Chapter 5
Privatization

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10 Principles of Privatization

1. Identify privatization opportunities.
2. Prepare a business case evaluation.
3. Create a privatization center of excellence.
4. Choose contractors on best value, not lowest price.
5. Use performance-based contracting.
6. Provide effective monitoring and oversight.
7. Bundle services for better value.
8. Prepare a real property inventory.
9. Divest non-core assets.
10. Make the case to the public.

Introduction

Privatization means shifting some or all aspects of service delivery from government to private-sector providers. It is a strategy to lower the costs of government and to achieve higher performance and better outcomes for tax dollars spent.

Policymakers in many jurisdictions in the United States and around the world increasingly use privatization to better the lives of citizens by producing higher-quality services at lower costs, delivering greater choices, and ultimately providing more efficient and effective government. Thousands of national, state, and local government agencies in the United States have successfully privatized scores of services

(Gilroy 2016). Researchers have documented the successful privatization of airports (Poole 2016a), electric and telecommunications utilities (Newbery 2001), prisons (Krisai *et al.* 2016), schools (Koteskey and Smith 2016), transportation (Poole 2016b), and many other services.

Why Privatize?

States and local governments are still recovering from severe fiscal traumas during and in the aftermath of the Great Recession, and future pressures loom large. The National Association of State Budget Officers (NASBO) found in FY 2016, total state expenditures and revenues finally surpassed their pre-recession peaks seen in FY 2008, after adjusting for inflation. Nineteen states projected a combined $19.7 billion in budget deficits to close in FY 2017 (NASBO 2016).

Legislators, government officials, and concerned citizens can use privatization to achieve a number of goals:

- *Access to expertise:* Contracting gives governments access on an as-needed basis to expertise they do not have in-house. For example, it is often cheaper to retain architects, engineers, lawyers, and information technology specialists on an as-needed basis than to hire them as full-time employees.

- *Better quality:* Privatization can improve the quality of services in several ways. The process of competitive bidding encourages firms to offer the best possible combination of price and service quality to beat their rivals. Further, performance-based contracting can be used to hold contractors accountable for delivering a higher quality service than can be attained in the existing civil service, especially when the threat of penalties or even contract cancellation looms as potential consequences of underperformance.

- *Cost savings:* Privatization can produce cost savings in a variety of ways, including reduced labor costs, economies of scale, improved technologies, more efficient business practices, and other innovations. A landmark Reason Foundation review of more than 100 privatization studies found savings up to 50 percent, depending on the type of service (Hilke 1993).

- *Improved risk management:* Privatization can transfer key risks from government—and thus taxpayers—to a private partner. Contractors, rather than the government, can be held responsible for cost overruns, project delivery deadlines, regulatory compliance, strikes, delays, and other risks (Lehrer and Murray 2007).

- *Innovation:* Competition to win and retain contracts spurs the discovery of new, cutting-edge solutions. Without competition, even top-notch employees may stop looking for ways to improve how they meet customers' needs.

- *Meeting peak demand:* Demand for some public services fluctuates significantly over time, yet governments often incur higher than necessary costs by retaining permanent capital and staff at a level needed to satisfy peak-period demands. Examples include winter snowplowing services or handling the summer influx of visitors to national and state parks. Contracting allows governments to obtain additional help only when it is needed to provide services.

- *Timeliness:* When time is of the essence, privatization contracts can be written to include penalties for delays. Contractors have more flexibility in recruiting additional workers or providing performance bonuses to meet or beat deadlines, options that often are unavailable to in-house staff.

Privatization is no magic wand or panacea. If badly executed, privatization can fail. For example, taxpayers are served poorly when privatization initiatives are not scoped properly, when private providers fail to perform, and when governments fail to properly administer contracts.

To avoid these pitfalls, we have the successful experiences of governments in the United States and around the world from which to learn. The following 10 principles of privatization capture best practices that have emerged from those experiences.

Recommended Readings: Leonard C. Gilroy, editor, *Annual Privatization Report 2016* (Los Angeles, CA: Reason Foundation, 2016); Chris Edwards, "Options for Federal Privatization and Reform Lessons from Abroad," *Policy Analysis* No. 794, Cato Institute, 2016; Lawrence L. Martin, "Making Sense Of Public-Private Partnerships (P3s)," *Journal Of Public Procurement* **16** (2): 191–207.

1. Identify privatization opportunities.

Privatization can be applied to most things government does without interfering with its legitimate obligations.

