Reason Foundation
April 2012

# Annual Privatization Report 2011: Local Government Privatization

By Harris Kenny and Adam Summers
Edited by Leonard Gilroy and Harris Kenny

# Reason Foundation


Reason Foundation's mission is to advance a free society by developing, applying and promoting libertarian principles, including individual liberty, free markets and the rule of law. We use journalism and public policy research to influence the frameworks and actions of policymakers, journalists and opinion leaders.

Reason Foundation's nonpartisan public policy research promotes choice, competition and a dynamic market economy as the foundation for human dignity and progress. Reason produces rigorous, peer-reviewed research and directly engages the policy process, seeking strategies that emphasize cooperation, flexibility, local knowledge and results. Through practical and innovative approaches to complex problems, Reason seeks to change the way people think about issues, and promote policies that allow and encourage individuals and voluntary institutions to flourish.

Reason Foundation is a tax-exempt research and education organization as defined under IRS code 501(c)(3). Reason Foundation is supported by voluntary contributions from individuals, foundations and corporations.

Reason Foundation

# Annual Privatization Report 2011: Local Government Privatization

By Harris Kenny and Adam Summers
Edited by Leonard Gilroy and Harris Kenny

This is an excerpt from Reason's *Annual Privatization Report,* which is available online at http://reason.org/apr2011

# Table of Contents

Part 1

# Budgets, Bonds and Bankruptcies: Surveying the Landscape of Local Government

Local governments embraced privatization despite continued fiscal uncertainty in 2011. Policymakers felt the residual impact of the Great Recession by facing increased strain on public service delivery and lower-than-expected revenue figures. The fiscal climate was so tenuous in 2011 that it was difficult to predict how bad things might get.

Wall Street Bank Analyst Meredith Whitney made waves with her prediction on CBS Television's "60 Minutes" that the $2.9 trillion municipal bond market is in trouble. Specifically, she predicted 50 to 100 sizeable defaults by local governments totaling hundreds of billions of dollars. In an interview on CNBC's *Squawk Box*, Whitney explained that underfunded liabilities (like debt expenses and pension funds) threaten state and local government budgets, which could force them to liquidate or privatize assets to raise capital. Whitney's prediction has not materialized, however she insisted in a May 2011 interview with Bloomberg Radio she "never gave precise estimates or a specific period of time," and she stands by her prediction, citing research conducted by her firm Meredith Whitney Advisory Group.[1]

Conversely, trends appear to be moving in the opposite direction. Only 26 issues defaulted in the first half of 2011, valued at $818.2 million. This represents a drop from when 60 issues defaulted in the first half of 2010, valued at $2.8 billion. Richard Lehmann, president of ISA (a Florida-based investment advisory and research firm), explained to *Reuters* on July 5, 2011, "The numbers are actually normal for a non-crisis environment… Default is only going to happen when the municipality runs out of cash. If you don't pay your bonds, then you lose the conduit for maintaining your liquidity. So it's one of the last things you're going to cut."[2] That being said, there are signs that local governments aren't out of the woods yet.

Local governments are feeling the squeeze of the prolonged economic malaise. Specifically, officials are struggling with falling revenue, evaporating state aid and structural deficits that beget chronic overspending. According to the National League of Cities (NLC) 26th Annual City Fiscal Conditions Report, general city revenues have declined for five straight years, and are projected to fall another 2.3% by the end of 2011.[3] NLC traces this dip to lagging property and income taxes,

while sales taxes have rebounded and leveled off. Further, for most municipalities, the prospect of federal or state aid is dim. NLC reports 57% of city finance officers say their cities are less able to meet their financial needs in 2011 than 2010, and the current condition may be the "new normal" according to Michael A. Pagano, Dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago.

No municipality represents the pitfalls of "new normal" better than **Central Falls, Rhode Island**. Central Falls would be the most apt "canary in the coalmine" for Whitney's prediction. Falling revenue combined with spending was problematic, but it was the city's underfunded public employee pension fund that drove Central Falls into bankruptcy and receivership. Rosy pension predictions were flat wrong and the controversial government accounting standards board (GASB) metrics may lead to similar problems for other municipalities. Examples like this solidify fears that a U.S. pension crisis is pending. However, the other two high-profile bankruptcies (**Jefferson County, Alabama** and **Harrisburg, Pennsylvania**) were noticeably different.

On November 9, 2011 Jefferson County, Alabama filed the largest government bankruptcy in American history. The cash-strapped municipality, faced with a burgeoning $4.23 billion debt, has taken the option of last resort after failing to reach a compromise with its creditors. *The Birmingham News* reports three quarters of the county's debt, or $3.14 billion, lies in a mismanaged sewer construction project, $814 million in school-construction debt, and the final $305 million in general-obligation warrants.[4] According to bankruptcy filings, the county owes more than 5,000 creditors, the largest being JPMorgan Chase & Co. JPMorgan Chase & Co. owns one-third of the sewer construct debt, or $1 billion.

Jefferson County's fiscal woes go back to 1996 when a federal judge ordered the county to repair and rebuild its sewer system, citing county sewage polluting rivers and streams. The county then indulged in an eight-year borrowing binge, best summarized by *The Birmingham News*:

> *(By) 2007 most of Jefferson County's sewer debt is tied up in several 2002–03 refinancing deals, championed by then-Commission President Larry Langford, that include complex, sophisticated derivatives meant to save money—auction-rate securities, variable-rate bonds and embedded interest rate swaps. No other local government has as great reliance on such derivatives as Jefferson County, and these soon prove to be a crucial flaw.*
>
> *(In) 2008 the national subprime mortgage crisis and Great Recession (hit)—the financial collapse plunges the county's debt to junk bond status because of failure of the derivative markets. This triggers penalties and higher interest rates for Jefferson County sewer debt. The county begins technical default. Bond insurers sue.*[5]

Jefferson County's bankruptcy was fairly foreseeable from 2008 forward. Further, the county's regular operating budget faced a structural deficit. Lawmakers already cut spending by 30%, or $95 million, and faced another $40 million in cuts by December 1, 2011. The Alabama Supreme Court struck down an occupational licensing tax, which cost the county $66 million, and

afterwards county lawmakers could not reach a compromise for state aid or sufficient relief from creditors.

In October 2011 the Harrisburg City Council officially filed for bankruptcy with the U.S. Middle District bankruptcy court. According to an October 12 report by the *Associated Press*, city officials "listed $458 million in creditors and claims, and said the city faces 'imminent jeopardy' from six pending legal actions by creditors related to a debt-saddled trash incinerator." Meanwhile Mayor Linda Thompson, who says the city council lacks the legal authority to declare bankruptcy, is debating the filing itself. Robert Philbin, Thompson's communications director, described the situation saying:

> *There are procedural matters the solicitor objects to, as far as how the resolution was handled, and the quote-unquote hiring of counsel… The solicitor also says only the mayor, in conjunction with the solicitor, can file for bankruptcy on behalf of the City of Harrisburg.*[6]

In an anxiously anticipated turn of events, Mayor Thompson and the city council reached an agreement on November 8 to sell the city's incinerator and lease out parking garages, combined moves that could raise as much as $224 million in revenue for the city. If this agreement is unsuccessful, then the city will move into state receivership in accordance with Pennsylvania Act 47. Reuters reports:

> *If the debt is less than $26 million, Thompson wanted the city's four major creditors—Assured Guaranty Mutual; Dauphin County; Covanta Energy, which operates the incinerator; and Ambac Financial Group—to take on that stranded debt. If the outstanding debt is greater than $26 million, she asked for 80% for the creditors with the city paying the remaining 20%… The Act 47 plan that was agreed on includes annual payments from the state and county of $2.5 million and $3 million, respectively.*[7]

Harrisburg captured many of the headlines in 2011, but it is not alone. Recent analysis (see Table 1 below) by Charles Stockdale of 24/7 Wall St. highlights nine municipalities "with the worst credit ratings assigned by Moody's, not including school systems, rated Ba2 and lower."[8] Central Falls, Rhode Island and Jefferson County, Alabama were on Stockdale's list before going bankrupt, and any one of the remaining seven municipalities listed below may be the next to declare bankruptcy.

| Table 1: Nine American Cities and Counties Going Broke | | | | | | |
|---|---|---|---|---|---|---|
| Rank | Municipality | State | Credit Rating | 2009 Revenues ($) | 2009 Debt ($000s) | Median Household Income |
| 1 | Central Falls | RI | Caa1 | 17,601,000 | 18,753,000 | 33,520 |
| 2 | Pontiac | MI | Caa1 | 46,183,000 | 99,115,000 | 32,199 |
| 3 | Jefferson County | AL | Caa1 | 309,440,000 | 1,337,233,000 | 44,718 |
| 4 | Harrison | NJ | Ba3 | 32,763,000 | 92,613,000 | 49,596 |
| 5 | Detroit | MI | Ba3 | 1,280,791,000 | 2,449,480,000 | 29,447 |
| 6 | Salem | NJ | Ba3 | 7,059,000 | 10,098,000 | 28,397 |
| 7 | Riverdale | IL | Ba2 | 8,358,000 | 9,350,000 | 40,659 |
| 8 | Strafford County | NH | Ba2 | 36,204,000 | 23,866,000 | 58,363 |
| 9 | Camden | NJ | Ba2 | 181,257,000 | 103,284,000 | 25,418 |

Source: Charles Stockdale, "9 American Cities and Counties Going Broke," Yahoo! Finance, October 1, 2011.

Detroit City Council President Pro Tem, Gary Brown, revealed noteworthy insight on Detroit (ranked 5 above) during the ongoing debate over privatizing the city's Public Lighting Department (discussed at length in Part 13: Other Local Privatization Briefs). CBS Detroit reported Brown's response in September 2011:

> *We cannot float the bonds in order to do the upgrades to the infrastructure. We're at junk status as a city. Even though the voters have given us the right to float the bonds, we can't get them out on the street. The administration has to get this issue resolved because the city is in the dark. It's a public safety issue. We've gotta get the lights on in the city of Detroit.*[9]

While the Central Falls, Jefferson County and Harrisburg bankruptcies have sent a signal to lawmakers and credit markets—they do not reflect contagion in the municipal bond market. The evidence suggests a municipal bankruptcy wave is unlikely, barring major macroeconomic changes, but under the "new normal," lawmakers should be more wary than ever of high-risk, high-cost projects.

Part 2

# Parking Privatization Blossoming in 2011

Reason Foundation's *Annual Privatization Report 2010* declared that parking assets had become a hot privatization opportunity for local governments. This trend continued in 2011, led by an innovative agreement signed in Indianapolis. Chicago's previously maligned parking meter privatization deal has been vindicated. Meanwhile major cities such as New York, Pittsburgh, Sacramento, Memphis and Harrisburg are exploring parking asset privatization. And in an unprecedented development, Ohio State University (OSU) began procurement for the first parking asset privatization by a public institution of higher education.

Parking asset privatization has captured the attention of lawmakers, journalists and pundits across the political spectrum. For example, in the April 14, 2011 episode of National Public Radio's *Marketplace* program, host Kai Ryssdal effectively summarized the appeal of parking privatization saying,

> *Paying to park your car on a public street is one of those things that you just kind of have to do. It's not like parking meters are going away, and they do keep people from hogging the best spots all day. As an added bonus, parking can be a pretty good moneymaker when cities are short of cash. And there are a whole lot of cities in exactly that situation right now. Cities that are trying to make ends meet by leasing out parking to the private sector.*[10]

## A. Chicago, Illinois Parking Privatization Revisited

Before exploring new activity in parking privatization, recent developments in Chicago (the catalyst for this policy reform in the U.S.) vindicate former Mayor Richard Daley's decision to privatize the city's parking meters.[11]

Mayor Daley was initially criticized for using the upfront proceeds from the parking deal to plug a budget deficit. However, cost-cutting measures and an unforeseen revenue increase allowed Daley to return $50 million to the city's depleted rainy day (or reserve) cash fund before leaving office. Separately, the *Chicago Sun-Times* reports the city will carry over a $45 million year-end unreserved balance ($35 million more than expected) into FY 2012, which represents the largest

carry-over balance in five years.[12] (For more, see discussion of asset lease proceeds in Part 3: Villaraigosa Administration Advocating Reform in Los Angeles.)

An Illinois state court also dismissed a lawsuit filed by Jennifer Bunting against the Chicago-based William Blair & Co. who assessed the city's meters at $1.15 billion for the 75-year contract. [The case is *Bunting v. William Blair & Co. LLC*, 10CH40418, Cook County, Illinois, Circuit Court, Chancery Division (Chicago).] *Bloomberg BusinessWeek* reported in May 2011 that Bunting's negligence claim was on behalf of Chicago's 2.8 million residents for unspecified damages, claiming the firm's failure to assess the accurate value of the meters would lead to future tax increases to cover lost revenue. Illinois State Court Judge Kathleen Pantle explained in her April 17 ruling, "Even if, someday in the future, taxes go up, there is and will be no way to fairly trace them back to this particular lease transaction and Blair's opinions on it in particular."[13]

However, outside researchers are finding high levels of performance in Chicago's parking system when compared to other major cities around the world. In September 2011 IBM published a report, entitled "IBM Global Parking Survey: Drivers Share Worldwide Parking Woes," which surveyed 8,043 commuters in 20 cities on six continents and found:[14]

- Parking is elusive worldwide; over half report abandoning search for parking spot;
- Chicago reports the least amount of tickets for illegal parking; Bangalore tops the list;
- Drivers in New Delhi, Bangalore, Nairobi and Milan argue most over parking spaces; and
- Drivers in both developed and emerging economies face many of the same parking frustrations, regardless of where they live or their ranking in the recently released Commuter Pain Index.

IBM compiled the results of the survey into its first-ever Parking Index that ranks the emotional and economic toll of parking in a cross-section of 20 international cities, with the highest number being the most onerous. The index comprises five components:

1. Longest amount of time looking for a parking place;
2. Inability to find a parking place;
3. Disagreement over parking spots;
4. Received a parking ticket for illegal parking; and
5. Number of parking tickets received.

IBM distilled the data into a simple figure (Figure 1 below) that shows, thanks to privatization, the Windy City is now an international leader. Chicago drivers need the shortest amount of time to find a parking space (averaging only 13 minutes with 28% of drivers finding a spot in less than 5 minutes). Chicago also has the mildest mannered drivers with only 11%, the lowest of any city, reporting getting into an argument with a fellow driver over a parking space in the last year.

Chicago also had among the lowest number of drivers receiving parking citations, trailing only Madrid and Johannesburg.

**Figure 1: IBM 2011 Parking Index**


Source: IBM Global Survey: Drivers Share Worldwide Parking Woes," September 28, 2011.

As Eric Jaffe, contributing writer to *The Atlantic Cities*, wrote in September 2011, "Chicagoans may pay a lot for parking, but they do seem to get something more than a spot for their money."[15]

## B. Other Developments in Parking Privatization

The rest of this section provides a detailed update of major parking privatization deals being explored by local governments across the U.S.

**Indianapolis, Indiana**: In August 2010, Indianapolis Mayor Greg Ballard announced the winning bidder for a 50-year lease of nearly 3,700 city parking meters in the downtown and Broad Ripple areas, as reported in Reason Foundation's *Annual Privatization Report 2010: Local Government Privatization*. Under the lease, a team composed of Xerox-subsidiary Affiliated Computer Services (ACS) and its local partners Denison Global Parking and Evens Time have taken over responsibility for meter system operations, maintenance and capital investment, in exchange paying the city $20 million up front and a $600 million share of ongoing revenues over the 50-year lease term.

According to the *Indianapolis Business Journal*, the ACS-led consortium of private operators, operating as ParkIndy, split their $10 million investment in new meter installation into two phases. Phase one began with single space meters in downtown Indianapolis and Broad Ripple in March

2011. Phase two consists of multi-space meters that will be installed next. ParkIndy carefully began their roll out with signs clearly explaining how to operate the new meters and listing new operating hours and rates. They also left an enforcement grace period giving residents enough time to adjust to the changes.

On August 19, 2011 the *Indianapolis Business Journal* declared, "Indianapolis' decision to lease its parking meters to a private company so far appears to be a financial boost for the city." Under private operation total meter revenue grew to $1.7 million in the second quarter of 2011, compared to $1.3 million during the same period under public operation. Under private operation total revenue grew 360% to $498,273, up from $108,625 during the same period under public operation.

In September 2011 ParkIndy released a smart phone application that allows users to feed about 170 meters from their smart phone. By year's end the smartphone application will be available for use with every ParkIndy meter in the city.

Further, the city is leveraging $6.35 million in upfront money from the parking meter privatization deal to spur construction of a new $15 million mixed-use parking structure on the southwest corner of the intersection of Broad Ripple and College Avenues. Mayor Ballard announced in June that Indianapolis-based Newpoint Parking, Keystone Construction and Ratio Architects are partnering with Michigan-based Walker Parking consultants on the project, according to a June 13, 2011 article in the *Indianapolis Business Journal*. The facility will have 350 parking spaces with retail space and a police substation on the first floor. While operators will set rates, the city will retain oversight with the ability to cap rates if necessary. Mayor Ballard explained the partnership saying:

> *Broad Ripple Village has long needed a garage of this magnitude to alleviate parking issues and allow for implementation of a residential parking permit system on neighborhood streets. Visitors to the Broad Ripple area will have a safe, secure, well-lit area to park their cars, while residents and their guests will more easily be able to find on-street parking near their homes.*[16]

Indianapolis policymakers have demonstrated that they're just getting started and early evidence suggests this deal will be a lasting success for the city.

**New York, New York**: New York City Mayor Michael Bloomberg is exploring leasing the Big Apple's parking meters with a nearly $5 billion budget deficit looming in FY 2013, according to a February report by *Bloomberg*. In spring of 2011 the New York Economic Development Corporation issued a request for expressions of interest asking for ideas on how "to develop new sources of revenue (and restrain costs)."[17] Marc LaVorgna, a spokesman for the mayor, explains, "We're seeking a partner to help us reduce the costs or bring in revenue and one area is parking meters."[18]

*Bloomberg* also found that last year the city earned over $140 million in revenue from its 49,989 parking meters and 48,854 ticket-issuing muni-meters, while collecting $575 million in parking violation fines. Mayor Bloomberg clarified his interest in privatization during a February appearance on WOR 710 AM saying "We're not going to turn over the right to set parking rates or

set the fines or that sort of thing, but installing and maintaining equipment, there's nothing magical about that."[19] The city is also considering privatizing six city-owned vacant lots.

**Los Angeles, California's** City Council rejected a deal to privatize city-owned parking garages, for more see Part 3: Villaraigosa, Santana Advocate Reform in Los Angeles.

**Sacramento, California**: Lawmakers in Sacramento are considering leasing almost 13,000 city-owned metered parking spaces and garages in an effort to clinch construction on a new downtown sports arena. In September 2011 Sacramento Mayor Kevin Johnson released a financing proposal including metered on- and off-street parking spaces that currently generate $24 million in annual parking revenue.[20] City Councilman Rob Fong explained to *The Sacramento Bee* in November 2011 that parking revenue taken from the city general fund for the arena would ultimately have to be replaced by additional revenue.[21]

Sacramento officials are collaborating with Los Angeles, California-based consulting firm Walker Parking and financing experts at Bank of America and Merrill Lynch to explore a lease agreement that would generate a "significant up-front cash payment."[22] Any deal would have to be approved by the city council, and while officials are seeking an upfront payment, annual profit-sharing and meter rates limitations will likely dominate negotiations. In December 2011 the city council voted 7–2 in favor of partially privatizing its parking infrastructure and as of press time issued a request for quotations (RFQ).[23]

**NJ Transit**: Plans to privatize parking at 81 New Jersey Transit (NJ Transit) train stations failed to materialize this summer, but officials hope to get back on track this fall, according to a July 2011 article in the *New York Post*. A NJ Transit spokeswoman told the *Post* the delay boils down to the fact that "The (RFP) process is taking more time than first anticipated. There are more complexities."[24] Specifically, NJ Transit does not control all the parking spaces in all its train station lots, with local townships controlling approximately 35% of the spaces in most of the facilities.

Last fall, NJ Transit issued a request for qualifications (RFQ) for a 30- to 50- year concession for some, or all, of its commuter parking facilities throughout the state. The proposed concession program—known as System Parking Amenity and Capacity Enhancement Strategy (SPACES)—aims to expand parking capacity and enhance services at up to three-quarters of the approximately 48,000 spaces controlled by NJ Transit statewide. The agency received statements of qualification from 10 bidder teams in November 2010, and the following month the agency narrowed the list down to seven qualified concessionaires eligible to bid when the agency issues a formal request for proposals.

**Ohio State University (Columbus, Ohio)**: While major cities like Chicago and Indianapolis have grabbed the headlines in 2011, officials at Ohio State University (OSU) are discussing leasing their parking system in a first-of-its-kind agreement that officials expect will generate $600 million in revenues and avoided costs over the term of the agreement. The OSU board of trustees finance

committee voted to pursue 30–50-year leases, including renewals, for the parking system composed of 36,000 parking spaces, meters and lots made available for 65,000 students on the 1,700-acre Columbus campus. This deal would be a historic first for a university that officials estimate could raise at least $375 million in upfront cash. The University will also defease nearly $80 million in outstanding bonds backed by parking payments.

According to University documents, the concessionaire will be allowed to raise rates by up to 7.5% per year for the first ten years of the lease, consistent with average rate increases over the last seven years. Over the next 40 years concessionaires will be able to raise rates at either 4% or at a rate that matches the Consumer Price Index (CPI). *The Columbus Dispatch* reported on October 9, 2011 that the parking system generated $28 million and had $19 million in earnings before interest, taxes, depreciation and amortization. Last year, the parking system generated a $3.7 million operating surplus, which went toward supporting the bus service.[25]

Proponents argue privatization allows OSU to pass operating expenses of up to $300 million on to the concessionaire while applying cash proceeds toward financing scholarships, research and academic programs. Further, the concessionaire will be asked to expand parking capacity as a part of the deal.

OSU released an RFQ that generated ten responses—seven of which qualified—for its potential parking system concession. The qualified bidding groups that have been invited to continue in the process include:

- Alinda & InterPark
- Carlyle Infrastructure Partners & Standard Parking
- Industry Funds Management & Parking Solutions
- Macquarie Capital & Central Parking
- Ontario Teachers' Pension Plan & Imperial Parking
- Kohlberg Kravis Roberts & Ampco/ACS
- QIC Private Capital & LAZ Parking

The University will proceed by interviewing qualified bidders, and assuming officials decide to proceed, will issue a final Request for Proposals (RFP) in the first quarter of 2012. The bidding process is expected to conclude by spring 2012.

Parking assets represent a continuation of a new approach that began last year. In 2010, the school streamlined business procedures like procurement, travel, finance and others, moves that saved $5 million last year, $20 million this year, and will save an estimated $50 million a year in the future. Potential future assets include Don Scott Airport, the University golf course and others, like University-owned farms and fields located across the state.

**Pittsburgh, Pennsylvania**: Last year Pittsburgh's City Council rejected Mayor Luke Ravenstahl's attempt to bolster the Steel City's public employee pension fund by leasing its dozen-garage and 9,000-meter parking system in exchange for an upfront payment of $452 million (double the $220 million cash they needed to reach 50% funding of the pension fund). Mayor Ravenstahl's privatization plan also included $440 million in parking system upgrades over the term of the proposed 50-year lease, with $90 million of that coming in the first seven to ten years, according to a January 21, 2011 article in the *Pittsburgh Post-Gazette.*

Instead, the council bailed out the pension fund by appropriating 31 years of parking tax revenue ($13.4 million annually through 2017, then $26.7 million annually through 2041 according to the *Pittsburgh Tribune-Review*) to shore up the fund. This decision is forcing the Pittsburgh Parking Authority to find new money to study the structural needs of four parking garages and replace 1,200 parking meters. David Onorato, executive director of the Pittsburgh Parking Authority, said in January that raising meter rates and issuing new bonds might fund these improvements.

This past May, City Councilman Ricky Burgess wrote a letter to Pennsylvania Governor Tom Corbett that reignited talks of parking meter privatization. The *Pittsburgh Post-Gazette* reported on May 31 that in the letter, "[Burgess] suggested the Intergovernmental Cooperation Authority, one of two state-appointed boards overseeing city finances, be empowered to market the city's parking garages and meters if the council doesn't approve its own deal by December 31, 2011."[26] Burgess wrote:

> *It is clear that Pittsburgh can no longer be left to its own devices. The city council's actions last year regarding the health of the pension were a dereliction of duty and one that places the city in the gravest financial danger. The plan passed by the city council has already put a hole in the city's operating and capital budgets for nearly the next half-decade, with no guarantee of its viability or prospects for success.*[27]

The *Pittsburgh Tribune-Review* reports the fund is presently valued at 34% of its $1 billion in outstanding obligations for 7,000 retirees and employees. If state officials deem the pension funding level is inadequate then they would be forced to take over the city's finances.

