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Pro & Con: Privatization Is the Wave of the Future



by William Eggers
Thursday, July 03, 1997

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Ten years ago, the idea that private firms could manage everything from airports to public schools to prisons was unthinkable. Today all these things are happening, not just in America but around the world.

In France, most of the water is supplied by private firms. In Australia they contract out their coast guard operations. In Great Britain, all the airports are privately owned and are considered amongst the best run in the world. Several years ago, Moscow saw its first "Rock Concert for Privatization."

Competition is king

Privatization is a concept so simple even an economist can understand it: Monopolies don't work very well. The post office, public schools, and municipal services such as parking enforcement historically have been provided by government monopoly, which explains why they so often take their customers for granted. Privatization increases competition, and competition increases productivity.

The shift of government functions to the private sector and the introduction of competition in government services have produced tremendous benefits for the citizens-taxpayers who both receive and pay for these services. When Philadelphia privatized custodial services, taxpayers saved one-fourth off the cost and enjoyed a cleaner City Hall.

Officials are coming to see that wherever possible, government should promote competition among service providers and provide choice for consumers. Governments that have embraced this principle have generated impressive results. Under the leadership of Mayor Stephen Goldsmith, Indianapolis has introduced competition into 70 services since 1992, for annual savings of over $40 million. "Only reforms that tap the competitive power of the marketplace will make government more efficient," says Goldsmith.

Specialization enhances quality

In addition to cost savings, governments are turning to the private sector to increase innovation and enhance service quality. Consider the different activities in which a city government engages -- everything from issuing traffic tickets to giving tennis lessons, from printing documents to paving streets. No organization could do so many tasks well.

There are plenty of private firms in the marketplace, on the other hand, that specialize in and are passionate about services and activities that are far from the core businesses of government yet government must perform nevertheless. These firms can bring economies of scale, experience in dozens of other jurisdictions, the latest technology, and management and customer service innovations to the table.

For example, Fairfax County, Virginia has been contracting with Maximus, a for-profit firm that specializes in social services, for case management and welfare-to-work services for AFDC clients since June, 1996. All but thirty of the 630 clients referred to Maximus have been placed in jobs -- an astonishing 97% placement rate. Currently, over 30 states are exploring privatization of parts of their welfare programs.

For some of America's most vulnerable children, privatization can mean the difference between having a loving home or spending their lives in and out of dozens of foster homes. Kansas recently turned over its entire child welfare system to nonprofit providers. No longer does the state recruit adoptive parents or send in social workers to assist families in crisis. These responsibilities have been turned over to private providers who are given financial incentives to prevent foster care drift. Adoptions are up 67% since the system was privatized.

Troubled public school systems also are looking to the market for solutions. Public educators are embracing the idea of partnerships with the private-sector. In several states, newly created public schools will be managed by non-governmental groups, such as colleges, non-profits and for-profit companies.

This January, the Houston school district negotiated a contract with a private school, Community Education Partners, to teach 450 of the district's most at-risk students. The groundbreaking contract comes with tough performance requirements: If students fail to move up by at least two grade levels a year, they return to the private school the next year at no cost to the

district. "It's the only example in the nation we know of with that kind of performance agreement [in the educational area]," contends Houston schools Superintendent Rod Paige.

Will the unions go along?

For now, opposition to privatization is strong, especially among the employee unions of public monopolies. The reason is simple: Monopolies mean captive customers and that means job security. Currently, it is illegal for anyone except the U.S. Post Office to carry non-express mail. Your mail carrier probably shudders at the thought of allowing Federal Express to deliver letters.

But most everyone recognizes the need to improve how government operates. In fact, public workers know better than anyone the pressing need for restructuring dysfunctional public bureaucracies, and public employee unions grudgingly are becoming part of the process of reform.

"I think there is room for dialogue, even about competition," says Gerald M. McEntee, head of the American Federation of State, County and Municipal Employees(AFSCME), the largest public employees' union. "If you're really going to go to the extent of seriously considering redesigning and reinventing government, competition can be part of that."

Virtually all governments have used some form of privatization in the past. But now officials are systematically striving to introduce competition into government service provision. What had previously been an ad hoc response to a particular problem is fast becoming standard operating procedure.

The government of the future will be more a focus of resources rather than an owner of them, and purchaser and manager of services rather than supervisor of personnel and direct service provider. Says Massachusetts Governor William Weld, "With time and experience, I believe privatization will become second nature."

William D. Eggers is the director of Privatization & Government Reform at the Reason Public Policy Institute.





What is Privatization?

A very broad term--but most simply, privatization is the transfer of assets or service delivery from the government to the private sector. Privatization runs a very broad range, sometimes leaving very little government involvement, and other times creating partnerships between government and private service providers where government is still the dominant player.

As *Government Executive* put it,

- Merely defining "privatization" is difficult. In its purest form, the term refers to the shifting of the production of a good or the provision of a service from the government to the private sector, often by selling government-owned assets. Clinton Administration officials take this rather narrow view. "When we talk about privatization, we don't mean contracting out," says Elaine Kamarck, who heads Gore's National Performance Review. "We mean purely divesting the government function."

- Most definitions of privatization, though, are more expansive, covering virtually any action that involves exposing the operations of government to the pressures of the commercial marketplace. That would include everything from contracting out janitorial services at a federal building to selling off the Naval Petroleum Reserve.

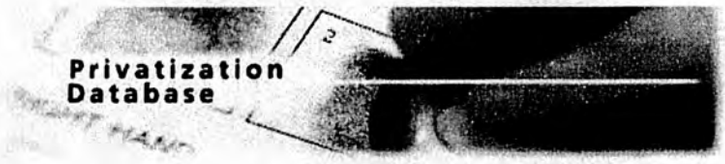
- The broader definition of privatization also includes a wide range of public-private partnerships, such as voucher systems. Even the creation of federal corporations, quasi government organizations and government-sponsored enterprises is often filed under the general category of privatization. In such organizations, though, it is often difficult to tell where government ends and the private sector begins.

This website deals with privatization in all its forms.

Types and Techniques of Privatization

Divesting Government-Owned Enterprises

Terms Related to Privatization Activities and Processes



Types and Techniques of Privatization

A variety of alternative service delivery techniques can be employed to maximize efficiency and increase service quality. Some methods will be more appropriate than others depending on the service. In searching for ways of cutting costs and increasing delivery, consider using a combination of these techniques:

- ***Contracting Out (also called "outsourcing").*** The government competitively contracts with a private organization, for-profit or non-profit, to provide a service or part of a service.

- ***Management Contracts.*** The operation of a facility is contracted out to a private company. Facilities where the management is frequently contracted out include airports, wastewater plants, arenas and convention centers.

- ***Public-Private Competition (also called "managed competition," or "market testing").*** When public services are opened up to competition, in-house public organizations are allowed to participate in the bidding process.

- ***Franchise.*** A private firm is given the exclusive right to provide a service within a certain geographical area.
  [See Franchising and Privatization by Antony W. Dnes]

- ***Internal Markets.*** Departments are allowed to purchase support services such as printing, maintenance, computer repair and training from in-house providers or outside suppliers. In-house providers of support services are required to operate as independent business units competing against outside contractors for departments' business. Under such a system, market forces are brought to bear within an organization. Internal customers can reject the offerings of internal service providers if they don't like their quality or if they cost too much.

- ***Vouchers.*** Government pays for the service; however, individuals are given redeemable certificates to purchase the service on the open market. These subsidize the consumer of the service, but services are provided by the private

sector. In addition to providing greater freedom of choice, vouchers bring consumer pressure to bear, creating incentives for consumers to shop around for services and for service providers to supply high-quality, low-cost services.

- ***Commercialization (also referred to as "service shedding").*** Government stops providing a service and lets the private sector assume the function.

- ***Self-Help (also referred to as "transfer to non-profit organization").*** Community groups and neighborhood organizations take over a service or government asset such as a local park. The new providers of the service also are directly benefiting from the service. Governments increasingly are discovering that by turning some non-core services—such as zoos, museums, fairs, remote parks and some recreational programs—over to non-profit organizations, they are able to ensure that these institutions don't drain the budget.

- ***Volunteers.*** Volunteers are used to provide all or part of a government service. Volunteer activities are conducted through a government volunteer program or through a non-profit organization.

- ***Corporatization.*** Government organizations are reorganized along business lines. Typically they are required to pay taxes, raise capital on the market (with no government backing—explicit or implicit), and operate according to commercial principles. Government corporations focus on maximizing profits and achieving a favorable return on investment. They are freed from government procurement, personnel and budget systems.

- ***Asset Sale or Long-Term Lease.*** Government sells or enters into long-term leases for assets such as airports, gas utilities or real estate to private firms, thus turning physical capital into financial capital. In a *sale-leaseback* arrangement, government sells the asset to a private sector entity and then leases it back. Another asset sale technique is the *employee buyout.* Existing public managers and employees take the public unit private, typically purchasing the company through an Employee Stock Ownership Plan (ESOP).
  [See Guide for Divesting Government-Owned Enterprises
  The Esop Association
  Virginia Competition Council --choose ESOP]

- ***Private Infrastructure Development and Operation.*** The private sector builds, finances and operates public infrastructure such as roads and

airports, recovering costs through user charges. Several techniques commonly are used for privately building and operating infrastructure.

- With *Build-Operate-Transfer* (BOT) arrangements, the private sector designs, finances, builds, and operates the facility over the life of the contract. At the end of this period, ownership reverts to the government.

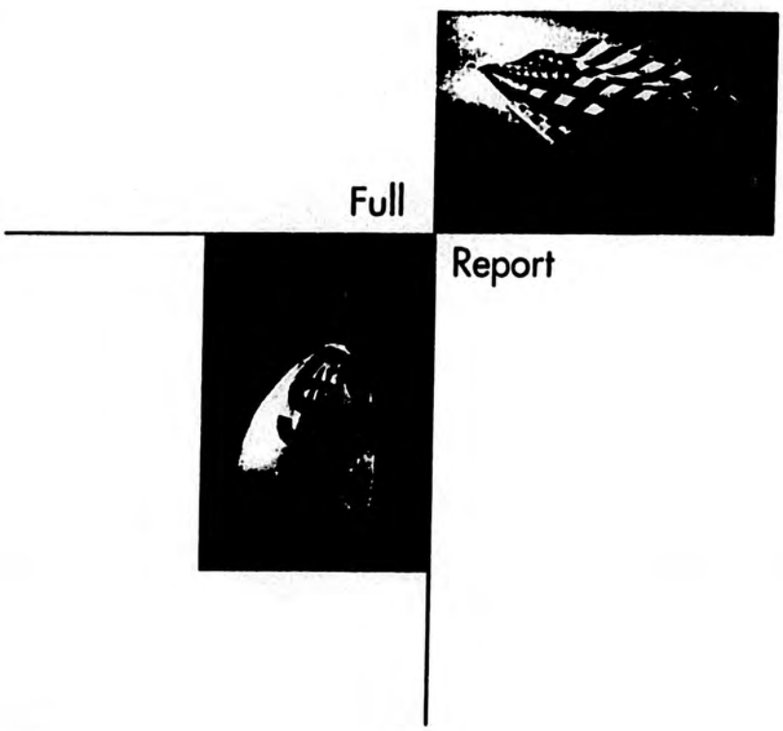
- A variation of this is the *Build-Transfer-Operate* (BTO) model, under which title transfers to the government at the time construction is completed.

- Finally, with *Build-Own-Operate* (BOO) arrangements, the private sector retains permanent ownership and operates the facility on contract.

- Also See Terms Related to Privatization Activities and Processes

Private Practices:

A Review of Privatization in State Government



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Private Practices: A Review of Privatization in State Government

by Keon S. Chi and Cindy Jasper

Edited by Michael J. Scott

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- Builds leadership skills to improve decision-making;
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Foreword

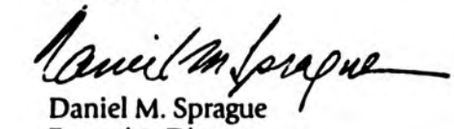
In their continuing effort to do more with less, states have privatized government services for decades. Since the 1980s, however, increased political support and greater demands on state government have expanded the use of privatization. State policy-makers still are learning the best uses of this management practice, and privatization opponents continue to question its value. In short, privatization is a hot topic in state government.

I am pleased to announce the release of *Private Practices: A Review of Privatization in State Government*, the most up-to-date, comprehensive report available on this important topic. The report highlights privatization trends identified by CSG's national survey of 20 state agencies. In addition, the report discusses key issues in privatization, offers recommendations for successful privatization and inventories privatized services within state agencies.

On behalf of the CSG staff who played a role in the production of this report, I want to acknowledge and thank state agencies who responded to our surveys and provided useful documents. Without their support, this report would not have been possible.

I want to extend special appreciation to the corporate funding donors and board members of CSG's 21st Century Fund for supporting this important project.