Former New York governor Mario Cuomo once said, "It is not a government's obligation to provide services, but to see that they are provided" (Tolchin 1985). Privatization can be applied to most things government does without interfering with its legitimate obligations. The following is a partial list of services that governments in the United States and around the world have privatized successfully:

accounting
airports and air traffic control
animal shelter operations and management
bridge repair and maintenance
building financing, operations, and maintenance
correctional facilities and services
daycare facilities
engineering
financial planning
golf course operations
graphic design and printing
health care administration and services
human resources administration
information technology infrastructure and network services
legal services
library services and operations
lottery operations
mental health facilities and services
park operations and maintenance
parking lots and parking meters
planning and permitting
public works
risk management (claims processing, loss prevention)
road maintenance
school construction, buses, cafeterias, and driver's education
social infrastructure assets (e.g., courthouses, hospitals, public buildings, etc.)
stadium and convention center management
street cleaning and snow removal
toll roads
zoo and museum operations and maintenance

Privatization is also widely used by local governments. According to the International City/County Management Association (ICMA), local governments on average contract out 17 percent of all services to for-profit businesses and 16 percent to other government entities; for example, a town government contracting with a county government for trash services. Nonprofit organizations, such as community organizations, animal welfare groups, and churches deliver 5 percent of public services. Franchises, subsidies, and volunteers collectively account for less than 2 percent of service delivery (ICMA 2009).

How to Privatize

There are many ways to privatize public services. The four most common methods are listed below, from most to least, by how much responsibility government retains to oversee or subsidize the service:

- *Contracting out:* Governments contract with private for-profit firms or nonprofit organizations to deliver individual public services, typically on a fee-for-service basis or through shared user fees.

- *Franchises or concession agreements:* Governments award private firms exclusive rights to provide public services or operate public assets, usually in return for annual lease payments or a one-time, up-front payment and subject to meeting performance expectations outlined by the government agency. This is also sometimes called leasing or concessions.

- *Vouchers:* Governments give consumers vouchers or certificates that can be redeemed for a specific service provided by a participating private business or nonprofit organization. Vouchers are used in several states to expand school choice (Walberg 2010).

- *Service shedding or divestiture:* Governments shed responsibility for providing a service, activity, or asset entirely, often through outright sales. Governments routinely sell off aging or underutilized land, buildings, and equipment, returning them to private commerce where they may be more productively used.

The Yellow Pages Test

Government managers should regularly review all services and activities they engage in and classify them as either “governmental”—those that should be performed only by public employees—or “commercial”—those that can be obtained from private businesses or nonprofit organizations. Former Indianapolis mayor Stephen Goldsmith (1999) calls this the “Yellow Pages test” because if a service can be found in the Yellow Pages of a phone book, then government ought to buy it rather than produce it.

The Yellow Pages test helps government concentrate on delivering inherently governmental services, such as public safety and judicial systems, while contracting with businesses and nonprofit organizations to produce other services. This has the added benefits of ending taxpayer-subsidized competition with private businesses, freeing up resources for agencies to complete their missions, and saving taxpayers money.

The Yellow Pages test asks, "Is it really the best use of taxpayer dollars to hire and manage public employees to cut grass, change oil in cars and trucks, sweep the streets, and clean government buildings, when existing businesses already perform these tasks well and almost always less expensively than government?" When governments attempt to provide these services in-house, they are effectively competing unfairly against the private sector, undermining economic development and free enterprise.

This unfair competition can be quite extensive. One analysis in Virginia in 1999 identified 205 commercial activities being performed by more than 38,000 state employees, accounting for nearly half of all state workers (Commonwealth Competition Council 1998).

Government will always squander resources; it is not designed to turn a profit. Focusing resources on the services government alone can and should deliver helps it achieve its highest goals while creating opportunities for entrepreneurs and businesses to provide other services at lower cost to taxpayers.

Recommended Readings: Stephen Goldsmith, "The Yellow Pages Test: Let Your Fingers Do the Walking," *Nevada Journal*, 1999; E.S. Savas, *Privatization in the City: Successes, Failures, Lessons* (Washington, DC: CQ Press, 2005).

2. Prepare a business-case evaluation.

While private business managers think carefully about the potential costs and benefits of major resource allocations, public-sector managers rarely do.

Robust competition in the marketplace forces business managers to think carefully about the potential costs and benefits of major resource allocations. This discipline leads companies to routinely prepare business-case evaluations—analyses of the goals, costs, benefits, and impacts associated with potential sourcing options—to help managers make informed choices.

Surprisingly, this type of common-sense analysis is rare in the public sector. Requiring business-case evaluations be written and frequently revisited gives agencies, policymakers, and citizen watchdogs an opportunity to ask questions that get to the heart of the matter: What public services are we seeking to deliver, and are they best delivered in-house or by private businesses? What does the in-house option really cost? Could we achieve better performance and improve services through privatization?

The business-case evaluation can serve as a roadmap for how a privatization project should be implemented and managed. It should be a living document that travels with the initiative through the development, procurement, and implementation processes and should be continuously updated to reflect new data or changing conditions.

Key elements of a business-case evaluation include:

- *Assumptions and methodology:* List and describe any assumptions associated with policy, legislation, agency direction, and market conditions that are germane to the privatization decision. Explain the methodology used to make cost comparisons and quality evaluations.