**Boston, Massachusetts:** Massachusetts Bay Transportation Authority (MBTA) officials face a projected $100 million budget deficit for Boston's T rail line in FY 2012, according to a January 2011 article in *The Boston Globe.* Paul Regan, executive director of the MBTA Advisory Board, explained at the time that sales tax revenue established a decade ago has not been enough to offset debt payments like those incurred from expansion projects on Beacon Hill.

The agency owes $450 million in principal and interest payments this year, and those payments will rise each following year topping out at $575 million in FY 2016. Jonathan R. Davis, MBTA's deputy general manager and chief financial officer, told *The Boston Globe* that MBTA owns 46,000 parking spaces in 100 garages and lots. A private company—paid a flat fee that generates $30 million in annual proceeds for the city—currently manages all the spaces.

MBTA is seeking to avoid fare increase and service cuts by exploring selling long-term parking revenue for an upfront payment of as much as $325 million. Under one proposed option, T officials could establish a subsidiary to sell most or all of the projected revenue for a medium-term contract (20–25 years). T officials would retain control over garages and lots, the ability to set parking fees, and would collect any surplus revenue exceeding the contract agreement. This move is one that could be coupled with a variety of cost savings measures (such as moving to one operator on the Red Line, automating parking lot revenue collection and transferring employees on health insurance to a state insurance plan.)

General Manager Richard A. Davey explained the moves to the Department of Transportation's finance committee saying, "Our number one priority is to deliver a balanced budget without fare increases and service cuts, and we're looking under every cushion we can, to find every nickel to do that."[28] However, *Project Finance* reports MBTA decided to instead issue a single RFP in May 2011 for a 50-year lease or sale of its North Station Parking Garage, requesting bids of at least $65 million to lease it, or at least $70 million to buy it.

**Philadelphia, Pennsylvania**: The city of Philadelphia has several years left on its operating contract with the Philadelphia Parking Authority, but as the city grapples with budget deficits lawmakers have discussed leasing or selling the city's 14,500 parking meters. NewsWorks reported on April 4, 2011 that City Councilman Darrell Clarke proposed the idea at a recent budget hearing, saying:

> *The revenue that we get from the sale of the actual meters would allow us to infuse a significant amount of cash to pay down the debt service on some of the significant debt that we have within our government*.[29]

Even though the city's current deal doesn't expire until 2014, this is an opportunity for Philadelphia to join the ranks of other major U.S. cities considering parking asset privatization.

**Memphis, Tennessee**: This spring Memphis Mayor A.C. Wharton proposed leasing the city's parking meters for an upfront payment of $10–15 million to Gates Group Capital Partners, according to an April article in *The Commercial Appeal*. ConsulPark Inc., a private sector on-street parking consulting firm, found that the city could increase revenue from $1.2 million to over $5 million per year by following a series of recommendations for the 1,250-meter parking system. Recommendations include:

- Repairing 60 (out of 774) downtown meters that are missing meter heads and/or poles costing the city $35,000 in lost revenue each year;
- Adding 300 metered parking spaces that could bring in over $200,000 in additional annual revenue;

- Installing new electronic meters that accept credit and debit cards that have increased revenue by 30–70% in different cities;
- Hiring more enforcement officers to cover night and weekend hours; and lastly,
- Raising meter rates; ConsulPark found Memphis' rates are much lower than comparable cities like Nashville and Charlotte.

**Newport Beach, California:** The Newport Beach City Council unanimously voted in March to privatize parking meter operations and enforcement signing a seven-year contract with Central Parking System. Under the contract the city is ensured its previous $3 million annual profit from the meters. The next $1.1 million in annual revenue, up to $4.1 million, goes to Central Parking System.

Finally, the city receives 88.5% of revenue for each additional dollar exceeding $4.1 million, which drops down to 78.5% after the fifth year of the contract. The private operator is also investing $2.5 million in 2,600 new meters (capable of processing credit cards and pay-by-phone) that will remain city property after the contract expires. Additionally, Central Parking System is responsible for enforcing parking meter violations, but all proceeds from violations go directly to the city.

**Toledo-Lucas County, Ohio**: This past April the Toledo-Lucas County Port Authority again expressed interest in buying three Toledo-owned parking garages (Vistula, Superior and Port Lawrence) and meters, according to local news station ABC 13. This would be a public-to-public asset sale, however privatization remains a possibility. The *Toledo Blade* found that the parking authority made a similar proposal as recently as 2008, offering to buy all three garages and lease the meters in a 50-year, $16.5 million agreement. Former Mayor Finkbeiner rejected this proposal.

Currently managing the garages and meters is the Downtown Toledo Parking Authority, which is a nonprofit organization created by Downtown ToledoVision Inc. and the city in 1995, according to an April 29, 2011 article by the *Toledo Blade*. The Authority's board of directors approved a bond inducement resolution this spring declaring they would consider issuing $6 million in bonds and borrowing $12 million from the Ohio Infrastructure Bank to purchase the assets.

In response, the city council voted to spend $15,000 to hire a financial advisor from Fifth Third Bank to evaluate the offer. While the true value of Toledo's parking assets has not been publicly reported, the *Toledo Free Press* reports that the meters alone earned $412,000 in revenue in 2009. City Public Information Officer Jen Sorgenfrei confirmed the Port Authority's interest, but told the *Toledo Free Press* on August 25, 2010, "There are no offers on the table, no price negotiations at this point."[30] Partnering with a private concessionaire instead has not been ruled out, but as of press time that option appears unlikely.

**Charleston County, South Carolina**: County councilmembers in Charleston County are considering completing privatization of their parking garage network after privatizing most of the

system in the 1990s. Two vestigial publicly operated garages remain in downtown Charleston that generate almost $500,000 in income each year, according to February 2011 reports by *The Post and Courier*. While the privately operated garages generate revenue for the city and one publicly operated facility is wholly owned, the county owes $4 million in debt on the second publicly operated facility and is about to spend over $2 million repairing the two publicly operated garages. Overall, the garages are estimated to sell for more than $33 million.

**New Haven, Connecticut**: The city of New Haven closed on a deal to lease the Broadway Island parking lot to Yale University for an upfront $3 million payment, according to a May report by the *New Haven Register*. The 99-year lease also requires the university to pay $1 rent to the city every year. This deal represents a continuation of an approach first adopted in 2009 when the Board of Aldermen approved a 99-year lease of Market Island and Begonia Island lots to the university for an upfront $400,000 payment (with $1 payments for the term of the lease). In accordance with the contract, Broadway Island will remain a commercial parking lot.

**Hartford, Connecticut**: The Hartford City Council voted to stop pursuing a 50-year lease agreement for almost 6,300 on-street and garage parking spaces, according to a March article in the *Hartford Business Journal*. Officials were seeking an upfront payment of $80–$120 million for the lease, which would have gone into a trust, according to an interview with David Panagore (Hartford's Chief Operating Officer) in the *Hartford Courant*. The *Hartford Business Journal* reports that citizens opposed to the deal expressed concern the city would have squandered the upfront payment.[31]

**Atlanta, Georgia:** On October 1, 2009 the city signed a contract with Professional Account Management, LLC for parking management services, including management and operation of the city's on-street parking program and the enforcement of regulations on behalf of the city. The agreement is one of several steps taken by PARKatlanta (a collaborative initiative led by the city's Department of Public Works). However in 2008, prior to privatization, the city laid off 21 parking enforcement employees, according to a February 15, 2011 article in the *Atlanta Journal Constitution*. In February, the city's Law Department recommended the city compensate those employees a total of $90,000.

**Harrisburg, Pennsylvania:** Officials in Pennsylvania's capital city have been considering privatizing parking assets since 2008, as Reason Foundation reported in *Annual Privatization Report 2010: Local Government Privatization.* Lawmakers' attention has been consumed with handling the city's pending municipal bankruptcy. However, on November 8 the mayor and city council agreed to sell the city's incinerator and lease out parking garages in an agreement that could thwart a state takeover. The combined deals—if arranged and signed into law—could reportedly generate as much as $224 million in revenue for the city. For more on this see Part 1: Budgets, Bonds and Bankruptcies: Surveying the Landscape of Local Government.

**Pontiac, Michigan:** Pontiac's new emergency manager, Lou Schimmel, decided to remove all 276 publicly owned and operated parking meters in the city. According to city officials, the city spent

$325,000 annually over the last two fiscal years maintaining the meters—an operation that actually lost the city money. The *Detroit Free Press* reports the city is exploring privatizing at least eight of twelve city-owned parking lots, and leasing the 300-space lot adjacent to the Phoenix Center parking structure.[32]

**Hamilton County, Ohio:** *The Cincinnati Enquirer* reported on April 18, 2011 that the Hamilton County Commissioners voted to study privatizing all 10 county-owned parking facilities (four garages and six open-air lots in downtown Cincinnati) that provide almost 6,000 spaces. Commissioner Chris Monzel sponsored the study citing county subsidies for the facilities exceeding $1 million each year.[33]

Part 3

# Villaraigosa Administration Advocating Reform in Los Angeles

Like most cities, Los Angeles grappled with a substantial budget deficit for FY 2012. Mayor Antonio Villaraigosa eliminated the $457 million budget deficit and proposed a $6.9 billion plan that balanced cuts with limited service expansion. When Villaraigosa first entered office he made public-private partnerships (PPPs) a major priority. While results have been slow to materialize, the City of Angels is making progress toward more efficient provision of public service delivery through the private sector.

Policymakers have been exploring a PPP for the city's parking garages at Mayor Antonio Villaraigosa's behest since 2009, however their efforts ended in failure after the city council ultimately voted down the idea. Mayor Villaraigosa sought a 50-year lease of the city's parking garages that would include infrastructure upgrades and automated payment systems. An April 2011 article in *LAWeekly* argued the plan failed because officials failed to conduct political due diligence and constituent outreach on the deal.[34]

Local chambers of commerce and business associations criticized the parking garage plan fearing it would hurt their ability to draw customers. According to the article, two restrictions were explored to placate business concerns: first, cutting hourly rates at several facilities and retaining site-specific validation discounts; and second, removing noncompetition zones around each garage, thereby preserving the city's right to build competing garages nearby existing garages.

There were so many changes during in the procurement process it's difficult to estimate how much revenue the city left on the table by abandoning the deal. Regardless, abandoning the deal is already having an impact; *Bloomberg* reported on January 5, 2011 that the city included $53.2 million in anticipated revenue from the lease in this year's budget. The article stated that in an internal memo City Administrative Officer Miguel Santana and Chief Legislative Analyst Gerry Miller found, on average, only half the total 8,200 spaces in the city's nine garages are used. Santana and Miller attribute underutilized parking infrastructure to limited marketing and lack of conveniences such as automated payment systems.

An exasperated Santana told *LAWeekly* on January 13, "There's no such thing as free parking. Somebody's paying for it, and in this case the taxpayers are paying for it."[35] For now, subsidized

parking will go on in Los Angeles as policymakers explore alternatives to raise revenue with a projected $350 million deficit on the horizon for next year. For more on parking privatization, see Part 2: Parking Privatization Blossoming in 2011.

After issuing a Request for Information (RFI), the Los Angeles City Council approved privatizing the operation of the Northeast Valley Animal Care Center in Mission Hills, transferring management to Best Friends, a Utah-based national nonprofit organization focused on animal rescue. The *Los Angeles Times* reports Brenda Barnette, general manager of the Department of Animal Services, defending the move on August 17, 2011 saying, "The deal with Best Friends cost the city nothing and will save the lives of thousands of animals that would otherwise be euthanized each year."[36] Best Friends announced that over the course of the three-year contract they would:

- Spend up to $1 million in private capital to improve the facility;
- Find adoptive families for at least 3,000 animals each year; and
- Perform at least 6,000 spay and neuters.

The Mission Hills facility was built three years ago for almost $20 million, but was never fully staffed because of budget cuts, according to the *Los Angeles Times*. In fact, the facility has been closed and according to budget estimates would have cost the city $3.3 million to run it. For more on animal shelter privatization, see Part 10: Nonprofit Groups Transforming Government Animal Shelters.

The city council also achieved mixed results regarding public art facilities. It agreed to spin off four facilities, but was initially hoping to privatize nine and generate $1 million in savings. According to a February 26, 2011 report by the *Los Angeles Times*, facilities in line for outsourcing include the: Madrid Theater in Canoga Park, Warner Grand Theater in San Pedro, Vision Theater in Leimert Park and Lincoln Heights Youth Art Center. Olga Garay, executive director of the Department of Cultural Affairs, told the *Los Angeles Times* that the city must seek new operating proposals for facilities already operating by private non-profit groups that are not under official lease agreements. Overall, Garay is looking to secure five-year renewable agreements that would go into effect in January 2012.

Finally, last year the Los Angeles City Council ordered feasibility studies on ways to privatize the operations of the Los Angeles Zoo & Botanical Gardens, partnering with a nonprofit organization like the Greater Los Angeles Zoo Association. This proposal progressed in 2011 when the city council voted to begin soliciting proposals from prospective operators. The zoo's operating budget is projected to increase from $26 million to $33.7 million over the next five years, expenses the city can't afford.

City analysts calculate a PPP for the zoo could save as much as $20 million over the next five years. A July report by Miguel Santana found that "Without an alternative (operating) model, the city's fund subsidy is very likely to be reduced further or eliminated, resulting in the continual

increase of admission fees and the possible eventual closure of the (zoo)."[37] For more on zoo PPPs, see Part 9: Privately Operated Zoos Now Considered the Standard.

While divesting operation of the Mission Hills animal shelter and several public art facilities were considered a win, all eyes are on Villaraigosa to see if the momentum will continue in 2012. Likely candidates for PPPs include: the Los Angeles Zoo and Botanical Gardens, city-owned parking infrastructure and the Convention Center.

Part 4

# Emanuel Administration Embracing Private Sector Competition in Chicago

After Mayor Richard Daley left office, the future of privatization in Chicago was uncertain at best. Under Daley's tenure, dozens of city services were privatized and his administration tapped over $3 billion from long-term leases of city assets (notably parking) during his six-term, two-decade tenure. For an update on Chicago's parking meter privatization, see Part 2: Parking Privatization Blossoming in 2011. One of Daley's final moves was privatizing management of the McCormick Place Convention Center. McCormick Place is now managed by the Pennsylvania-based SMG Management Inc., which already operates Soldier Field.

Daley also relied heavily on one-time infusions of revenue from asset leases to balance the budget. The Chicago-based Civic Federation published a report entitled *Financial Challenges for the New Mayor of Chicago,* which found that by the end of 2011, only $576 million in revenues will be left from the almost $3 billion generated by leases—in other words, nearly 80% of the money was spent in 6 years.[38] The report also noted that Daley only leveraged $96.9 million, or 14.8%, in spending cuts to balance the budget.

Chicago's new mayor, and President Barack Obama's former White House Chief of Staff, Rahm Emanuel took office with a FY 2011 budget shortfall, another $635 million budget deficit looming in FY 2012, and a structural deficit of over $1 billion.

Emanuel hit the ground running. First he established a new Mayor's Economic, Budgetary and Business Development Council, primarily composed of members with private sector expertise in privatization, mergers and acquisitions, and cost-savings. Members of Emanuel's cabinet include: Deputy Mayor Mark Angelson, Chief Financial Officer Lois Scott, Budget Director Alexandra Holt, City Comptroller Amer Ahmad, and Chief Technology Officer John Tolva. He cut the city's budget by $75 million and eliminated a $30 million furlough program that failed to deliver projected cost-savings to balance the FY 2011 budget.

A second study by Civic Federation entitled *Recommendations for a Financially Sustainable City of Chicago* provided a range of proposals to fix the city's fiscal malaise.[39] Among the recommendations, the study calls for privatizing the city's water system, garbage collection, curbside recycling, building management and 3-1-1 non-emergency call center. Emanuel has few

illusions of the challenges ahead saying, "You can no longer avoid some of the choices we have to make," according to the *Chicago Sun-Times*.[40]

One of Emanuel's first major moves was taking on the Blue Cart recycling program by implementing managed competition—allowing public employees to compete with private firms to test the market and compare the cost of public and private service delivery in real time. In July Emanuel split the city into six service areas, with four managed by private companies and two managed by city employees.

Specifically, Waste Management will provide recycling pickup in three service areas, while Metal Management Midwest will provide services in one service area on the South Side. The city's two service areas on the North and Southwest sides serve 114,000 households. According to the mayor's office, the seven-year contracts to privatize curbside recycling for 240,000 Chicagoans reduce costs from $13.8 million per year down to $6.6 million per year, providing cost-savings exceeding 50%.[41]

The move received the support of former Indianapolis Mayor Stephen Goldsmith, who told the *Chicago Tribune* in September, "I think (Emanuel's timeline is) ambitiously realistic. The longer he waits, the less likely it is to occur."[42] Currently only 40% of Chicago households have city recycling, however Emanuel noted in a press conference that by expanding the role of the private sector he would expand service to more Chicago residents. For example 22,000 new households in Wicker Park, Bucktown and Logan Square now receive recycling service with more expected next year.

Emanuel took another decisive step in merging Chicago's Departments of Fleet Management and General Services and appointing David Reynolds to lead the new agency. Commissioner Reynolds oversees management of all government property, from facilities and leases to the vehicle fleet. Reynolds has extensive private sector experience and will focus on improving the energy efficiency of city buildings and vehicles. According to the *Chicago Sun-Times*, Emanuel promised on the campaign trail to reduce Chicago's vehicle fleet, encourage car-sharing and public transit, and purchase more fuel-efficient vehicles.[43] At this point, Reynolds appears unlikely to implement privatization in his new role.

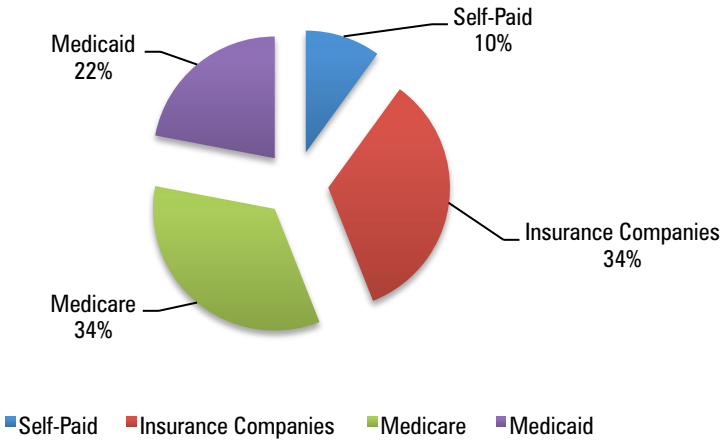
Meanwhile, solving the $635.7 million 2012 budget deficit is proving complex. Emanuel's proposed budget comprises mostly of spending cuts, including controversially closing three police stations that could save $80 million. He also proposed a wide range of fee and fine increases that some critics have derided as tax increases.

For example, Emanuel's budget would nearly double water and wastewater fees over the next four years and does not include privatization, though he did begin privatizing the city's water bill call center this summer. Emanuel is allowing households to mitigate rate hikes, but only if they install free meters to measure water use. Rate hikes would go toward upgrading the city's antiquated

water and wastewater infrastructure. Other proposed revenue increases would come from hotels, parking, neighborhood safety violations, a special SUV sticker fee and more.

Emanuel proposed cutting the Chicago Fire Department's operations budget by 20%, and in response Alderman Ed Burke proposed partnering with the private sector to save money and reduce the need for that cut. According to a September article in the *Chicago Sun-Times*, Burke wants to privatize the collection of city ambulance fees in hopes of improving the current 37.5% collection rate that leaves $50 million in unpaid bills each year.[44]

**Figure 2: Source of Ambulance Fee Payments in Chicago**




Source: Fran Spielman, "Burke: Privatize ambulance fees to cut $50 million in unpaid bills annually," Chicago Sun-Times, September 23, 2011.

Early successes aside, the 2012 budget battle should be a revealing indicator of the relationship between Mayor Emanuel and the city council.

Part 5

# Tulsa, Jacksonville Mayors Pursuing Public-Private Partnerships

Two first-term mayors hit the ground running in 2011 by pursuing transformative government reform initiatives: Tulsa, Oklahoma Mayor Dewey Bartlett and Jacksonville, Florida Mayor Alvin Brown.

## A. Tulsa, Oklahoma

Mayor Dewey Bartlett didn't have time to ask questions or get adjusted on his first day in office on December 7, 2009. Even though the previous administration had cut $10 million dollars in spending and had used almost $11 million of the reserve fund, he had 45 days to cut an additional $10 million from the operating budget. In total, this amounted to between 10% and 15%—or $24 million—of the operating budget.

First, Bartlett ordered a review of city services as a part of his vision for comprehensive managed competition, specifically identifying departments delivering services often handled by the private sector like vehicle fleet maintenance and street maintenance. The city partnered with KPMG for a review of Tulsa's government, paid for by the Tulsa Community Foundation, which was published on July 1, 2010 including 1,134 recommendations.[45]

KPMG calculated the city's workforce as composed (at the time) of 3,900 full-time equivalent employees providing 1,512 services across every department costing $420.4 million and generating $408.5 million in revenue. KPMG included a concise summary of strategic opportunities in the report (Table 2 below). KPMG identified 700 opportunities for cost savings, 84 opportunities for enhanced revenue collection and 350 opportunities for efficiency gains.

| Table 2: Summary of Strategic Opportunities for Tulsa | | |
|---|---|---|
| Opportunity Type | Strategic Impact | Services |
| Cost Savings | Strategic Elimination | 132 |
| | Strategic Sourcing/Managed Competition | 298 |
| | Public-Private Partnership | 270 |
| Revenue | Fee Implementation | 9 |
| | Customer Expansion | - |
| | Public-Private Partnership | 75 |
| Efficiency | Internal Consolidation | 140 |
| | Inter-Agency Partnership | 30 |
| | Shared Services/Automation | 180 |
| Totals | | 1,134 |

*Source:* Managing Change: Opportunities for Municipal Efficiency and Effectiveness, City of Tulsa Management Guide *(Tulsa: KPMG, July 1, 2010).*

KPMG split city functions into two broad categories based on the primary customer base served: internal departments (e.g. communications, finance, internal auditing, etc.) and external departments (e.g. parks and recreation, municipal courts, public works, etc.). The KPMG review was performed under the purview of Bartlett's newly created Management Review Office (MRO). MRO is dedicated to designing, evaluating and implementing reform, then delegating long-term operational responsibilities to existing city departments. Additionally, the review led to the creation of the Office and Strategic Review Steering Committee, which is composed of private sector business leaders and provides guidance for the MRO.

Bartlett ordered the first Citizens Survey to determine feedback on his reform agenda and public service delivery priorities. Over 100 questions were asked to over 1,800 households and more than 65% of respondents indicated they support Bartlett's efficiency initiative. Other notable findings include:

- 73.8% support coordinating and sharing services with Tulsa County to reduce costs;
- 70.3% support more public/private partnerships for parks and recreation;
- 68.2% support more public/private partnerships for the performing arts; and
- 59.8% support more public/private partnerships for utility services.[46]

One of Bartlett's first tangible wins was successfully transitioning the Tulsa Zoo to a public-private partnership (PPP). The Tulsa Zoo is the fifth such PPP in Tulsa; other examples include: the BOK Center, Gilcrease Museum, the Performing Arts Center and Tulsa golf courses.[47] According to an analysis conducted by Schultz & Williams, the 78-acre complex houses 2,500 animals and attracts over 525,000 visitors annually and has operated within Mohawk Park since 1927. Lawmakers partnered with the newly created nonprofit Tulsa Zoo Management, Inc. (TZMI).

TZMI assumed a significant fundraising challenge since the facility renewal and reinvestment plan included $60–100 million for deferred maintenance and infrastructure investment. The zoo also faced a pressing need to meet compliance standards for accreditation with the Association of Zoos and Aquariums (AZA) after the death of two giraffes under public operation.

One year later the *Tulsa World* reports, "(the) Tulsa Zoo is prospering due to privatization."[48] The zoo was able to retain its AZA accreditation meeting standards for governance, operations and quality animal care. Privatization allowed the zoo to increase its reliance on private funding for its $8.3 million operating budget—specifically raising over $1 million for capital investment and deferred maintenance projects—with only $3.6 million coming from the city in the form of a management fee. TZMI is planning on hiring 26 employees, replacing 12 vacant positions the city eliminated in January 2010 during budget cuts.