March 1998



Daniel M. Sprague
Executive Director
The Council of State Governments

Introduction

Privatization rapidly is becoming a tool states use to save money and provide better services. With broader support from political leaders, most state officials indicate that they have privatized more government services over the past five years – a trend they expect will continue for the next five years. While few officials are monitoring cost savings closely, many view privatization as a practical, cost-saving management tool.

Comparing the in-house and private-sector costs of performing services is central to the privatization decision, but states are struggling with this difficult task. Other challenges faced by officials include overcoming legal barriers to privatization and addressing the concerns of state employees. Using standard policies and procedures to guide the privatization process can help states make the best decisions.

The success or failure of privatization depends on how well the state administers the process. By educating themselves, officials improve their ability to manage privatization effectively. Officials can learn lessons from the privatization experience of other agencies or states. Good advice is crucial for policy-makers who decide on issues such as analyzing privatization opportunities, handling employee concerns and monitoring private providers.

Agencies Surveyed

State respondents (58):
Auditor
Budget director
Comptroller
Legislative service agency

Agency respondents (419):
Administration and General Services
Corrections
Education
Health care
Higher Education
Information Systems
Juvenile Rehabilitation
Labor
Mental Health and Mental Retardation
Natural Resources and Environmental Protection
Parks and Recreation
Public Safety and State Police
Social Services
Transportation
Treasury

Background

The Council of State Governments promotes the exchange of practical experience necessary for successful privatization. Since the early 1980s, CSG has monitored and distributed information on privatization activities in state government. In 1993, the council's Center for State Trends and Innovations published "Privatization in State Government: Options for the Future" in its *State Trends and Forecasts* series. The issue reported trends in privatization identified by the center's survey of 12 executive agencies in every state. "Privatization in State Government" became a widely used resource for state policy-makers and research institutions.

This report builds upon the 1993 CSG study. *Private Practices: A Review of Privatization in State Government* reflects the findings of an expanded survey of the privatization activities of 19 executive agencies in each state, U.S. territory and the District of Columbia. In addition to privatization trends identified by the national survey, *Private Practices* discusses key issues in privatization and offers recommendations for successful privatization based on the experiences of officials who have privatized government services. The appendix details the privatization activities of the executive agencies surveyed.

The 1997 CSG survey questioned two groups of officials to provide both government-wide and agency-specific perspectives on privatization activity. Auditors, budget directors, comptrollers and legislative service agency directors answered questions about privatization throughout state government; accordingly, they are referred to as state[1] respondents. Directors of 15 executive branch agencies – agency respondents – were asked about privatization within their agencies (see box).

[1] In this report "state" also includes U.S. territories and the District of Columbia.

During its years of research, CSG has identified key arguments for and against privatization (Table 1). Briefly stated, proponents contend that privatization should be used for cost savings and administrative expediency. When government agencies do not have necessary expertise or personnel, or when they need to complete projects quickly, privatization might be more appropriate, proponents say. Opponents, on the other hand, contend that privatization is no guarantee of cost savings and that private vendors will compromise the quality of privatized services because of their profit motives. They also argue that state agencies can improve productivity by other measures, such as strategic planning and quality management.

Table 1: Arguments For and Against Privatization

For:
✓ Privatization helps government save money in management and service delivery for the public.
✓ Privatization is necessary for speedy implementation of certain programs.
✓ Privatization provides high-quality services in some areas.
✓ Privatization is necessary when government lacks expertise or personnel to carry out certain programs.
✓ Private providers use more innovative approaches and technology.
✓ Privatization helps dissolve unnecessary government monopolies.
✓ Private providers offer services more effectively due to flexibility and less red tape.
✓ Privatization slows the growth of government or downsizes government.
✓ Privatization introduces competition between government employees and private providers.
✓ Privatization is an alternative to traditional ways of improving government productivity.
Against:
✓ Privatization does not save government and taxpayer money.
✓ Privatization does not guarantee market competition and can result in "private monopolies."
✓ Privatization leads to corruption, including political patronage, kickbacks and bribes.
✓ Policy-makers and managers lose control over privatized services and functions.
✓ Privatization diminishes accountability of government officials.
✓ Private gain and public good do not always correspond.
✓ Privatization is not necessary because other productivity improvement approaches are available.
✓ The quality of privatized services and functions are compromised due to private providers' profit motives.
✓ Privatization lowers state employee morale and brings fear of displacement to affected employees.
✓ Privatization destabilizes economically marginal communities and neighborhoods.

Source: Compiled by CSG staff.

Definitions

Various sources define privatization differently. The term has been used to refer to the transfer of government functions or assets to the private sector; the shifting of government management and service delivery to private providers; a shift from publicly produced goods and services to those produced privately; and government reliance on the private sector to satisfy the needs of society. Many people use "privatization" synonymously with "outsourcing." In essence, however, privatization means the use of the private sector in government management and delivery of public services.

Though contracting with a private provider is the most common method of privatization, there are other ways to privatize government activities. The 1997 CSG survey identified 10 methods of privatization (see Table 2).

"Privatization" means the use of the private sector in government management and delivery of public services.

Table 2: Methods of Privatization

Asset sale
The state sells or "cashes out" its assets to private firms or individuals to raise sales revenues and enlarge the tax base.

Contracting out
The state enters into agreements with private firms, for profit or nonprofit, to provide goods or manage services. The state funds private provision of public services.

Deregulation
The state removes its regulations from the service previously monopolized by government in favor of private provision of the service and competition against government agencies.

Franchise
The state gives monopoly privileges to a private firm to provide a service in a given geographical area.

Grants and subsidies
The state makes monetary contributions to help private organizations provide a public service.

Private donation
The state relies on private sector resources for assistance in providing public services. Private firms may loan personnel, facilities or equipment to state agencies.

Public-private partnerships
The state conducts projects in cooperation with private firms, relying on private resources instead of spending tax moneys.

Service shedding
The state drastically reduces the level of a service or stops providing a service so the private sector can assume the function with private sources.

Volunteerism
The state uses volunteers to provide public services.

Vouchers
The state allows eligible clients to purchase services available in the open market from private firms. As with contracting out, the government pays for the service.

Source: Compiled by CSG staff.

Privatization Activity in State Government

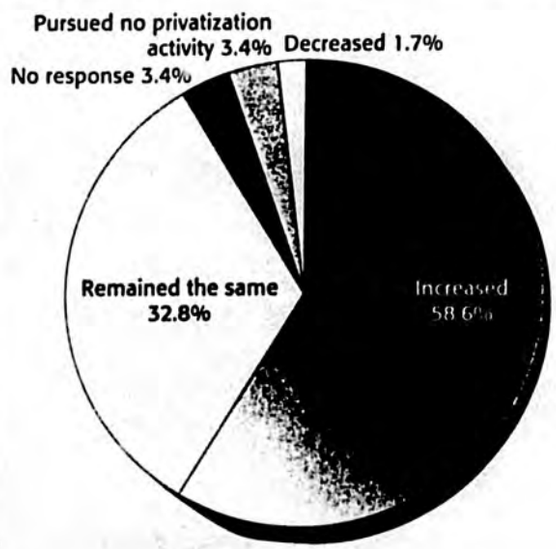
Many states are turning to privatization to achieve cost control, efficiency and administrative expediency, according to the CSG survey. The state respondents reported that there are few comprehensive privatization initiatives. Instead, individual agencies privatize their activities as necessary and manage the projects on a case-by-case basis. Some states attempt to streamline privatization activity, however, by creating government-wide institutions or policies.

Trends in State Government Privatization

Privatization of state government services increased in the past five years. A majority (58.6 percent) of state respondents reported that states expanded privatization activities, and 32.8 percent said such activities remained unchanged. Only one respondent said privatization activity decreased in this time period (Figure 1).

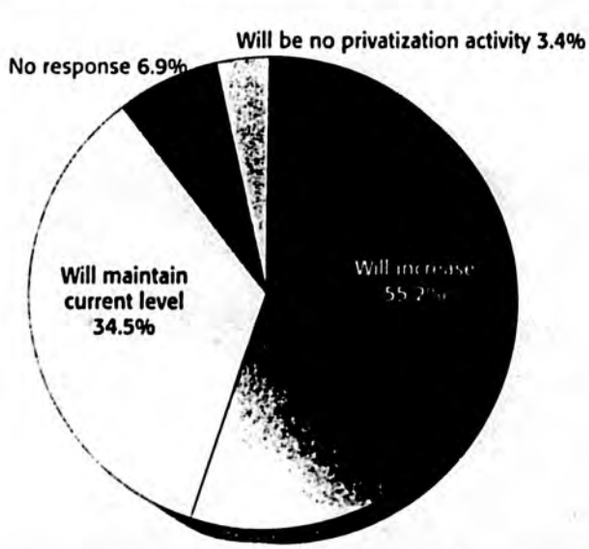
When asked to predict the trend for the next five years, responses were slightly different. A vast majority (91.7 percent) of respondents from state legislative service agencies believe that privatization activities will increase. Most auditors, budget directors and comptrollers agree, but were more cautious (68.6 percent said increase; 28.6 percent said remain the same). Overall, 55.2 percent of state respondents predict that privatization of government services will increase (Figure 2).

Figure 1: Trends in Privatization Activity in the Past Five Years



Source: CSG survey on privatization in state government, 1997. Based on responses by auditors, budget directors, comptrollers and legislative service agencies.

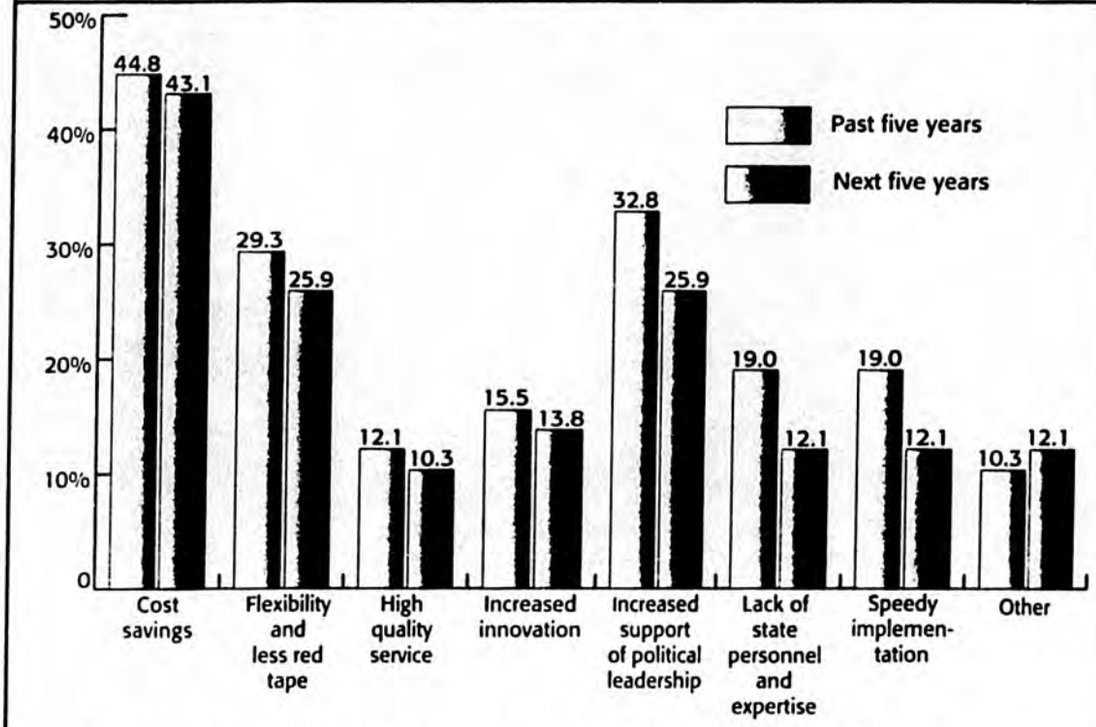
Figure 2: Trends in Privatization Activity in the Next Five Years



Source: CSG survey on privatization in state government, 1997. Based on responses by auditors, budget directors, comptrollers and legislative service agencies.

When asked to explain why privatization activities increased in the last five years, almost half of state respondents cited cost savings (Figure 3). Officials also perceive that private providers offer greater flexibility and less red tape. Greater support among political leadership has cleared the way for more privatization activity.

Figure 3: Reasons for Increases in Privatization Activity



Source: CSG survey on privatization in state government, 1997. Based on responses by auditors, budget directors, comptrollers and legislative service agencies. Respondents could choose more than one reason for increased privatization.

Though cited as the main reason for privatizing government activities, the amount of cost savings from privatization is difficult to calculate. Forty-three percent of state respondents reported cost savings figures. Of those, 68 percent saved less than 5 percent by privatizing activities, and only 8 percent saved more than 15 percent.