- *Benchmarking:* Document the capital and operating costs of the service as currently delivered by the government. Benchmark data can be used to evaluate privatization proposals and, if adopted, their success or failure over time. This is often difficult to do with precision given standard government accounting practices, so the limitations of the base case must be understood and accounted for.

- *Rationale and justification:* State the reasons privatization is being considered. Why is the status quo undesirable? Is it because of excessive costs or poor service quality? Have needs and opportunities changed, making government delivery obsolete or unnecessary? What alternatives were considered? Why were they dismissed? Why can't the function be improved internally? Can the private sector deliver more value than the in-house option?

- *Recommendation:* Present the privatization proposal in sufficient detail to allow comparison with the benchmark data. Identify fiscal impacts (e.g., savings, avoided costs, income from assets sold or leased, and new expenses); performance standards and outcomes; new management structures; implementation timelines and milestones; length of contracts; and term before re-competition or renewal.

- *Success factors:* How will public administrators be able to distinguish success from failure? Success factors should be measurable, tangible, and include minimum performance metrics that should be incorporated in the final contract.

- *Transition management:* Describe how the transition in service delivery will be managed. Will a new management structure need to be created? How will stakeholders be brought into the planning process and issues relating to customer awareness and employee transition and training be addressed? How would privatization of one service affect the delivery of related services?

At this point, the business-case evaluation could conclude the project should not be outsourced or privatized after all. Future managers and watchdogs should be able to review past business-case evaluations and decide if circumstances have changed or relevant information was overlooked and privatization should be reconsidered.

Private companies routinely perform business-case evaluations before embarking on new outsourcing. Governments should do the same thing, and citizen watchdogs can help. The business-case evaluation offers policymakers and administrators a powerful tool to conduct due diligence on privatization proposals.

Recommended Reading: Benjamin Herzberg and Andrew Wright, *The PPD Handbook: A Toolkit for Business Environment Reformers* (Washington, DC: World Bank, 2006).

3. Create a privatization center of excellence.

Global experience with privatization shows the value of having a single independent decision-making body to manage privatization initiatives.

Global experience with privatization shows the value of having a single independent decision-making body to manage privatization initiatives. Richard D. Young (2005) identified 14 such councils overseeing statewide privatization initiatives. While some have been temporary in nature—non-permanent, gubernatorial-appointed advisory commissions such as New Jersey's Privatization Task Force in 2010—at least two councils are currently active: Utah's Free Market Protection and Privatization Board and the Texas Council on Competitive Government.

Florida's former Council on Efficient Government—shut down amid deep state budget cuts in the wake of the Great Recession—still offers an excellent model for other states (Gilroy 2010). Developed in 2004, it was a key component of a strategy that realized more than $550 million in cost savings through more than 130 privatization and competition initiatives. In 2009 alone, the council evaluated 23 new business cases for potential agency outsourcing projects with a cumulative value of more than $225 million, identifying more than $31 million in projected savings to the state (Florida Council on Efficient Government 2010).

A privatization center of excellence should be given the responsibility and authority to:

- assist agencies in developing a business-case evaluation for any proposed privatization initiative, stating the rationale for the initiative such as cost savings, service quality improvements, and changing obsolete business practices;

- conduct an annual or biennial inventory of all functions and activities performed by government, distinguishing between inherently governmental and commercial activities;

- create a uniform cost accounting model to facilitate "apples-to-apples" cost comparisons between public- and private-sector service provision;

- develop a standardized, enterprise-wide process for identifying and implementing competitive sourcing;

- develop rules instituting performance-based contracting and business-case development as requirements for state procurement;

- disseminate lessons learned and best practices across government agencies; and

- review and take action on complaints regarding inappropriate government competition with the private sector.

A center of excellence along these lines can facilitate regular and comprehensive reviews of state government activities, with an eye toward right-sizing government through competition and privatization.

At the same time, successful privatization requires a high standard of due diligence in contracting, which in turn requires a staff of experts committed to the goal of greater value to taxpayers and power to make decisions.

Experience in Florida, Utah, and other states also suggests privatization centers of excellence increase the public's confidence in outsourcing and help reduce perceptions of impropriety, a common concern with privatization initiatives.

Recommended Readings: Henry Garrigo, "Look Before You Leap into Privatization: Florida's Council on Efficient Government Sets a New Standard in Transparency, Due Diligence in Privatization and Contracting Decisions," interview by Leonard Gilroy, Reason Foundation, 2010; Florida Council on Efficient Government, *2009 Annual Report for FY 2008–2009* (Tallahassee, FL: Florida Department of Management Services, 2010).

4. Choose contractors on best value, not lowest price.

Best practices for government procurement and service contracting have evolved toward "best-value" techniques.

Government procurement processes in the United States tend to be oriented towards "low-bid" selections in which the contractor offering the lowest price automatically wins. While this approach may make sense when buying office supplies and other simple and inexpensive goods and services, it is often overly simplistic and inadequate for outsourcing more complex services. When asked how he felt as he awaited blast-off for his first mission in 1962, John Glenn, America's first man in orbit, is said to have quipped: "I felt exactly how you would feel if you were getting ready to launch and knew you were sitting on top of two million parts—all built by the lowest bidder on a government contract." Glenn was hoping low prices were paired with quality and reliability!