City officials also identified the Tulsa Animal Welfare on the reform agenda. They sent out 58 Request for Information (RFI) packets to local and national nonprofit animal organizations, veterinarians and animal clinics, academic institutions, and to other cities that have implemented privatization and pet stores like Petsmart, according to a June 19, 2011 article in the *Tulsa World.* Officials agreed to partner with the Humane Society of Tulsa to provide animal adoption services for the city with established goals to: Increase the number of adoptions, decrease the number of animals being euthanized, and redirect cost savings into education and enforcement. The move is expected to save Tulsa taxpayers $300,000 annually.

Bartlett's aforementioned Citizens Survey found that at the time, only 50% of respondents were satisfied with the city's Fix Our Streets program. KPMG's review of Tulsa's Management Review Office confirmed citizens' dissatisfaction. Approximately 36% of activities within the maintenance budget were spent on maintenance activities: 20% toward street maintenance, 13% toward snow removal, and 1% toward graffiti. Bartlett elected to focus on optimizing this service delivery duty by eliminating six vacant FTE positions, saving $571,000 annually and creating three new departments: Streets & Stormwater, Water & Sewer, and Engineering Services.

MRO partnered with a fleet management consultant to identify over 550 excess vehicles that will be sold. These vehicle reductions allow the city to close two maintenance garages and add second shifts to remaining garages to increase use of those facilities. Combined with lower capital purchases, savings from vehicle fleet maintenance reform is expected to exceed $6 million over five years.

Bartlett's administration elected to retain the Emergency Medical Services Authority (EMSA) for emergency transport services, rather than transfer duties to the Tulsa Fire Department, on the condition that EMSA implement cost savings of at least $1 million annually. The city is also negotiating a permanent revenue-sharing agreement with EMSA—transfers have ranged from $600,000–$1,600,000 over the last few years.

The Tulsa Metropolitan Utility Authority selected Infrastructure Management Group (IMG) to conduct a comprehensive audit of the city's water and wastewater system. The $2.9 million audit is expected to take 18 months and includes three engineering firms (Black & Veatch; Tetra Tech; and Holloway, Updike & Bellen) and two legal firms (Pannone Lopes Devereaux & West LLC and Public Finance Law Group).[49]

Finally, perhaps the most symbolic reform came from building maintenance reform. City employees bid against private contractors to continue to provide mechanical, electrical, plumbing and carpentry services at City Hall. The city employees won the managed competition process, saving the city over $900,000 over five years and enabling these innovative and competitive employees to retain their positions. The contract includes the city's first application of gain-sharing, whereby employees will receive 50% of any additional savings realized.

Bartlett is leaving few stones unturned. Tulsa policymakers will explore reforming parking meters, law enforcement, 911 call centers, workers compensation and more in 2012.

## B. Jacksonville, Florida

Mayor Alvin Brown was sworn into office on July 1, 2011, succeeding former Mayor John Peyton. Previously Brown served in former President Bill Clinton's administration. In Brown's first 100 days he took several symbolic steps that served as a preview of what's to come. First, he took a 20% pay cut and declined to take a city pension. He also worked with his administration to identify and eliminate 50 mayoral appointee positions and proposed a balanced budget that didn't raise taxes (or fees) or dip into the city's cash reserve fund.

On November 8, 2011, Brown introduced a comprehensive slate of reform legislation that is the first of two phases. Phase one focuses on demonstrating the architecture of reform by enhancing the city's ability to be effective and efficient, positioning the city for economic realities of the future, increasing the city's competitiveness, and giving the best opportunity to streamline and innovate. Discussing public-private partnerships, Mayor Brown stated:

> *My philosophy is simple: if the private sector can do something better than city government, and in a way that saves money for taxpayers, then we should work together.*[50]

Phase two focuses on streamlining city operations to ensure that services are delivered in the most efficient, effective manner possible. Specifically, Brown's administration and department heads seek to save 10% to 15% of the city's roughly $270 million annual budget. Brown identified three opportunities for streamlining:

1. Reforming employee leave time to reduce overall compensation for overtime hours.
2. Examining the city's vehicle fleet maintenance to save on fuel costs and reduce vehicle asset depreciation.
3. Identifying opportunities for PPPs to leverage taxpayer dollars.

In order to execute this vision, Brown tapped Renee Finley to head the Mayor's Office of Public-Private Partnerships. The city council voted in August against funding the proposed two-person department for $227,000 annually,[51] however Finley will instead be paid $1 annually as an executive-on-loan from Blue Cross Blue Shield of Florida, where she worked as the vice president for Corporate and Market Strategy. Brown outlined some examples of cost savings he expects to be realized:

- **Public Employee Health Benefits:** Providing an opt-out option, seeking bids and active employee health management, passing on more of cost to employees, and performing a dependent eligibility audit.
- **Vehicle Fleet Maintenance**
  - **Automated Vehicle Locator (AVL) System:** 5% of public vehicles account for 80% of waste and inefficiency; implementing AVL technology is intended to identify and eliminate the waste.
  - **Compressed Natural Gas (CNG) for Heavy City Vehicles**: Transitioning to CNG is expected to reduce costs by 25% plus fuel savings.
- **Emergency Services**
  - **Rescue Transports:** Increasing collection rates of certain recurring city revenue streams, such as rescue transports.
  - **Jacksonville Fire and Rescue Department:** Investing in a specialty apparatus that combines fire engine and ladder capabilities.
  - **Fire Inspection:** Exploring procurement to privatize fire inspection services.
- **City Engineering Services:** Providing specialized and peak-demand engineering services.
- **Real Property Asset Management:** Right-sizing city facilities by exploring sale, leaseback, etc.

RFIs and Requests for Proposals (RFPs) are expected for vehicle fleet maintenance, fire inspections, medical insurance management and information technology in 2012.

Part 6

# Contract City Model Steadily Evolving

Contract cities—cities that contract with outside public or private sector providers for major municipal services, such as police and fire services, public works, and building and safety—have continued to grow in number since Lakewood, California—a pioneer contract city—was incorporated in 1954. The model was later methodically outlined in a 1980 book entitled Cutting Back City Hall by Reason Foundation's Robert W. Poole Jr. While the concept may be simple, its implementation has proven complex. This section of *Annual Privatization Report 2011* details the latest evolutions in the contract city model.

## A. Georgia Contract Cities

Georgia's contract city experiment, which started in 2005 with the incorporation of Sandy Springs and other subsequent cities, continues to evolve almost seven years later. Other cities include: Dunwoody, John's Creek, Milton and Chattahoochee Hills. Milton and Chattahoochee Hills were the smallest cities to explore the model (populations of 2,500 and 20,000 respectively). Both subsequently abandoned their bundled service contracts, suggesting scale may impact the viability of contract city arrangements.

Sandy Springs, Dunwoody and John's Creek are demonstrating that the private sector can provide a comprehensive range of services that were considered core functions of government. Initially, every city relied on a single-provider contract service model where a single private sector partner (in this case CH2M Hill) was responsible for service delivery. Reason Foundation's *Annual Privatization Report 2010: Local Government Privatization* explains how Dunwoody policymakers switched to a split contract service model in 2010, opting to contract out bundles of services, instead of the single-provider contract service model. Sandy Springs adopted a similar approach and realized dramatic improvements in cost savings and public service delivery.

Split contract services allow greater transparency, increased competition for cost savings, and transformative marginal analysis. For example, Dunwoody can calculate exactly how much it costs to fill a pothole, pave a road or change a streetlamp light bulb, because that level of granular analysis is outlined through agreements with contractors and subcontractors. The allure of outcome-based performance may prove irresistible to other cash-strapped local governments seeking accountability, and the split contract service model offers a feasible way forward.

Innovation aside, the contract cities have their fair share of critics in The Peach State. The Georgia Black Legislative Caucus filed a lawsuit against the state of Georgia in a North Georgia U.S. District Court that claims the state circumvented the normal legislative process when allowing the contract cities to form, which the suit describes as "super-majority white" communities. The suit argues this decision dilutes minority votes in the contract cities, thereby violating the Voting Rights Act of 1965, and the Fourteenth and Fifteenth Amendments to the U.S. Constitution.

Georgia State Rep. Lynne Riley (R-Johns Creek) described the lawsuit as "frivolous," according to the *Atlanta Journal-Constitution.* Riley asserted:

> *These jurisdictions were based on geography and nothing else. We haven't seen any evidence of any disadvantage based on the creation of new cities. We've watched the Fulton County budget continue to grow… to say there was damage done by this creation, there are no facts to support that, and I would reject it.*[52]

Riley's criticism of the suit reflects the feelings of many political leaders who represent the contract cities.

The city of **Sandy Springs** continues to be an innovative leader, breaking new ground with the re-bid of its master services contract previously held by construction company CH2M Hill. Following a year-long process, the city awarded contracts to four firms at a May 17, 2011 city council meeting to provide general government services in the areas of communications, municipal court, public works, recreation and parks and community development.

City officials, led by City Manager John McDonough, leveraged an exhaustive split contract service Request for Proposals (RFP) process that, when applied, saved taxpayers almost 30%, or over $7 million, compared to the previous single-provider contract service. Over the course of five years these contracts are expected to save taxpayers a staggering $35 million. The city is partnering with the following firms: Pasadena, California-based Jacobs Engineering Group Inc., for a municipal court and parks and recreation; San Francisco, California-based URS Corporation, for public works; and Boston, Massachusetts-based Planners Collaborative Inc., for communications and community development. Additionally, the city already contracts with Severn Trent Services for financial services. Overall, Sandy Springs's FY 2012 contracts are worth $10,126,293.

City officials selected the lowest bid for each contract. After announcing the new contracts, Mayor Eva Galambos was quick to emphasize, "Sandy Springs has had an excellent experience with CH2M Hill over the past five years, and values the high quality of services the firm produced. The change in future contract providers is in no way a repudiation of the excellent service by CH2M Hill in the past, but reflects the competition in the bid process by other qualified firms."[53]

While Sandy Springs has been able to weather economic uncertainty without cutting services, officials went one step further by cutting taxes for 2011. The *Fulton County Buzz Examiner* reports the city council approved the following tax cuts:[54]

- A blanket out-of-state sales tax exemption;
- A blanket franchise fee exemption for franchisees located out of state; and
- A reduced cap of the maximum occupation tax paid in any one year from $400,000 to $75,000.

The split contract service model is expected to yield significant cost savings in **Dunwoody**. *The Champion Newspaper* reports the contracts are expected to save more than $1 million over four years, an impressive figure considering the cost savings that have already been realized under single-provider contract services. According to *The Champion Newspaper*, the city is partnering with a consortium of contractors and subcontractors, including: Kennesaw, Georgia-based JAT Consulting Services Inc. and Fort Lauderdale, Florida-based Calvin Giordano & Associates, for finance and administration; Rochester, New York-based Clark Patterson Lee, for planning and zoning; Alpharetta, Georgia-based InterDev, for information technology; and Boston, Massachusetts-based Jacobs Engineering Inc., for public relations and marketing.

In other news, the Dunwoody City Council voted to leave the DeKalb County 911 calling center and merge with the Chattahoochee River 911 Authority (ChattComm) currently serving Sandy Springs and Johns Creek. The three-year, $3.2 million agreement was approved on a 5–2 vote.

ChattComm, the $5.6 million 911 call center, was established in September 2009 by Sandy Springs and Johns Creek with iXP Corp. Early challenges primarily concerned transitioning to city revenue collection of a $1.50 monthly fee applied to cell and landline phones. After several months of private operation, the city saw improved emergency response times from three minutes (under the Fulton County 911 system) down to one minute and eleven seconds. For a robust history of ChattComm, see Reason Foundation's *Annual Privatization Report 2010: Local Government Privatization, Part 4: Georgia Contract Cities Continue to Evolve.*

Meanwhile, **Brookhaven**—an area in the middle of Sandy Springs, Dunwoody and Chamblee in unincorporated DeKalb County—is considering incorporating. The move comes after State Representative Mike Jacobs introduced HB 428 that would allow Brookhaven residents to decide on the matter. Residents could also decide to annex with neighboring Dunwoody or Chamblee.

The state of Georgia also enacted significant legislation enabling public-private partnerships (PPPs) in water and wastewater service delivery, for more see Part 14: Water and Wastewater Public-Private Partnerships.

## B. Central, Louisiana

Central, Louisiana is one of several "contract cities" that have been popping up with increasing frequency across the U.S. over the last decade. In 2005, Central incorporated and decided to partner with the East-Baton Rouge city-parish government to deliver public services. The partnership with East-Baton Rouge was costly (approximately $4.5 million annually according to a July 12, 2011 article in the *Baton Rouge Business Report)*, so in 2008 lawmakers signed a three-year contract with Colorado-based CH2M Hill to deliver public works, planning and zoning, finance, inspections and permitting.[55] CH2M Hill charged $4.3 million for the first year, and $3.5 million for the remaining two years, according to the *Baton Rouge Business Report*.

Difficulties with CH2M Hill essentially boil down to two things. First, the contract was not flexible enough to meet the city's needs. Second, CH2M Hill's perceived preference for operational privacy led to friction with local officials and journalists. In other words, the firm's method of service delivery is considered proprietary information and the company is slow to share it in a way that would benefit competitors. This latter issue is a pervasive concern when governments contract services out, since a private company is providing public service delivery with public dollars. City Council Member Louis DeJohn explained to the *Baton Rouge Business Report* that, "Nobody can fault the contractor. We had some growing pains."[56]

After the contract with CH2M Hill expired, Central lawmakers signed a five-year contract with the Virginia-based nonprofit Institute for Building Technology & Safety (IBTS) for provision of public service delivery, paying $3 million each year. Chief Operating Officer at IBTS, Shyam Choudhary, explained to the *Baton Rouge Business Report*, "We intend to provide a model for public-private collaboration at its best in our partnership with the city of Central. We will be visible, accessible and engaged in the community." The new contract shifts performance-based contracting to outcomes, rather than time spent performing services. The new contract also addresses issues with the previous contract by adding an engineer and grant writer that are based in Central, and provides streamlined online permitting. DeJohn heartily endorsed Central's decision to incorporate, explaining to the *Baton Rouge Business Report* in July:

> *I'll say right off the bat that privatization is the wave of the future. It has saved us dollars. We have a solid 20% surplus in our budget, and the only taxes we receive are sales taxes. That's unheard of anywhere in these economic times.*[57]

Under the new contract with IBTS, any profits will be either returned to city coffers or reinvested to provide additional services.

Part 7

# Privatization Efforts in San Diego: The Good, the Bad and the Ugly

The city of **San Diego, California** has had mixed success with its various privatization efforts in recent years. It has struggled mightily to get its managed competition program off the ground, but finally started moving ahead with several competitions in 2011. The following is an overview of the city's privatization and managed competition programs, as well as the fate of the cash-strapped South Bay Expressway toll road in southern San Diego County.

## A. Managed Competition

In the November 2006 election, San Diego voters overwhelmingly, by a 60% to 40% margin, approved Proposition C. The measure allowed the city to attempt to achieve cost savings and service improvements through managed competition, in which private firms would be invited to compete with city employees for government services contracts.

Then, as now, managed competition was seen as a means of using scarce resources to balance budgets without having to impose tax increases or additional service cuts. For the current budget [fiscal year (FY) 2012], the city had to plug a $57 million budget deficit, in part, by cutting the hours of operation for libraries and recreational centers in half, although full funding was restored for fire stations, which had been understaffed, or "browned out," for over a year. According to the city's Independent Budget Analyst, the city is facing a $44 million deficit in FY 2013, a $41 million deficit in FY 2014, and a $36 million deficit for FY 2015.[58]

The city's managed competition efforts dragged on for years without any real progress, however, as the city employees' labor unions and the administration fought vigorously over the design and implementation of the program. In September 2010, nearly four years after the voters had demanded a managed competition program, the city and its labor unions finally agreed upon a managed competition process, which was outlined in the Managed Competition Guide. At the time, Councilmember Carl DeMaio, a key champion of managed competition and the sole vote against ratifying the Guide, held a press conference, along with local business owners and Reason Foundation Senior Policy Analyst Adam Summers, to decry the labyrinthine, bureaucratic process

involved and the unfairness of a process that, they argued, tipped the balance heavily in favor of public employees winning the bids.[59] For example, critics cited a requirement that private-sector bids would not be considered unless their costs are at least 10% less than the public employees' bid, and some city employee health-care costs could be ignored when comparing public sector and private sector bids. Nevertheless, the city moved forward with the program and announced that the first two services to be put through the managed competition process would be its publishing services and vehicle fleet maintenance.

In May 2011 Mayor Jerry Sanders announced that city employees in the Publishing Services Department had won the printing and copying services competition. The department beat out five bids by private-sector contractors. Although city employees won the bid, the city expects to realize significant savings from the competition process, as the winning bid will save $5.2 million over the five-year life of the contract, representing a 30% savings over what the city had been paying to do the same work. As part of the agreement, the department will shed 4.5 full-time-equivalent positions from its current staff of 23, and eight unfilled positions will be eliminated. About 30% of the savings will be reallocated to other General Fund priorities and the remaining 70% will be directed to enterprise fund programs such as water and wastewater.

City employees also won the fleet maintenance contract in October 2011, although their proposal calls for outsourcing the Fleet Services Division's parts operations, towing and heavy tire repair, which they judged could be performed more cheaply by the private sector. The new contract will save $22 million over five years, or $4.4 million per year, for a cost savings of 13%. As a result of the partial outsourcing and additional cuts to management and maintenance staff, the city will cut 92 of the agency's current 249 positions, although some of these positions are vacant.

Several other city services are currently undergoing the managed competition process. The city is reviewing bids for street sweeping services and is developing requests for proposals for public utilities customer support, street and sidewalk maintenance, and landfill operations. The city has preliminarily estimated that it could save up to $6.5 million a year, or 25%, from the street and sidewalk maintenance competition, which would include work such as filling potholes, repairing sidewalk tripping hazards, removing graffiti, maintaining and re-striping traffic lane markers, and repainting curbs.[60]

Efforts to privatize, or competitively bid out operations of, the Miramar Landfill have been particularly contentious. A previous effort in 2010 and early 2011 to outsource the entire landfill failed when potential bidders balked at the terms of the deal the city was hoping to achieve. The city had estimated savings of $100 million over ten years from privatizing the landfill. In addition to assuming all future environmental liabilities, the city was asking private companies to offer below-market rates for city-operated trash disposal. Complicating things further was the prospect that the landfill is estimated to reach capacity in a mere 10 years, and the U.S. Navy, which owns the land it sits on, would have to sign off on any proposal. In light of these dilemmas, Mayor Sanders cancelled the landfill privatization in February 2011 and announced that the city would maintain public ownership and competitively bid out the landfill's operations instead.

## B. Other Contracts

San Diego has experienced both good and bad news in its other contracting efforts. The city's innovative public-private partnership with Rural/Metro Corp. for ambulance services is coming to an end due to a dispute over revenue-sharing and the fees charged to the city. The partnership, San Diego Medical Services, was established in 1997. Unlike a traditional outsourcing contract, under this joint venture, the city and Rural/Metro share revenue and expenses. According to a *San Diego Union-Tribune* report, an audit and whistleblower lawsuit have led to accusations that Rural/Metro has cheated the city and taxpayers out of as much as $18 million by "taking advantage of lax city oversight by hiding the partnership's revenue from the city, taking money without proper documentation and overcharging the city for services."[61] The article notes:

> *The company denies any wrongdoing and has agreed to pay for independent forensic accounting of the partnership's books for the past 13 years to clear its name*.[62]

As a result of this controversy, in June 2011 the city council voted 5–3 to have the company buy out the city's share in the partnership for $5.5 million. Rural/Metro will continue to be the city's ambulance operator for the next two years, during which time the city will competitively bid the service.

The city had much better luck with its copier contract. In November 2011 the city council approved a new, five-year contract with Sharp Business Solutions for the provision of convenience copiers throughout the city. The contract will cost approximately $1 million a year, a hefty 57% savings over the $2.3 million it spent during the last fiscal year under the old contract with Konica Minolta Business Solutions. The Konica contract was signed in July 2005 and cost about $900,000 the first year but costs steadily rose, prompting the city to seek a better deal.

## C. South Bay Expressway Toll Road

The South Bay Expressway (SBX) toll road has faced a bumpy ride since opening in 2007. It is not a project of the city of San Diego, but the public-private partnership in San Diego County certainly affects traffic and economic activity in the region. The 10-mile State Route 125 toll road, which runs from SR-54 in Spring Valley through eastern Chula Vista down to SR-905 in Otay Mesa near the Mexican border, was built primarily with private money and was to be operated under a 35-year lease agreement with the state of California. The road was made possible through a public-private partnership among the California Department of Transportation (Caltrans), San Diego Association of Governments (SANDAG), Federal Highways Administration and South Bay Expressway.

The economic downturn has taken its own toll on the road, however. The toll road enjoyed success initially, causing an 11% drop in traffic on the nearby Interstate 805, thus increasing average driving speeds from 45 mph to 65 mph.[63] Shortly after SBX began operations in November 2007,

the housing and financial bubbles burst, depressing economic activity and the growth that had been expected in the region.

By early 2010, approximately 22,600 cars traveled the road each day on average, less than 40% of the 60,000 that had been projected. The number of commuters from Mexico dropped 30%. This caused the company to bleed $16 million a year, prompting it to file for Chapter 11 bankruptcy in March 2010.[64] The company emerged from bankruptcy in April 2011, and in July SANDAG announced that it would purchase the toll road for $345 million. The regional transportation and public planning agency intends to lower tolls, which for most cars are currently about 85 cents for short trips and $4 to travel the entire 10-mile route, reducing rates by half and then eliminating them entirely in 2042.

There is a silver lining to SBX's fate. Despite the misfortune and failure of the public-private partnership, SBX allowed for the construction, primarily with private money, of a road that had been desired for 50 years but that government agencies had never been able to build. SANDAG Chair Jerome Stocks noted that buying the road would actually improve traffic in the area sooner and save money in the long run. “There was a future project that was identified where we could put in a second managed lane in each direction in that same corridor there on the 805. That was projected to cost $688 million,” Stocks said. “Instead we can pick up the 125, which serves that very same area, and there's your four managed lanes.”[65]

Part 8

# Solid Waste and Recycling Privatization Update

A 2007 Reason Foundation report found that for-profit contracting for solid waste and recycling collection rose from 2002–2007 in suburban and rural municipalities, and declined in metropolitan municipalities (see Table 3 below).

**Table 3: Use of Alternative Waste Collection Service Delivery Forms by Metro Status**

| | % Use 2007 | | | % Point Change 2002-2007 | | |
|---|---|---|---|---|---|---|
| **Service** | **Metro** | **Suburb** | **Rural** | **Metro** | **Suburb** | **Rural** |
| Res. Waste Collection | 29.0% | 57.3% | 39.3% | -4.6% | 10.4% | 10.0% |
| Comm. Waste Collection | 39.2% | 63.8% | 52.7% | -2.1% | 14.5% | 18.9% |
| Waste Disposal | 35.3% | 51.9% | 30.4% | -1.7% | 8.0% | 0.8% |
| Hazardous Materials | 32.4% | 29.1% | 36.5% | -10.1% | -9.0% | 2.5% |

Source: Warner and Hefetz, Trends in Public and Contracted Government Services: 2002-2007 (Los Angeles: Reason Foundation, August 2009).

Since this research was published, a number of large municipalities have embarked on exploring privatization. As reported in Reason Foundation's *Annual Privatization Report 2010: Local Government Privatization*, notable examples include: San Diego, California; Scottsdale, Arizona; Memphis, Tennessee; Newark, New Jersey; Hernando County, Florida and others. Several policymakers have continued these efforts in 2011.

**Toronto, Ontario (Canada)** Toronto Mayor Rob Ford's promise to expand private trash collection for 165,000 homes in Toronto's District 2 (also known as the West End, west of Yonge Street to the former Etobicoke border) moved forward in September 2011 when the city received five bids ranging from $17.5–25.6 million that all meet the city council's minimum requirements. *The Globe and Mail* reports Denzil Minnan-Wong, chair of the city's Public Works Committee, saying he's pleased by the "robust response" and he expects privatization to be implemented by August 2012.

