previously considered the privatization of cash toll collection in 2011, but ultimately agreed to a two-year extension of the contract with current toll collectors in exchange for salary reductions.
- In December 2013, New Jersey Department of Environmental Protection Acting Assistant Commissioner Mark Pedersen told legislators on the state’s Senate Environment and Energy Committee that the state’s program that privatized the cleanup of contaminated properties in 2009 has successfully reduced the number of sites awaiting cleanup from over 20,000 to approximately 14,500, according to *NJ Spotlight*.[82] Based on a similar program in Massachusetts, the program was launched as a way to expedite cleanup of the sites, reduce remediation costs and return properties to the tax rolls by allowing property owners to hire licensed private contractors to clean up the contaminated properties and certify their safety. Under state operation, the DEP’s site-remediation program had struggled, creating a backlog of over 20,000 contaminated sites.

New York

In June 2013, New York Gov. Andrew Cuomo signed legislation into law partially privatizing the Long Island Power Authority (LIPA), the state-owned electric utility serving Long Island, in reaction to the utility’s poor response to Superstorm Sandy in the fall of 2012. A gubernatorial commission found that the utility’s substandard reaction was “the result of a dysfunctional bifurcated management structure that allowed poor customer service, high rates, lackluster storm preparations, and inadequate infrastructure to persist without being addressed,” according to a Cuomo administration press release.

Under the new management structure, the New Jersey-based private utility PSEG took over full responsibility for LIPA's operations, maintenance, disaster planning and response, capital investments and other activities in January 2014. LIPA has been effectively scaled down to a holding company with a board reduced to nine members; it technically remains a public entity for the purpose of maintaining eligibility for FEMA benefits and the issuance of tax-exempt debt.

Prior to the legislation, LIPA's operations lacked meaningful transparency in areas that include rate setting, disaster planning, and outside reviews of capital planning. Formerly able to set its own electricity rates without outside oversight, LIPA's rates, planning and performance will be subject to independent review by the state's Department of Public Service under the new law. The law will also allow the refinancing of up to half of LIPA's $6.7 billion debt at lower interest rates, move to freeze electricity rates through 2015, and establish a two percent annual property tax cap for the transmission and distribution system.

According to Cuomo, "This legislation delivers on performance by privatizing utility operations under PSEG Long Island to ensure it is ready for future storms and accountable for its response. It also establishes real state oversight of Long Island's utility system for the first time and protects ratepayers from rate hikes in the immediate future."

North Carolina

In April 2013, North Carolina Gov. Pat McCrory announced a Medicaid privatization proposal that would open up the state's health program to competition from multiple Medicaid managed care providers, echoing similar moves in states like Louisiana, Kansas and Florida in recent years to improve program efficiency and enhance financial predictability. Under the proposal—known as "A Partnership for a Healthy North Carolina"—Medicaid beneficiaries would be able to choose among three to four different Medicaid managed care firms providing coordinated physical, mental and dental healthcare services.

According to the McCrory administration, the state's Medicaid system currently suffers from several deficiencies, including weak cost controls, high administrative costs, fiscal unpredictability, no focus on measuring and improving overall health outcomes for recipients, a lack of a customer service focus, operational silos and a lack of integration of physical and mental health.

“We are proposing to overhaul the entire Medicaid system,” Aldona Wos, the state’s Department of Health and Human Services Secretary, told the *Raleigh News-Observer* in April. The change will “provide comprehensive care, better outcomes, better customer service, better efficiency and sustainability. To do this we must be bold.”[83]

The administration is seeking to implement the plan in 2015 and plans to develop a request for proposals (RFP) seeking interested managed care providers that will contract with the state to deliver services. The administration will also be seeking legislative approval of its reform plan in 2014, as well as the approval of the federal Centers for Medicare & Medicaid Services, which will need to authorize a comprehensive Medicaid waiver.