In some cases, a government agency may be attempting to privatize not to save money, but rather to hold spending constant while improving service quality.

Best practices for government procurement and service contracting have evolved toward "best-value" techniques. Rather than selecting a private partner based on low cost alone, governments should choose the best combination of cost, quality, and other considerations. Such criteria may include process reinvention, financing plans, total project life-cycle costs, risk transfer, technological innovation, expertise, and experience. The more complex the service, the more important it is that best-value selection criteria be used.

Successful best-value contracting requires three things:

- Early determination of key parameters such as completion date, security requirements, and mobilization.

- Development of evaluation criteria quantified either in dollars or by objective measures of technical excellence, management and financial capability, prior experience and performance, optional features offered, completion date, and risk to government.

- Translation of key project outcomes into performance and output measures.

Opening up the bid process to non-price considerations does not open the door to cronyism and other types of corruption so long as the policy is accompanied by measures ensuring accountability and transparency. Such measures can be set forth in the business-case evaluation (see Principle 2) and required or enforced by the privatization center of excellence (see Principle 3).

Some "best-value" procurement processes give preferential weight to local or in-state providers. Politicians may come under pressure from constituents and campaign donors to keep outsourced work local, but this is almost never a valid consideration. Keeping the price of a good or service low and its quality high should always trump who is producing the service or where they might be located. Bias against out-of-state or international providers limits competition, drives up costs, and precludes the true best-value option from being properly considered.

National and international firms are increasingly bidding to provide public services at the state and local levels, bringing valuable expertise, access to capital, and often economies of scale to the task at hand. Out-of-state and international firms tend to hire the bulk of their project-level staff locally, so regardless of who wins a competition, local workers often stand to benefit. Preferential treatment of local or in-state providers, therefore, should be avoided.

Recommended Readings: Edward Markus, "Low Bid Alternatives," *American City & County*, August 1, 1997; Adrian T. Moore and Geoffrey F. Segal, *Weighing the Watchmen: Evaluating the Costs and Benefits of Outsourcing Correctional Services – Part 1: Employing a Best Value Approach to Procurement* (Los Angeles, CA: Reason Public Policy Institute, 2002).

5. Use performance-based contracting.

Performance-based contracting means focusing on outputs rather than inputs when choosing whether to privatize a service and which proposal to accept.

The use of best-value sourcing, as described in Principle 4, works hand-in-hand with performance-based contracting, which means focusing on outputs rather than inputs when choosing whether to privatize a service and which proposal to accept.

Government managers often think of their own programs in terms of the management and budget constraints they face: procedures, processes, wages to be paid, cost of materials and supplies, and the amount or type of equipment needed. When they think about outsourcing a service, they may frame the contract in those same terms, specifying how much manpower and equipment must be allocated to do the job. But forcing contractors to emulate in-house procedures contradicts many of the reasons to privatize.

Performance-based contracts specify outcomes and results rather than inputs. They typically have three key components:

- *Financial incentives and penalties:* Keeping employees accountable and productive requires close and effective personnel management. Outsourcing a service to a private contractor means the government sheds that management role and in its place uses incentives and penalties to ensure the contractor produces the required outcomes. The concession agreement in the Indiana Toll Road lease, for example, sets the conditions for the state to cancel the contract and resume operations of the road should the contractor fail to perform as required. Other contracts specify payments that correspond with reaching certain performance thresholds such as productivity, costs, and timeliness.

- *Identify the real objectives:* The U.S. Air Force used to require a janitorial service to strip and re-wax floors once a week. Then it realized it didn't matter how often the floors were stripped and waxed so long as they are kept clean, free of scuff marks, and have a glossy finish. When the Air Force modified its statement of work in the contract, the contractor was able to achieve the real objective in a more cost-effective way, which led to a 50 percent savings for the Air Force (OMB 1998). Similarly, state departments of transportation in Florida, Texas, and Virginia switched to performance-based contracts for statewide highway maintenance and reported savings ranging from 6 percent to 20 percent (Segal and Montague 2004).

- *Quantify the required outputs:* Once the objective is identified, it becomes possible for the manager to focus on how success or failure can be objectively measured. The 2006 Indiana Toll Road lease, for example, is governed by a detailed concession agreement designed to protect the public's interests (Gilroy and Aloyts 2013)—so much so that when the original concessionaire filed for bankruptcy in 2014, it was required to maintain full operations until a new concessionaire later stepped in to take over the remainder of the original lease. That lease agreement establishes an array of performance expectations, including the maximum amount of time the concessionaire has to respond to vehicle incidents and remove snow, roadkill, and graffiti, for example, and it even requires the concessionaire to expand the roadway at its own expense should traffic volumes reach certain thresholds. Many of the standards in the contract exceed the standards applied to roads under the control of the Indiana Department of Transportation.