Most states privatize government activities without considering the experience of other states or using systematic decision-making or monitoring processes. More than 70 percent of state respondents said their states had no comprehensive government privatization initiatives. When designing and implementing their privatization programs, 41.4 percent of state respondents created their processes by trial and error. Only 19 percent of respondents modeled another state's privatization effort. Almost three-quarters of state respondents said their states do not use a standardized decision-making process to determine which activities will be privatized. The same number of respondents reported that no standardized monitoring processes were used.

Most states privatize government activities without considering the experience of other states or using systematic decision-making or monitoring processes.

State legislatures have been fairly active in privatization. Two in five responding legislative service agencies said more than 15 bills related to privatization were introduced in the past five years, and one-quarter said more than 11 such bills were passed in the same period. A majority (58.3 percent) of the legislative service agencies believe that legislative actions on privatization are likely to increase in the next five years. To encourage privatization activities, one-quarter of responding legislative service agency directors reported that their legislatures had reduced the states' work forces.

Privatization Boards, Commissions and Councils

The CSG survey found that privatization activities in most states have been initiated as agency-specific and small-scale projects. In the past decade, however, several states stepped up their efforts to integrate and expand privatization activities. Governors and legislatures created various boards, commissions and councils to promote privatization of government functions and services on a statewide basis (Table 3).

Table 3: Statewide Privatization Boards, Commissions and Councils

State	Names
AZ	Private Enterprise Interview Review Board
CO	Commission on Privatization of Personal Services
FL	Council on Competitive Government
GA	Governor's Commission on Privatization
KA	Kansas Council on Privatization
KY	Governor's Commission on Privatization
MD	Council on Management and Productivity
MI	Michigan Public-Private Partnership Council
NJ	Advisory Commission on Privatization
NY	New York State Research Council on Privatization
TX	Council on Competitive Government
PR	Privatization Task Force
UT	Privatization Policy Review Board
VA	Commonwealth Competition Council
WI	Commission on Privatization

Source: Compiled by CSG staff.

In the past decade, however, several states stepped up their efforts to integrate and expand privatization activities.

These boards, commissions and councils vary in terms of their roles and functions. For example, those in Florida, Kentucky and Michigan identify candidates for privatization. The councils in Georgia and Maryland provide information and technical assistance to state agencies. Texas' Competitive Government Council and Virginia's Commonwealth Competition Council help determine which services will be privatized. Other states have set up hybrid types of privatization groups, mostly with advisory functions.

Some states have promoted privatization throughout government by governors' executive orders but without setting up such boards or councils. California, Illinois and Massachusetts are examples. Among the reports on privatized activities prepared by these states are "Privatization in Massachusetts: Getting Results," Executive Office for Administration and Finance, 1993 and "Privatization in California State Government," Legislative Analyst Office, 1996.

Privatization Activity in State Agencies

Directors of the 15 executive agencies surveyed reported privatization trends and processes similar to those across state governments. Some agencies are very active privatizers, but other agencies do not privatize any services. A few agencies are saving considerably from privatization, but most report modest cost savings. Overwhelmingly, contracting out is the most frequently used method of privatization. Since the 1993 CSG survey, however, agencies have begun trying new ways of privatizing government activities. Trends within each agency surveyed are highlighted in the appendix.

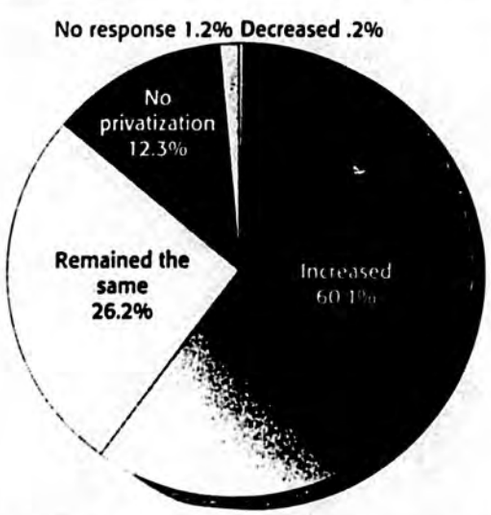
A few agencies are saving considerably from privatization, but most report modest cost savings.

Trends in Agency Privatization

A majority of agency respondents (86.3 percent) said they either increased or maintained the level of privatization activity in the past five years (Figure 4). One agency slowed its rate of privatization, and another 51 agencies (12.3 percent) said they were not privatizing at all.

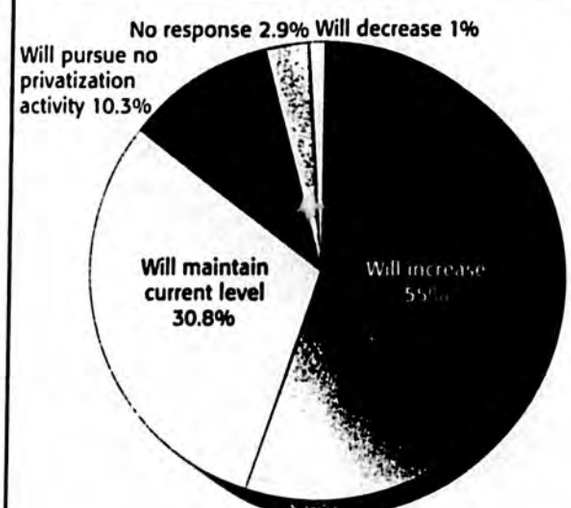
Looking into the future, these trends shift only slightly (Figure 5). Fewer agencies will increase privatization activities, but more will maintain their current level of privatization. Eight agencies that previously did not privatize any services will begin privatizing in the next five years. Three additional agencies will cut back on privatization.

Figure 4: Trends in Privatization Activity in the Past Five Years



Source: CSG survey on privatization in state government, 1997. Based on responses by directors of 15 executive agencies.

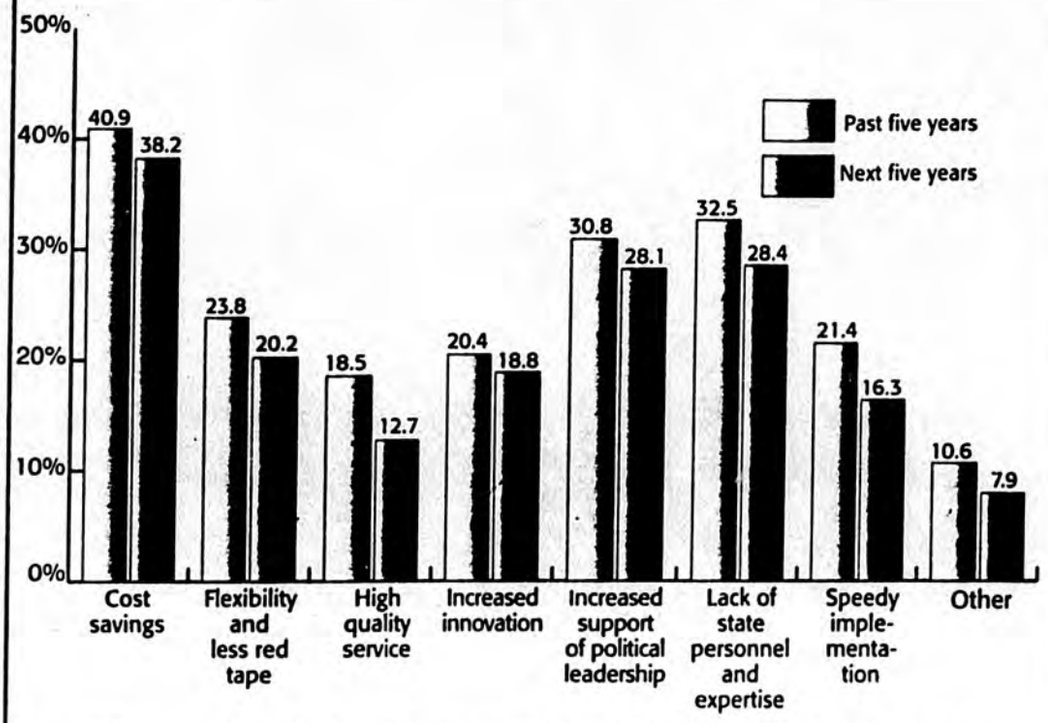
Figure 5: Trends in Privatization Activity in the Next Five Years



Source: CSG survey on privatization in state government, 1997. Based on responses by directors of 15 executive agencies.

State agencies are privatizing activities in order to do more or better with less money. Two-fifths of agency respondents cited cost savings as the primary motivation for privatization (Figure 6). Agencies turn to private providers to avoid red tape, implement programs quickly and fill voids in agency personnel or expertise. In addition, the support of political leadership contributes to increased privatization activities.

Figure 6: Reasons for Increases in Privatization Activity



Source: CSG survey on privatization in state government, 1997. Based on responses by 15 executive agencies. Respondents could choose more than one reason for increased privatization.

The level of privatization varies among agencies. Of the agency respondents that provided an estimate, 42.8 percent privatized less than 5 percent of agency programs and services, and 30.8 percent privatized more than 15 percent. State transportation departments led the surveyed agencies in the number of privatized programs and services (Table 4). More transportation departments reported privatizing more than 15 percent of their activities than did other agencies (Table 5). Mental health and retardation and social service agencies also tended to privatize more than 15 percent of their programs and services.

Executive agencies in some states seem to be the most active in privatization. Florida agencies reported privatizing the most programs and services, but more agencies from Florida responded to the CSG survey than from any other state (Map 1, Table 6). Looking at the number of agencies that privatize more than 10 percent of their activities, Maryland leads other states, followed closely by Arkansas, Connecticut, Florida, Illinois and Tennessee (Table 7).

Few agencies privatize systematically. A majority of agency respondents said they privatize on an ad hoc basis, rather than through an agency privatization initiative. When designing and implementing their privatization programs, 54.3 percent of agency respondents created their processes by trial and error, and 16.6 percent hired private consultants. Almost three-quarters of agency respondents said their states do not use a standardized decision-making process to determine which activities will be privatized. A majority of respondents (57.1 percent) do not use a standardized monitoring processes.

Table 4: Number of Privatized Programs and Services, by Agency

Agency	Number of Programs Privatized	Number of Programs Under Consideration for Privatization
Transportation	453	37
Administration/Gene.. ..ervices	317	43
Corrections	295	36
Higher Education	293	8
Social Services	293	22
Natural Resources/Environmental Protection	283	8
Mental Health and Retardation	228	25
Juvenile Rehabilitation	215	27
Health	207	3
Parks and Recreation	140	35
Education	101	7
Labor	95	7
Public Safety	77	2
Treasury	63	2
Information Systems	10	23
TOTALS	**3070**	**285**

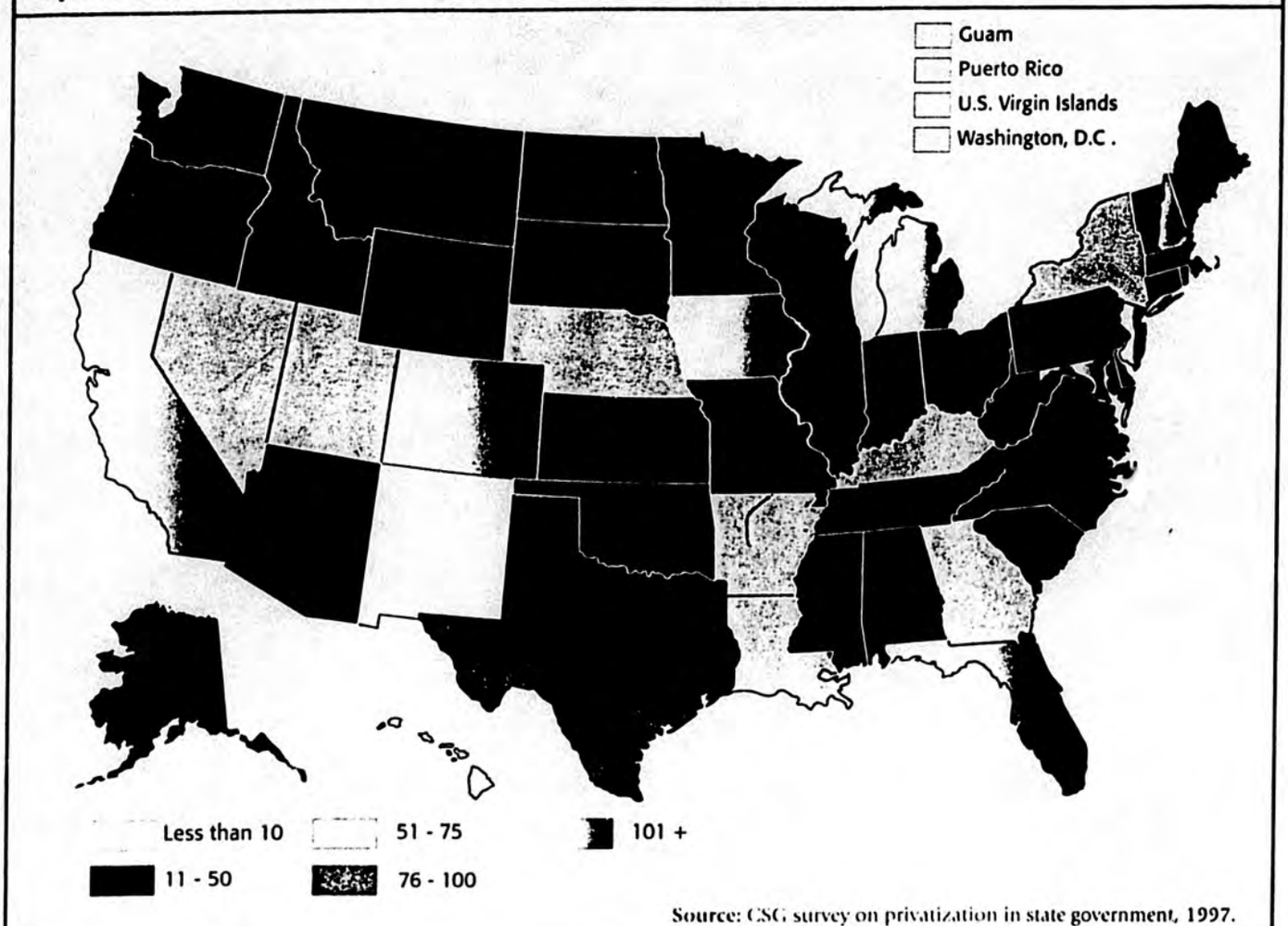
Source: CSG survey on privatization in state government, 1997.