In other North Carolina news, the state budget passed in July 2013 authorized the privatization of the economic development functions currently performed by the state’s Department of Commerce, a key McCrory administration priority his first year in office. Business recruitment and other economic development activities will be handled by a new private, nonprofit corporation spun out of the commerce department, similar to recent public-private partnerships created in Arizona, Ohio, Iowa and Wisconsin in recent years (see discussion in Reason Foundation’s *Annual Privatization Report 2010*).

Ohio

In September 2013, the Ohio Department of Transportation received five private sector responses to an August request for information on a potential contract covering the operations and maintenance of the state’s five movable bridges. The initiative would consolidate operations and maintenance activities for all five movable bridges under one statewide contract to lower costs and allow the agency to redirect surplus funds toward other transportation needs. Currently, the bridges are maintained separately under individual contracts with private vendors, so the proposed project would effectively bundle these contracts into one comprehensive agreement. The firms responding to the request were Infrastructure Corporation of America, East Coast Drawbridges, DBi Services, Transfield Services, and a partnership of The Ruhlin Company and URS.[84]

Oklahoma

In May 2013, Oklahoma Gov. Mary Fallin signed the “Oklahoma Privatization Act” (Senate Bill 1008) into law, requiring the state’s Office of Management and Enterprise Services to establish a repository of best practices in privatization and surplus asset sales, as well as develop expertise in privatization project selection, proposal evaluation and contract oversight. According to sponsor Senator Greg Treat, the bill is designed to create a center of excellence in privatization that can be an effective enterprise-wide resource. “Currently everything we do is on an ad hoc basis, so if we move to privatize something we have to recreate the wheel every time,” according to Treat.[85]

Gov. Fallin signed House Bill 2201 in May, which partially privatizes CompSource—the state’s workers’ compensation insurer of last resort covering approximately one-third of all workers’ compensation policies statewide—by turning it into a private mutual insurance company. Proponents aimed to get the state out of the insurance business and end its competition with private enterprise, but some opponents—including the American Insurance Association—claimed that the move fell short of true privatization, as a majority of the new company’s board of directors would consist of political appointees.[86] Further, while the new company would fall under state insurance regulation and would pay state taxes, the law protects the federal tax exemption for the new company, and it also protects the company’s status as the sole provider for the residual market, covering the highest-risk employers in the state that lack access to coverage by other private insurers.[87] “This bill is privatization in name only [...] The taxpayers' burden will merely move off-book,” according to a May editorial in *The Oklahoman*.[88]

Pennsylvania

The Pennsylvania Department of Transportation issued a request for qualifications in December 2013 seeking qualified private contractors for its Rapid Bridge Replacement Project, a public-private partnership to reconstruct at least 500 structurally deficient bridges of similar design. The selected team will manage the bridges' design, construction and maintenance under one comprehensive contract to streamline project delivery, and it will finance the project in an availability-payment concession.[89] The department anticipates significant cost savings since the same basic design and construction standards can be used for multiple bridges. The project will launch in 2015, and the selected team will also maintain the bridges for as long as 35 years.

The bridge replacement project is one of three public-private partnerships authorized by the state in 2013, constituting the first batch of projects under the public-private partnerships enabling legislation enacted in September 2012, allowing for state transportation entities to partner with private companies to finance, deliver and maintain transportation-related projects.

The other two authorized projects are the result of unsolicited private sector proposals accepted by the state, which will both be put out to competitive bidding. The first project—Wireless Telecom Partnerships, proposed by Site Acquisition Services, Inc.—will allow the Department to hire an agent to assist in securing and negotiating fair-market "rental fees" for the use of its property and facilities to locate wireless antennas and related equipment. The agent would market those opportunities to wireless service providers that may find those locations desirable to improve signals in the surrounding areas. The second project—Automated Permit Routing Analysis System (APRAS) Upgrade, proposed by Bentley Systems, Inc.—would allow the Department to replace its aging APRAS, used to issue special hauling permits, utilizing a commercially available turn-key system.