Based on the submitted bids, Toronto taxpayers could save anywhere from $35–92 million over the course of 7 years. The Request For Quotations (RFQ) sets the minimum hourly wage for employees at $18.97 and requires that no bid exceed $25,975,030; under public provision in 2011,

trash collection was delivered with an average employee hourly wage of $26.06 costing a total $30.7 million, according to a September 2011 article in *The Globe and Mail*. Below is a list of the final annual bid amounts, by firm, for the seven-year contract:

- Emterra Environmental $23,946,565.72
- GFL (Green For Life) $17,471,353.25
- Miller Waste $20,978,787.46
- Waste Management $23,836,800.00
- Waste Management $25,600,723.20 (alternate bid)

*The Globe and Mail* reported in August 2011 that this is the first stage of Mayor Ford's three-stage trash collection privatization plan. Privatization is a high priority for Ford's administration, which he defended in a fiery address to the Toronto City Council before they voted 32–12 to approve issuing an RFQ for trash collection in District 2 this May, saying:

> *We're going to divide ourselves up today into two groups and it's going to be very simple for the taxpayers to see. You're going to have one side of council that is going to support high taxes, big spending, [and] out-of-control union contracts. We're going to have the other side of council that is going to demonstrate restraint in spending… have respect for taxpayers' dollars, that want to have accountability at City Hall, that are sick and tired of the tax-and-spend socialists at City Hall.*[66]

An Ipsos-Reid poll released in May found 60% of Toronto residents support privatization. It's widely believed that support for privatization began to rise after a 39-day public employee strike in 2009 left piles of garbage across the city. Privatization has faced vocal challenges from the public employee union CUPE Local 416 since it would eliminate 300 public employee jobs, however privatization has continued to move forward and officials like Councilor Giorgio Mammoliti have expressed little sympathy for CUPE Local 416. Mammoliti described the controversy saying, "Taxpayers want to be respected, even with their garbage. And that's what brought us to this point."[67] Privatizing trash collection in District 2 would mean half the city's trash collection is provided by the private sector, allowing for cost and service comparison before further expansion.

The *Saturday Star* reports that Windsor, Ontario took a bolder route after a 15-week strike in 2009. Windsor officials completely privatized garbage collection and taxpayers are on track to save $9.2 million over 7 years, according to Mayor Eddie Francis.

**Chicago, Illinois** is implementing managed competition reforms to its waste collection services. For more see Part 4: Emanuel Administration Embracing Private Sector Competition in Chicago.

**Detroit, Michigan** Detroit Mayor Dave Bing continued to lead privatization efforts in Detroit, as Reason Foundation reported in *Annual Privatization Report 2010: Local Government Privatization*. *The Detroit News* reported in June 2011 that Bing is "seriously considering

privatizing garbage collection to improve collections and save cash."[68] Specifically, his proposal would save taxpayers almost $14 million annually. Detroit Chief Operating Officer Chris Brown explained the proposal to *The Detroit Press* saying:

> *I don't think we have a view as to whether sanitation should be run by union or nonunion. What we have a view on is how we get the most efficient use of our dollars as a consumer.*
>
> *If you have a density problem and a garbage truck is only picking up one or two [garbage cans] per block, you're thinking to yourself how to optimize that. You're trying to figure out how to get more density in certain areas and how do you serve people better at a lower cost. That's what we're after.*[69]

*The Detroit Press* reported in June that the city's sanitation department faces several significant issues, for example:

- Population decline has led to inefficient collection routes;
- Garbage tonnage has fallen by 13% over the last year and 38% over the last five years;
- Dozens of trucks are out of commission at any time; and
- Homeowners' pickup fees are not collected in as many as 30% of homes, costing millions of dollars.

*The Detroit News* found that surrounding Metro Detroit communities like Westland, Northville, Novi, Bloomfield Township, Farming, Sterling Heights and Warren rely on private waste collection. At press time the privatization proposal was still in the discussion phase. For more on Mayor Bing's privatization effort in Detroit, see Part 13: Other Local Privatization Briefs.

**Memphis, Tennessee** Mayor A.C. Wharton's two-year effort to privatize sanitation services continues. Memphis residents may have déjà vu since Memphis lawmakers last considered privatizing sanitation services in 1993, according to a July 10 article in *The Commercial Appeal*. Reason Foundation reported in *Annual Privatization Report 2010: Local Government Privatization* that resident complaints about trash collection reached a fever pitch in May 2010. Residents turned the tables at a town hall hosted by the local union representing public sector trash collectors to oppose privatization, and went on to issue a barrage of complaints over the city's trash services.

This year City Councilman Kemp Conrad became a vocal proponent of privatization introducing a comprehensive solution he called the "City of Memphis Reform Plan," which outlined a variety of measures on privatization touting estimates that it could save taxpayers $20–25 million a year. Conrad also proposed buying out long-term sanitation workers who would not receive a pension by establishing a $7–8 million fund for the 109 employees with at least 35 years of service. Councilman Conrad bluntly defended privatization in a June 2 interview with Fox13 saying:

> *It doesn't take a rocket scientist to figure out when you have one truck automated and one person and we have trucks that aren't automated with two or three people, which is more*

> *efficient? If (inefficient policy) is going to be our philosophy we should go back to Dictaphones, get rid of word processors and our police officers, we should get the mounted Cavalry and get rid of our police cars if that's going to be our philosophy of not doing things more efficiently.*[70]

Conrad later clarified his position to *The Commercial Appeal* in July saying:

> *I wasn't dead set on privatization. It didn't matter to me whether we privatize, modernize, or have managed competition. ... But we're already 20% outsourced (in annexation areas of the city, such as Cordova.) When you can see that our private providers are doing 1,000 pick-ups a day and we're doing 400, you don't have to be a rocket scientist to see that something is wrong.*[71]

Councilman Conrad's plan was ultimately rejected and the city council passed a budget without privatizing sanitation services. *The Commercial Appeal* reports Mayor Wharton told a luncheon audience in September that he remains intrigued by the idea of managed competition, which would allow city employees to compete with private vendors. Political leaders have vouched for this plan, but with mixed public support it's difficult to predict how this will play out in the coming year.[72]

In related news, one of the Memphis Public Works Division's incinerators was shut down in July 2011. George Little, the city's chief administrative officer, explained to *The Commercial Appeal* on July 28 that the city has no plans to repair the equipment due to the significant cost. The incinerator shutdown has led to some difficult tradeoffs, namely that deceased animals from the city animal shelter are now being disposed of in landfills. This led community activists to rally in support of privatization with signs that said things such as, "50 Years of Suffering—Time to Privatize," (referring to the city-run animal shelter). For more on Memphis' efforts to privatize the animal shelter, see Part 10: Nonprofit Groups Transforming Government Animal Shelters.

**Toledo, Ohio:** The Lucas County Commissioners approved privatizing Toledo's trash collection in two separate 3–0 votes on May 17, 2011, according to the *Toledo Blade*. The first vote formally approved the county assuming responsibility for trash collection, and the second authorized the county's agreement with Allied Waste Services. These county votes were only possible after the Toledo City Council approved transferring trash collection to Lucas County on an 8–4 vote in March 2011.

The *Toledo Blade* reports most residents will see an 80-cent increase in their monthly trash bills, which will be collected through the city's utility department. Toledo Mayor Mike Bell supported the move, which enabled the city to cut $2.8 million from this year's budget and $5 million from next year's budget, according to local news network WNWO. Local news network WTOL reported on January 4, 2011 that under city provision of trash collection fees only raised $9 million per year while operating expenses cost over $16 million.

After implementing privatization 66 current city employees will be displaced, however 46 of those employees have other city positions waiting for them and the contractor will accept applications from city employees. Regarding trash collection privatization, Toledo Mayor Mike Bell said:

> *The idea or concept that we started off last year with a $48 million deficit and this year we're actually able to balance the budget to where we can actually put money in the bank—I think the city itself is moving in the right direction. We're just going to have to keep pushing forward.*[73]

Toledo is also exploring parking privatization. For more see Part 2: Parking Privatization Blossoming in 2011.

**Albuquerque, New Mexico:** On May 2, 2011 the Albuquerque City Council voted to enter a public-private partnership (PPP) with Friedman Recycling. Public employees will continue to collect recycling, however it will be delivered to a Friedman-operated facility. Mayor Richard J. Berry explained the decision saying, "Right now, we're losing money with everything we recycle. We're just recycling for the sake of recycling… Albuquerque only recycles 5–6% of solid waste and that's abysmal. We've got to do better," according to local station KRQE 13 News.[74] The partnership will reportedly cost the city $110,000 in the first year. While resident rates will initially remain the same, the deal will save close to $800,000 annually in the following years. The private facility is expected to be operational before January 2013.

**Fresno, California:** The Fresno City Council voted in September to privatize the city's commercial solid waste service for 7,900 multi-family, commercial and industrial customers, and will be transferring operations to Allied Waste Services and Mid Valley Disposal in December. As for the 109 current city workers, 85 will be hired by the private operators, 10 will move to the city's residential garbage collection, and several more are expected to retire. In the final agreement the private operators capped rate hikes at 2.5% and will be subject to a performance review in five years, and the contract will stipulate that the city may transition to an open contract after eight years.

The private operators also agreed to pay the city a $2.5 million dollar franchise fee for the next ten years. After surviving five votes, the only potential hang up at this point is a lawsuit filed on September 7, 2011 claiming the city illegally used fees from garbage collection to pay consultants to evaluate privatization.

Filing Attorney Barry Bennett argues state law and the Fresno City Charter prohibit the use of garbage collection fees for anything other than public services. Conversely, City Attorney James Sanchez defends the city's use of funds as within the law. As of press time, the outcome of this suit has not been decided. Privatization—alongside 3% compensation concessions from the city's employees—are vital components to Mayor Ashley Swearengin's effort to address the city's $18.5 million budget deficit.

**Springfield, Florida:** The Springfield City Commission voted on October 18, 2011 to privatize residential trash collection through a five-year contract with Waste Management. Waste Management already provides trash collection for commercial customers in Springfield. *The Walton Sun* reports the city charges residential customers $26.55 per month and Waste Management will only charge $12.75—a more than 50% reduction. However, the city will maintain existing rates to develop an emergency fund in case they want to re-establish city-run collection.

Officials are also divesting trash collection assets, the proceeds of which will go to the emergency fund. The contract allows Waste Management to raise rates up to 25 cents the second year and up to 3.5%, or the Consumer Price Index (CPI) (whichever is lower) in each consecutive year. It is unclear whether or not residential rates would increase if Waste Management raises the rates it charges the city, because the emergency fund could be used to maintain what residents pay at the current level. Mayor Robert Walker told *The Walton Sun* in October 2011 that without privatizing the service residents would have experienced rate increases.

**Maryville, Missouri:** In April 2011 The Maryville City Council unanimously voted to transfer operation of a municipal solid waste transfer station to the Saint Louis-based Pluvius LLC. According to the *Maryville Daily Forum*, the firm plans on converting the facility to recover waste into marketable biomass fuel. The *Maryville Daily Forum* also reports Pluvius's estimates that up to half of Maryville's waste stream can be converted to combustible biomass fuel, while another 20–30% can be recycled, leaving 20–40% that would be disposed in landfills. The agreement is expected to result in significant cost savings for the city. Matt LeCerf, Maryville's city manager, published a report that found the transfer station has cost a cumulative $685,250 since it opened in 2000.

**Fair Haven, New Jersey:** The Fair Haven Borough Council voted to issue a Request for Proposals (RFP) to privatize its garbage collection in October 2010, with strong support from council members and Mayor Michael Halfacre. *Red Bank Green* reports the city's selected operator, M&S Waste Services, began collection on May 2, 2011 and is expected to save taxpayers $100,000 in 2011 and $200,000 in the following two years.

**Roxbury Township, New Jersey:** Elsewhere in the Garden State, the Roxbury Township Council voted in February 2011 to partner with Blue Diamond Disposal in a five-year garbage collection contract that will save the town $644,000 each year, according to the *Daily Record.*

**Oak Creek, Wisconsin:** The Oak Creek Common Council unanimously voted to solicit bids from private operators to provide trash collection services. According to a June 22, 2011 article in the *Oak Creek Patch*, privatization could result in a net savings of $16,000. Alderman Dan Jakubcyzk explained the move saying, "We have to look at more situations like this and look at where we can—I'm not saying in all departments—but where we can privatize." Privatizing trash collection would complicate snowplow services because the departments share two-thirds of a full-time

equivalent employee, according to the *Oak Creek Patch*. As of press time, no decision has been made.

**Lehigh County, Pennsylvania:** Lawmakers agreed to privatize the Lehigh County Organics Recycling Facility, and after receiving and vetting four bids, operational duties were transferred to Middle Smithfield Materials Inc. (MSM) effective July 1, 2011. *The Morning Call* reports the five-year contract has two options for three-year extensions and is estimated to save county taxpayers $200,000–$250,000 in eliminated subsidies annually, with monthly fees doubling in the fourth and fifth years of the contract. Municipalities will be charged depending on the amount of waste they deliver for recycling and there are various revenue-sharing clauses built into the contract. Finally, the company must accept county parks' waste at no cost, provide the county mulch and compost for free, and offer municipalities compost at a discounted rate.[75]

**Santa Paula, California:** On February 23, 2011 the Santa Paula City Council voted 3–2 to sell the city's Solid Waste Department and outsource trash collection. The city eventually selected Crown Disposal as the private operator of choice. City officials estimate privatization reduced the FY 2012 budget deficit by $980,000, $300,000 of which was raised from franchise fees.

**Sheboygan, Wisconsin:** The Sheboygan City Council Committee of the Whole voted to privatize garbage collection to address the city's over-$600,000 budget deficit. As of press time, the city still needs to conduct a public hearing, select a bidder, and the city council will have to approve the contract.

Part 9

# Privately Operated Zoos Now Considered the Standard

The sustained trend toward municipal zoo privatization covered in Reason Foundation's *Annual Privatization Report 2010: Local Government Privatization* continued in 2011. Today, the majority of accredited zoos and aquariums across the United States (75% according to some estimates) now rely on private operators—this includes major cities like Atlanta, Chicago, Dallas, Denver, Fresno, Houston and Seattle. Eight publicly owned zoos and aquariums have been transferred to private operators in the last ten years alone. The trend continued in 2011, when several major cities explored privatization of their zoos.

**Los Angeles, California:** Officials in Los Angeles are exploring privatizing the Los Angeles Zoo. For more see Part 3: Villaraigosa Administration Advocating Reform in Los Angeles.

**Tulsa, Oklahoma:** Lawmakers in Tulsa successfully privatized the Tulsa Zoo. For a full description see Part 5: Tulsa, Jacksonville Mayors Pursuing Public-Private Partnerships.

**North Carolina:** Another high profile discussion of zoo privatization is occurring in North Carolina, where a broad coalition of advocates is calling for the state to privatize the 2,000-acre North Carolina Zoo. The North Carolina Zoological Society is the most likely candidate, since the organization already operates gift shops, sells memberships and conducts fundraising for the zoo. Philadelphia-based consulting firm Schultz and Williams was commissioned to conduct a feasibility study aimed at exploring privatization that is due before January 1, 2012.

The *Carolina Journal* reports the zoo only raises $6 million, or one-third, of its $17 million annual operating budget, and faces reduced appropriations if fundraising exceeds the allotted amount.[76] Under privatization, the general fund appropriations would likely decrease and the current 250-person staff would likely be transferred to the private operator.

**Grand Rapids, Michigan:** Lawmakers announced an agreement to transition toward privatizing the John Ball Zoo after Kent County names a team composed of zoo employees and county representatives to guide the process. The John Ball Zoo Society is expected to play a significant role in the process as the nonprofit organization has been working in partnership with the zoo since 1950, and helps with fundraising, marketing, advertising, animal purchasing and other functions.

The zoo received $2.5 million, or nearly two-thirds, of funding for its $4 million budget from the county in 2011.

**Santa Ana, California:** Policymakers in cash-strapped Santa Ana published a 116-page report detailing a variety of proposed solutions to help the city maintain fiscal stability. One of the proposals is privatizing the Santa Ana Zoo, whose $1.6 million annual budget receives almost $800,000 in support from the general fund. According to *The Orange County Register*, Friends of the Santa Ana Zoo—a local nonprofit organization—is the most likely operator since it has been conducting fundraising for the zoo for over 30 years. Friends of the Santa Ana Zoo already conducts fundraising, gift shop operations and operates the zoo trains and carousel.

**Evansville, Indiana:** Officials in Evansville continued the dialogue on privatizing the Mesker Park Zoo in 2011, after forming a Strategic Plan Committee to explore the issue in 2010.

Part 10

# Nonprofit Groups Transforming Government Animal Shelters

Mega deals for infrastructure projects like highways and airports garner significant attention, however public-private partnerships (PPPs) have also proven to be an effective tool at the local level for services such as animal shelter operations. Local governments around the county are partnering with nonprofit organizations that passionately share the mission of animal shelters and are willing to ease—or remove entirely—the burden on taxpayers.

**Los Angeles, California** successfully implemented a PPP for the Northeast Animal Care Center in Mission Hills. For more see Part 3: Villaraigosa Administration Advocating Reform in Los Angeles.

**Reno, Nevada:** In 2007 Bonney Brown became the executive director of the Nevada Humane Society (NHS). Under Brown's leadership NHS has come to work closely with Washoe County Regional Animal Services and a coalition of other local agencies (like SPCA of Northern Nevada, Wyllie Animal Rescue Foundation, and the Pet Network) to dramatically improve provision of animal services in Nevada.

During Brown's first year, adoptions increased by 50%, which has continued at a rate of 5–6% in each following year, according to a July 2011 case study prepared by Best Friends Animal Society. Brown ushered a massive culture change that has allowed the agency to capture attention through creative marketing campaigns and a new focus on implementing a "no-kill" approach. Some of NHS's coalition partners include local Animal Control service providers, which now coordinate with NHS to facilitate rapid response time.

Another new tool, adopted from the Best Friends Animal Society, is the establishment of the Animal Help Desk. Since NHS is required to accept every owner-surrendered pet, the Animal Help Desk has served to help 25% of would-be surrenders find alternative solutions keeping the pets out of the shelter system completely. In 2010, Washoe County regional Animal Services took in over 12,000 dogs and cats (91% of which left the shelter alive), while NHS placed 9,000 animals in new homes and maintained a 94% live release rate for all the animals that entered their care, according to the aforementioned July 2011 case study.

**Tulsa, Oklahoma** is exploring privatizing the Tulsa Animal Welfare facility. For more see Part 5: Tulsa, Jacksonville Mayors Pursuing Public-Private Partnerships.

**Memphis, Tennessee:** The Memphis Animal Shelter (MAS) has been burdened with controversy over the past few years spanning the oversight of two different directors. The former director, Ernest Alexander, was fired and was charged with aggravated cruelty to animals after an October 2009 raid on the facility by the Shelby County Sheriff's Office, according to an August report in *The Commercial Appeal*.

The latter director, Matthew Pepper, resigned in August 2011 after a controversy over an alleged dog fighting incident that was captured on cameras installed after the 2009 raid. Although video evidence suggests the staff might have been trying to break up a dogfight, rather than instigate one, community activists expressed strong dissatisfaction with the incident. Pepper resigned receiving the praise of Memphis Mayor A.C. Wharton, who cited his ability to dramatically increase animal rescues, adoptions and funding for spay and neutering services through grants.

In an uncommon turn of events, public opinion has fermented in favor of privatization with rallies being conducted before the city even issued a Request for Proposals (RFP). As described in Part 8: Solid Waste and Recycling Privatization Update, one of the Memphis Public Works Division's incinerators was shut down in July 2011. The incinerator shutdown has led to some difficult tradeoffs, namely animals are now being disposed of in landfills. This led community activists to rally in support of privatization with signs such as, "50 Years of Suffering—Time to Privatize," (referring to the city-run animal shelter).

*The Commercial Appeal* reported on August 19, 2011 that the city considered privatization and has asked both the Humane Society of the United States (paid for by taxpayers) and the Memphis Rotary Club (provided at no cost) to evaluate the condition of MAS. The Humane Society of Memphis and Shelby County offered their assistance at no charge, however the city declined having already established contact with the Humane Society's national office. George Little, city chief administrative officer, confirmed to *The Commercial Appeal* in August that because of this decision the cost of the study would be borne by Memphis taxpayers. Ultimately the city has not implemented privatization, but discussion appears likely to continue in 2012.

**Kansas City, Missouri:** Reason Foundation's *Annual Privatization Report 2010* offered a summary of the successful privatization of Kansas City's animal shelter under the guidance of local veterinarian R. Wayne Steckelberg. A February 2010 article in the *Kansas City Star* cited numerous other improvements resulting from privatization, including a tripling in the monthly adoption rate, a 30% decrease in the euthanasia rate and a reduction in crematorium costs exceeding 50%. However, as the Show Me Institute reported on March 15, 2011, city officials are now seeking a new operator after cancelling the contract. Reportedly infighting over Steckelberg's leadership led the city to cancel the contract, however the story is not clear. Regardless, the city sought another private operator rather than electing to insource the facility, and the gains made under private operation remain a testament to city's decision to privatize in 2009.

**Louisville, Kentucky:** Mayor Greg Fischer declared in May 2011 that, "The problems and mismanagement [at Louisville Metro Animal Service (LMAS)] have quite frankly gone on too long, and its time for a significant change," according to local news affiliate Fox 41 WDRB.[77] However two months later the city rejected the only bid, which came from animal welfare group No Kill Louisville, saying the nonprofit organization didn't meet the requirements set forth in the RFP. *WFPL News* reports the Kentucky Humane Society declined to submit a bid, citing the lack of existing plans to replace the substandard MAS facility.

LMAS came under fire in recent years. WDRB reported in May that workers complained their superiors needlessly euthanize animals and allowed red tape to get in the way of adoptions. WDRB reports the facility processes 14,000 animals each year with almost 60% of those animals being euthanized. With privatization off the table, city officials decided to pursue hiring a new director in hopes of improving the conditions at LMAS.

**Canyon County, Idaho:** Officials in Canyon County, Idaho are transferring operation of the Canyon County Animal Shelter to a private nonprofit run by Barbara Hutchinson. While the county commissioners are relieved, privatization wasn't easy. Commissioner David Ferdinand explained to KTVB on August 13, 2011, "It has been over two years of looking for a private party to take this animal shelter over."[78]

KTVB reports the facility's budget will be cut from $900,000 down to $300,000 in FY 2012, with the remaining money coming from fundraising events and private donations. The *Idaho Statesman* reports the nonprofit will lease the county's 17,000-square-foot facility for $12 per year and cover all utility and routine maintenance costs. Ferdinand explained to KTVB that the shelter might resume stray cat drop-offs and adoptions, which were eliminated in October 2010. The *Idaho Statesman* also reports the shelter is "designed for about 110 dogs, (but it has) held up to 211 dogs recently, and Hutchinson said she hopes to cut the shelter population in half before she takes over the operation October 1—'without euthanasia through adoptions.'"[79]

Early results from Hutchinson's oversight appear promising. For example, From September 1, 2011–November 27, 2011:

- The shelter euthanized 47 dogs, versus 322 during the same period last year;
- 492 dogs were adopted, versus 317 during the same period last year; and
- 27 dogs transferred to breed-specific rescue operations, versus 0 during the same period last year.[80]

Canyon County Commissioner Steve Rule explained the results concisely saying:

> *I'm really pleased. Barbara's doing everything that she told us she would. It's pretty new, but I think it's gone amazingly smooth.*[81]

**Montgomery County, Texas:** The Montgomery County Commissioners approved an RFP in July 2011 to privatize management of the county's 25,000-square-foot-facility that accommodates about 500 dogs and 350 cats, according to a *Montgomery County Courier* interview with Precinct 3 Constable Tim Holifield. *The Houston Chronicle* reports in 2010 the shelter took in 21,087 animals, 13,000 of which were strays and 5,000 were owner-surrendered. Further, last year the shelter adopted out 27% of the animals brought in and euthanized about 44%. Mark Bosma, the county's Director of Infrastructure, said they received two bids, one from Holifield's Care Corporation and another from the South Carolina-based American Pets Association. The Montgomery County Commissioners selected Holifield's Care Corporation after a unanimous vote on November 14, 2011. In conjunction with privatization, the commissioners elected to adopt an advisory board to oversee the private operator.