Table 5: Agencies Reporting More than 15 Percent of Programs and Services Privatized

Agency	Region	State
Administration/General Services	East	NY
	Midwest	IL, WI, IA
	South	FL, MD, OK, WV
	West	WA
Corrections	East	DC
	Midwest	KS
	South	OK
	West	ID
Education	East	PR
	Midwest	MI
	South	GA, AR
Health	East	PR, RI
	Midwest	IL
	South	AR, MD
	West	CA, WA
Higher Education	East	NJ
	South	FL
Information Systems	East	CT
	Midwest	KS
Juvenile Rehabilitation	Midwest	IA
	South	AL, FL, MD, MS, OK, SC, TN
	West	CO, HI, OR, UT
Labor	Midwest	SD
Mental Health and Rehabilitation	East	CT, DE, MA, PA, RI
	Midwest	IN, NE, OH
	South	AR, KY, MD, OK
	West	AZ, OR, WA
Natural Resources/Env. Protection	East	DE
	West	HI, WY
Parks and Recreation	South	FL, GA, TN
	West	CA, CO
Social Services	Midwest	KS, NE, ND, SD, WI
	South	AR, FL, KY, LA, MD, SC
	West	AK, NV, UT
Transportation	East	CT, MA, NJ, NY, PA, VT
	Midwest	KS, IL, IA, MN
	South	KY, LA, MD, TN, TX, VA
	West	CO, HI, MT, OR, UT
Treasury	East	RI

Source: CSG survey on privatization in state government, 1997.

Map 1: Number of Services and Programs Reported as Privatized, by State



Source: CSG survey on privatization in state government, 1997.

Cost Savings

Three in five agency respondents estimated the percent of their budgets saved by privatization. Of those reporting cost savings, 62.3 percent saved less than 5 percent through privatization (Table 8). Another one in five of those reporting a figure saved between 6 percent and 10 percent, and 14.6 percent saved more than 15 percent.

The West reported the least savings – three-quarters of Western respondents saved less than 5 percent. In contrast, many respondents from the South and East (19.8 percent and 18.5 percent, respectively) reported savings greater than 15 percent. Across states, three agencies reported the greatest cost savings (15 percent or more): administration and general services, mental health and retardation, and parks and recreation (Table 9).

Table 6: Map Data

State	Number of Programs & Services Privatized	Number of Agencies that Responded to Survey
Alabama	49	10
Alaska	41	8
Arizona	48	7
Arkansas	61	10
California	124	9
Colorado	125	10
Connecticut	90	14
Delaware	31	4
Florida	151	16
Georgia	56	7
Guam	3	5
Hawaii	59	13
Idaho	37	8
Illinois	88	6
Indiana	39	6
Iowa	118	10
Kansas	50	6
Kentucky	73	7
Louisiana	78	11
Maine	42	9
Maryland	118	10
Massachusetts	30	3
Michigan	119	11
Minnesota	46	6
Mississippi	31	4
Missouri	41	8
Montana	41	4
Nebraska	68	10
Nevada	52	8
New Hampshire	54	8
New Jersey	112	9
New Mexico	6	3
New York	60	7
North Carolina	49	10
North Dakota	35	9
Ohio	26	4
Oklahoma	42	6
Oregon	45	7
Pennsylvania	47	7
Puerto Rico	22	6
Rhode Island	26	5
South Carolina	90	11
South Dakota	48	8
Tennessee	86	10
Texas	82	8
U.S. Virgin Islands	5	2
Utah	58	7
Vermont	28	6
Virginia	76	8
Washington	49	9
Washington, D.C.	23	5
West Virginia	45	8
Wisconsin	48	6
Wyoming	29	7

Source: CSG survey on privatization in state government, 1997.

Table 7: Number of Responding Agencies in Each State Reporting More Than 10% of Programs and Services as Privatized

State	Number of Agencies
Alabama	1
Alaska	1
Arizona	1
Arkansas	5
California	2
Colorado	4
Connecticut	5
Delaware	2
Florida	5
Georgia	2
Guam	0
Hawaii	4
Idaho	1
Illinois	5
Indiana	0
Iowa	3
Kansas	4
Kentucky	3
Louisiana	3
Maine	1
Maryland	6
Massachusetts	3
Michigan	2
Minnesota	2
Mississippi	1
Missouri	2
Montana	2
Nebraska	2
Nevada	1
New Hampshire	0
New Jersey	3
New Mexico	0
New York	2
North Carolina	2
North Dakota	1
Ohio	3
Oklahoma	4
Oregon	4
Pennsylvania	2
Puerto Rico	2
Rhode Island	3
South Carolina	4
South Dakota	4
Tennessee	5
Texas	2
U.S. Virgin Islands	0
Utah	3
Vermont	1
Virginia	1
Washington	3
Washington, D.C.	1
West Virginia	2
Wisconsin	2
Wyoming	3

Table 8: Cost Savings from Privatization, by Region

Cost Savings	East	Midwest	South	West	Nation
Less than 1 percent	22.2%	24.1%	29.1%	35.0%	28.0%
1 percent to 5 percent	35.2%	33.3%	31.4%	38.3%	34.3%
6 percent to 10 percent	20.4%	25.9%	17.4%	15.0%	19.3%
11 percent to 15 percent	3.7%	7.4%	2.3%	3.3%	3.9%
More than 15 percent	18.5%	9.3%	19.8%	8.3%	14.6%

Source: CSG survey on privatization in state government, 1997.

Table 9: Agencies Reporting Cost Savings of More than 15 Percent

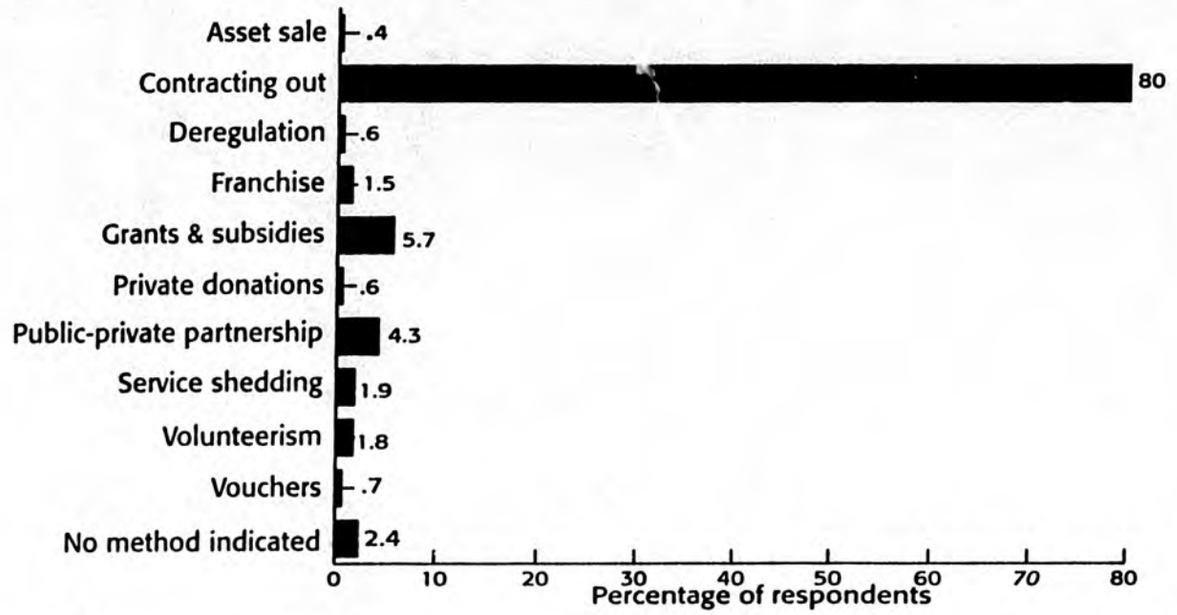
Agency	Region	States
Administration/General Services	East	CT, NY
	Midwest	IL
	South	AL, AR, MD, OK
Education	Midwest	MI
Health	East	PR, RI
	Midwest	MI
Higher Education	South	FL, WV
Information Systems	East	PA
Juvenile Rehabilitation	South	MS, TN
Mental Health and Retardation	East	CT
	Midwest	OH
	South	KY, MD, TX
	West	OR, WA
Natural Resources/Environmental Protection	East	DE
	West	WY
Parks and Recreation	East	DC
	Midwest	IA
	South	FL, MO
	West	CA
Public Safety	East	NH
	South	SC
Transportation	East	MA
	South	LA
	West	HI

Source: CSG survey on privatization in state government, 1997.

Methods of Privatization

The CSG survey shows that contracting out is the most widely used method of privatizing agency programs and services. Agency respondents privatized eight of 10 activities through contracts with private providers (Figure 7). Among the nine alternative methods, grants and subsidies (5.7 percent) and private-public partnerships (4.3 percent) were the most popular.

Figure 7: Methods used to Privatize Programs and Services



Source: CSG survey on privatization in state government, 1997.

Each agency favors a particular alternative to contracting out (Table 10 and Appendix). Grants and subsidies, for example, tend to be the second choice for social services, health care, mental health and retardation, and transportation agencies. Corrections, health care, social services and mental health agencies tend to use public-private partnerships. Administration and general services and corrections agencies use service shedding. Other agency preferences include: vouchers in social service agencies, deregulation by higher education agencies, and franchises by parks and recreation agencies.

Among the 12 agencies surveyed in both 1993 and 1997, there has been little change in privatization activity. But there are notable changes in some agencies (Table 10). For example, health agencies rely less on contracting out and use more grants and subsidies than they did in 1993. The use of volunteers in social services declined, as did the use of vouchers. Overall, the 1997 CSG survey shows that the use of volunteers and vouchers has decreased, and service shedding increased in several functional areas.

Table 10: Comparison of Methods of Privatization in Selected Agencies, 1993 and 1997*

Methods of Privatization	Administration/ General Services		Corrections		Education		Health		Mental Health & Retardation		Social Services		Transportation		Agency Totals	
	1993	1997	1993	1997	1993	1997	1993	1997	1993	1997	1993	1997	1993	1997	1993	1997
Asset sale	0.6%	0.3%	0.0%	0.3%	0.0%	0.0%	0.0%	1.2%	0.2%	0.5%	0.0%	0.3%	0.2%	0.0%	0.2%	0.4%
Contracting out	91.7%	86.7%	92.1%	82.8%	81.3%	92.5%	69.6%	60.2%	64.7%	82.7%	71.3%	68.1%	83.5%	91.0%	78.1%	80.4%
Deregulation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.4%	1.5%	0.0%	0.4%	0.0%	0.2%	0.0%	0.5%	0.1%
Franchise	0.3%	0.3%	0.0%	0.3%	1.4%	0.0%	1.1%	0.4%	1.7%	0.0%	0.4%	2.2%	1.5%	0.7%	0.9%	0.8%
Grants and subsidies	0.6%	0.0%	1.2%	3.4%	8.6%	3.2%	14.1%	24.5%	15.6%	9.4%	12.5%	16.1%	4.5%	3.2%	8.5%	8.3%
Private donations	0.6%	0.0%	0.4%	0.3%	0.7%	0.0%	0.0%	1.2%	2.6%	0.0%	0.2%	1.3%	1.3%	0.2%	1.0%	0.5%
Public-private partners	1.7%	4.5%	2.4%	5.2%	5.0%	1.1%	5.4%	8.3%	3.9%	5.4%	2.2%	6.3%	2.6%	1.8%	3.0%	4.7%
Service shedding	0.3%	7.4%	0.0%	4.5%	0.7%	2.2%	1.1%	2.5%	0.9%	0.0%	0.7%	0.3%	0.4%	0.7%	0.6%	2.5%
Volunteerism	1.4%	0.6%	3.6%	3.1%	1.4%	1.1%	3.3%	1.2%	3.6%	0.5%	3.0%	1.6%	5.4%	2.3%	3.3%	1.6%
Vouchers	3.1%	0.0%	0.4%	0.0%	0.7%	0.0%	4.9%	0.0%	5.4%	0.5%	9.3%	3.8%	0.4%	0.0%	4.0%	0.7%
Agency totals	15.0%	15.6%	10.5%	15.6%	5.8%	10.7%	7.6%	12.9%	19.4%	13.8%	22.3%	12.5%	19.4%	18.8%	100.0%	100.00%

*Percentages have been adjusted to eliminate programs and services for which no method of privatization was indicated. Indicating the method of privatiation for each program/service was optional. Respondents could list up to three methods for each program/service.