Puerto Rico

Despite expressing some hesitancy regarding the use of public-private partnerships (PPPs) in his 2012 election campaign, the new administration of Gov. Alejandro García Padilla embraced them in 2013, continuing the work of the commonwealth's Public-Private Partnerships Authority (PPPA) under new executive management and advancing a set of new PPP infrastructure projects, in addition to continuing some projects pursued by his predecessor, former Gov. Luis Fortuño. Most notably, the Padilla administration completed the financial close of the 40-year lease of Luis Muñoz Marin International Airport to a private investor-operator consortium.

Moving forward, the Padilla administration has stated its preference to use PPPs for new-build infrastructure projects, as opposed to leasing existing assets.[90] To that end, in the summer the PPPA announced its approval of four new priority projects as PPPs:

- *Caguas-San Juan Commuter Train*: The PPPA is considering establishing a PPP for a $400 million commuter rail line to connect the central eastern region of Puerto Rico with the San Juan metropolitan public transit system. The PPP would likely involve a long-term (30+ year) design-build-finance-operate-maintain concession agreement with a private entity, with revenue risks retained by the government and compensation to the private entity based on availability payments. The PPPA approved a desirability and convenience study for the project in October and plans to proceed to procurement in 2014.
- *Men's Correctional Facility*: The PPPA will work with the Puerto Rico Department of Corrections and Rehabilitation to develop a partnership for the design, construction, financing and maintenance of a new, $100 million maximum security prison to house 1,000 adult males.
- *Women's Correctional Facility*: The PPPA will work with the Puerto Rico Department of Corrections and Rehabilitation to develop a partnership for the design, construction, financing and maintenance of a new, $100 million women's correctional facility with a capacity for 750 inmates.
- *Electric Power Authority Natural Gas Conversion*: The PPPA approved a project to convert the Puerto Rico Electric Power Authority's San Juan and Palo Seco power plants to natural gas in order to stabilize energy costs and comply with mercury and other air quality standards.

Several other projects are either under consideration by PPPA or remain in an active procurement process:

- In September 2013, the PPPA issued a request for qualifications for a second phase of its Schools for the 21st Century facility modernization program, which in its first phase leveraged federal stimulus funding to advance design-build-maintain agreements for the reconstruction of 81 aging K–12 schools. The second phase—called "Escuelas de Primera"—will see PPPA team with the Puerto Rico Infrastructure Financing Authority to continue the school rehabilitation program.
- The PPPA is evaluating a PPP for the design, construction and financing of a $906 million extension of the PR 22 highway from Hatillo to Aguadilla.
- The Puerto Rico Aqueduct & Sewer Authority plans to advance a PPP for the design, construction and financing of its planned Superaqueduct Project, as well as related improvements, operation and maintenance.

- The municipality of Bayamón wants to pursue a PPP to develop and operate a new toll road extending PR 5 from PR 199 to PR 167.
- The municipality of Ponce is seeking a PPP to build an emergency health center and outpatient clinic to serve the communities neighboring Dr. Tricoche Hospital, particularly the uninsured population.
- The municipality of Mayagüez is seeking PPPs to develop a new 100-bed nursing home and a new convention center and adjacent 150-room hotel. It is also seeking to transfer the administration and operation of its Mayagüez Sports Palace and the Yagüez Theater to a private entity in a PPP arrangement.

In September 2013, the PPPA announced that it was ending its procurement for a new juvenile correctional facility after the Department of Corrections and Rehabilitation canceled the project. In 2012, PPPA shortlisted four consortia to compete in a PPP procurement for the design, construction, financing and maintenance of a new, 600-bed juvenile social treatment and detention center, but new policies enacted since then have limited the maximum size of juvenile facilities to 120.