Performance-based contracts often make payments and contract extension or renewal dependent on the contractor achieving certain performance targets. Pay for Success (PFS) contracts, for example, pay if the program delivers on its promised results. Although relatively new, there are now more than 50 PFS contracts underway or completed globally, with 11 in the United States (Coletti 2016). This shifts the risk of failure, delay, or price overruns from taxpayers to the provider.

Contracts should be written to hold providers accountable for failure as well as success, which means avoiding taxpayer bailouts or guarantees and applying real penalties for failure to meet performance goals. Using performance-based contracts can be challenging. Officials must choose services suitable to performance-based contracts and devise ways to tie payment to results the public expects of the agency.

Recommended Readings: Adrian T. Moore and Wade Hudson, "The Evolution of Privatization Practices and Strategies," in Robin Johnson and Norma Walzer (editors), *Local Government Innovation: Issues and Trends in Privatization and Managed Competition,* (Westport, CT: Quorum Books, 2000); Robert D. Behn and Peter A. Kant, "Strategies for Avoiding the Pitfalls of Performance Contracting," *Public Productivity and Management Review* **22** (4): 470–89.

6. Provide effective monitoring and oversight.

Once a privatization proposal has been selected and put into effect, the role of the public sector shifts from planning to monitoring and oversight.

Once a privatization proposal has been selected and put into effect, the role of the public sector shifts from planning to monitoring and oversight. Except in cases involving the outright sale of an asset or shedding responsibility for delivering a service (see Principle 9), the public entity should never sign a contract and simply walk away.

Importance of Monitoring

Strong reporting, evaluation, and auditing components must be put in place to monitor the provider's performance. Effective monitoring pays for itself by improving quality, transparency, and accountability.

While monitoring and oversight systems are becoming more refined, governments still have a ways to go. According to New York University economics professor Jonas Prager, "Public sector decision makers have yet to learn from the private sector the significance of managing outsourcing. ... Efficient monitoring, though costly, pays for itself by preventing overcharges and poor quality performance in the first place, by recouping inappropriate outlays, and by disallowing payment for inadequate performance" (1994, p. 182).

Government managers should think about how they will monitor providers before they issue a request for proposal or sign the contract. "The design of the deal can make an enormous difference in the future success of monitoring the contractor," according to Tom Olsen, former director of enterprise development for the city of Indianapolis. "Strategic thinking on monitoring needs to begin at the time a deal is structured, not after" (quoted in Eggers 1997, p. 22).

A well-designed monitoring plan, sometimes called a quality assurance plan, defines precisely what a government must do to guarantee the contractor's performance meets the agreed-upon standards. The monitoring plan should include specific reporting requirements on quantified outputs, regular meetings with minutes, complaint procedures, and access to the contractor's records on request. The plan should focus on monitoring and evaluating the major outputs of the contract so monitors need not waste much time and resources on mundane tasks that aren't central to the contract.

The Right People

Effective privatization requires having the right people with the right training in positions to oversee the letting and execution of contracts. As contracting grows, the management of contracts becomes a more important part of how agencies accomplish their goals. One function of a privatization center of excellence (see Principle 3) would be to help agencies and departments develop and train their contract oversight staff.

Different services require different types and levels of monitoring. For highly visible services that directly affect citizens, such as snow removal and garbage pickup, poor service will be exposed through citizen complaints. For highly complex or technical services, it may make sense to hire a third party to monitor the contractor. Where the consequences of even minor problems are large—for example, aircraft maintenance—high-cost and high-control preventive monitoring techniques may be necessary.

Public Employee Transition

Privatization typically results in very few net employee layoffs. Instead, the contractor hires many public employees (at least on a provisional basis), the government re-assigns them to another public position, or they take early retirement. Regardless, it is important that management communicate early and often with employees and unions regarding privatization initiatives and develop a plan to manage public employee transitions.

Employee transition plans often focus on developing job placement policies for affected employees, such as requiring each affected employee be interviewed and considered for job placement within the vendor company, as well as provided with severance compensation and early retirement incentive packages. Officials also should consider developing re-employment and retraining assistance plans for employees not retained or employed by the contractor and offer critical employee retention salary increases to retain those individuals identified as critical to successful transitions.

Recommended Readings: William D. Eggers, "Performance Based Contracting: Designing State of the Art Contract Administration and Monitoring Systems," Reason Foundation, 1997; Jonas Prager, "Contracting Out Government Services: Lessons from the Private Sector," *Public Administration Review* **54** (2): 176–84.

7. Bundle services for better value.

> Greater economies of scale, cost savings, and value for money may be had by bundling several services together for a single outsourcing initiative.

Public administrators may find greater economies of scale, cost savings, and value for money by bundling several, or even all, of the services delivered by a department or subdivision into a single outsourcing initiative, rather than treat individual services or functions separately.