Part 11

# California Library Privatization Success in Jeopardy

In Reason Foundation's *Annual Privatization Report 2010: Local Government Privatization*, we chronicled the growing trend of municipal library privatization in **California**, primarily with Maryland-based national provider Library Systems & Services, Inc. (LSSI). According to their website, LSSI now works with 17 municipalities operating 69 branch libraries and two bookmobiles across the country. (In contrast, the American Library Association estimates there are 122,000 publicly operated libraries in the United States today.) Mia Pezzanite, spokeswoman for LSSI, explained their role to *The Santa Clarita Valley Signal* in March 2011 saying:

> *What we see from communities, generally, is that they are looking to have more local control over libraries… In today's economic environment, many local governments, especially those in California, are under increased pressure to reduce expenditures—without reducing services.*[82]

Another example is Jackson County, Oregon, which had all 15 library branches closed for six months due to budget cuts until a 2007 agreement with LSSI allowed them to open again.[83]

In several California cases, municipalities sought privatization concurrent with moves to withdraw their libraries from cash-strapped counties. Prominent municipalities have led in this policy area, including:

- **Riverside County:** The first local government in the nation to contract with LSSI in 1997;
- **Moorpark:** Withdrew from the Ventura County library system in 2007;
- **Redding:** The Redding City Council voted unanimously last year to extend its contract with LSSI, which began in 2008;
- **Santa Clarita:** Decided in August 2010 to partner with LSSI signing a six-year contract, relying on strong support from Mayor Marsha McLean.
- **Camarillo:** Officials voted unanimously to withdraw from the Ventura County Library System and save $600,000 annually by partnering with LSSI.

The Camarillo deal revealed an inexplicable rule whereby the city paid fees to Ventura County based on their average total circulation. This caused library officials to ask their local Friends of the Library chapter to stop donating so many books because it was driving operating costs up.[84] Privatization gave officials greater control and flexibility, and exempted them from nonsensical rules like this.

Increasing municipal privatization success drew the suspicion of Sacramento lawmakers who leapt into action by passing Assembly Bill 438 (proposed by California Assemblyman Das Williams, D-Santa Barbara). AB 438 imposes a litany of regulations that will make it more difficult for municipalities to find ways to reduce operating expenses and keep libraries open by partnering with the private sector.

Despite a loud chorus of opposition, Governor Jerry Brown signed AB 438 into law by on October 8, 2011. AB 438 drew widespread criticism from a range of individuals and organizations citing the importance of maintaining local jurisdiction over libraries, such as: the California League of Cities, Santa Clarita Mayor Marsha McLean, State Senator Bob Huff (R-Diamond Bar), Assemblyman Brian Nestande (R-Palm Desert) and *The Oakland Tribune.* Sen. Huff told the *Associated Press* on September 8, 2011 that the bill, "'incrementally ties local governments' hands' as they struggle to provide basic services."[85] Kyra Ross, legislative representative at the League of California Cities, explained to Stateline.org in August 2011, "The practical impact of this bill is to simply ban a city from contracting out library services."[86]

Specifically, AB 438 mandates municipalities choosing to privatize are not allowed to reduce the size of their library staffs. Further, it mandates every single current library employee must keep his or her job in any future public-private partnership (PPP) agreement. Cities will also be forced to invest significant resources submitting studies and reports for Sacramento lawmakers in order to obtain the state's permission to privatize. Lastly, local officials would be required to submit an external audit before hiring a private operator charging more than $100,000 a year. Opponents derided the bill as a solution in search of a problem. Santa Clarita Mayor Marsha McLean wrote in an August 2011 *Pasadena Star News* op-ed:

> *In an era of diminishing funding for local government services and overextended budgets, contracting for library services is one way to improve libraries, while reducing the tax burden on our residents… It is ironic that supporters of AB 438 would take decision-making out of local communities and place it in the hands of state legislators and special interests*.[87]

McLean's support for privatization paid off. She detailed in the aforementioned op-ed how changes in management have led to increased hours of operation, the addition of $900,000 in new materials, and provided for a $300,000 annual increase in the book and media budget for new materials. On top of that, the city is currently constructing a new 30,000-square-foot state-of-the-art facility to replace the decades-old 5,000-square-foot facility.

AB 438 was fueled by fears that private companies would restrict access to libraries and overcharge for public access to content. LSSI CEO Brad King explained to Stateline.org on August 1, 2011 that in reality, "(LSSI has) never charged a fee to the public for a service at all, ever."[88] In its final form, AB 438 was amended to allow local officials to partner with nonprofit private operators, however local control advocates were not assuaged by the exception.

It's difficult to foresee the full impact of this legislation, however discussion in **Simi Valley** serves as an effective barometer. The Simi Valley City Council had a rushed discussion in November 2011 where they explored leaving the Ventura County Library System and partnering with a private operator before AB 438 goes into effect (January 1, 2012). City Manager Mike Sedell explained their sense of urgency saying the new state restrictions will set "overbearing requirements for a city to withdraw from any district and contract for services in the future."[89]

Once AB 438 goes into effect, reduced operating hours, staffing and programming—and increased frequency of library closure—are likely to follow in California.

Policymakers in California aren't the only ones to explore partnering with the private sector to keep libraries open. The **Osceola County, Florida** county commissioners voted 3–2 in December 2011 to turn management of the county's six-branch library system to LSSI. The commissioners faced urgency in grappling with the library systems' $3 million budget deficit. Policymakers ultimately signed a five-year, $35 million contract projected to save the county over $6 million over the course of the contract. The offer also included job offers for all 80 current public employees (76 of whom agreed to say on with LSSI.)

Part 12

# Parks and Recreation Privatization Update

## A. Parks

**San Francisco, California:** The cash-strapped San Francisco Recreation and Parks Department has creatively collaborated with the private sector to generate new revenue and maintain service delivery. Phil Ginsburg, general manager of the Recreation and Park Department, defended efforts to partner with concessionaires saying they've allowed the city to keep parks open. The *San Francisco Chronicle* reports, "(In 2010), (Ginsburg's) department laid off more than 50 workers, closed recreation centers for general public use an extra day a week, and raised fees to keep its $117 million budget balanced."[90]

However, on June 21, 2011 four members of the San Francisco Board of Supervisors filed a ballot ordinance to amend the San Francisco Park Code to prevent privatization of public parks and facilities. Less than two months later the initiative was withdrawn. In a press release, Supervisor John Avalos explained the withdrawal by citing fears the initiative was being sidetracked and dividing parks advocates.

Mark Buell, president of the city's Recreation and Park Commission, strongly opposed the measure, explaining to the *San Francisco Chronicle* in July that the city needs flexibility to generate revenue in order to avoid service cuts and staff layoffs. In 2011, parks officials instituted a gate fee for out-of-town visitors at the Golden Gate botanical garden. Officials also sought, unsuccessfully, to partner with a new out-of-state concessionaire for the Stow Lake boat rental and food concession at Golden Gate Park; they retained the current concessionaire.

**Baltimore, Maryland:** Baltimore Mayor Stephanie Rawlings-Blake's Recreation Center Task Force proposed a sweeping plan to save the city's 55-facility recreation center network and save between $300,000–$400,000 annually. If implemented, under the Task Force's Implementation Plan (published August 19, 2011):

- All city recreation centers will remain open with current operating hours through summer/fall 2011. No recreation centers are planned to close this year;
- There will be no layoffs of existing recreation center staff;

- Recreation center staffing and hours will be increased at most city centers;
- Baltimore City Recreation and Parks will appropriate over $14 million within the next two years to build new community centers and extensively renovate certain existing centers; and
- The Department will implement charter center, collaboration and partnership programs at up to 25 existing centers.[91]

The city issued a Request for Proposals (RFP) for three-year contracts to "stabilize recreation facilities and move them towards safer, more encompassing community centers with expanded services available through partnership based on financial reality." Under the current structure, any accepted bids would transfer facilities and responsibilities to operators in "as is" condition (including staffing, purchasing supplies, concessions, fee structures, insurance, background checks, compiling annual audits, etc.)

After protracted discussion only five bids were initially accepted as meeting minimum city requirements. However even if officials accepted all 12 bids, 18 recreation centers would still have to be closed according to an October 13 article in *The Baltimore Brew.* Interestingly absent from the list of bidders are Baltimore City Schools. Schools were widely expected to submit bids and William Tyler, the city's recreation bureau chief, explained to *The Baltimore Brew* that facilities could be used to meet any number of schools' needs. Initial bidders include:

- Boys and Girls Club of Metro Baltimore;
- Little Dimples II;
- Park Heights Renaissance Inc.;
- John Darrell Brantley Financial Services;
- Katrina M. Anderson/Granny's Place;
- Reclaiming Our Children; and
- Community Project and Omega Baltimore.

City Councilman William H. Cole IV (11th District) told *The Baltimore Brew* on October 18, 2011 that he found the discussion over recreation centers "painful but necessary due to the reality of the budget situation."[92] As of press time no bids have been accepted and the city will only have enough funding for 25 recreation centers on January 1, 2012 when funding would be reduced by a final total of nearly $520,000. The city Recreation and Parks Department is considering issuing a second round of RFPs with new incentives in order to generate more responses.

**Seattle, Washington:** Lawmakers directed the Seattle Department of Parks and Recreation to cut its budget by $10 million to help the city deal with ongoing fiscal woes. A citizen-led Community Center Advisory Team compiled nine options specifically focused on the department's community

centers. One of these options is pursuing long-term lease agreements for entire community centers. Under a long-term lease, a private operator would assume total responsibility for operation of a community center that would otherwise be closed and the department would retain ownership of the facility and responsibility for major maintenance costs.

Lease agreements would save $400,000 for each standard community center and $100,000 for each limited-use center. The city would also generate revenue from rent payments paid by private operators. The advisory team also notes that a limited operating subsidy would phase out over time, citing a similar approach taken in San Jose, California. Three other options, of the nine proposed, include forms of privatization such as partnering with the private sector for programming, closing some centers and privatizing others, or allowing private partners to use facilities when they're otherwise underused.

**Philadelphia, Pennsylvania:** Philadelphia concluded the third year of its successful public pool public-private partnership (PPP) program, known as "Splash and Summer FUNd," whereby private companies raised money to keep all 70 city pools open. In 2011, First Niagara led fundraising efforts and engendered a coalition of over 25 public and private companies and foundations to raise nearly 90% of the fundraising goal—$600,000. Recreation centers, local groups and individuals conducted the remaining fundraising. The program has been wildly popular with almost 1 million visitors using the facilities this summer. However, at this point the city plans on returning to public funding for summer 2012.

**Sterling Heights, Michigan:** The Sterling Heights City Council privatized maintenance for 26 city parks partnering with Green Rainger Landscaping of Westland for $93,237 for a 15-month period from June 7, 2011–October 31, 2012. Privatization is expected to save Sterling Heights taxpayers over $60,000 annually.

**Lansing, Michigan:** Lawmakers in Lansing are exploring privatizing the city's three public cemeteries. After requesting proposals from nearly 90 companies, only StoneMor Partners LP of Levittown, Pennsylvania responded. StoneMor operates several other cemeteries in Lansing and is one of the largest private cemetery operators in the country. As of press time, no decision has been made, however officials are hoping to cut costs and eliminate the $301,420 operating subsidy that the cemeteries required in 2011.[93]

**Hialeah, Florida** policymakers planned on implementing partial closure of 11 of 15, or nearly three quarters, of its parks due to budget woes. However, local businesses donated money to hire 15 part-time employees to keep the city parks open all day throughout the summer. Separately, the pool at Milander Park remained closed for repairs to its drainage system.[94]

## B. Golf Courses

According to the National Golf Foundation, 126 municipal or daily-free courses and 16 private courses in 39 states had partial or full-facility closures in 2010. In 2011, municipalities across the U.S. pursued privatization to keep courses open and stop the budget bleed coming from golf courses.

**Sacramento, California:** Sacramento officials announced in October that they're privatizing operation and management of three public golf courses (Haggin Oaks, Bing Maloney and Bartley Cavanaugh) effective January 1, 2012. The new operator—Morton Golf—already provides many services at these courses, and operates the nine-hole Land Park city course. The ten-year deal also includes three options for five-year extensions. Privatization ends the courses' five-year drain on the city budget, which was $500,000 last year alone, and has accumulated almost $5 million in debt to Sacramento's Risk Management Fund.[95]

**Stockton, California:** The Stockton City Council unanimously voted to privatize operations of Van Buskirk and Swenson Park golf courses, both of which operated at a loss, to Northbrook, Illinois-based KemperSports Management Inc. The five-year contract went into effect July 1, 2011 and includes early termination clauses for after two or three years. The city will pay KemperSports a baseline $120,000 management fee that includes performance-based incentives. According to city officials, privatization could save Stockton taxpayers $1.3 million over the course of the contract.

### *1. Florida*

- **Manatee County:** Seven companies submitted bids to manage Manatee County's two public golf courses (Buffalo Creek and Manatee County). Each bid had unique proposals, however every one promised the county more revenue.[96] Bidders were:
    - CKT Asset Management Company;
    - Kemper Sports;
    - Billy Casper Golf;
    - Cypress Golf Management;
    - Pure Golf;
    - Pope Golf; and
    - CGCS

  Sarasota, Florida-based Pope Golf, LLC was selected to manage both courses through a five-year contract. Privatization is expected to generate $355,000 in revenue for the county the first year, and $2.7 million in revenue over the course of the entire contract.[97] Pope Golf LLC's revenue-sharing with the county escalates from 10% in the first two years,

splits 15% (for Buffalo Creek) and 20% (for Manatee County), and finally settles on 20% for both courses in the final two years. The contract includes a defined range of capital improvement and maintenance expectations.

- **Largo** purchased the 47-acre Largo Golf Course in 1979 for $1.25 million. According to city budget data, taxpayers bailed the course out with $200,000 this year, and are expected to pay $500,000 over the next five years. While lawmakers have considered privatization, they eventually chose to focus on better marketing for the course.
- **Cape Coral** officials are exploring privatizing Sun Splash, a city owned/operated water park, and the Coral Oaks Golf Course. Both facilities are currently operating at a loss.

### *2. Michigan*

- **Flint:** Lawmakers in Flint issued a RFP for four city-owned and operated golf courses and received four bids (including one from a city public employee union). On August 22, 2011 the Flint City Council passed a nonbinding resolution supporting two bidders that would re-open the Mott Park and Pierce Park courses, both of which were closed last year during budget cuts. Final contracts still need to negotiated, approved and signed, and city attorneys are exploring whether or not the city union can operate the courses separate from the city.[98]
- **Ann Arbor:** Ann Arbor officials explored, but ultimately rejected, privatizing management of the city-owned and operated Huron Hills Golf Course that loses $250,000 annually. Miles of Golf submitted a bid to operate the course that would save the city $5 million over 20 years, and net $1 million in profit for the city. Miles of Golf's proposal has been shelved, but may be revisited.[99]
- **Huron-Clinton Metropolitan Authority:** The Huron-Clinton Authority Board of Commissioners voted unanimously to issue a RFP for a one-year operations contract for the Kensington Metropark Golf Course—the costliest course in Metropark's eight-course system. The mandatory pre-bid meeting yielded seven interested bidders, however only two companies ultimately submitted bids. Both bids were rejected and the pilot project was rebid for 2012–14. Officials cited the one-year contract period as too short, and explained they want to give to private operators more time to prepare bids, and themselves more time to review bids.
- **Lansing:** City officials are still deliberating over six bids from private operators seeking to assume operations of the Groesbeck Golf Course. The course currently receives a roughly $300,000 operating subsidy.

### *3. Iowa*

*The Des Moines Register* reported on August 14:

- **Clear Lake** bought Veterans Memorial Golf Course from a nonprofit group in April.
- **Forest City** bought Bear Creek Golf Course from private owners in February.
- **Oskaloosa** officials are considering leasing the Edmundson course to a family that ran the facility for almost 50 years.
- **Des Moines** lawmakers hired C-Corporation to manage all three of its golf courses (Blank in 2006, and Waveland and Grandview in 2009). Des Moines Parks and Recreation Director Don Tripp explained to *The Des Moines Register* the three courses were costing the city an average loss of $250,000 annually, however after privatizing all three the city made $287,000 in 2010.

### *4. Other States*

**Augusta, Georgia:** Augusta Commissioners approved a seven-year lease agreement for the Augusta Municipal Golf Course, soon to be officially named The Patch, for $1,000 a month. Brian Hendry, of Aberdeen, Scotland, runs the firm The Patch in Augusta LLC that is assuming control of the course and is planning on resuscitating its Scottish roots. Hendry assumed operations effective January 1, 2012 and the commissioners are relieved they will no longer be covering the annual operating losses exceeding $100,000 under city management.[100]

**Salem, Massachusetts:** In March 2011 Salem lawmakers were unsuccessful in their attempt to privatize the city's nine-hole municipal Olde Salem Greens Golf Course after the Park and Recreation Commission spurned a proposed five-year lease with Golf Facilities Management, Inc. of North Reading on a 3–2 vote. Prior to the vote, Golf Facilities Management Inc.'s bid would have provided the city $70,000 in the first year and $10,000 each proceeding year, with a final payment of $110,000 in the final year of the contract. The firm also committed to investing $45,000 in capital improvements (golf cart paths, tee repairs, sand trap maintenance, etc.) each year and building a new fuel station (that costs $30,000), according to a March 2011 article in the *Salem News*.

Interestingly, the 78-year-old course is a vestige of President Franklin Delano Roosevelt's Great Depression-era Works Progress Administration (WPA) program. The *Salem News* reported on August 31, 2011 that the city has adopted a new plan to seek a private operator to oversee the operation and finances of the clubhouse, enabling the course superintendent (a public employee) to focus on the physical condition of the course.

**Corpus Christi, Texas** lawmakers privatized the city's two golf courses in September 2010, signing a 10-year contract with Foresight Golf. The privatization has been widely considered a success, with the number of rounds of golf played increasing by over 2,000 in the first year alone. This is the first time since 2006 the city hasn't lost money on its golf courses.[101]

Part 13

# Other Local Privatization Briefs

**Detroit, Michigan:** In addition to pursuing privatizing garbage collection (as reported in Part 8: Solid Waste and Recycling Privatization Update), Detroit continues to explore privatizing its Public Lighting Department (PLD). Detroit Mayor Dave Bing first suggested privatizing the lighting department in 2009. At the time John Riehl, president of AFSCME Local 207, which represented then about 20 of the 200 lighting employees, said the union would fight any attempts to privatize. Riehl and others cite an essentially anti-privatization ordinance in the city charter that lies at the core of this conflict, which makes it prohibitively difficult to partner with the private sector. Under the current ordinance, agencies are required to demonstrate that any privatization initiative will save money and that contracting out work will not harm employment in the city. However, according to *Crain's Detroit Business*, former City Auditor General Joseph Harris, Sr. told officials that it is almost impossible to compile cost comparison data to comply with the law because of inadequate city accounting practices. For more on this, see Reason Foundation's *Annual Privatization Report 2010: Local Government Privatization.*

Mayor Bing proposed an intermediate step through a four-year $150 million contract with DTE Energy to purchase electricity to supplement that which is being generated by PLD. The plan is estimated to save taxpayers $3 million annually and eliminate 27 jobs. The city council approved this proposal on a 6–2 vote in November 2010. Bing renewed his effort to privatize PLD after yet another power failure affected the city. *The Detroit News* reported in June that Detroit suffered its worst outage in history during a four-day outage in 2000 when 4,500 buildings lost power (including fire stations, police precincts, libraries and Detroit Receiving Hospital) along with most street and traffic lights. In a June 10, 2011 interview with WJR-AM 760, Bing said:

> *Ever since I've been in office, I've felt that's a business we ought not be in. Not because we don't have good people, but because we don't have the money to invest and upgrade the technology of the system.*[102]

According to *The Detroit News*, PLD spends nearly $10 million a year to supply power to 900 buildings and 35,000 of the city's 85,000 streetlights. An internal city audit found that the city needs $300 million in repairs, and 20% of the city's 88,000 lights don't work. If the city privatizes PLD, then it would likely close the city-owned Mistersky Power Plant.

In November, Bing proposed outsourcing management of the city's transportation department, highlighting buses that cost taxpayers nearly $100 million each year. The city's bus system has

been under fire in 2011. A study by the Detroit, Michigan-based Transportation Riders United found that as many as half the Detroit Department of Transportation's 4,000 scheduled buses ran late. Further, on some routes 20–50% of the buses never arrived at all.

**New York, New York:** New York Mayor Michael Bloomberg made several administrative moves that suggest privatization will be a priority in 2012. First, Bloomberg appointed former Indianapolis Mayor Stephen Goldsmith to serve as New York City's Deputy Mayor in April 2010. Goldsmith sought to continue the managed competition reforms he inspired during former New York City Mayor Rudy Giuliani's time in office. Goldsmith established programs to share vehicles, information technology (IT) and other services among city agencies—the *Indianapolis Business Journal* reports these initiatives are expected to save the city $500 million by 2013. However, Goldsmith will not be able to implement these initiatives since he stepped down on August 4, 2011 to be replaced by Caswell F. Holloway, the commissioner of the city's Department of Environmental Protection.

Bloomberg also hired a new financial adviser, Greenhill & Co., to oversee public-private partnership (PPP) projects, according to DNAinfo.com. Specifically Greenhill & Co. will be focused on real estate asset divestiture and on-street parking meter privatization. According to DNAinfo.com, city officials think reducing office space could save taxpayers $36 million annually. For more on Bloomberg's pursuit of parking privatization, see Part 2: Parking Privatization Blossoming in 2011.

**Frederick County, Maryland:** The Frederick County Commissioners faced an $11.8 million budget deficit for FY 2012, while the state of Maryland faced a $1.6 billion budget deficit, forcing officials at all levels of government in the Old Line State to reevaluate their budgets.

The Frederick County Commissioners commissioned Oliver Porter, principal at Georgia-based PPP Associates of Sandy Springs fame, who wrote a 27-page report explaining how the county could privatize a broad swath of its functions currently provided by about 528 Frederick County employees to save $109–$200 million over a five-year period.[103] Porter calculated by privatizing services such as road maintenance, parks and recreation, and many others, the county could cut its current $438 million budget by 13–21%.

After receiving strong criticism from public employees the county commissioners voted in July to set aside the Porter study. However they have not abandoned the goal of the study, which is to define the core functions of government. Moving forward, the commissioners elected to take an approach that isn't perceived to have such clearly defined outcomes, but instead uses a discovery process-style approach.

In light of the scope of their goals, the commissioners decided to expand their capacity to implement reform. In August 2011 the county issued what was essentially a Request for Information (RFI) for consulting firms that would be interested in partnering to implement

government reform proposals. They also established a seven-person panel responsible for publicly reviewing recommendations and answering to the Board of County Commissioners.

In the meantime, the commissioners have already started to explore new partnerships. The first major contract the commissioners awarded on August 4, 2011 is a unanimously approved two-year contract with Morrison Management Systems for dining services at Citizens Care and Rehabilitation Center and Montevue Assisted Living. The county will pay the firm $1.5 million in FY 2012 and $1.6 million in FY 2013—significantly lower than the currently budgeted cost of $1.9 million for FY 2012.

**Houston, Texas:** After nearly a decade of discussion, the Houston City Council finally approved a measure to transfer the George R. Brown Convention Center to a newly created corporation called Houston First. Houston First is composed of the city's Convention and Entertainment Facilities Department and the existing government-sponsored corporation that operates the city-owned Hilton Americas. The move will save the city $10 million, which will be collected in a lump sum for five years worth of rent and fees from Hilton First. Officials expect privatization will make the organization more responsive and competitive, since it won't have to go through the city council to get things like expenses approved. The *Houston Chronicle* reports the new operating structure could allow Hilton First to earn as much as $3–$7 million more a year just on sponsorships.[104]

**New Haven, Connecticut:** As first covered in Reason Foundation's *Annual Privatization Report 2010: Local Government Privatization*, New Haven Mayor John DeStefano continued to pursue school custodial service privatization in 2011. The debate took an unexpected turn when ASFCME Council 4 commissioned Dr. Jeannette Wicks-Lim of the Political Economy Research Institute at the University of Massachusetts, Amherst to conduct a disputed study on the impact of privatization on current custodial employees. Wicks-Lim argued that privatization would adversely impact the district's 186 full-time custodians whose positions would be replaced by part-time workers. Wicks-Lim's study, entitled "Pushing Working Families into Poverty: Assessing the New Haven Plan to Privatize the Public Schools' Custodial Services," specifically dissected the preferred bid submitted by GCA Services Group of Ohio. [105] Ultimately Wick-Lim's study fails to address legitimate benefits from privatization, for example, if selected, the firm asserts it would:

- Save the school district $25 million over a three-year contract period;
- Offer a $12.50 hourly starting wage (above the U.S. Bureau of Labor Statistics calculated median hourly wage of $12.45 in 2008); and
- Give hiring preference to existing custodians.