In other news, in early 2013, the Puerto Rico Senate established a new Public Corporations and Public-Private Partnerships Committee as a permanent committee to provide oversight on project decision-making by the PPPA.[91]

South Carolina

In October 2013, South Carolina Gov. Nikki Haley signed Executive Order 2013-09 requiring state agencies to develop a comprehensive real property inventory that identifies state-owned land and buildings in order to help find consolidation and divestiture opportunities. The order notes that state agencies have failed to comply with existing state law requiring them to conduct annual property inventories and report them to the state's Budget and Control Board, resulting in "fragmented, decentralized reporting of real property." The order directed agencies to report the required information by mid-December 2013, after which the Budget and Control Board will work with individual agencies to identify surplus properties and streamlining opportunities. "It's time to simplify the books […] There's a lot of money held up in these assets," Gov. Haley told *The Greenville News*.[92]

In separate news, the South Carolina Senate voted in May 2013 to sell off the two state-owned airplanes, the latest reaction to long-simmering, bi-partisan controversies over elected officials' use of state aircraft in recent years. *The State* reported in May that the state spends $260,000 annually to operate and maintain the two airplanes, which would be worth approximately $3 million if sold.[93] Despite the Senate action, the proposal failed to advance in the House.

Tennessee

Tennessee Gov. Bill Haslam's administration faced growing scrutiny of its two contracts with a commercial real estate management firm to manage state properties after a November 2013 audit by the state's comptroller criticized potential conflicts of interest and the rationale for amendments expanding the scope of one of the contracts without re-opening it to competition. In early 2012, the state signed a $1 million contract with Jones Lang LaSalle to evaluate the use of all state-owned office buildings, except those used in higher education. The contract was subsequently amended several times, increasing the scope to include a lead role in reorganizing state office space and negotiating lease transactions on behalf of the state, which expanded the contract value to $10.7 million.[94] The state later signed a separate contract with the firm to become the central property manager for all state-owned and leased property outside of the higher education system.

The comptroller's audit criticized the Haslam administration for failing to justify the series of amendments for the first contract and not re-opening it to competitive bidding by other firms, as well as creating a potential conflict of interest by giving the company a share of commissions from negotiated leases as it simultaneously advises the state on selling off state real property assets.[95] The state's Department of General Services disputed the audit findings, citing misunderstandings of the contract language and noting the benefits of the deal. "Through this contract we have been able to address some serious life safety issues and a lot of deferred maintenance, as well as improve the quality and efficiency of state office space, all while saving a considerable amount of taxpayer dollars," a department representative told *The Tennessean* in December.[96]

After the audit was released, the State Building Commission voted to begin phasing out its initial contract studying property utilization and prevent the firm from collecting commissions on negotiated leases until the state develops rules to prevent it from realizing a profit from actions based on its real estate advice; the Haslam administration has also decided to not consider additional adjustments of the contract scope without re-opening competitive bidding.

Overall, Gov. Haslam remains a steadfast defender of the agreements: “This is a contract that’s going to save the state over $100 million over the next 10 years. […] I think it’s easy to get distracted when you do something big like this and everybody brings up questions. The reality is, when you change something big in state government—anything—it brings up questions and issues to people because this is a sea change in what we’re doing.”[97]

Texas

In June 2013, the Texas Department of Transportation (TxDOT) announced the privatization much of its information technology (IT) functions in a five-year, $190 million contract with NTT DATA. Under the contract, NTT will take over responsibility for a host of functions, including application maintenance and development, customer support, network and telecommunications systems support, professional support services and IT security. All of the approximately 300 TxDOT employees formerly handling those functions were either reassigned within TxDOT’s IT unit or offered positions at NTT at a level of pay equal to or higher than their state salaries.[98]

TxDOT officials expect the contract to save $30 million annually, relative to the $110 million spent per year on IT services prior to the contract, and it will upgrade what agency officials have described as an “archaic” IT system.[99] “TxDOT has an opportunity to have a robust and modern IT function that will make us more productive and provide the necessary tools and capabilities for our team to be successful," TXDOT Executive Director Phil Wilson noted in a press release. “This new partnership will make TxDOT IT more efficient, so we can better serve our employees, the taxpayers, and the state of Texas."