Administrative Support

Because many governments and private companies outsource payroll, information technology, mail, risk management, and other support functions, there are robust and competitive markets of providers for these services. Service bundling across divisions and departments can drive down costs by eliminating redundancy and expanding the pool of potential providers.

Bundling can occur among cities and counties, among departments of state government, and even among states. In January 2009, Tim Pawlenty, a Republican, and Jim Doyle, a Democrat, at the time governors of Minnesota and Wisconsin, respectively, each signed executive orders calling for department heads to identify activities, programs, and services on which the two states could cooperate to lower costs (Pawlenty 2009).

Contract Cities

Since 2005, six cities have incorporated in metropolitan Atlanta as "contract cities," and most of them contract with private businesses to deliver the bulk of their non-safety-related public services, dramatically reducing costs and improving services (Gilroy and Moore 2013). California has 69 contract cities (CCCA n.d.).

Sandy Springs, Georgia was the first of the contract cities (Gilroy and Moore 2013). After residents voted to incorporate as an independent city, the new city leaders opted to contract out for nearly all government services (except police and fire services) instead of creating a new municipal bureaucracy.

The city's successful launch was facilitated by a $32 million contract with a private firm that oversaw and managed day-to-day municipal operations. The contract value was just above half what the city traditionally was charged in taxes by Fulton County. When it was time to rebid, city leaders ultimately decided to disaggregate some of the contracted services into a handful of contracts, but it still retained the contract city model. Sandy Springs maintains ownership of assets and budget control by setting priorities and service levels, while its contractors are responsible for staffing and all operations and services.

On a smaller scale, Centennial, Colorado privatized all of its public works functions in 2008 and negotiated a public works contract lasting through 2018. Similarly, Pembroke Pines, Florida privatized its entire building and planning department in June 2009.

Facility Maintenance in Georgia

Georgia's Department of Juvenile Justice began outsourcing facility maintenance at 30 of its 35 facilities in 2001, marking the first successful outsourcing of state correctional-system maintenance to a private firm (Gilroy *et al*. 2010). The partnership was structured to provide long-term, performance-based maintenance without increasing the budget.

For the first six months of the contract, corrective-maintenance work orders outnumbered preventive-maintenance work orders as long-standing maintenance needs were addressed. After two years, preventive-maintenance work orders were almost double the corrective work orders, but the cost of preventive maintenance remained at year-2000 labor costs (before maintenance was outsourced). Recognizing the success of this approach, Georgia officials initiated a similar large-scale outsourcing contract for the management and maintenance of numerous other secure-site facilities.

Recommended Readings: Oliver Porter, "Public-Private Partnerships for Local Governments: The Sandy Springs Model," interview by Leonard Gilroy, Reason Foundation, 2010; Leonard C. Gilroy, Adam B. Summers, Anthony Randazzo, and Harris Kenny, *Public-Private Partnerships for Corrections in California: Bridging the Gap Between Crisis and Reform* (Los Angeles, CA: Reason Foundation, 2010).

8. Prepare a real property inventory.

Many governments in the United States do not have property and asset inventories and do not productively manage their properties.

How much land and other property does your local or state government own? It is an important question taxpayers should ask, yet most do not. Many state and local governments in the United States, even the federal government, do not have the property and asset inventories needed to answer this question. And many of those that do are not putting the information to use by productively managing what they own.

How to Prepare an RPI

A real property inventory (RPI) is a written record of real property assets, which typically are immovable property such as office buildings, warehouses, heavy equipment, and bridges. Governments also can track additional property, such as vehicles, in a comprehensive inventory.

The cost of establishing an RPI is not trivial, but it reaps significant benefits. A government that knows what it owns, what it is worth, and what it is using is in a better position to get the most out of its assets and to stop wasting unused ones. A good RPI identifies the property and its location, condition, value, best use, and lease information, if any.

Geographic information systems (GIS) are increasingly used by governments to identify their land and asset holdings, map parcels, and build digital databases in order to create an RPI. In a GIS survey, aerial photography, property deeds, lists of property history, and historical information are collected to complete the inventory process.

Using an RPI and a GIS

After developing an inventory, officials can use computerized maintenance management system (CMMS) software to reallocate resources to their best possible use. This increases fiscal responsibility, as state agencies can determine, for example, if there are two or more offices in proximity to each other that could be combined. This financial management also helps the budgeting process by finding assets to sell, increasing the revenue stream, and potentially decreasing lease and maintenance costs through space consolidation.

The process of creating an RPI can suggest additional ways to save money. While using a GIS auditing process to map its real property in the late 1990s, for example, the state of Wyoming found approximately

250,000 parcels that were not listed on tax rolls. Similarly, the Cincinnati Metropolitan Sewer District used GIS to find parcels with sewer connections that were not being billed. The district generated thousands of dollars in missing revenue, more than enough to pay for its GIS unit.