Will Clark, Chief Operating Officer of New Haven Public Schools, responded to the report with an official statement reported on March 11, 2011 by the *New Haven Independent*. Clark wrote:

> *This study, which was solicited by the union, confirms that outsourcing janitorial services will produce significant savings for the schools and the city… Teachers, administrators, carpenters*

> *and other tradesmen have all agreed to concessions (but janitors have not)…(Custodians earn an average of $85,000 per year, including pension health and workman's compensations)… This exceeds by three to four times the private sector cost for providing this service. This is simply not sustainable for the school district and the city. Outsourcing of public school janitorial services is commonplace nationwide and will produce necessary savings for a sustainable budget with increased efficiency.*[106]

Despite nearly two years of effort, the city ultimately offered a new contract with ASFCME that includes a range of concessions that essentially "aims to shrink the rolls first through attrition and an early-retirement offer for employees with 30 years on the job," according to an August 1, 2011 article by the *New Haven Independent*.[107] Then, layoffs would transition to performance history and finally seniority is considered if employees have comparable performance history.

Simultaneously the contract would allow the Board of Education to hire additional non-union custodians and use non-union custodians to provide cleaning services at night. Lastly, the agreement increases employee pension and health insurance contributions from 6% to 9%. The union rejected the contract demanding any privatization be taken off the table. Both parties agreed to send the issue to a panel of arbitrators. In what's being described as a "landmark" decision, the panel issued an award allowing New Haven Public Schools to privatize nearly half (86 of 186) its custodial positions to save $4 million annually.[108]

**Lincoln, Nebraska:** The *Lincoln Journal Star* reported on August 21, 2011 that the Minneapolis-based SRF Consulting Group Inc. would study privatization options for StarTran, the city's $9.7 million public bus system. The city council-approved $104,984 contract with SRF Consulting Group Inc. is just one in a series of steps being taken to improve StarTran. The city is considering privatizing management, personnel and/or assets.

The *Lincoln Journal Star* reports the study will also explore creating a transit authority, improving the fare system, seeking alternate revenue sources and evaluating marketing services. The fare system presents a unique challenge in that ridership revenue covers less than 20% of operating costs (the remainder is covered by federal, state and local taxes, with over $5 million coming from local taxpayers in 2011). The audit was first encouraged by Councilman Hornung and Mayor Chris Beutler, then designed by the city's volunteer Audit Advisory Board and approved by the city council, and finally, a three-member committee composed of city councilmembers selected the SRF Consulting Group Inc.

**Austin, Texas:** The eight-member Capital Metro Board voted unanimously to privatize services currently provided by nonprofit contractor StarTran, in line with SB 650.[109] This bill came as a result of work done by the Texas Sunset Advisory Commission that also determined Capital Metro must maintain financial reserves equal to at least two months of operating costs, or $27 million, and gave the agency until September 2016 to reach the capital requirements. SB 650 presented the Capital Metro Board with two options:

1. Public Option: Bargaining employees of StarTran become direct employees of Capital Metro, thereby ceding their collective bargaining privileges and right to strike in accordance with state law.
2. Private Option: Transition all services currently operated by StarTran to private contractor(s) through a competitive bidding process (roughly one-third of the bus service is already provided in this manner through First Transit Inc. and Veolia Transportation).

In accordance with SB 650 and the board's decision, Capital Metro issued a RFP in September 2011, will select a preferred bidder in April 2012, and will settle the new labor structure no later than September 2012.

**Augusta, Georgia:** The Augusta Commission voted 6–3 to approve a five-year contract turning over management of Augusta Public Transit to Mobility Transit on August 1, 2011. Under the contract, Mobility Transit is expected to improve service quality and reduce costs by $400,000 each year. The commissioners are considering privatizing a wide range of other services ranging from the city print shop and landscaping to building maintenance and youth sports leagues.[110]

**Nassau County, New York:** Nassau County made waves in 2011 after deciding to leverage a PPP for the largest suburban bus line in the United States. After vetting bids from three companies officials agreed to partner with Veolia Transportation for the 48-line, 100,000 average daily passenger capacity county-owned Long Island Bus—that will be renamed the Nassau Inter-County Express (NICE)—effective January 1, 2012. Under the agreement, fares will remain $2.50 through 2012 and any rate increases would require unanimous approval from a new five-member committee overseeing the private operator.[111] The public Metropolitan Transportation Authority demanded the county nearly triple its $9.1 million budget to $26 million. Instead, through privatization the county will pay Veolia $2.5 million to operate NICE.[112] The rest of the system's $134 million budget is covered by state funding and rider fares.

The PPP effort has been led by Nassau County Executive Edward Mangano, and was prompted by the county's $176 million budget deficit. In light of the budget crisis, New York State appointed the Nassau Interim Finance Authority to seize control of the county's finances. Mangano has also proposed privatizing the county's sewage treatment system. As of press time, Veolia still has to conduct a public hearing on the agreement, and receive county legislative approval and authorization from the Nassau Interim Finance Authority.

**Colorado:** The Colorado House of Representatives renewed the debate on how much the Regional Transportation District (RTD) should partner with the private sector. Prior to 2007, state law dictated RTD sign competitively negotiated contracts for at least 50% of its bus and other vehicular services. That year the legislature removed the 50% contracting floor and inserted a 58% ceiling. In 2011, Rep. Robert Ramirez (R-Westminster) sponsored HB 11-1054, which would have reinstated the 50% minimum.

An amendment by House Minority Leader Sal Pace (D-Pueblo) would have required all contractors be U.S. companies. Rep. Mark Ferrandino (D-Denver) offered a second amendment that would have removed the 58% ceiling, and stripped the 50% floor. Ferrandino explained his amendment to Tim Hoover of *The Denver Post* on February 9, 2011 saying, "Putting a maximum or minimum in law makes no sense. We should not micromanage the RTD board." Hoover reported that both amendments failed on party-line votes. Ultimately HB 11-1054 failed, but a similar bill is expected to re-emerge next legislative session.

**Arizona:** The Arizona State Senate considered several bills (SB 1322, 1345 and 1347 all sponsored by Sen. Frank Antenori, R-Tucson) that would have had a dramatic impact on cities across the state. Respectively, the bills would have: required various cities to put services out to bid, limited the number of city employees Phoenix and Tucson could hire, and limited how much cities could pay in employee wages and benefits.

SB 1322 was the only one of the three bills to make it out of the legislature. Phoenix City Councilman Sal DiCiccio, a proponent of the bill, told *The Arizona Republic* in February that state action is necessary because, "Government is structured to protect itself. Change is not going to occur here. It's going to happen from the outside." SB 1322 would have required cities with populations greater than 200,000 (notably including Phoenix and Tucson) to seek bids for services that cost more than $50,000, excluding core governmental functions including law enforcement, fire fighting, 911-service operation, judicial functions and tax collection.

Gov. Brewer vetoed the bill saying it conflicted with local control. She specifically wrote in her veto note, "This legislation erodes the ability of voters to receive services from the government they themselves formed with a responsiveness and accountability from the officials they themselves elect at the local level."[113] The *Arizona Capitol Times* reports that Antenori will refine and reintroduce a bill similar to SB 1322 in 2012.

**Hoboken, New Jersey:** Hoboken Mayor Dawn Zimmer has been pursuing privatizing the Hoboken University Medical Center for nearly two years, as Reason Foundation reported in *Annual Privatization Report 2010*. *The Jersey Journal* reported on June 15, 2011 that Zimmer is proceeding with plans to privatize the Hoboken University Medical Center, in accordance with a contract to transfer ownership to HUMC Holdco LLC (a private entity affiliated with the Bayonne Medical Center) from the Hoboken Municipal Hospital Authority (HMHA) for $91.7 million. Toni Tomarazzo, HMHA Chairwoman, explained her interest in privatization to *The Jersey Journal* in January 2011 saying:

> *What (the Bayonne Medical Center) did was come up with the best proposal to meet the goals of the authority…Here in our own backyard, all of the residents and others from North Bergen to Weehawken to Union City will have quality healthcare. We'll attract more quality doctors, more quality services. It's not just that we're going to keep the lights on.*[114]

According to *The Jersey Journal*, the agreement ensures that the acute-care community hospital will remain in its current location and in operation for at least seven years. After privatizing the

facility, the new private operator will pay in cash the city's $52 million bond obligation, invest $20 million in the hospital and assume operational liabilities.

**Redding, California:** Officials in Redding, California continue to grapple with budget woes facing a $3 million budget deficit in 2011, and they've considered privatizing several functions over the past few years. Last year the city council voted in December 2010 to accept bids from private operators to conduct park maintenance services, receiving the support of Mayor Missy McArthur and Councilmembers Patrick Jones and Rick Bosetti. The city council also considered privatizing the Redding Electric Utility's customer service center, water and sewer treatment plant operations and traffic signal maintenance in April 2011.

*The Record-Spotlight* reports that in a council report Assistant City Manager Barry Tippin supported privatizing these functions as well. Further, *The Record-Searchlight* found that Councilmember Bosetti proposed Redding explore incorporating and becoming a contract city at a March 3, 2011 priority setting session, citing the successful experience of Centennial, Colorado. (For more on contract cities, see Part 6: Contract City Model Steadily Evolving.) Councilmember Jones explained Redding's predicament to *The Record-Spotlight* on April 3 saying, "We can skirt around outside issues or look at core reasons. It's really going to come down to retirement, pensions, (and) salaries. Those are the areas that will have to be looked at. We have to live within our means."[115]

**Costa Mesa, California:** Costa Mesa lawmakers are engaged in a high-profile debate over the role of local government that captured significant media attention in 2011. Mayor Pro Tem Jim Righeimer and other privatization advocates aggressively campaigned to dramatically reduce the size and scope of Costa Mesa's city government. Specifically, Righeimer cited the city's ballooning public employee pension costs, which equaled $15 million, or 17%, of the city's $90 million budget in 2011 and are expected to rise to $25 million by 2016.

In March, nearly half the city's workers (213 of 450) were given pink slips effective September 2011. Tragedy struck shortly thereafter when one 29-year-old city employee, who worked for the maintenance department for four years, committed suicide after receiving his pink slip. In conjunction with the layoffs, officials announced their intention to outsource tasks such as graffiti removal, firefighting, building maintenance, jail maintenance, bookkeeping, animal control and street cleaning.

Recently published city data vindicates outsourcing to save money. In 2004–05, the city hired law firm Jones and Mayer to provide legal representation. In five years under private provision, the city paid $4.7 million for legal representation; in the previous five-year period under public provision, the city paid $7.5 million. Outsourcing saved Costa Mesa taxpayers an average of $550,000 annually in legal fees alone.[116]

The layoffs were halted by an Orange County Superior Court in July, when Judge Tam Nomoto Schumann said the city must follow necessary steps before outsourcing city services. Schumann

did not clearly define what steps should be taken, however in the meantime Costa Mesa officials are allowed to continue their search for suitable private companies. On Tuesday September 20, 2011 the city council finally voted 4–1 to issue its first RFPs, focusing on outsourcing jail services, video production and building inspection.

**Roanoke, Virginia:** The Roanoke School Board voted 5–0 to outsource jobs of the division's school nurses to the Carilion Clinic Children's Hospital. The $1.4 million contract will save the division $100,000 a year, and will increase clinic hours staffed by a registered nurse from a minimum of five hours a day to a minimum of six hours a day.

**Greeley, Colorado:** Lawmakers in Greeley, Colorado considered privatizing ambulance services and drafted a RFP that would have opened up the city's emergency coverage to bids, according to a June 14, 2011 article in the *Greeley Gazette*. Ambulance services are currently provided by Weld County Paramedic Services (WCPS) as a fee for service operation (tax-free), however the city council argued WCPS costs twice as much as private companies. Interestingly, the Greeley Fire Department (GFD), which is fully taxpayer-funded, endorsed ambulance service privatization. According to the *Greeley Gazette*, "Critics of the proposal have likened this RFP to a power grab by the fire department. One gentleman who refused to be named for fear of losing his job said that this is 'not about good patient care, this is about the unionized fire department wanting to be in charge and trying to justify their existence.'" Regardless, the plan was put on hold and *The Greeley Tribune* reports officials want more information from the county and consultants before proceeding.

**DeKalb County, Georgia:** Lawmakers in DeKalb County are proceeding with a plan to further privatize emergency medical services (EMS). The county currently partners with Scottsdale, Arizona-based Rural/Metro Corporation, which provides 15 response vehicles to supplement the county's fleet, according to DeKalb's Chief Communications Officer Burke Brennan. The Purchasing and Contracting Department issued an RFI in July, which yielded three companies all asking for either a rate increase or subsidy since the current EMS fleet operates at a loss. RFPs are due December 15, 2011. Elsewhere in Georgia, the **Decatur County** Board of Commissioners is also considering privatizing EMS, however as of press time this conversation was in an early stage and no substantive steps have been taken.

**San Ramon, California:** The San Ramon City Council approved a three-year, $825,000 contract with Contract Sweeping in a deal that's estimated to save $74,000 each year. According to city calculations, the hourly rate for street sweeping will plunge from $112 an hour down to $73.75 an hour—35% savings. Commercial streets will be swept twice a month and residential streets will be swept once a month.

**Oak Grove, Minnesota:** The Oak Grove City Council unanimously voted in May 2011 to privatize the city's building inspection department, and signed a contract with Roseville-based Inspectron, Inc., according to *ABC Newspapers*. Inspectron will be responsible for providing building inspection services and maintaining records of their work for the city. Fees will be based

on the valuation of the proposed project in need of inspection, and operating costs (communication, equipment, insurance, etc.) will be borne by the contractor. *ABC Newspapers* reported on May 14, 2011 the firm would be compensated monthly for 70% of the building permit fees and 100% of the plan review fees. The move received strong support from Councilmember Dan Denno and Mayor Mark Korin.

**Douglas County, Nevada:** Lawmakers in Douglas County approved a two-year contract worth $400,000 with ABC Aviation Management to privatize operation of the Minden-Tahoe Airport. Steve Mokrohisky, assistant county manager, told *The Record-Courier* in a December 29, 2010 interview, "We've worked with ABS over the last eight months and they've done an outstanding job. Their quality of service is high and there is a projected cost savings of $50,000 a year in the airport fund."[117] Mokrohisky continued, "We look at two primary areas if we are going to privatize. Can we provide the same or better service and can we achieve a cost savings? Both of those things will be achieved through this contractor."[118] In line with the privatization agreement, Douglas County will retain ownership of airport assets.

**Monmouth County, New Jersey:** In July 2011 the Board of Chosen Freeholders unanimously approved a resolution to seek RFPs from bidders for the 205-bed long-term care John L. Montgomery Care Center in Freehold Township, according to the *Manalapan Patch*. Freeholder John Curley explained the move during an afternoon workshop meeting held before the vote on the center, "We're unfortunately at a juncture where we've been running in the red and have been for quite some time."[119] Curley also said lawmakers are considering issuing an RFP for the Geraldine L. Thompson Care Center in Wall, the county's second publicly owned/operated long-term care facility.

**Jersey City, New Jersey:** *Jersey City Independent* reports the city council is exploring transferring free testing and treatment of sexually transmitted diseases offered by the Preventive Medicine Clinic to the Horizon Health Center, a nearby private hospital. Closing the clinic would save taxpayers $425,000 each year, however some concerns have arisen over whether privatization would void funds for the services currently provided by the State Department of Health. City Administrator Jack Kelly told *Jersey City Independent* on April 21 that the city has discussed this issue with state-level policymakers who may be able to transfer funding directly from the state instead. *The Jersey Journal* reported in April 2011 that the state currently provides $75,183 to run the clinic.

**Washington, D.C.:** Mayor Vincent Gray is moving to privatize the District-owned United Medical Center, which the city recently bought from Specialty Hospitals of America. According to the *Washington Examiner*, in 2007 the city gave Specialty "$30 million in grants for renovations and equipment, a $20 million loan in working capital and $29 million to acquire the hospital and settle long-standing debts."[120] Improvements were short-lived since the hospital fell on hard times as the recession wore on, leading the city to purchase the hospital and prevent its closure. D.C. Councilmember David A. Catania supports privatization, however he wants to take a more gradual

approach to prevent a private operator that doesn't understand the risk from getting in over their heads, which might force the city to purchase the hospital again.

**Pima County, Arizona:** Policymakers in Pima County cut approximately 300 health-related jobs held by county employees and transferred them to private operators, according to a December 2010 article in the *Arizona Daily Star*. The county transferred 170 employees to Bridgeway Health Solutions and Centene Corp. to provide on long-term patient care, and 140 to the Pima Council on Aging to provide attendant home care. Pima County Administrator Chuck Huckelberry explained to the *Arizona Daily Star* that the county lost a contract for acute care in 2009, and by implementing privatization they are better equipped to win contracts in 2011 and beyond. The move is revenue-neutral in the short-term, however in the long-term it is expected to generate revenue for the county.

**Greensboro, North Carolina:** On August 1, 2011 the Greensboro City Council voted 5–4 to privatize the Greensboro Farmers' Curb Market. City officials selected the nonprofit Farmers' Market Inc. as the preferred bidder and approved the three-year contract with two options for one-year extensions on November 1. Greensboro Farmers Market Inc. will pay the city $500 per month, plus 10% of the net proceeds at the end of each contract year, effective January 1, 2012.

**Charlotte-Mecklenburg, North Carolina:** The Charlotte-Mecklenburg School Board is continuing to build off its already impressive list of managed competition outsourcing successes. In the 2009–10 school year Charlotte-Mecklenburg Schools contracted services in excess of $37 million; a breakdown of some of the largest contracts is provided in Table 4 below.

**Table 4: Charlotte-Mecklenburg School Board Outsourcing Update**

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

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

In 2011, the Charlotte-Mecklenburg School Board discussed vehicle fleet maintenance consolidation with the city of Charlotte for the school board's 496 light- and medium-duty vehicles. It also issued a RFP to contract custodial services in administrative buildings in April 2011 and established the Privatization Advisory Committee on April 12, 2011. This new committee is designed to advise the school board on matters concerning privatization, managed competition, outsourcing and consolidation of services provided for and/or by the school board. The committee is expected to lead discussions on pilot programs for magnet school transportation and food service contracts.

**Clinton County, New York:** Officials in Clinton County are close to privatizing home health care in Clinton County after county legislators approved resolution 639 on September 14, 2011. The program needed a nearly $2 million operating subsidy in 2010, which prompted discussion of privatization. Officials selected Home Care of Rochester (HCR) as the preferred bidder who, pending state licensure, should commence operation in 2012.

**Ulster County, New York:** Officials in Ulster County are expected to privatize the 280-bed Golden Hill Health Center through a newly created transitional local development corporation, however as of press time lawmakers have yet to agree on the structure of the corporation.

**Gloucester, Massachusetts:** The *Gloucester Times* reports the city is considering privatizing custodial services in FY 2012 to save $400,000–$500,000, a move supported by both Mayor Carolyn Kirk and Department of Public Works Director Michael Hale. This is a small-scale application of managed competition whereby the city split the services into two contracts (one for assorted city buildings and another for Ralph B. O'Maley Middle School and Gloucester High School), and will allow both private firms and the current public employees to submit bids. The city's revised budget places at minimum one public employee at both the schools for service provision oversight.

Part 14

# Water and Wastewater Public-Private Partnerships

*Editors Note: This content was a standalone separate section of Reason Foundation's Annual Privatization Report 2010, however it has been bundled into the Local Government Privatization section of Annual Privatization Report 2011.*

## A. *Public Works Financing* Issues 15th Annual Water Partnerships Report

The year 2010 was a mixed bag for public-private partnerships (PPPs) in the municipal market as recent growth trends moderated, according to the 15th annual water partnerships report from *Public Works Financing* (*PWF*). Despite continued municipal budget strains, the expected uptick in industry activity failed to materialize.

*PWF* found that in 2010 the U.S. water and wastewater outsourcing market—as measured by fees paid to the six major water firms (American Water, CH2M Hill, Severn Trent, SouthWest Water, United Water and Veolia)—totaled $1.574 billion, down 1.6% from 2009. These figures include revenues generated through the operations, maintenance and/or management of 1,762 municipal water and wastewater facilities for 1,359 clients, and 203 facilities for 178 industrial clients.

New business climbed compared to 2010 numbers, with 18 new contracts signed worth $304.7 million, up from 14 new contracts worth $56.5 million in 2009. However, the industry renewal rate slid to 77%. This represents consecutive double-digit drops in the industry renewal rate, see Table 5: Contract Renewals and Lost Government Contracts, 2000–2010 below.

| Table 5: Contract Renewal and Lost Government Contracts, 1999–2010 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Industry Renewal Rate (%) | 88 | 95 | 87 | 97 | 96 | 97 | 93 | 92 | 98 | 95 | 85 | 77 |
| Renewed by Incumbent (%) | 83 | 91 | 81 | 94 | 94 | 95 | 92 | 89 | 94 | 90 | 76 | 74 |
| Reverted to Competitor (%) | 4 | 4 | 7 | 3 | 2 | 2 | 1 | 3 | 3 | 5 | 9 | 3 |
| Reverted to Muni (%) | 11 | 5 | 13 | 3 | 4 | 3 | 7 | 2 | 2 | 5 | 8 | 8 |

Source: Author calculations using data published in *Public Works Financing*, March 2010 and March 2011.

Interestingly, the original *PWF* data found that the "Not Renewed by Incumbent: Other" category constituted 15% of the total contracts, and over half the number of contracts that were not renewed in 2010. This is a dramatic increase from 2009, when the "Not Renewed by Incumbent: Other" category constituted only 7% of the total contracts, and less than one-third of the number of contracts that were not renewed in 2010.

In the short term, industry experts told *PWF* that private sector water and wastewater firms are recalibrating their focus to include: industrial clients in oil and gas markets, small- and medium-size municipalities, and environmental or "green" commercial clients, to name a few.

## B. Santa Paula, California Facility Wins Innovation Award

On August 18, 2011 the Santa Paula, California Water Recycling Facility was awarded the 2011 Public-Private Partnership Award for Innovation from the National Council for Public Private Partnerships (NCPPP).[121] The city, located 65 miles northwest of Los Angeles, partnered with Santa Paula Water LLC (a company formed by PERC Water Corporation and Alinda Capital partners) to design, build, operate and finance a new 1.5 acre water recycling facility to treat and recycle 4.2 million gallons per day (MGD) to replace its existing wastewater treatment plant built in 1939. The city faced strict compliance requirements from the Regional Quality Control Board that, if unmet, would have cost taxpayers over $8 million in fines.

According to a case study prepared by PERC Water Corporation, unique strengths of this facility include:

- Allowing the city to transfer designing, constructing, financing and operating risk to the private sector for the term of the 30-year contract;
- Relying on 100% private funding with zero public funding for upfront capital costs;
- Fully functional operation seven months ahead of compliance deadline;
- Reduction in energy costs exceeding 35%;

- 70% less land use required than previous design; and
- Water quality exceeding the compliance requirements that is available for reclamation and reuse within the community.[122]

Santa Paula Vice Mayor Bob Gonzales responded to the award saying, "We are proud the facility is continuing to be honored for its fiscally responsible approach to a vital infrastructure problem. The cost of doing business was significant for our City. We had to build a new wastewater treatment facility and we did not have the necessary funds. The public-private partnership gave the City a lot more latitude and the risk was transferred to the company who was doing the work."[123]

This facility is highly decorated; other awards include:

- Global Water Awards' 2009 "Water Deal of the Year" Award of Distinction
- *Environmental Business Journal* 2009 Business Achievement Award— Sustainability & Resource Protection
- *Environmental Business Journal* 2010 Business Achievement Award—Project Merit
- Design Build Institute of America Western Pacific 2011 "Best Project—Water" Regional Award

Several other water and wastewater projects won NCPPP awards. Recipients are:

- Infrastructure: Shelby County Water and Wastewater Systems—a partnership of Shelby County, Alabama and SouthWest Water Company.
- Infrastructure: New Orleans Wastewater Facilities—a partnership of the Sewerage and Water Board of New Orleans and Veolia Water North America.
- Service: Creating a Sustainable Partnership Program—a partnership of the city of Fayetteville, Arkansas and CH2M Hill.

## C. Other Water and Wastewater Privatization News

**Sydney, Australia:** Lawmakers in Sydney are leveraging PPPs to implement Australia's first citywide recycled water network in response to increasing demand for water. *International Business Times* reported in January 2011 that the city is partnering with a consortium composed of GHD, the Institute of Sustainable Futures at the University of Technology, Sydney and Public Private Partnership Consultants P3iC. The city estimates as much as 80% of fresh water could come from recycled water. Officials aim to allow consumers to use recycled water and return excess recycled water back to the network.