Utah

In April 2013, Utah Gov. Gary Herbert signed legislation revamping the state’s Privatization Policy Board, an advisory body to the legislature tasked with identifying potential privatization opportunities. House Bill 94, sponsored by state Rep. Keven Stratton, renamed the board as the "Free Market Protection and Privatization Policy Board," and made several other structural changes, including expanding the board's membership from 11 to 17 to include more legislators and public employee representatives. The bill also gave the board administrative staff support from the Governor's Office of Planning and Budget, as well as the ability to contract with a private entity for additional staff.

In September 2013, the newly reconstituted board took its first major action, which was issuing a request for information to solicit ideas from private consultants with regard to designing and implementing a privatization review process, as well as creating an accounting system to evaluate the fully loaded costs of government service provision to enable apples-to-apples comparisons with private sector bids, as called for in the law.

Vermont

Despite multimillion-dollar annual operating deficits, Vermont Gov. Peter Shumlin rejected the idea of privatization as a means of bringing financial stability to the Vermont Veterans' Home, according to the *Brattleboro Reformer*.[100] Instead, the administration plans to implement the recommendations of an independent review of the facility's operations, which include a variety of changes to streamline the facility's management structure and lower staffing costs. The review found that the facility's reliance on full-time, unionized state employees was unusual in the nursing home industry, and it recommended increasing the use of part-time, at-will employees not covered by union rules.[101]

Virginia

In March, the Virginia Ports Authority (VPA) board of commissioners rejected two competing proposals for a 30–48 year lease of five state-owned port terminals to a private operator, instead choosing to retain the state-chartered nonprofit Virginia International Terminals, Inc., as the terminals' operator. In December 2012, state transportation officials released two bids for the proposed operation of VPA terminals: a $3.8 billion bid from APM Terminals (a subsidiary of Danish shipping giant A.P. Moller-Maersk Group) and a $3.1 billion bid from a joint venture pairing financier JPMorgan with terminal operator Maher Terminals LLC. The bids would have involved upfront concession fees of $395 million and $400 million, respectively, and would have included significant capital investment into the facilities over the life of the lease.

According to the VPA Chairman, as reported in the *Richmond-Times Dispatch*, the private lease proposals, while competitive, failed to match VPA's expectations of the port's market value.[102] Instead, the VPA board opted to support a plan to revamp the corporate structure of Virginia International Terminals, giving VPA more control of its operations and increasing the ability to lower operating costs and improve efficiencies. The vote marked the second time in recent years the VPA board rejected port privatization proposals.

Separately, in May 2013 the Virginia Department of Transportation announced a notice of intent to award a six-year, $355 million contract to Serco to operate and integrate the state's five transportation operations centers—which monitor traffic conditions, provide traveler information on road conditions and coordinate congestion management and incident response in different regions of the state—and manage the state's Safety Service Patrol. The project is designed to consolidate the centers to operate under a single active traffic management system platform to improve operational efficiency and interoperability. Services covered under the contract include monitoring traffic through technology (including nearly 900 cameras, 500 electronic message signs and over 1,000 road sensors), managing incident and emergency response, dispatching Safety Service Patrol and maintenance crews to respond to incidents, reducing travel times by providing 511 traveler information, and serving as emergency operations centers during major events.

"The result is using technology to be the eyes, ears and voice of Virginia's road transportation system, so we can go into immediate action to prevent accidents, clear incidents, make our roads safer, and immediately inform motorists so they can reach their destinations faster," Virginia Transportation Secretary Sean T. Connaughton stated in a press release. The state's Commonwealth Transportation Board gave final approval to the contract in late May.

Last, Virginia State Delegate Joe May—chair of the House Transportation Committee—introduced two bills in the 2013 legislative session aimed at a state takeover of the Dulles Greenway, an investor-owned and operated toll road connecting the Dulles Toll Road to Loudoun County. House Bill 1979 would have authorized the Commonwealth Transportation Board to issue revenue bonds to acquire the Dulles Greenway from its private owner. House Bill 1980 would have created a state-run Dulles Greenway Authority to acquire and operate the toll road. Both bills are inspired by the belief among some Northern Virginia Republicans—including retiring Congressman Frank Wolf, a longtime Greenway critic—that tolls on the private toll road are too high (despite toll regulation by the state's Corporation Commission).[103] Both bills were held in the House Appropriations Committee and failed to advance.