Sources: CSG surveys on privatization in state government, 1993 and 1997.

Major Issues in Privatization

Privatization Decision-making

The CSG survey shows that some state and agency respondents (22.4 percent and 24.8 percent, respectively) use a formal decision-making process for privatization projects. Overall, however, they initiate privatization projects without standard decision-making, monitoring or evaluation processes.

Privatization experts and survey respondents agree that successful implementation of privatization requires clear policies and procedures to guide decisions. Listed below are issues that policy-makers should address when initiating privatization either on a government-wide or agency-wide basis.

Initiator of a privatization project. Who should initiate a privatization project? Is there a policy directive relating to privatization from the governor or the legislature? Should the initiator be an agency director, department head or unit manager?

Services, functions or programs to be privatized. How should candidates for privatization be identified? Does the service or function to be privatized involve a core responsibility of government, such as policy-making, adjudication, law enforcement or regulation? Are there in-house operations problems with the service?

Legal and political barriers. Is privatization legally and politically feasible? Is a constitutional amendment necessary? Is enabling legislation needed? Will the public, clients of the service, interest groups or elected officials resist the change?

Goals and criteria for privatization. What is expected from a private provider? What are realistic and measurable goals of privatized services and functions? Should there be a threshold (e.g., a minimum of 5 percent or 10 percent in cost savings) to determine which programs should be privatized?

Methods of privatization. Which methods should be used in outsourcing targeted services and functions to private providers? Is contracting out the best method? Should other privatization methods be explored to maximize potential benefits?

Benefits of privatization. What are potential benefits from privatization? Will cost savings be realized? Will costs to the state be decreased or will costs be shifted to service recipients? Is there reason to believe that a private business can offer increased quality, consumer satisfaction or responsiveness?

Availability of private providers. Are able, willing and reliable private providers available in the marketplace? Are businesses interested in working for targeted government services or functions? Are there multiple potential providers to ensure competition? Would privatization create a monopoly?

Risk and cost overruns. How great is the chance that the private firm will fail to provide the service? How great is the risk that providers will reduce or stop services if losses occur? Will the private firm or government bear the risk of cost overruns?

State employees. Will state employees be affected by privatization? Will they be hired by the private firm or transferred to other units? Is privatization compatible with collective bargaining agreements?

Privatization Guidelines

Several states have prepared privatization decision-making and monitoring guidelines or have reported on their privatization activities. Some of these publications are listed here.

- "Competition and Privatization Options: Enhancing Efficiency and Effectiveness in State Government," Delaware, 1997.
- "Privatization," Florida House of Representatives Committee on Governmental Operations, 1995.
- "Guide for Developing a Request for Proposals," Governor's Commission on the Privatization of Government Services, Georgia, 1996.
- "Privatize, Eliminate, Retain or Modify: A Strategy for Competitiveness in Government," Kansas Council on Privatization, 1995.
- "Annual Report," Council on Management and Productivity, Maryland, 1996.
- "PERM: Privatize, Eliminate, Retain or Modify," Michigan Public-Private Partnership Commission, 1992.
- "Privatization in North Carolina State Government," Office of State Budget and Management, 1994.
- "Privatization in Wisconsin State Government," Department of Administration, 1994.
- "Better Service at Lower Cost: A Model for Competitive Government," Privatization of Government Services Task Force, Government of the District of Columbia, 1996.

Preprivatization analysis. Is the preprivatization analysis thorough and fair? Have all parties concerned been consulted? Is everything in order to make a decision for or against privatization? Who should make a "make or buy" decision?

Request for proposals. Does the request for proposals contain all necessary specifications (e.g., information on cost data, safeguards, resolution of complaints, audits, ethical standards, liability, bankruptcy, monitoring and evaluation, conditions for contract renewal)? Will the private provider have some room to carry out the privatized project with flexibility and innovation?

Invitation for bids and contract awarding. How should a private provider be selected to implement a project? Will the contract be awarded though competitive (sealed) bidding, sole source purchase or waiver of competition? Will in-house program managers be allowed to compete for the work on a level playing field? How will the bids be evaluated?

Cost analysis. When should a cost comparison be made – before or after obtaining bids? Who should conduct a cost analysis – agency personnel, contractors or consultants? How should a cost comparison be made? What elements should be included in in-house costs and contract costs?

Monitoring. Who should monitor implementation of the privatization project? Should agencies maintain on-site monitors? How should quality assurance be maintained? How much will it cost to monitor the private provider's performance?

Performance measurement. How should the privatized project be evaluated? What indicators should be used to evaluate the private provider's performance? Are there indicators to assess quantity, quality, effectiveness, timeliness and cost performance?

Cost-comparison Guidelines

Several states established cost-comparison guidelines for privatization.

- "Competitive Government Handbook," Governor's Office of Management and Budget and Governor's Office for Excellence in Government, Arizona, 1996.
- "Competitive Cost Review Cost Analysis Guide," Office of the State Auditor, Texas, 1987.
- "Privatization in Colorado State Government Performance Audit," Office of State Auditor, 1989.
- "Follow-up Performance Audit," Office of State Auditor, Colorado, 1993.
- "Guidelines for Implementing the Commonwealth's Privatization Law," Office of the State Auditor, Massachusetts, 1994.
- "Cost Comparison Program: Compete," Commonwealth Competition Council, Virginia, 1996.

Cost Comparison

Cost is one of the most important factors considered in determining whether to privatize a service, function or program. When making a privatization decision, policy-makers and administrators compare state employee (in-house) and contractor costs. There are a number of issues to consider in a cost analysis. For example:

- ✓ Which government office should conduct a cost analysis: a central agency that oversees privatization activities or the agency seeking to privatize a service or function?
- ✓ Should an employee group, a potential private provider or a private consultant be allowed to perform a cost comparison?
- ✓ When should cost analysis be conducted — before or after a contractor is chosen?
- ✓ Should a state or agency use a standard checklist to compare in-house and contract costs?
- ✓ What should be included in contractor costs — contract price, contract administration and oversight costs, transition costs, conversion costs?
- ✓ What costs should be included in total state costs — direct costs, cost of benefits, indirect costs, avoidable costs?
- ✓ What performance period should be used to determine projected cost savings — one year or several years?

- ✓ Should there be a minimum threshold of cost savings to privatize a service or function?

Lessons from previous privatization activities suggest that decentralized government authority in contracting government services, the refusal of government agencies to comply, application of the Davis-Bacon Act (which requires the contractor to pay prevailing labor wages) and unfair and unrealistic cost comparison procedures can contribute to slow implementation or even failure of privatization.

Agencies have been criticized for using techniques to increase contract costs or decrease in-house cost estimates to deny privatization opportunities. Such techniques include requiring performance standards that could not be applied to government performance; including the full costs of Social Security, retirement and unemployment in the contracts; and requiring higher qualifications for private workers than for government employees. To create an accurate comparison of in-house and private costs, states should try to avoid such practices.

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Barriers to Privatization

Many agencies have been able to privatize services and functions under existing constitutional or statutory provisions. In some states, however, enabling legislation was necessary to allow agencies to privatize their activities. Several states have faced lawsuits. Before initiating privatization activities, policy-makers should determine if constitutional, statutory, legal, federal or internal barriers exist.

Policy-makers should examine whether a constitutional amendment is necessary to initiate or continue privatization projects. For example, California Gov. Pete Wilson proposed a constitutional amendment to remove legal barriers to state and local privatization in an effort to deal with a revenue shortfall.

The CSG survey shows that many states recently enacted privatization laws. Legislation is often needed to revise existing civil service systems, which tend to protect state workers and prohibit contracting out or franchising functions or services. In some states, civil service commissions have the authority to approve or reject privatization.

Policy-makers should be aware of possible lawsuits by state employees. In Colorado, for example, the state employees' union filed nine lawsuits against the state. The result was that the existing law (Section 24-50-128) could not be used as the basis for privatization. In 1993, the Colorado Legislature passed H.B.1212 to legalize privatization. To implement the new law, the state personnel director adopted new administrative rules.

State officials also need to check federal regulations and court rulings. There are four types of federal laws and regulations that can block privatization in state government: labor-protection provisions, tax codes, regulatory provisions and federal grant provisions. Some U.S. Supreme Court rulings impact state privatization projects. In the case of *Richardson and Walker v. McKnight* (1997), for example, the court ruled that prison guards employed by a privately run facility did not qualify for the financial immunity provided public employees. This decision may lead to higher costs of privatizing prisons.

The CSG survey indicates that proponents of privatization in state government are governors and their staff, agency managers and legislative agency staff. Outside parties, such as interest groups and private consultants, also support privatization. Typical opponents of privatization include state employee associations and elected officials. The challenge for policy-makers is to better communicate with and involve opponents in the privatization process.

State Employee Concerns

State employees share many concerns about privatization initiatives. For example, they wonder if the state will eliminate their jobs or the private provider will cut their benefits. In most cases, the strongest resistance to privatization usually comes from employee unions and state employees, particularly those whose jobs may be affected.

The most persistent opposition to privatization in some states has come from state employee associations or unions, often led by the Public Employee Department of the AFL-CIO and the American Federation of State, County and Municipal Employees. The AFL-CIO, for example, has led anti-privatization campaigns in the past decade by saying, "Privatization/contracting must be stopped, the dismantling of our governments cannot be tolerated." In 1992, the AFL-CIO released a report, *Reinvigorating the Public Service*, that said "public workers and their unions want to improve public services, they want a greater voice in the work place and in the management of public programs." A 1993 AFL-CIO publication, *The Human Costs of Contracting Out: A Survival Guide for Public Employees*, outlined strategies to "prevent, defeat or reverse decisions by your employer to contract-out work."

As recently as 1997, the 130,000-member California State Employees Association supported legislation (S.B. 648) to counter the state's push toward privatization. The bill was modeled after legislation passed in Massachusetts that sought to clean-up its privatization process that lacked appropriate oversight. The California proposal called for a cost-benefit analysis before private firms are awarded state contracts. It would allow state departments to compete with the private sector on bids and would bar any contractor who has been cited for violating state wage and benefit regulations from competing for the contracts.

States are addressing employee concerns by reassigning personnel within government, allowing them to compete with private vendors and consulting with employee organizations, according to the CSG survey. Policy-makers may consider the following suggestions to ease the impact of privatization on state employees.

- ✓ Allow state employee associations/unions to have representation in the privatization decision-making process.
- ✓ Prepare an "employee impact plan" when more than a few state employees will be affected.
- ✓ Develop an education plan about employee options to be moved to the private sector, be retrained or be reassigned.
- ✓ Offer enhanced severance packages such as job placement services and career transition counseling.
- ✓ Provide displaced state employees with preferential treatment in hiring.
- ✓ Award bonus points to bidders offering employee accommodation plans.
- ✓ Use competitive contracting and help employees compete with private vendors.
- ✓ Reject offers in which employees will be moved to lower-grade positions.
- ✓ Offer affected employees an early retirement option.

Conclusions

State policy-makers should consider privatization as a tool for improving government productivity. The success or failure of privatized services depends on how the tool is used by state officials and private providers. By educating themselves, officials improve their ability to guide the privatization process. Officials can learn lessons from the privatization experience of other agencies or states (see recommendations). Good advice is crucial for policy-makers who decide on issues such as achieving cost savings, handling employee concerns, delegating authority and monitoring private providers.

State policy-makers should develop cost analysis formats for agencies to use. Only through accurate and reliable cost comparisons can states determine if privatization is likely to save money. Experience indicates that cost savings may result only when several qualified private providers compete to deliver services, or when carefully structured competitive bidding takes place among agencies and private vendors.

Policy-makers should privatize selected services and functions only after addressing concerns of affected state employees. State employees should be allowed to participate in the privatization process, including the opportunity to compete with private vendors.

Agency managers have to plan, manage and monitor privatization activities. Privatization does not mean the delegation of state authority or responsibility. Policy-makers are ultimately accountable to clients and taxpayers for privatized services.