**Georgia 2011 Water Reservoir Act:** Georgia Governor Nathan Deal signed the 2011 Water Reservoir Act (Senate Bill 122) into law in May 2011. As Reason Foundation reported in *Annual Privatization Report 2010: Water/Wastewater*, a similar bill, SB 381, failed last legislative session so this represents a significant victory for PPP advocates in the Peach State. In short, SB 122 allows local officials the right to voluntarily contract with private sector partners to engage in up to 50-year contracts to provide water and wastewater service delivery. SB 122 is enabling lawmakers to leverage $46 million in legislature-approved (in the FY 2012 state budget) bond money expected to draw hundreds of millions of private sector dollars to meet the state's growing water supply needs. Specifically, SB 122:

- Amended Chapter 91 of Title 36 of the Official Code of Georgia Annotated, relating to local government public works bidding, so as to provide for local government contracts related to planning, financing, constructing, acquiring, operating or maintaining certain water reservoirs, facilities and systems.
- Amended Part 2 of Article 1 of Chapter 23 of Title 50 of the Official Code of Georgia Annotated, relating to the Water Supply Division of the Georgia Environmental Finance Authority, so as to provide for participation by the division in certain local water reservoir, facilities and systems projects.

In a presentation on the Georgia Senate floor, bill sponsor Sen. Ross Tolleson championed the bill saying,

> *The next 25 or 30 years, there's going to be a monumental amount of money spent on water infrastructure. Every local government is going to need every viable tool they can have.*[124]

The bill also requires that any agreements using state money set aside undeveloped "buffer" land surrounding the reservoirs. Georgia is on the cusp of becoming the U.S. leader in water PPPs—an unexpected about-face after former Mayor Shirley Franklin enacted an early termination of Atlanta's contract with United Water, only 4 years into the 20-year contract.[125] As of press time, no major projects have started since the passage of SB 122, however the *Chattooga Free Times Press* reported in October 2011 that Chattooga County might be the first municipality to act.

**Tulsa, Oklahoma** is also considering privatizing its water and wastewater facilities. For more see Part 5: Tulsa, Jacksonville Mayors Pursuing Public-Private Partnerships.

**New Jersey:** Water privatization became a hot topic of discussion amongst municipalities across the Garden State in 2011.

- **Franklin Township** lawmakers voted unanimously to reject a 20-year contract that would have transferred the operation, maintenance and management of the city's water system to United Water. According to city officials, privatization would have saved an estimated $5.9 million.

- **Lyndhurst** officials issued a Request for Proposals (RFP) in June 2011 seeking bids for a 25-year contract for the lease, or privatization of management, of operations of the city's water utility. Lyndhurst Mayor Richard DiLascio said at the time:

  > *The township must reduce its scope of operations. We do not purvey water, so we are only maintaining a piping system in Lyndhurst and are sending out bills and collecting fees. A company, or utility, will spread these costs out over many entities and we will be out of the water pipe and billing business.*[126]

  If policymakers choose to lease the utility then the leasing firm would not be charged water consumption rates by the township and would pay a lease fee. Separately, under private management the operator would be required to pay the township for water, would assume risks and liabilities (such as existing debt), and would receive operating fees agreed to in the contract.

  Partnering with the private sector for the water utility was one suggestion included in the city's comprehensive Lyndhurst Improved Fiscal Life Effectiveness (LIFE) report, first instituted by the board of commissioners in January 2011. Under the RFP, the city would retain ownership of the system's pipes, hydrants and meters. Bob Benecke, the township's economic consultant, explained to the *South Bergenite* in November, "the current water utility's budget is approximately $3.8 million with the largest portion coming from the town's purchase of bulk water from PVWC, which is about $2.35 million. Operating expenses are approximately $1.15 million and about $340,000 is debt service from capital improvements.

  According to the RFP package, billing to the township's 5,500 customers in 2010 netted $3.23 million and with other revenues such as fines and surplus, the revenues were $3.9 million."[127] The Passaic Valley Water Commission (PVWC) submitted two bids (one for a long-term lease and another for privatization) while United Water submitted one privatization bid. As of press time, the city has yet to select the winning bid.

- **Mount Olive:** Lawmakers agreed on a 5-year contract that would transfer maintenance and management of the city's water system to United Water. The resolution passed through the city council on a 5–2 vote. Mayor David Scapicchio, a strong proponent of privatization, explained the deal to *The Star-Ledger* in January 2011. He expects taxpayers will save $80,000 annually, equaling $400,000 over the course of the contract. The contract needed to pass through three government agencies to gain final approval: the New Jersey Department of Environmental Protection, the Board of Public Utilities and the Division of Local Government Services. However, in July Mayor Scapicchio pulled the ordinance citing lack of political support.

- **Ramsey:** The Borough Council rejected all three bids submitted for the purchase of the city's water and wastewater systems. According to the *Ramsey Suburban News* the bids ranged from $10–13 million and were submitted by United Water, Middlesex Water Co. and Aqua New Jersey Inc., but were rejected because officials valued the systems between $17–30 million.[128] Ramsey faces increased costs due to new federal and state mandates; specifically the borough spent $1 million to comply with arsenic restrictions and now spends over $200,000 on arsenic compliance, according to the *Ramsey Suburban News*.

**Tampa, Florida:** Tampa's Public Works and Utilities Department is partnering with the private sector to conduct water meter reading in response to controversial inaccurate billing statements sent to customers in 2010. Steve Daignault, director of Public Works and Utilities, first proposed a plan that would contract out half the meter reading routes covering 146,000 meters to a private company. The city council approved paying Louisiana-based AMS Utiliserv $367,000 each year to help read meters and transition from bi-monthly meter checks to monthly meter checks, according to an October article in the *St. Petersburg Times*. The calculated cost per reading is expected to drop from $.90–$1 for city workers down to $.50 cents for contracted workers.

**Nassau County, New York:** Officials in Nassau County issued an RFQ for the design, build, finance, operation and maintenance—or sale—of the county's wastewater treatment plant system, which includes two facilities handling 58 MGD. The county later issued an RFP that yielded responses from Severn Trent PLC, Veolia Environment SA, and United Water, Inc. As of press time the city has not selected a bidder.

**Santa Fe, New Mexico:** The Eldorado Area Water and Sanitation District Board unanimously renewed its contract with CH2M Hill to continue operations and maintenance of its water system. The renewed four-year contract is worth an estimated $3.6 million, according a CH2M Hill press release.

**Lodi, California:** The Lodi City Council is considering partnering with a private operator for a new facility expected to open in 2012. *The Record* reports that if the city operates the $36 million facility, as is currently expected, officials expect to spend $1 million in payroll and $1.8 million in operating expenses each year.[129] The city has a checkered past when it comes to privatizing water and wastewater services. *The Record* reports in 2003 the council signed a 20-year, $600 million contract with OMI/Thames, however after spending millions on lawsuits and legal battles the city regained total control over water and wastewater services in 2007.

**Wilsonville, Oregon:** Policymakers selected CH2M Hill as the preferred bidder to design, build and operate the city's new wastewater plant. *The Oregonian* reports the privately built and operated wastewater facility costs $42 million, one-third less than original estimates. CH2M Hill assumed operations in September 2011 and new facility is expected to open in 2014. [130]

**Grand Island, Nebraska:** Policymakers in Grand Island are exploring bids by four companies to assume operation of the city's wastewater treatment plant, which according to officials treats over

12 million gallons of sewage each day from 14,000 homes and 3,000 businesses. Bidding firms included: Veolia Water, Severn Trent Services, USW Utility Group, and CH2M Hill. Councilman Scott Dugan explained the council's goals to *The Grand Island Independent* in September 2011 saying, "We will still own the plant. We will still set the rates that consumers are charged. What we are looking at is, 'is it more effective for us to contract with a private company to operate that plant that we own?"[131] As of press time no contract has been signed, but the city has entered into contract negotiations with Veolia. Veolia proposed to run the plant for $3.5 million in 2012, $660,000 less than the $4.1 million the city had budgeted. Under Veolia's initial proposal, the five-year contract would be $18 million.[132]

**Rialto, California:** The Rialto City Council voted in June 2011 to reject a 30-year contract with American Water that would have leased the city's water and wastewater system. Opponents argued that fees would have nearly doubled under privatization, however the city faces $40 million in deferred maintenance and increased rates are seemingly inevitable, regardless of whether the city has a public or private operator.

**Muskogee, Oklahoma:** The Muskogee City Council is still deliberating over whether or not to partner with Veolia water to outsource the management of operations of the city's wastewater treatment plant. Supporters of partnering with Veolia say the plan could save taxpayers $200,000 or more each year, according to a September 12, 2011 article in the *Muskogee Phoenix.* City Manager Greg Buckley selected Veolia as the highest qualified of four bidders. As of press time, the city council has not approved the PPP agreement.

Part 15

# Evaluating Perceptions of Local Government Contracting

## A. National League of Cities Surveys U.S. Local Government Officials

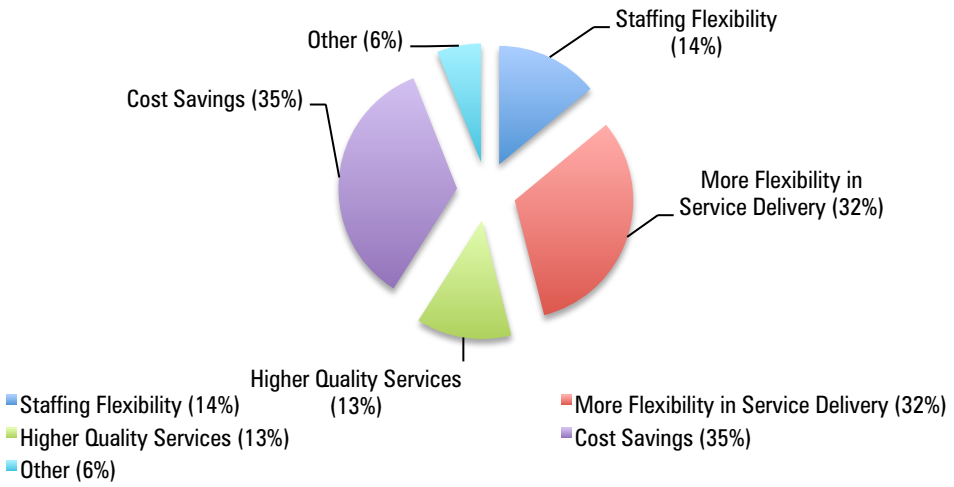
A new survey conducted by American University with the support of the National League of Cities entitled *Local Government Contracting*[133] reveals compelling insight into local government contracting. As is consistently reported in Reason Foundation's *Annual Privatization Report*, contracting requires niche management skills in order to ensure quality of contracted services, successfully managed vendor competition and optimal contract performance. This survey of local officials explores their thoughts on contracting. Broadly, the survey found:

- 93% of city officials support government contracting with the private sector;
- 69% prefer to provide services in-house if given the option; and
- 63% believe that most public agencies do a good job at contract management.

However, other responses indicate that officials have nuanced opinions about contracting. For example, while 69% prefer to provide services in-house if given the option, 69% also said their contractors produce high-quality services to citizens. Interestingly, while 63% believe that most public agencies do a good job at contract management, 69% are generally confident in their own level of expertise to manage contracts.

A majority of officials cite cost savings as the greatest benefit of contracting (35%), trailed closely by more flexibility in service delivery (32%), as demonstrated in Figure 3 below.

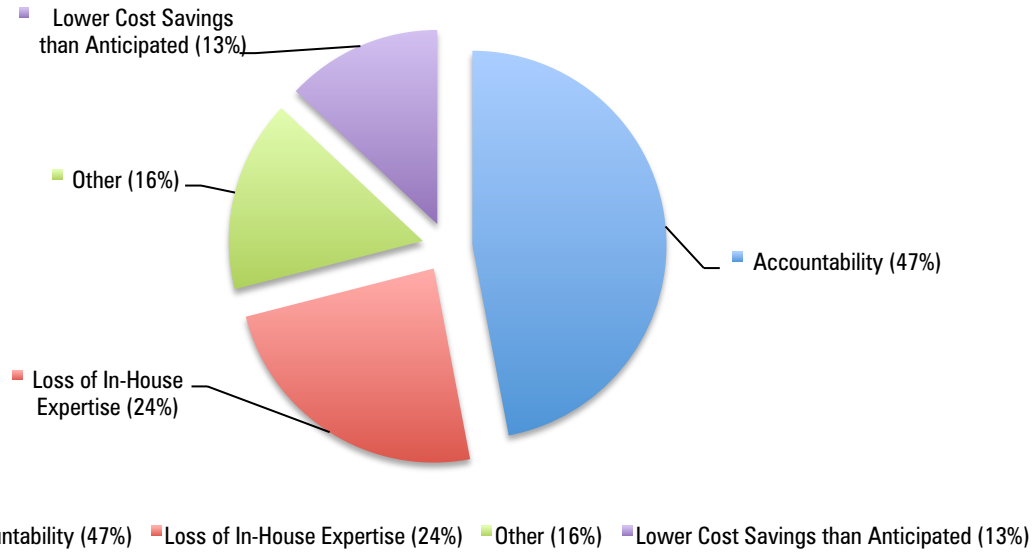
**Figure 3: Greatest Benefit of Contracting**




Source: Amanda M. Girth and Jacelyn M. Johnston, Local Government Contracting, National League of Cities, February 2011.

A majority of officials cite "the difficulty of holding contractors accountable for their performance," as the greatest drawback of contracting (47%), while roughly half as many cite loss of in-house experience (24%), as demonstrated in Figure 4 below.

**Figure 4: Greatest Drawback of Contracting**




Source: Amanda M. Girth and Jacelyn M. Johnston, Local Government Contracting, National League of Cities, February 2011.

Over half of the managers surveyed (55%) report being satisfied with the market for their contracts, while nearly nine out of ten respondents (87%) explain they prefer four or more potential vendors for each contract.

An overwhelming majority of respondents apply mixed delivery where the services are split between public and private providers. Mixed delivery allows managers to work around an uncompetitive market for a particular area of service delivery when the creation of new vendors fails. (34% of managers report actively encouraging new vendors to set up new subsidiaries to provide services.) For a breakdown of mixed delivery use, see Table 6 below.

**Table 6: Mixed Delivery Service Contracting**

| Level of Use | Percentage Use |
|---|---|
| All of the Time | 7 |
| Most of the Time | 34 |
| Some of the Time | 48 |
| None of the Time | 11 |

Source: Amanda M. Girth and Jacelyn M. Johnston, Local Government Contracting, National League of Cities, February 2011.

Finally, the survey unveils contracting to be more of a collaborative, symbiotic relationship than anything else. For example, more than half the respondents (52%) report mentoring contractors to ensure they will continue to bid on their contracts in the future. Further, one-fifth of respondents (20%) reportedly spend a "significant amount of time" helping contractors improve contract performance. While the "carrot or stick" incentive approach is widely understood, respondents relied on two "sticks" in particular: financial penalties and contract terminations, as demonstrated in Table 7 below.

**Table 7: Type of Sanction Applied to Delinquent Contractors**

| Type of Sanction | Percentage of Use |
|---|---|
| Contract Termination (42%) | 42 |
| Financial Penalty (40%) | 40 |
| Written Warning (13%) | 13 |
| Barred Vendor from Future Contracts (5%) | 5 |

Source: Amanda M. Girth and Jacelyn M. Johnston, Local Government Contracting, National League of Cities, February 2011.

The survey concludes that "when municipal leaders turn to the private sector to deliver public services, most place a strong emphasis on developing, enhancing and ensuring contract performance. They understand that merely shipping responsibility outside of government ultimately will not improve public performance."

The survey was sent to 2,195 city officials across the U.S., including 487 randomly selected city managers and 1,708 functional specialists. A total of 332 recipients responded, for a response rate of 15% with a 95% degree of confidence within a $^{+}/_{-}$4.96% margin of error.

## B. Browne Jacobson Survey on Public-Private Partnerships in the United Kingdom

Browne Jacobson LLP, a United Kingdom-based law firm, conducted a review into the state of public-private partnerships (PPP) and shared services across the public sector in the United Kingdom. This 2011 survey is a follow-up on a similar 2008 survey, and this time they commissioned Ipsos MORI to research views among local authorities to find an ongoing change in attitudes toward transformation and outsourcing, and a merging of front line services and sharing of services between public agencies and with the private sector. Dominic Swift, head of shared services at Browne Jacobson, wrote in the report:

> *Going forward local authorities may have little choice but to reconfigure service provision because only through collaborate working can authorities hope to meet the twin pressures of rising service demand and fiscal tightening*.[134]

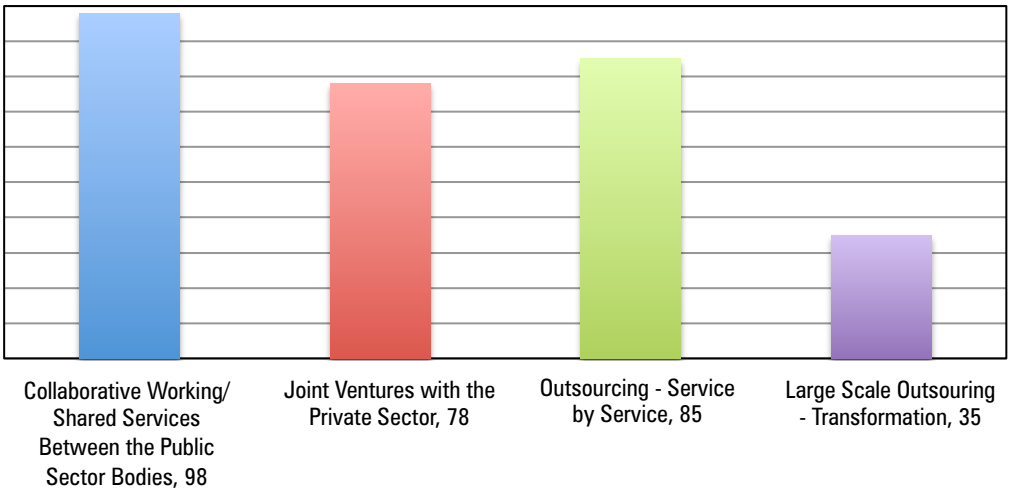
Browne Jacobson's 2008 survey found that only 5% of public sector managers saw opportunities for working with the private sector. They cited concerns ranging from accountability and public oversight to organizational culture and job security. However, three years later there has been a seismic shift in public sector managers' attitudes. The 2011 survey found 78% of local authority managers are now open to working with the private sector. Keith Gordon, assistant director of efficiency and delivery improvement in West Midlands, explained the need saying:

> *If councils wish to flourish and continue to respond to customers needs, they will need to develop partnerships and new operating models both with other public sector organizations and equally importantly with the private sector that put customers at the forefront of the agenda*.[135]

Recent analysis by Credo found that in the United Kingdom 2008–09, 22% of public spending (or £169 billion) went to private sector firms performing outsourced functions. Revealingly, the survey found that nearly every official (98%) would prefer to share services with another public sector body, however, preferences aside, they are increasingly open to outsourcing.

Lastly, Browne Jacobson explored potential barriers to PPPs and once again witnessed a shift from the previous survey. In 2008 public sector managers cited lack of financial resources as the greatest barrier to successful delivery of shared services. Other barriers emerged as well: 53% cited workforce opposition and 51% cited lack of a collaborative culture. This time around 28% of senior local authority managers identified political and public opposition as the biggest barrier. Others identified the biggest barrier being: difficulty trusting partner organizations (8%), lack of collaborative culture (7%), employee opposition (6%), risk-averse culture (4%) and lack of financial resources (2%).[136]

**Figure 5: Question: Which, if any, of the following models do you think your authority might adopt as future means of service provision?**




Source: Shared Services Survey 2011 (London: Browne Jacobson, January 7, 2011, p. 12).

In an accompanying article published in *The Guardian* on February 15, 2011 John Tizard, director of the Centre for Public Service Partnerships and co-author of the Browne Jacobson survey, outlined the benefits and pitfalls of PPPs directed toward town hall commissioners. Tizard's recommendations are as follows:

- Be clear about your motivation or working with external partners;
- Be clear on underlying strategic objectives;
- Identify needs first, then decide how to meet those needs;
- Understand the mindset of external suppliers;
- To attract and gain the best from a relationship, councils must be exemplary clients; and,
- Effective partnering requires investment in relationship building.[137]

The United Kingdom has been an international leader implementing innovative PPPs dating back to Prime Minister Margaret Thatcher's time in office, and the latest data suggests this trend will continue.

## C. John Locke Foundation Conducts First North Carolina County Privatization Survey

On November 10, 2011 the John Locke Foundation published a survey of all 100 counties in North Carolina asking county managers about the extent to which they rely on privatization, issues associated with privatization, and if they chose to switch back to public provision to explain the motivations behind that decision. Overall, 44 county managers gave qualitative responses explaining their use of competitive sourcing, public-private partnerships, contracting, and asset sales.[138]

# Endnotes

[1] Chip Barnett, "Whitney stands by U.S. muni bond defaults forecast," Reuters, June 8, 2011. http://www.reuters.com/article/2011/06/08/municipals-whitney-idUSN0824432120110608

[2] Edith Honan, "Muni defaults defy forecast in 1st-half 2011," Reuters, July 5, 2011. http://www.reuters.com/article/2011/07/05/us-municipals-default-idUSTRE7646TJ20110705

[3] Christopher W. Hoene and Michael A. Pagano, "City Fiscal Conditions in 2011," National League of Cities, September 2011. http://www.nlc.org/File%20Library/Utility%20Navigation/News%20Center/Media%20Relations/RB_CFC2011--5-.pdf

[4] Barnett Wright, "Jefferson County files largest bankruptcy in U.S. history," *The Birmingham News*, November 10, 2011. http://blog.al.com/spotnews/2011/11/jefferson_county_files_for_lar.html

[5] Jeff Hansen, "Timeline: How Jefferson County's financial crisis unfolded," *The Birmingham News*, November 9, 2011. http://blog.al.com/birmingham-news-stories/2011/08/timeline_how_jefferson_countys.html

[6] Mark Scolforo, "Harrisburg council approves bankruptcy filing," The Associated Press, October 12, 2011. http://www.usatoday.com/news/nation/story/2011-10-12/harrisburg-financial-woes/50741802/1

[7] Mark Shade, "Harrisburg closer to deal to prevent state takeover," Reuters, November 8, 2011. http://www.reuters.com/article/2011/11/08/us-harrisburg-debt-idUSTRE7A710Q20111108

[8] Charles Stockdale, "9 American Cities and Counties Going Broke," Yahoo! Finance, October 1, 2011. http://finance.yahoo.com/real-estate/article/113588/american-cities-going-broke-247wallst

[9] "Brown Pushes to Privatize Detroit Lighting," CBS Detroit, September 20, 2011. http://detroit.cbslocal.com/2011/09/20/brown-pushes-to-privatize-detroit-lighting/

[10] Andrea Bernstein, "Cities Want to Cash in On Their Parking Spots," National Public Radio: *Marketplace*, April 14, 2011. http://www.marketplace.org/topics/life/transportation-nation/cities-want-cash-their-parking-spots

[11] For background on Chicago's parking meter privatization, see Reason Foundation's *Annual Privatization 2010: Local Government Privatization* http://reason.org/news/show/annual-privatization-2010-local and *Annual Privatization Report 2009* http://reason.org/news/show/annual-privatization-report-20-28.

[12] Mark Konkol, "Daley turns to parking meter reserve fund to put money back," *Chicago Sun-Times*, April 14, 2011. http://www.suntimes.com/4837957-423/daley-turns-to-parking-meter-reserve-fund-to-put-money-back.html

[13] Andrew Harris, "William Blair Wins Dismissal of Suit Over Chicago Parking Meter Contract," *Bloomberg*, May 6, 2011. http://www.bloomberg.com/news/2011-05-06/william-blair-wins-dismissal-of-suit-over-chicago-parking-meter-contract.html

[14] "IBM Global Survey: Drivers Share Worldwide Parking Woes," September 28, 2011. http://www-03.ibm.com/press/us/en/pressrelease/35515.wss

[15] Eric Jaffe, "The Joy of Parking in Chicago," *The Atlantic*, September 28, 2011. http://www.theatlanticcities.com/commute/2011/09/joy-parking-chicago/208/

[16] "Mayor announces mixed-use Broad Ripple parking development," City of Indianapolis, June 13, 2011. http://www.indy.gov/eGov/Mayor/pressroom/2011/Documents/6%2013%2011%20MAYOR%20ANNOUNCES%20MIXED-USE%20BROAD%20RIPPLE%20PARKING%20DEVELOPMENT.pdf

[17] Henry Goldman, "New York City asks bankers to plumb parking meters, garages to add revenue," *Bloomberg*, February 25, 2011.