Washington State

As reported in Reason Foundation's *Annual Privatization Report 2011*, a law enacted in 2011 requires the state's Office of Financial Management to select six activities under the scope of the Department of Enterprise Services (DES) every two years to subject to private sector competition. The administration of former Gov. Chris Gregoire sought bids in 2012 for the potential privatization of state interoffice mail delivery, bulk printing services and various information technology services (including website development and processing online transactions), procurements that extended into the new administration of Gov. Jay Inslee. The status of these procurements is as follows:

- In August 2013, the administration announced that it was not going to proceed with a contract for interoffice mail delivery. While one of the two private bids received on mail came in lower than the state's internal costs, it was rejected because the bidder would not agree to cover postage costs for the state if the U.S. Postal Service decided to impose them on interoffice deliveries, even though, like a courier service, such deliveries would not use post offices or mailboxes.[104] State attorneys suggested federal postage would still apply, a contention disputed by the bidding companies based on their experience with other clients.[105]

  Before leaving office, the Gregoire administration launched a procurement in December 2012 to create a pool of vendors to take over a range of bulk printing functions currently provided by DES on behalf of state agencies, local governments and other organizations. Service categories include stationery and business cards, brochures, maps, labels and decals, multi-part forms and video media. Though a decision was expected by early 2013, at press time, the procurement remained open.

- In March 2013, the Inslee administration announced that it had selected NIC to take over operation of the Access Washington Web portal and other e-government services. As is typical in most states, NIC had agreed to do the work at no direct cost to the state; instead, it would recoup its costs by charging private sector firms transaction fees to access state information on vehicle licenses and the like. However, the state legislature subsequently passed a law to forbid such charges, putting the NIC contract on ice until a different reimbursement mechanism can be negotiated.[106]

- Separately, the Inslee administration announced master agreements with three other firms for website development and maintenance services. The agreements negotiated a maximum price the firms can offer state agencies or other state and local governmental bodies that choose to seek out their services if they decide not to do the work in-house.[107]

Separately, Gov. Inslee's administration announced a plan in November 2013 to competitively contract for integrated outpatient mental health services in response to federal pressure. County-based mental health agencies currently provide mental health services on a regional basis—with the exception of Pierce County, where services are already provided by a private managed care firm—but the federal Centers for Medicare & Medicaid Services had warned the state that its Medicaid funding for mental health could be jeopardized if the services provided are not competitively bid by 2016.[108] However, the federal agency dropped its demand in early February 2014, effectively scuttling the privatization plan.[109]

In other Washington State news:

- The state's Department of Licensing completed the transition of driver testing administration from the state to private driving schools in early 2013, as directed by a 2011 law intended to reduce wait times at agency offices. Drivers seeking licenses now complete online applications and take written and driving tests at private driving schools before receiving their licenses from the state. Department officials cite the move as leading to a reduction in wait times in state offices from an average of 90 minutes down to approximately 10 minutes, according to the *Yakima Herald-Republic*.[110]

- The state legislature failed to act on House Bill 1123, which would have required state agencies to assign all delinquent debts over 90 days past due to a licensed, private collection agency to collect. The bill was heard in the House Committee on Government Accountability & Oversight, but failed to advance after a legislative fiscal note showed that the Department of Revenue estimated that the legislation would result in a net revenue loss of over $80 million per year.