From planning to monitoring privatization activities, policy-makers should be aware of the dangers of corruption, service interruption and mismanagement or unfair labor practices by private firms. Private providers should be held accountable for both their service performance and management practices.

Officials can learn lessons from the privatization experience of other agencies or states.

Recommendations for Successful Privatization

For state policy-makers and administrators, a thorough pre-analysis of privatization opportunities is essential. They also will need a carefully prepared request for proposals and well-devised procedures for implementation. Monitoring and evaluating a project's performance also are critical. Following are recommendations for successful privatization efforts based on lessons states have learned.

Political leadership and support. Privatization is implemented best through strong political support by governors and legislators. To sustain privatization initiatives, however, ensure that the enabling legislation guarantees continued implementation regardless of changes in the governors' and agency directors' offices.

Clear and measurable goals. Privatization has a better chance to succeed with a defined game plan and measurable goals. Policy-makers should know what they want to accomplish through privatization.

Delegation of authority. It should be made clear that responsibility remains in government – privatization does not mean the delegation of government authority or responsibility to private providers. Officials are accountable for what private providers are doing with tax dollars. Officials are "overseers" rather than "doers."

Data collection. Place a government agency or unit in charge of gathering information on privatized services. More reliable cost data on government activities is needed to assess the overall performance of activities targeted for privatization and to support informed privatization decision-making.

Monitoring. Monitor private providers' performance closely. Assign trained and reliable state employees to do the monitoring. Only knowledgeable and experienced employees can find out if private providers are carrying out contract provisions. Strengthen in-house capacity to monitor contracts.

Evaluation. Evaluate providers' performance periodically. Determine if potential savings are realized and maximized. In addition to evaluations conducted by agencies and contractors, consult with third parties for objective assessments.

Safeguards. To reduce risk, conduct a pilot project before beginning a full-scale project. Require the contractor to make periodic reports designed to give early warning of developments that could imperil service continuity. Develop an emergency plan to deal with service interruption/discontinuation. Temporarily maintain the capacity to provide service in-house in the event of service interruption.

Competition in management and delivery of services. Privatization is more successful when managers and employees are willing to change traditional ways of providing services. They should be receptive to competing in management and public service delivery and allowed to compete fairly for the work.

Employee participation. Involve employee associations in the preprivatization analysis and consider employee protection measures. In certain areas, however, privatization may be used as a tool for not hiring additional workers. Provide training on privatization for employees and maintain communication with consumers.

Team efforts. Privatization is implemented more effectively when agency directors, mid-managers and line workers are committed to the project. This is essential to overcome internal barriers to privatization.

Cost overruns. Include in the contract cost adjustments for inflation and unexpected increases in workload. Require the contractor to bear or share the risk of cost overruns.

Appendix

Privatization Activity in Selected Agencies

To put in context the privatization activity within a particular agency, refer to the combined agency respondents data reported in "Privatization Activity in State Agencies" (page 8).

Due to insufficient responses, agencies administering state information systems are not highlighted in this appendix. However, the information systems responses are included in the total agency respondents data.

Administration and General Services

- **Number of responses: 35**
- **States represented: 31**

Privatization of administrative and general services is saving money. Of the 29 respondents that quantified cost savings, 24.1 percent saved more than 15 percent by privatizing functions. Another 37.9 percent saved between 6 percent and 10 percent, and 34.5 percent saved less than 5 percent. These savings are considerably higher than the 15-agency trend (see Table 8).

Administrative and general services also are more likely than other executive agencies to privatize services systematically. More than half reported using a standard decision-making process to determine which activities will be privatized, while the 15-agency average was only 29.1 percent.

Seeking cost savings and greater flexibility, most administration and general service agencies privatize some of their functions. All survey respondents reported that they either increased or maintained their levels of privatization activity in the past five years (Figure A). They overwhelmingly cited cost savings as the motivation for privatizing administrative and general services (Figure B). Flexibility and the lack of agency personnel or expertise were also important reasons.

Most administrative and general service agency directors expect to continue privatizing functions. More than half the respondents said their privatization activity will increase in the next five years, and the remainder expected to maintain current levels of activity (Figure C). Though saving money was still the main reason for privatizing administrative and general services, fewer respondents sited cost savings as a reason that privatization will increase in the next five years (Figure B).

Regarding methods of privatization, almost all privatized functions in the area of administration and general services were contracted out to private vendors (Figure D). Other methods used to privatize services included service shedding and public-private partnerships.

Figure A — Administration and General Services

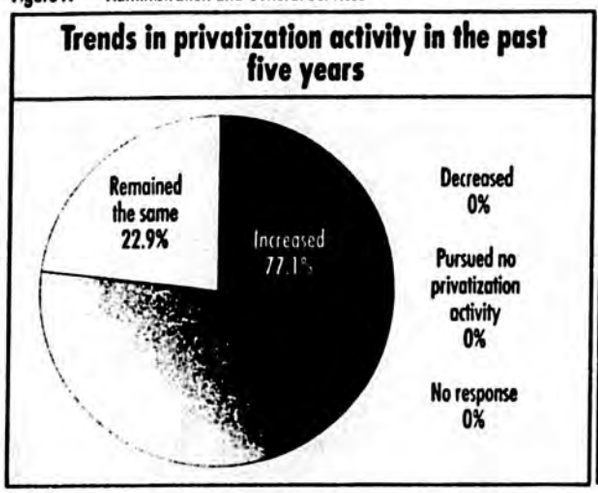


Figure B — Administration and General Services

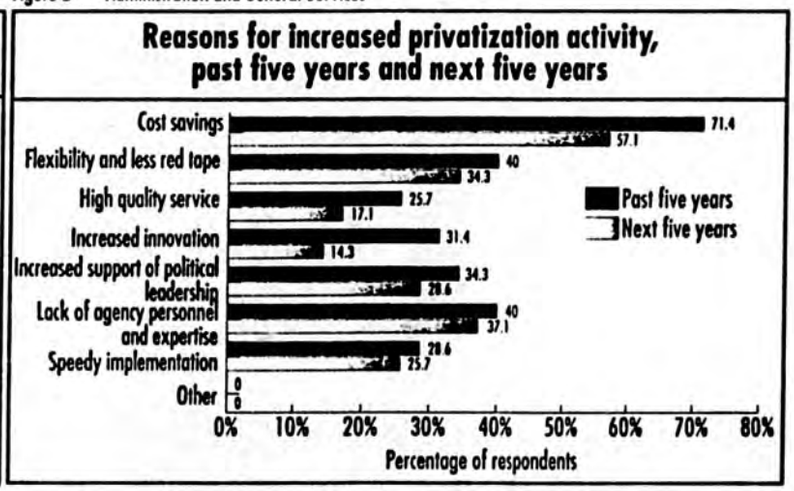


Figure C — Administration and General Services

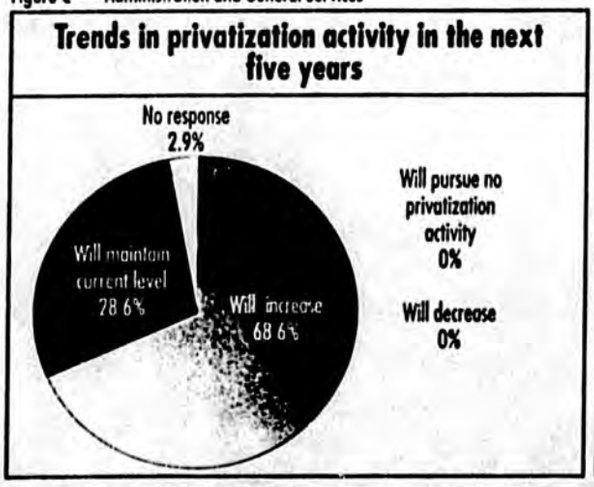


Figure D — Administration and General Services

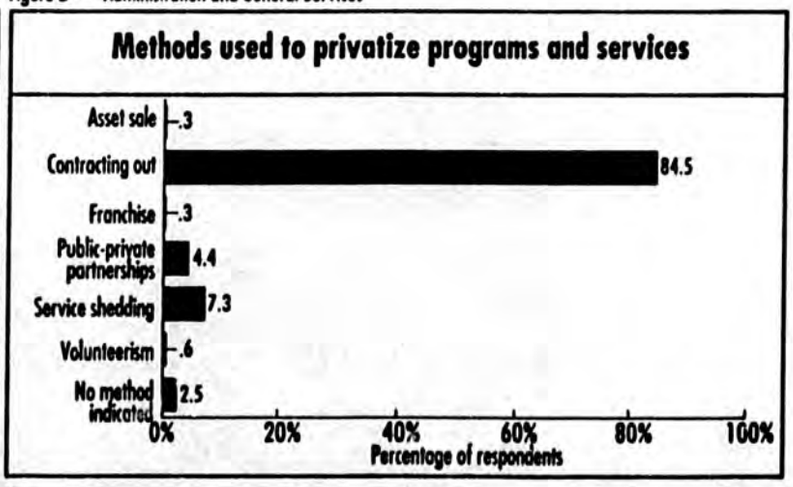


Table 1

Checklist of Privatized Programs and Services
Listed in order of the number of responding state agencies privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	Number of States	States	Number of States	States
Custodial services	23	AL, AK,CA, CO, CT , DE, FL, IA, ID, IL, MD, MI, NV, NC, NY, OK, SC, TN, TX, VT, VA,WV, WI	3	AZ, CT, WY
Architectural services	21	AL, AZ, CA, CO, CT, DE, FL, IA, ID, MD, MI, MN, NV, NC, NY, OK, OR, SC, VA, WV, WI	1	VT
Asbestos removal	20	AZ, CA, CO, CT, DE, FL, IA, ID, MD, MN, NV, NC, NY, OR, SC, VT, VA, WA, WV, WI	1	OK
Building construction	19	AL, AZ, CA, CO, CT, IA, ID, MD, MI, MN, NV, NC, NY, OK, OR, VT, VA, WA,WI	1	PR
Pest control	19	AL, AZ, CO, CT, DE, IA, ID, IL, MD, MN, NV, NC, NY, OK, SC, VA, WA, WV, WI	-	
Moving services	15	AK, AZ, CA, CT, IA, IN, MD, MN, NV, NC, OR, SC, VA, WA, WI	-	
Computer maintenance	15	AL, AZ, CA, CO, IL, MD, MN, NV, NY, NC, OR, TN, VA, WI, WV	2	CT, ID
Engineering services	15	AL, AZ, CA, CO, IA, ID, MD, MI, MN, NC, OK, SC, VA, WA, WV	-	
Facility maintenance	15	AK, CA, CO, CT, FL, IA, IL, MI, MN, NC, NV, NY, TN, WI, WV	4	AZ, OK PR, SC
Printing	14	AK, AZ, CA, CO, DE, IA, ID, IL, MD, NC, SC, VA, VT, WY	2	CT, WI
Computer systems design	13	AL, CA, DE, ID, IL, MD, MI, MN, NV, NC, NY, VA, WI	2	CO, CT
Security	12	AK, CA, CO, DE, ID, IL, MD, NV, SC, TN, VA, WV	-	
Technical consulting	11	AK, CA, CT, IL, MD, MI, MN, NC, VA, WA, WV	1	CT
Central stores	8	CA, CT, ID, IL, IN, MI, OR, WY	2	NC, VA
Snow removal	8	AK, CO, CT, IL, MD, NY, VA, WV	-	
Building inspections	7	CA, CO, DE, MD, NC, VA, WV	1	PR
Mail processing	6	CA, IA, IN, MD, MN, TX	4	AZ, CT, NC, VA
Telecommunications	6	IL, MI, MN, NC, NY, WI	1	CT
Bill collections	5	CO, NC, VA, VT, WA	1	ID
Fleet operations and maintenance	5	IA, MI, NY, SC, WI	1	PR
Surplus property management	5	AZ, CT, CT, IA, TN	-	
Legal services	4	AK, AL, ID, IL	-	
Workers' compensation administration	4	AL, CT, IN, NC	-	
Auditing	3	IL, NC, NY	-	
Civil service arbitration	3	AK, ID, IL	1	NC
Data processing	3	NC, TX, WI	2	AZ, CT
Employee benefits administration	3	AL, IL, NV	-	
Accounting	2	AL, IL	1	NC
Civil service testing/training	2	CA, ID	-	
Data collection functions	2	NC, VA	1	CT
Risk management	2	AK, IL	-	
State employee insurance	2	IL, NV	-	
Health screening of employees	1	NV	1	NC
Information systems	1	NC	3	AZ, CT, ID
Museums	1	NY	-	
Undeveloped state-owned land	1	CA	-	
Additional programs and services*	14		2	
TOTALS:	**310**		**39**	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Corrections

- **Number of responses: 35**
- **States represented: 35**

Corrections agencies are more likely than other executive agencies to systematically evaluate privatization outcomes. Slightly more than half of corrections agencies used a standardized monitoring process to evaluate the effects of privatization, while 42.6 percent of all responding agencies used such a process.