Case Study: Georgia

In the early 2000s, a commission created by then-Georgia governor Sonny Perdue found the state's $10.5 billion portfolio of more than 11,000 facilities was losing value due to poor maintenance, emerging safety issues, and underutilization. This prompted Perdue to issue an executive order in 2005 to bring overlapping, multi-agency management of the state's real estate into one portfolio, with a central manager, and he ordered the creation of the state's first comprehensive, enterprise-wide asset inventory. As a result of the RPI and more efficient management, the state has sold or conveyed to other governments dozens of state-owned properties, renegotiated leases at lower rates, and adopted uniform construction guidelines (Gilroy 2012). The fiscal benefits Georgia attained did not come from passive management, but intentional pursuit of efficiency.

Recommended Readings: Local Government and School Accountability, "Conducting a Capital Assets Inventory," in *Capital Planning and Budgeting: A Tutorial for Local Government Officials (*Albany, NY: New York State Office of the State Comptroller, no date); Fernando Fernholz and Rosemary Morales Fernholz, *A Toolkit For Municipal Asset Management* (Research Triangle Park, NC: RTI International, 2007); Anthony Randazzo and John Palatiello, "Knowing What State and Local Governments Own," Reason Foundation, 2010.

9. Divest non-core government assets.

> Financially stressed firms often find it good practice to divest non-core, non-essential assets, and governments should do the same.

In the business world, financially stressed firms often find it good practice to divest non-core, non-essential assets. The same practices can be used by governments. Asset sales (outright sale of government land or assets) and asset leases (long-term leases of public assets to private-sector investor-operators) are no longer a new or radical proposition:

- Electric and gas utilities have been privatized in a number of countries. In the United States, nearly 70 percent of all electricity customers in the United States receive power generated by an investor-owned utility (IOU), according to the American Public Power Association, and government-owned utilities generate only about 10 percent of U.S. electric power (APPA 2016). Similarly, of the 7,591,218 trillion BTUs sold by the gas industry in 2015, IOUs provided 78 percent of the total, municipal utilities provided 8 percent, and pipeline entities provided 13 percent (AGA n.d.).

- More than 100 airports have been sold or privatized throughout the world, including ones in Buenos Aires, Frankfurt, Johannesburg, London, Madrid, Melbourne, Paris, and Rome.

- Several cities and public university systems are considering leasing their parking assets after seeing long-term (50+ year) leases of government-owned parking meters, garages, and lots in Chicago and Indianapolis and at Ohio State University.

- Toll roads and private highways have been built in dozens of Asian, European, and Latin American countries. Since 2005, government-run toll roads have been privatized in Colorado (Northwest Parkway), Illinois (Chicago Skyway), Indiana (Indiana Toll Road), and Virginia (Pocahontas Parkway).

- Water supply and distribution systems have been privatized in many countries, including Argentina, France, Great Britain, and, to a lesser extent, the United States. Private water companies in the United States serve about 75 million customers—about one-quarter of the population (NAWC n.d.).

State and local governments pursue asset divestiture for a variety of reasons. For example, Indiana officials entered a long-term lease of the Indiana Toll Road to generate revenue that could be redeployed to invest in new and modernized transportation infrastructure across the state. Similarly, Ohio State University entered into a long-term lease of its parking system in 2012 to generate hundreds of millions of dollars to deposit into its university endowment to generate revenue for scholarships and other programs that support its academic mission.

Fiscal distress can be another motivator. Orange County, California raised more than $300 million through asset sales and sale-leasebacks over 18 months to help recover from the county's collapse into bankruptcy in 1995. And under emergency manager control, Pontiac, Michigan has sold off a number of assets since 2011 to reduce debt and operating costs, including its Department of Public Works building, excess capacity in its city wastewater system, a city-owned golf course, a city-owned downtown theater, several shuttered community centers, and numerous vacant land parcels.

Looming fiscal challenges can also prompt asset divestiture. As it has worked to balance its budget in the wake of the Great Recession, Tulsa, Oklahoma has sold more than 40 parcels of land since 2009, including an old city hall building that had been vacant for years. Not only did the city shed tens of thousands of dollars in annual maintenance costs for a building it wasn't using, it also generated $1 million from the sale (Gilroy and Moore 2013).

In Allentown, Pennsylvania, city officials approved a 50-year lease of its water and wastewater systems to the nonprofit, quasi-public Lehigh County Authority in 2013, a move designed to generate more than $210 million in upfront revenue the city used to pay down $160 million in underfunded pension obligations, as well as pay down water system debt and shore up the city's rainy day fund (Gilroy 2015).

The initial windfall to government is generally the most dramatic financial impact of privatizing infrastructure, but these initiatives also can generate ongoing revenue streams. Most state and municipal enterprises are exempt from taxation, so converting an airport or highway or water system into an investor-owned business converts it also into a tax-paying business.

In the case of asset leases, public administrators realize the benefits of not only upfront payments but also professional asset management, greater operating efficiency, lower operating and maintenance costs, better customer service, less political patronage, access to equity markets for capital, and shareholders who will hold management accountable.