[18] Ibid.

[19] Ibid.

[20] Dale Kasler, "Sacramento arena finance plan may hinge on privatizing parking spots," *The Sacramento Bee*, September 12, 2011. http://www.sacbee.com/2011/09/12/3902400/sacramento-arena-finance-plan.html

[21] Tony Bizjak, "Parking fees eyed for arena financing," *The Sacramento Bee*, November 4, 2011. http://www.sacbee.com/2011/11/04/4029589/hed-here.html

[22] Tony Bizjak, "City says parking could play a key role in financing arena," *The Sacramento Bee*, November 3, 2011. http://www.sacbee.com/2011/11/03/v-print/4028206/city-says-parking-could-play-a.html

[23] Ila Halai, "RFQ out for Sacramento parking lease," *Inspiratia*, January 13, 2012. http://inspiratia.com/transport/News/read/RFQ-out-for-Sacramento-parking-lease/

[24] Josh Kosman, "NJ Transit parking plan derailed," *New York Post*, July 15, 2011.

[25] Bill Bush, "OSU parking deal requires accurate projections," *The Columbus Dispatch*, October 9, 2011. http://www.dispatch.com/content/stories/local/2011/10/09/osu-parking-deal-requires-accurate-projections.html

[26] Joe Smydo, "Councilman trying to revive parking lease plan," *Pittsburgh Post-Gazette*, May 31, 2011. http://www.post-gazette.com/pg/11151/1150394-100.stm

[27] Ibid.

[28] Eric Moskowitz, "MBTA considers selling future parking revenue," *The Boston Globe*, January 5, 2011. http://www.boston.com/news/local/massachusetts/articles/2011/01/05/mbta_considers_selling_future_parking_revenue/

[29] Dave Davies, "Should Philadelphia sell its parking meters?" *NewsWorks*, April 4, 2011. http://www.newsworks.org/index.php/local/item/16392-should-philadelphia-sell-its-parking-meters

[30] Michael Stainbrook, "Port Authority interested in buying city parking garages and parking meters," *Toledo Free Press*, August 25, 2010. http://www.toledofreepress.com/2010/08/25/port-authority-interested-in-buying-city-parking-garages-and-parking-meters/

[31] Gregory Seay, "Hartford eyes $100M to outsource parking," *Hartford Business Journal*, November 17, 2010. http://www.hartfordbusiness.com/article.php?RF_ITEM%5B%5D=Article$0@15647;Article

[32] Bill Laitner, "Pontiac gets rid of parking meters downtown," *Detroit Free Press*, November 8, 2011. http://www.freep.com/article/20111108/NEWS05/111080364/Pontiac-gets-rid-parking-meters-downtown

[33] "Commissioners: privatize county lots?" *The Cincinnati Enquirer*, April 18, 2011. http://news.cincinnati.com/article/20110418/NEWS01/104190328

[34] Gene Maddaus, "City Council pays for needless study by not doing its homework," *LAWeekly*, April 7, 2011. http://www.laweekly.com/2011-04-07/news/city-council-pays-for-needless-study-by-not-doing-its-homework/

[35] Gene Maddaus, "Plan to sell city garages could anger voters forced to pay more to park," *LAWeekly*, January 13, 2011. http://www.laweekly.com/2011-01-13/news/plan-to-sell-city-garages-could-anger-voters-forced-to-pay-more-to-park/2/

[36] Kate Linthicum, "Los Angeles to hand over animal shelter to nonprofit group," *Los Angeles Times*, August 17, 2011. http://articles.latimes.com/2011/aug/17/local/la-me-0817-animal-shelter-20110817

[37] Rick Orlov, "Report by CAO endorses private partnership for L.A. Zoo," *Daily News Los Angeles*, July 16,2011. http://www.dailynews.com/news/ci_18493577

[38] *Financial Challenges for the New Mayor of Chicago: Analysis and Recommendations* (Chicago: The Civic Federation, February 14, 2011). http://www.civicfed.org/sites/default/files/Financial%20Challenges%20for%20the%20New%20Mayor.pdf

[39] *Recommendations for a Financially Sustainable City of Chicago* (Chicago: The Civic Federation, June 30, 2011). http://www.civicfed.org/sites/default/files/Recommendations%20for%20a%20Financially%20Sustainable%20City%20of%20Chicago.pdf

[40] Fran Spielman, "Rahm Emanuel borrows presidential approach to tackle budget mess," *Chicago Sun-Times*, April 20, 2011.

[41] "Mayor Emanuel Announces Plans To Make Recycling In Chicago More Cost Effective With Long Term Goal of Providing To Chicagoans Across the City," City of Chicago, Illinois, July 18, 2011. http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2011/july_2011/mayor_emanuel_announcesplanstomakerecyclinginchicagomorecosteffe.html

[42] Kristen Mack, "Emanuel's 'managed competition' push goes into full swing on recycling pickups," *Chicago Tribune*, September 30, 2011.

[43] Fran Spielman, "Rahm Emanuel to put all city assets under one department," *Chicago Sun-Times,* April 22, 2011.

[44] Fran Spielman, "Burke: Privatize ambulance fees to cut $50 million in unpaid bills annually," *Chicago Sun-Times*, September 23, 2011. http://www.suntimes.com/news/politics/7829291-418/burke-privatize-ambulance-fees-to-cut-50-million-in-unpaid-bills-annually.html

[45] *Managing Change: Opportunities for Municipal Efficiency and Effectiveness, City of Tulsa Management Guide* (Tulsa: KPMG, July 1, 2010).

[46] *City of Tulsa: Citizen Survey* (Oklahoma City: Shaphard Research, February 23, 2011.)

[47] *Tulsa Zoo and Living Museum: Tulsa Zoo Organizational Analysis and Governance Study*. (Philadelphia: Schultz & Williams, March 15, 2011).

[48] Sara Plummer, "Tulsa Zoo is prospering due to privatization," *Tulsa World*, September 9, 2011. http://www.tulsaworld.com/news/article.aspx?subjectid=11&articleid=20110909_11_A1_CUTLIN753597

[49] P.J. Lassek, "Team selected to assess Tulsa's water and sewer system," *Tulsa World*, June 2, 2011. http://www.tulsaworld.com/news/article.aspx?subjectid=334&articleid=20110517_11_A12_TheTul430133

[50] Alvin Brown, "Introduction of Reform Legislation," November 8, 2011. http://www.coj.net/getattachment/Mayor/Reform-Plan/reform-speech-(1).pdf.aspx

[51] Steve Patterson, "Council panel cuts Mayor Alvin Brown's public-private partnership office from 2012 budget," *The Florida Times-Union*, August 25, 2011. http://jacksonville.com/opinion/blog/403455/steve-patterson/2011-08-25/council-panel-cuts-mayor-alvin-browns-public-private

[52] Katie Leslie, "Lawsuit seeks dissolution of Dunwoody, Sandy Springs, Johns Creek, Milton, Chattahoochee Hills," *Atlanta Journal-Constitution*, March 28, 2011. http://www.ajc.com/news/lawsuit-seeks-dissolution-of-888729.html.

[53] "Sandy Springs Selects New Contractors," City of Sandy Springs, Georgia, May 17, 2011. http://www.sandyspringsga.org/Newsroom/Press-Releases/2011/General-Government-Services

[54] Maggie West Bean, "The City of Sandy Springs cuts taxes to benefit local businesses," *Fulton County Buzz Examiner*, December 22, 2010. http://www.examiner.com/buzz-in-atlanta/the-city-of-sandy-springs-cuts-taxes-to-benefit-local-businesses

[55] Penny Font, "Private lessons," *Baton Rouge Business Report*, July 12, 2011. https://1012corridor.com/news/2011/jul/12/private-lessons-gvpt1/

[56] Ibid.

[57] Ibid.

[58] City of San Diego, Office of the Independent Budget Analyst, *Review of the Mayor's Five-Year Financial Outlook for FY 2013 - 2017*, IBA Report Number 11-66, November 16, 2011, p. 24, http://www.sandiego.gov/iba/pdf/11_66.pdf (retrieved November 30, 2011).

[59] See, for example, Office of San Diego Councilmember Carl DeMaio, "DeMaio, Faulconer and Business Owners Declare Managed Competition Deal Is 'Unfair' and 'Unworkable,'" September 27, 2010, http://www.sandiego.gov/citycouncil/cd5/pdf/news/news100927.pdf (retrieved November 30, 2011), and Adam Summers, "San Diego Managed Competition Guide Is Unfair and Unworkable," September 27, 2010, http://reason.org/news/printer/san-diego-managed-comp-guide-unfair (retrieved November 30, 2011).

[60] Jen Lebron Kuhney, "Street, sidewalk work could be next up for bid," *San Diego Union-Tribune*, October 12, 2011, http://www.signonsandiego.com/news/2011/oct/12/street-sidewalk-work-could-be-next-up-for-bid/ (retrieved November 30, 2011).

[61] Craig Gustafson, "Rural/Metro ambulance service stays for now," *San Diego Union-Tribune*, June 13, 2011, http://www.signonsandiego.com/news/2011/jun/13/ruralmetro-ambulance-service-stays-now/ (retrieved November 30, 2011).

[62] Ibid.

[63] Steve Schmidt, "Toll road operator files for Chapter 11," *San Diego Union-Tribune*, March 23, 2011, http://www.signonsandiego.com/news/2010/mar/23/south-bay-expressway-builders-file-chapter-11/ (retrieved November 30, 2011).

[64] Ibid.

[65] Katie Orr, "SANDAG to Take Over Operation of S.R. 125," KPBS.com, July 29, 2011, http://www.kpbs.org/news/2011/jul/29/sandag-take-over-operation-sr-125/ (retrieved November 30, 2011).

[66] David Rider and Paul Moloney, "Toronto votes to contract out garbage pickup," *Toronto Star*, May 17, 2011. http://www.thestar.com/news/article/992570--ford-gives-some-ground-on-trash-contract

[67] Ibid.

[68] Darren A. Nichols, "Privatized trash pickup weighed in Detroit," *The Detroit News*, June 10, 2011. http://www.detnews.com/article/20110610/METRO01/106100373/1409/Privatized-trash-pickup-weighed-in-Detroit

[69] Ibid.

[70] Scott Madaus, "Budget proposal looks to privatize city sanitation," Fox 13 News, June 2, 2011. http://www.myfoxmemphis.com/dpp/news/politics/local_politics/budget-proposal-looks-to-privatize-city-sanitation-rpt-20110602

[71] Peter Downs, "Past experience of many cities suggests privatizing sanitation services wasn't a panacea," *The Commercial Appeal*, July 10, 2011. http://www.commercialappeal.com/news/2011/jul/10/no-quick-fix/

[72] Jody Callahan, "In brief: Mayor Wharton addresses issues facing city," *The Commercial Appeal*, September 14, 2011. http://www.commercialappeal.com/news/2011/sep/14/in-02/?partner=RSS

[73] Laura Rice, "City of Toledo out of trash business," WNWO, March 30, 2011. http://www.northwestohio.com/news/story.aspx?id=599197#.T17VmphB35E

[74] Katie Kim, "ABQ revamps recycling," KRQE 13 News, May 3, 2011. http://www.krqe.com/dpp/news/environment/abq-revamps-recycling

[75] Jenna Portnoy, "Lehigh County: Leaf it to the private sector," *The Morning Call*, April 20, 2011. http://articles.mcall.com/2011-04-20/news/mc-lehigh-county-compost-privatizatio20110420_1_yard-waste-organics-recycling-center-municipalities

[76] Dan Way "N.C. Zoo Says Privatization Could Free It From Fiscal Captivity," *Carolina Journal*, October 24, 2011. http://lincolntribune.com/?p=21949

[77] "Mayor Fischer wants private agency to shelter and adopt pets," WDRB, May 12, 2011. http://www.wdrb.com/story/14632983/mayor-fischer-wants-private-agency-to-shelter-and-adopt-pets?clienttype=printable

[78] Ty Brennan, "Canyon County Animal Shelter to be privatized," KTVB, August 11, 2011. http://www.ktvb.com/news/local/Canyon-County-Animal-Shelter-to-be-privatized-127559758.html

[79] Kristin Rodine, "Private contract in the works for Canyon County Animal Shelter," *Idaho Statesman*, August 10, 2011. http://www.idahostatesman.com/2011/08/10/v-print/1755490/private-contract-in-the-works.html

[80] Kristine Rodine, "Canyon County Animal Shelter 'going in the right direction,'" *Idaho Statesman*, November 29, 2011. http://www.thenewstribune.com/2011/11/29/1926138/canyon-shelter-going-in-the-right.html

[81] Ibid.

[82] Jim Holt, "State to look at library bill," March 30, 2011. http://www.the-signal.com/archives/42595/

[83] Melissa Maynard, "Outsourcing the local library can lead to a loud backlash," Stateline, August 1, 2011. http://www.stateline.org/live/details/story?contentId=591002

[84] Matthew Cunningham, "Don't Privatize That Book!" *City Journal*, June 9, 2011. http://www.city-journal.org/2011/cjc0609mc.html

[85] "Senate restricts attempts to privatize libraries," The Associated Press, September 8, 2011. http://www.utsandiego.com/news/2011/sep/08/senate-restricts-attempts-to-privatize-libraries/?print&page=all

[86] Maynard, "Outsourcing the local library can lead to a loud backlash."

[87] Marsha McLean, "Privatize libraries in their interest," *Pasadena Star News*, August 30, 2011. http://www.pasadenastarnews.com/opinions/ci_18783597

[88] Maynard, "Outsourcing the local library can lead to a loud backlash."

[89] Carissa March, "Simi Valley Library latest to consider leaving system," *Thousand Oaks Acorn*, November 3, 2011. http://www.toacorn.com/news/2011-11-03/Community/Simi_Valley_Library_latest_to_consider_leaving_cou.html

[90] Rachel Gordon, "S.F. park concessions push: some residents unhappy," *San Francisco Chronicle*, December 2, 2010. http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2010/12/01/MNES1GKC2U.DTL

[91] Baltimore Recreation Center Task Force Implementation plan http://www.baltimorecity.gov/Government/AgenciesDepartments/RecreationandParks/Announcements/tabid/1776/articleType/ArticleView/articleId/1463/Mayors-Recreation-Center-Task-Force-Report.aspx

[92] Mark Reutter, "Jack Young breaks with mayor, says city's rec centers should stay open," *Baltimore Brew*, October 18, 2011. http://www.baltimorebrew.com/2011/10/18/jack-young-breaks-with-mayor-says-citys-rec-centers-should-stay-open/

[93] Lindsay VanHulle, "City still looking into privatizing cemeteries," *Lansing State Journal*, October 9, 2011. http://www.lansingstatejournal.com/article/20111010/NEWS01/110100315/1002

[94] Laura Isensee, "With help of businesses, Hialeah reopens its parks," *The Miami Herald*, June 23, 2011. http://www.miamiherald.com/2011/06/23/2281528/with-help-of-businesses-hialeah.html

[95] Tony Bizjakm, "Sacramento is turning over all municipal golf operations to Morton Golf," *The Sacramento Bee*, October 19, 2011. http://www.sacbee.com/2011/10/29/4015343/sacramento-is-turning-over-all.html

[96] For a detailed walkthrough of the bids, see: Tony Whitt, "Seven suitors courting Manatee public golf courses," March 30, 2011. http://www.bradenton.com/2011/03/30/3072430/seven-suitors-courting-public.html

[97] Toni Whitt, "Sarasota firm to manage county golf courses," *Bradenton Patch*, August 11, 2011. http://bradenton.patch.com/articles/sarasota-firm-to-manage-county-golf-courses

[98] Kristin Longley, "City of Flint postpones leasing out public golf courses," *Flint Journal*, August 22, 2011. http://www.mlive.com/news/flint/index.ssf/2011/08/city_of_flint_postpones_leasin.html

[99] Ryan Stanton, "Ann Arbor rejects proposal for Huron Hills Golf Course, citing financial risks and threat to parkland," *AnnArbor.com* December 22, 2010. http://www.annarbor.com/news/ann-arbor-rejects-proposal-for-huron-hills-golf-course-citing-financial-risks-and-threat-to-parkland/

[100] Susan McCord, "New 'Patch' management has some changes in store for city-owned course," *The Augusta Chronicle*, September 15, 2011. http://chronicle.augusta.com/sports/golf/2011-09-15/new-patch-management-has-some-changes-store-city-owned-course

[101] "Private company has improved city's golf services," *Corpus Christi Caller*, July 12, 2011. http://www.caller.com/news/2011/jul/12/private-company-has-improved-citys-golf-services/

[102] Jonathan Oosting, "Bing renews call to privatize Detroit lighting department in wake of downtown power failure," MLive.com, June 10, 2011. http://www.mlive.com/news/detroit/index.ssf/2011/06/mayor_bing_renews_call_to_priv.html

[103] *Frederick County, Maryland: Services Assessment Study* (Sandy Springs: PPP Associates, June 16, 2011).

[104] Chris Moran, "City privatization plan could raise $10M for cash-strapped Houston," *Houston Chronicle*, May 6, 2011. http://www.chron.com/news/houston-texas/article/City-privatization-plan-could-raise-10M-for-1689546.php

[105] New Haven anti-privatization study on custodial services http://www.newhavenindependent.org/archives/upload/2011/03/PERI_NewHaven_March2011.pdf

[106] Thomas MacMillan, "Report: Privatization would impoverish custodians," *New Haven Independent*, March 11, 2011.

http://www.newhavenindependent.org/index.php/archives/entry/report_privatization_would_cripple_custodians/

[107] Paul Bass, "Privatization baby split in half," *New Haven Independent*, August 1, 2011. http://www.newhavenindependent.org/index.php/archives/entry/cutodians_contract/

[108] Floyd J. Dugas, "Abritation Panel Awards New Haven the Right to Privatize a Substantial Portion of School Custodians," *Connecticut Labor & Employment Law Journal*, December 1, 2011. http://www.connecticutlaboremploymentlawjournal.com/municipal-labor/arbitration-panel-awards-new-haven-the-right-to-privatize-a-substantial-portion-of-school-custodians/

[109] "Texas Senate Bill 650" June 17, 2011. http://www.capitol.state.tx.us/tlodocs/82R/billtext/html/SB00650F.htm

[110] Susan McCord, "Augusta looks for more services to privatize," *The Augusta Chronicle*, September 3, 2011. http://chronicle.augusta.com/news/government/2011-09-03/augusta-looks-more-services-privatize

[111] Timothy Bolger, "Long Island Bus Privatization Details Released," *Long Island Press*, November 10, 2011. http://www.longislandpress.com/2011/11/10/long-island-bus-privatization-details-released/

[112] Jim O'Gray, "Long Island Bus, Nation's Largest Suburban Bus Line, To Privatize," *WNYC New York Public Radio: Transportation Nation,* June 10, 2011. http://transportationnation.org/2011/06/10/long-island-bus-nations-largest-suburban-bus-line-to-privatize/

[113] "RE: Senate Bill 1322 (managed competition; city services)," State of Arizona, April 28, 2011. http://www.azgovernor.gov/dms/upload/PR_042811_SB1322VetoLetter.PDF

[114] "Bayonne Medical Center affiliate wins bid for Hoboken University Medical Center," *The Jersey Journal*, January 5, 2011. http://www.nj.com/hobokennow/index.ssf/2011/01/bayonne_medical_center_affilia.html

[115] Scott Mobley, "Outsourcing and privatizing," *The Record Searchlight*, April 3, 2011. http://www.redding.com/news/2011/apr/03/outsourcing-privatizing/

[116] Joseph Serna, "Contracted legal duties saves millions," *Daily Pilot*, May 30, 2011. http://articles.dailypilot.com/2011-05-30/news/tn-dpt-0531-fees-20110530_1_city-attorney-duties-outsourcing-job-hunting

[117] Kurt Hildebrand, "Airport management may be privatized," *The Record-Courier* December 29, 2010. http://www.recordcourier.com/article/20101229/NEWS/101229877

[118] Ibid.

[119] Jacklyn Corley, "County seeks proposals on John L. Montgomery Care Center," *Manalapan Patch*, July 15, 2011. http://manalapan.patch.com/articles/county-seeks-proposals-on-john-l-montgomery-care-center

[120] Reginald Johnson, "Gray and Catania can't agree fully on the future of hospital," *Washington Examiner*, February 16, 2011. http://www.examiner.com/ex-offender-re-entry-in-washington-dc/gray-and-catania-can-t-agree-fully-on-the-future-of-hospital

[121] Rick Norment, "2011 Public-Private Partnership Award Recipients Named," August 18, 2011. http://ncppp.org/awards/2011/2011%20Award%20Press%20Release.pdf

[122] "City of Santa Paula – Santa Paula Water Recycling Facility," PERC Water Corporation. http://www.percwater.com/Portfolio/1/city-of-santa-paula-santa-paula-water-recycling-facility

[123] "Santa Paula Water Recycling Facility Receives Prestigious 2011 Public-Private Partnership Award for Innovation," PERC Water Corporation, August 24, 2011. http://www.wateronline.com/article.mvc/Santa-Paula-Water-Recycling-Facility-Receives-0001

[124] Dave Williams, "Senate allows private funds for reservoirs," *Atlanta Business Chronicle*, March 11, 2011. http://www.bizjournals.com/atlanta/print-edition/2011/03/11/senate-allows-private-funds-for.html?page=all

[125] For more on Franklin's decision, see Reason Foundation's *Annual Privatization Report 2005: Water/Wastewater*. http://reason.org/news/show/annual-privatization-report-20-10

[126] Michael Lamendola, "Lyndhurst seeking proposals for water privatization," *South Bergenite*, June 16, 2011. http://www.northjersey.com/news/123977464_For_lease__Town_seeks_company_to_run_water_department.html

[127] Michael Lamendola, "Lyndhurst to consider three proposals for water privatization," *South Bergenite*, November 3, 2011. http://www.northjersey.com/news/133132303_Town_gets_proposals_for_water_takeover_.html

[128] Barbara Boucicaut, "Opposition to Ramsey utilities' privatization plan mounts," *Ramsey Suburban News,* August 4, 2011. http://www.northjersey.com/news/133132303_Town_gets_proposals_for_water_takeover_.html

[129] Keith Reid, "Lodi agrees to look into privatizing new water treatment plant," *The Record*, March 16, 2011. http://www.recordnet.com/apps/pbcs.dll/article?AID=/20110316/A_NEWS/103160317/-1/NEWSMAP

[130] Molly Young, "Wilsonville begins sewage treatment project negotiations with CH2M Hill," *The Oregonian*, May 18, 2011. http://www.oregonlive.com/wilsonville/index.ssf/2011/05/wilsonville_begins_sewage_trea.html

[131] Tracy Overstreet, "City seeking efficiency in wastewater treatment," *The Grand Island Independent*, September 19, 2011. http://www.theindependent.com/articles/2011/09/19/news/local/doc4e76c96e99d8b375989102.txt

[132] Tracy Overstreet, "City and Veolia to detail privatization of wastewater treatment plant," *The Grand Island Independent*, November 14, 2011. http://www.theindependent.com/articles/2011/11/14/news/local/14158424.txt

[133] Amanda M. Girth and Jacelyn M. Johnston, *Local Government Contracting*, American University and National League of Cities, February 2011.

[134] *Shared Services Survey 2011* (London: Browne Jacobson, January 7, 2011, p. 3). http://www.brownejacobson.com/pdf/Browne%20Jacobson%20Shared%20Services%20Survey%202011%20FINAL.pdf

[135] Ibid. p. 10.

[136] Ibid, p. 13.

[137] John Tizard, "Public private partnerships: the benefits and the pitfalls," *The Guardian*, February 15, 2011. http://www.guardian.co.uk/local-government-network/2011/feb/15/public-private-partnerships-benefits-pitfalls

[138] Dr. Michael Sanera and Kevin Munger, *First Annual North Carolina County Privatization Survey* (Raleigh: John Locke Foundation, November 10, 2011). http://johnlocke.org/acrobat/policyReports/RB83CountyPrivatization.pdf


**Reason Foundation**
3415 S. Sepulveda Blvd., Suite 400,
Los Angeles, CA 90034
310/391-2245
www.reason.org