Most corrections agencies indicated that privatization activity increased or remained the same in the past five years, and one agency reported no privatization activity (Figure A). In addition to cost savings, the main reasons for increased privatization of corrections activities were speedy implementation and increased support among political leadership (Figure B). A common reason added by survey respondents was an immediate need for inmate housing. The same motivations are expected to spur increased privatization in the next five years (Figure C).

Like most executive agencies, departments of corrections reported modest cost savings from privatization. Of the less than two-thirds of responding corrections agencies (20 of 35) that quantified their cost savings, 60 percent saved less than 5 percent through privatization. Another one in three respondents saved between 6 percent and 10 percent, and none saved more than 15 percent.

Corrections agencies most often contract out to private providers (Figure D). Other methods for privatizing correctional activities include public-private partnerships, service shedding and volunteerism.

Figure A — Corrections

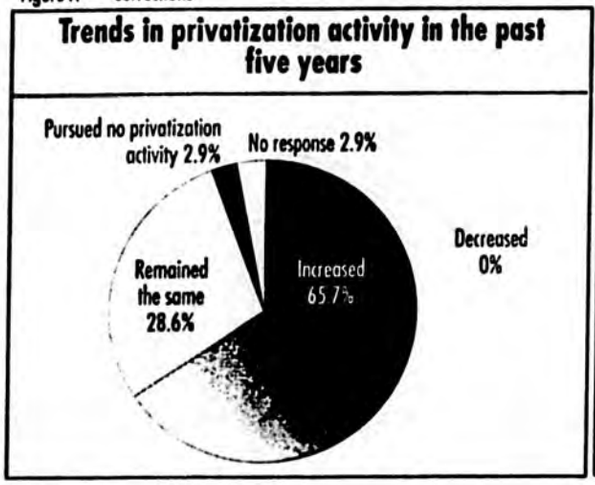


Figure B — Corrections

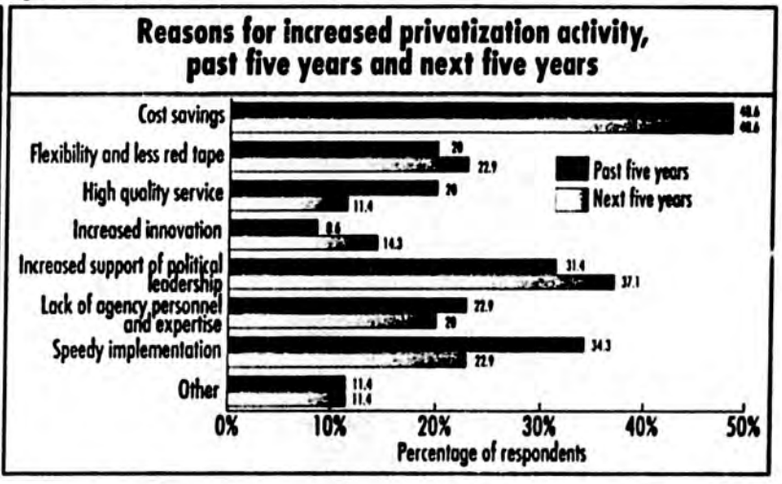


Figure C — Corrections

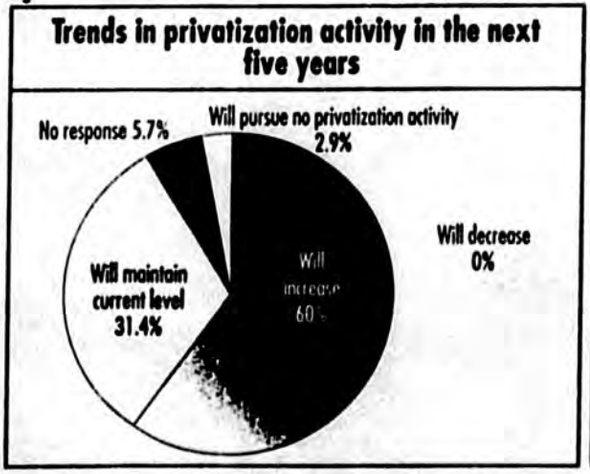


Figure D — Corrections

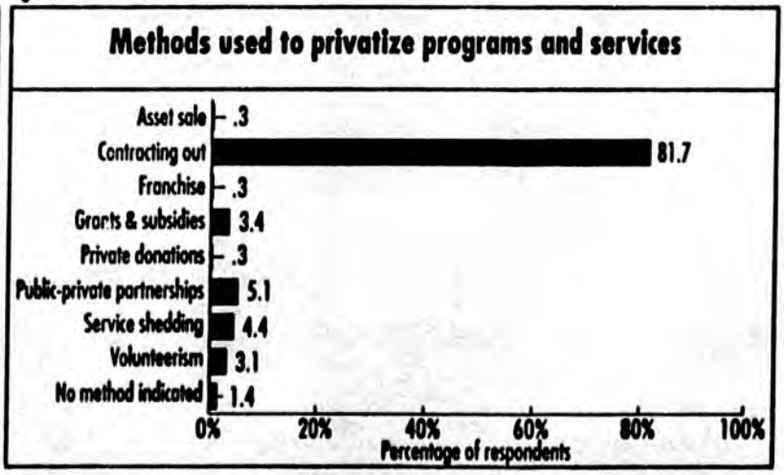


Table 2
Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of states**	**States**
Medical services at institutions	24	AL, CT, DE, FL, ID, IL, KS, MD, ME, MI, MN, NE, NV, NY, OH, SC, SD, TN, TX, VA, WA, WV, WI, WY	2	DC, UT
Health/dental care	23	CA, CO, CT, DE, FL, ID, IL, KS, MD, ME, MI, MN, NE, NV, OH, SC, SD, TN, TX, VA, WA, WV, WY	3	DC, MS, UT
Alcohol and drug treatment	21	AZ, CA, CO, DC, DE, FL, HI, ID, IL, KS, MD, MI, NY, OH, SC, TN, TX, UT, WA, WI, WY	2	MS, NV
Correctional facilities construction	16	CA, CO, CT, DE, FL, ID, IL, ME, MI, MS, NV, NY, TN, TX, UT, WA	3	DC, HI, KS
Mental health services	15	AL, CT, DE, ID, IL, KS, MD, NV, OH, SD, TN, TX, UT, WA, WI	2	DC, MS
Prison operations	14	AR, AZ, CA, CO, DC, FL, HI, LA, MI, NV, OK, TN, TX, VA	3	ID, KS, WI
Laboratory services	14	CA, CT, DE, FL, HI, ID, IL, KS, ME, MI, MN, MS, NY, WA	1	DC
Halfway houses	13	CO, CT, HI, KS, LA, ME, MN, OH, OK, SC, SD, TX, WI	1	UT
Food services	13	AZ, DC, FL, IL, KS, MI, MN, MS, OH, SD, TX, WV, WI	3	UT, VA, WY
Education/Training of inmates	13	CA, CO, IL, KS, MI, MN, NE, OH, SC, SD, TX, WA, WI	2	DC, VA
Community corrections centers	12	CA, CO, FL, IL, LA, MD, ME, OH, SD, TN, TX, WY	3	DC, ID, UT
Medical waste disposal	11	AL, CT, DE, ID, IL, KS, ME, MI, MS, OH, TX	-	
Pharmacy	10	AL, DE, HI, ID, IL, KS, MD, ME, SD, TX	1	DC
Religious services	9	CA, CO, MN, SC, SD, TX, VA, WA, WY	-	
Substance abuse testing	8	CA, CO, CT, DE, FL, KS, MS, TX	-	
Employee assistance programs	8	AZ, CA, CT, DE, FL, NE, SC, TX	-	
Canteen services	8	CA, DE, ID, IL, SD, TX, UT, VA	4	AZ, DC, FL, WY
Work release programs	7	IL, LA, MN, SC, SD, TX, WA	-	
Transportation of prisoners	7	AZ, CT, FL, LA, OH, SD, TN	2	NY, VA
Clinical assistance	7	CA, DE, FL, ID, ME, SC, TX	2	DC, UT
Rehabilitation services	6	CA, KS, MS, OH, TX, UT	-	
Employee training	6	AZ, CA, CO, FL, MN, SC	1	CT
Correctional industries	6	FL, ID, KS, NE, TX, WI	-	
Court-ordered monitoring	5	FL, ID, MI, SD, WI	-	
Community board and care services	4	MI, MN, OH, SC	-	
Developmentally disabled services	3	CA, KS, TX	-	
Laundry	2	CA, TX	1	UT
Facility inspections	1	CO	-	
Additional programs and services*	9		-	
TOTALS:	295		36	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Education

- **Number of responses: 24**
- **States represented: 24**

Privatization has not been widely used in education agencies, according to the CSG survey. Only nine respondents said that their privatization activity increased in the past five years (Figure A). Ten education departments saw no change in privatization activity, and five did not privatize at all. With little variation, these trends will continue in the coming five years (Figure C).

Unlike most executive agencies, education departments did not consider cost savings the main reason to privatize agency activities (Figure B). They may turn to private providers to save money in the future, but increased support of political leadership drove privatization in the past five years. One-fifth of respondents privatize activities to avoid red tape and to fill voids in agency personnel and expertise.

The five education agencies that did not privatize in the past five years cited constitutional or legal barriers as the major reason. All of those agencies have tried other management techniques – such as organizational restructuring or strategic planning – to improve cost efficiency and productivity.

Education agencies saved slightly less from privatization than the typical executive agency. Of the 13 education respondents that estimated cost savings, 69.3 percent saved less than 5 percent, and only one saved more than 15 percent. In half the responding education agencies, the portion of agency activities privatized was less than 5 percent. Four states passed the 15 percent mark.