West Virginia

The 2005 privatization of West Virginia's Workers Compensation Commission—at the time, the state-run monopoly insurer—continues to benefit the state and its taxpayers and businesses. A 2005 law began the process of converting the Commission into a private insurance carrier—BrickStreet Mutual Insurance Co.—that was given a temporary monopoly as it transformed into a private sector enterprise, and since 2008 Brickstreet has faced competition from over 200 other private insurers. In November 2013, *The State Journal* reviewed the results thus far of opening the market to competition and found that:

> *Since the process completion in 2008, workers' compensation rates declined an average of 30 percent statewide, saving employers annual costs of $150 million in 2010. The number of protested claims is now hovering at about 4,000 a year—a dramatic difference from 2004 when it was about 24,000. In just the first two years, the number of outstanding, unfunded liabilities from the old state-run system dropped from $3.2 billion to $1.9 billion.*[111]

Separately, a July article in *Insurance Journal* noted that the state has seen nine consecutive decreases in loss costs (the costs associated with worker's compensation claims) since privatization, representing a 48.1 percent decline.[112]

Wisconsin

The state budget signed by Wisconsin Gov. Scott Walker in June 2013 included provisions granting the governor's office the authority to sell state buildings and real property assets and use the proceeds to reduce the state's $8 billion debt. While the governor is authorized to negotiate sales, with or without competitive bidding, any deal would have to receive prior approval by the state legislature's Joint Finance Committee and the State of Wisconsin Building Commission. The governor is also required to submit a cost-benefit analysis and asset valuation prior to the Joint Finance Committee. Some legislative opponents raised concerns that the new powers could lead to a fire sale of prominent state buildings, but the Walker administration responded that it has no intention of selling off state highways, prisons, university housing or other facilities providing public services, according to the *Milwaukee Journal Sentinel*.[113]

About the Authors

Leonard Gilroy is the director of government reform at Reason Foundation, a nonprofit think tank advancing free minds and free markets. Gilroy researches privatization, government reform, fiscal, transportation, infrastructure and urban policy issues.

Gilroy has a diversified background in policy research and implementation, with particular emphases on public-private partnerships, competition, government efficiency, transparency, accountability and government performance. Gilroy has worked closely with legislators and elected officials in Texas, Arizona, Louisiana, New Jersey, Utah, Virginia, California and several other states and local governments in efforts to design and implement market-based policy approaches, improve government performance, enhance accountability in government programs and reduce government spending.

In 2010 and 2011, Gilroy served as a gubernatorial appointee to the Arizona Commission on Privatization and Efficiency, and in 2010 he served as an advisor to the New Jersey Privatization Task Force, created by Gov. Chris Christie.

Gilroy is the editor of the widely-read *Annual Privatization Report*, which examines trends and chronicles the experiences of local, state and federal governments in bringing competition to public services. Gilroy also edits Reason's annual *Innovators in Action* report, which profiles public sector innovators in their own words, including former U.S. Transportation Secretary Mary Peters, former Florida Gov. Jeb Bush, Indiana Gov. Mitch Daniels, Texas Gov. Rick Perry, Georgia Gov. Sonny Perdue, former New York City Mayor Rudy Guiliani and more.

Gilroy's articles have been featured in such leading publications as *The Wall Street Journal, Los Angeles Times, New York Post, The Weekly Standard, Washington Times, Houston Chronicle, Atlanta Journal-Constitution, Arizona Republic, San Francisco Examiner, San Diego Union-Tribune, Philadelphia Inquirer, Sacramento Bee* and *The Salt Lake Tribune*. He has also appeared on CNN, Fox News Channel, Fox Business, CNBC, National Public Radio and other media outlets.

Prior to joining Reason, Gilroy was a senior planner at a Louisiana-based urban planning consulting firm. He also worked as a research assistant at the Virginia Center for Coal and Energy Research at Virginia Tech. Gilroy earned a B.A. and M.A. in Urban and Regional Planning from Virginia Tech.

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Snell has frequently testified before the California state legislature and numerous other state legislatures and government agencies. She has authored policy studies on school finance and weighted student funding, universal preschool, school violence, charter schools and child advocacy centers.

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Before joining Reason Foundation, Snell taught public speaking and argumentation courses at California State University, Fullerton. She earned a Master of Arts in communication from California State University, Fullerton.

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