Agreements to sell or lease assets should make clear the government entity will not be liable for debts or liabilities if the new owner is unsuccessful. The promise, even implicit, that government will bail out the private company can undermine incentives to be efficient and thus the rationale for privatization.

Recommended Readings: Adrian T. Moore, Geoffrey F. Segal, and John McCormally, *Infrastructure Outsourcing: Leveraging Concrete, Steel, and Asphalt with Public-Private Partnerships* (Los Angeles, CA: Reason Foundation, 2000); E.S. Savas, *Privatization and Public-Private Partnerships* (New York, NY: Chatham House, 2000).

10. Make the case to the public.

When launching a privatization initiative, policymakers should explain the rationale, pros, and cons to the public early on.

People rightly want to know how privatization might affect their everyday lives. Policymakers should explain the rationale, pros, and cons to the public early on to ensure a full debate, rally public support, and seek related input. Some key steps in making the case to the public include:

- being ready to compromise;
- committing to an open and transparent process;
- developing a comprehensive communications strategy that combines traditional and social media channels;
- involving as early as possible public employees and other interested parties who might be predisposed to oppose privatization;
- knowing who the possible private-sector partners are;
- comprehensively reaching out to the public using web resources, news media, public meetings, and direct contact with community groups, bloggers, taxpayer advocates, and others.

The introduction and initial discussions of privatization will set the tone and define the terms of debate for the rest of the process. Naming a blue-ribbon task force of citizens and public- and private-sector representatives to study the options and issue a report is often a good way to collect and present factual information and set possible timelines without politicizing the issue.

Meetings of the task force should be public, and potential critics should be invited to participate and treated well. Questions that ought to be anticipated include: Why can't the government provide the services as efficiently as the private sector? Why not a two-year contract instead of a 10-year deal? Will the government lose control over the services? Who will citizens call if the service is improperly provided?

A communications strategy should involve public meetings that have formal notices, agendas, and minutes; a schedule of meetings with stakeholders, editorial boards, bloggers, and civic and business leaders; presentations to government entities and local service organizations; preparation and submission of letters to the editor and editorials; participation in online discussions; and availability of spokespersons to reporters, bloggers, and talk radio show hosts.

All these elements must be organized and coordinated early in the process and should continue after a proposal has been accepted and implemented. The purpose for planning the campaign is not to "orchestrate public opinion" or "control the message" but to avoid simple mistakes that unintentionally offend key stakeholders or lead to erroneous claims or undeliverable promises being made.

It is sometimes necessary for proponents to modify elements of the proposal to gain the required votes. For example, a 20-year contract proposal could be pared back to a 10-year deal with a 10-year option for renewal. An initial contract proposal involving public employees moving to private employment can be scaled back to a management contract involving private management while the employees stay employed with the public entity. These strategies are best considered during the initial discussions.

Ultimately, a clear communications and public relations strategy is crucial to getting buy-in for a privatization initiative. Credible community leaders, the media, and active citizens need to understand the initiative and its expected outcomes. This helps avert failure by building support up-front and getting clarity on expectations. It also helps to tailor the privatization to things people really care about, making it more likely the outcome will align with what citizens want.

Recommended Readings: Daniele Calabrese, *Strategic Communication for Privatization, Public-Private Partnerships, and Private Participation in Infrastructure* (Washington, DC: World Bank, 2007); Robin A. Johnson, *How to Navigate the Politics of Privatization* (Los Angeles, CA: Reason Foundation, 2002); Cecilia Cabañero-Verzosa and Paul Mitchell, *Communicating Economic Reform* (Washington, DC: World Bank, 2002).

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Additional Resources

Additional information about privatization is available from The Heartland Institute:

- PolicyBot, The Heartland Institute's free online clearinghouse for the work of other free-market think tanks, contains thousands of documents on privatization and related issues. It is on Heartland's website at https://www.heartland.org/policybot/.

- https://www.heartland.org/topics/government-spending/ is a website devoted to the latest research, news, and commentary about government spending and ways to get it under control, including privatization. Read headlines, watch videos, or browse the thousands of documents on privatization and related topics available from PolicyBot.

- *Budget & Tax News* is The Heartland Institute's monthly newspaper devoted to government regulation, spending, and tax issues. Subscriptions with digital delivery are free, print subscriptions are $36/year for 10 issues. Subscribe at www.heartland.org/subscribe.

Directory

The following national organizations provide valuable information about privatization.

American Legislative Exchange Council (ALEC), https://www.alec.org/tag/privatization/

Cato Institute, https://www.cato.org/research/privatization

Heartland Institute, https://www.heartland.org/

International City/County Management Association, http://legacy.icma.org/en/icma/knowledge_network/topics/kn/Topic/207/Privatization

Reason Foundation, http://www.reason.org

Texas Council on Competitive Government, https://comptroller.texas.gov/purchasing/programs/ccg/

Utah Free Market Protection and Privatization Board, https://gomb.utah.gov/operational-excellence/privatization-board/