Figure A — Education

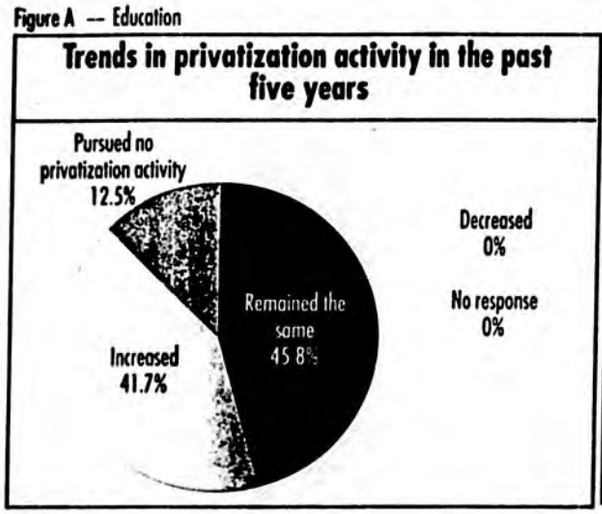


Figure B — Education

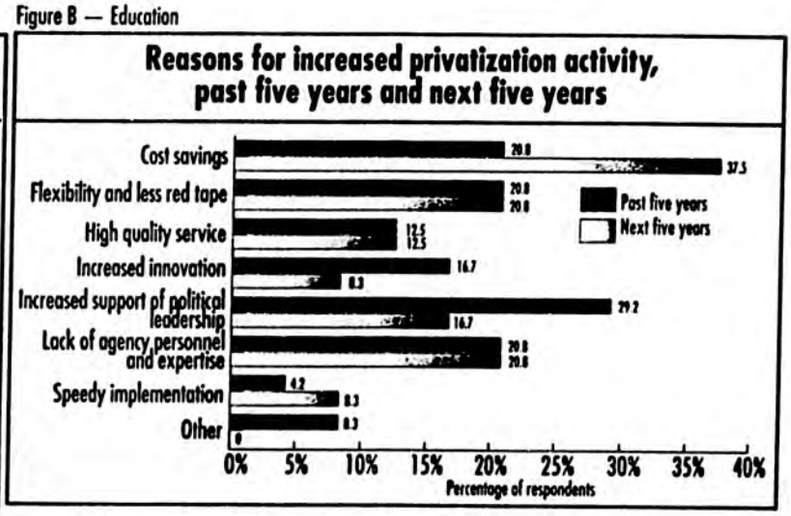


Figure C — Education

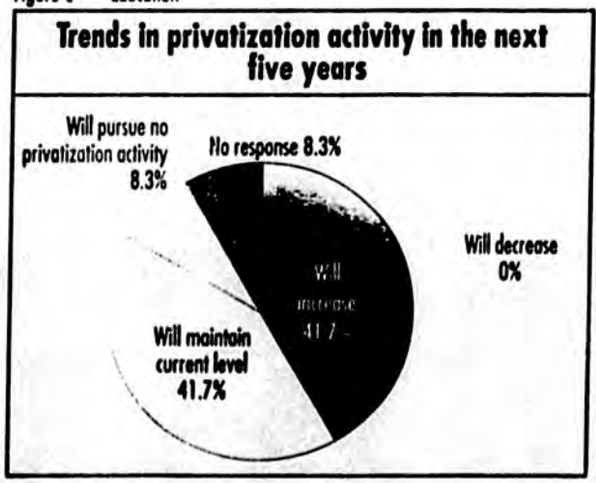


Figure D — Education

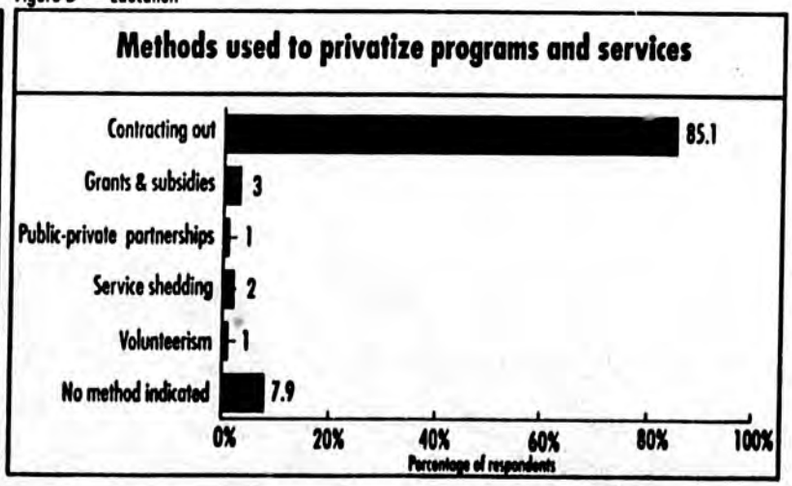


Table 3

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Test scoring	13	AR, DE, GA, ID, KY, LA, NH, NM, NV, SC, SD, TN, VT	-	
Program evaluations	11	AR, GA, IA, KY, LA, NE, NH, NV, SC, UT, VT	-	
Technical consulting	10	AL, DE, IA, KY, NH, NM, PR, SC, TN, UT	1	NC
Hearing officers/lawyers	8	AR, GA, KY, LA, NH, NV, SD, TN	-	
Measurement and evaluation services	7	AR, GA, LA, MI, NH, NV, SD	-	
Therapists (occupational, speech, physical)	7	DE, GA, KY, LA, SC, TN, UT	-	
Bus transportation	4	AR, DE, IA, ID	1	SC
Counselors/psychologists/social workers	3	KY, TN, UT	-	
Educational conferences	3	KY, NV, TN	1	SC
Public information services	3	LA, NV, TN	-	
Statewide data systems	3	KY, NV, TN	-	
Testing teacher competence	3	GA, KY, SC	-	
Textbook reviewers	3	KY, SC, TN	1	NC
Cafeteria management	2	IA, ID	1	SC
Goals 2000	2	KY, NV	-	
Specialized instruction	2	AL, TN	-	
Academic grant programs	1	GA	-	
Education of drop-outs	1	IA	-	
Management of individual schools	1	MI	-	
Additional programs and services*	14		1	
TOTALS:	101		6	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Health

- **Number of responses: 29**
- **States represented: 29**

Health agencies privatize differently than most executive agencies. Although a majority of privatized health programs and services are contracted out (Figure D), this method is used much less frequently than in the typical executive agency, which contracts out 80 percent of privatization projects. Health agencies provide grants and subsidies to supply one-quarter of their privatized programs and services, including infant mortality reduction and drug and alcohol treatment.

More health agencies than other executive agencies will rely on privatization in the future. Almost three-quarters of responding health agencies plan to increase privatization activities in the next five years, while 55 percent of all agencies intend to do so (Figure C). To a greater extent than most agencies, health departments will look to privatization for cost savings, greater flexibility and increased innovation (Figure B). Health directors listed legislative mandates as another key reason for intensified privatization efforts in the coming years.

In the past five years, privatization activity in health agencies was in line with the 15-agency average (Figure A). Twenty-eighty of 29 responding health directors either increased or maintained the level of privatization activity, while one privatized no programs or services. Cost savings from privatization of health agency functions were also typical: two-thirds of those providing an estimate saved less than 5 percent, and 20 percent saved more than 15 percent.

Figure A — Health

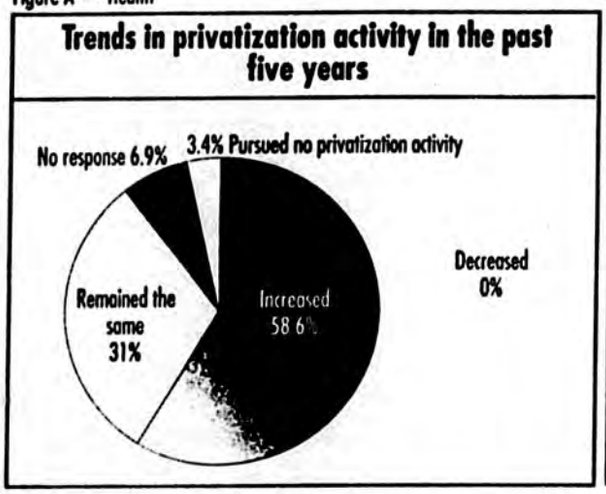


Figure B — Health

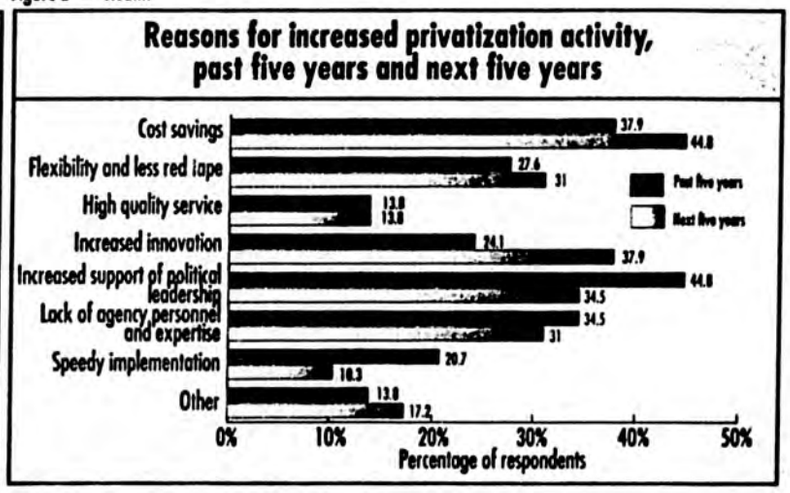


Figure C — Health

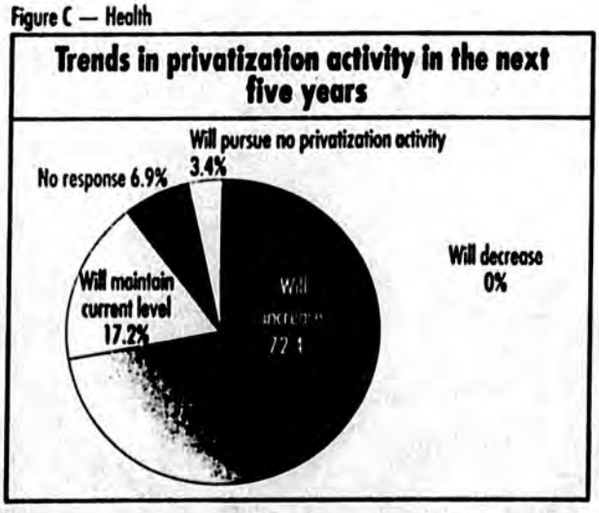


Figure D — Health

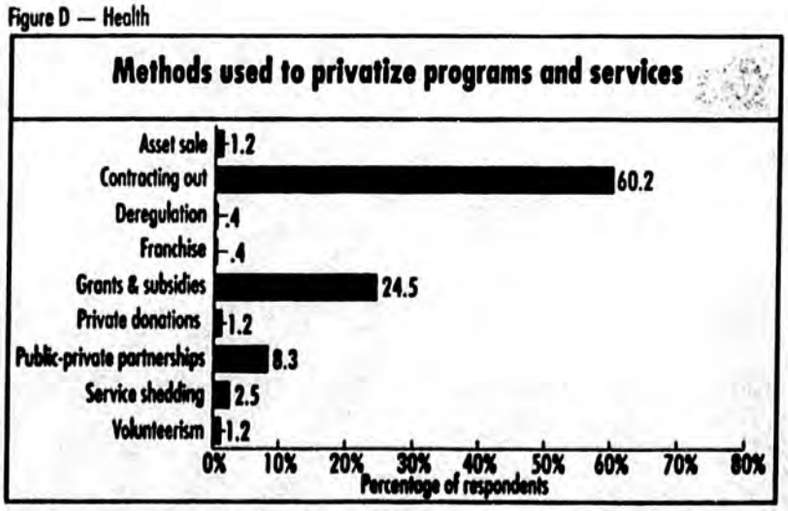


Table 4

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Family planning services	18	CA, CO, CT, FL, GA, IA, IL, KY, MD, MI, NJ, NY, PR, RI, SC, TX, WA, WY	-	
AIDS programs	15	CA, CO, CT, FL, GA, IL, IA, KY, MD, MI, NV, NJ, NY, TN, WA	-	
Clinics	14	CA, CO, CT, FL, GA, IL, MD, MI, NV, NJ, RI, SC, TX, WA	1	GA
Infant mortality reduction	14	CA, CO, CT, FL, IL, KY, MD, MI, NJ, NV, RI, SC, TN, WA	-	
WIC programs	13	AL, CA, CO, CT, FL, IL, MD, NJ, NV, NY, SC, TX, WA	-	
Drug and alcohol treatment	11	CA, CO, CT FL, IN, MI, MD, NJ, RI, TN, WA	1	PR
Domestic violence services	9	CA, CO, CT, IL, MI, NV, ND, RI, WA	-	
Injury prevention services	9	CA, CO, CT, IL, KY, MD, MI, RI, WA	-	
Laboratory	8	FL, IL, MD, NV, NY, PR, SC, WA	-	
Primary care	8	CA, CT, MD, MI, NJ, PR, RI, SC	-	
Research and development	8	CT, GA, IL, KY, MD, NJ, NY, WA	-	
Refugee health programs	7	CA, CO, CT, GA, IL, RI, WA	-	
Lead poisoning	6	CA, IA, IL, MI, RI, WA	-	
Medicaid processing	5	AK, CA, NY, TX, UT	-	
Environmental health	4	CA, FL, IL, WA	-	
Food services in state hospitals	4	MD, MI, NY, PR	-	
Health maintenance organizations	4	CA, MI, TN, TX	-	
Air quality	3	CA, CO, FL	-	
Hospital operation	3	CA, NY, PR	-	
Toxic waste cleanup	2	CO, NY	-	
Waste water treatment	2	CA, CO	-	
Resource recovery	1	CO	-	
Additional programs and services*	39		1	
TOTALS:	**207**		**3**	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Higher Education

- **Number of responses: 27**
- **States represented: 16**

Higher education institutions expect greater cost savings from privatization than other agencies. Two-thirds of respondents increased privatization in the past five years; of that group, 66.7 percent did so to save money (Figures A and B). Higher education institutions also sought increased innovation, greater flexibility and quality service from private providers. The four respondents that privatized no programs or services cited legal barriers and uncertain cost savings as the reasons.

Considerably fewer respondents expected further increases in privatization. Less than half planned to expand privatization activity in the next five years, and the same four institutions will not privatize at all (Figure C). Expectations of cost savings, flexibility and innovation from privatization waned, as well. A lack of agency personnel and expertise will lead higher education institutions to privatize their activities in the future.

Higher education privatization projects tend to be modest in comparison to those of other agencies. More than half of higher education respondents privatized less than 5 percent of their programs and services, and only 10 percent privatized more than 15 percent. Cost savings from privatization were average: 65 percent of the 20 higher education institutions providing an estimate saved less than 5 percent, while 15 percent saved more than 15 percent.

Most privatized programs and services reported by state higher education agencies were contracted out (Figure D). Fourteen programs were deregulated, and six were franchised.

Figure A — Higher Education

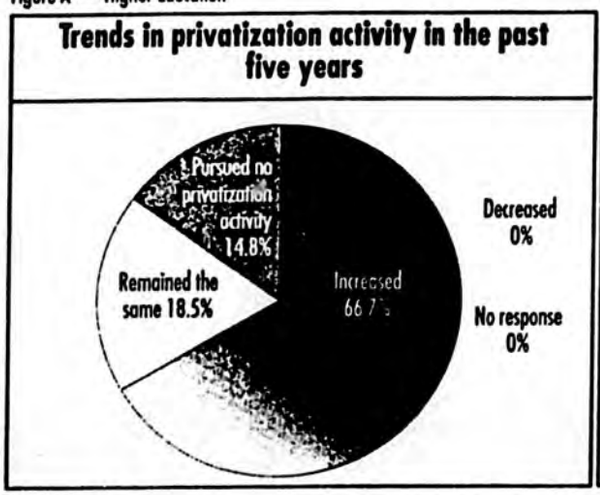


Figure B — Higher Education

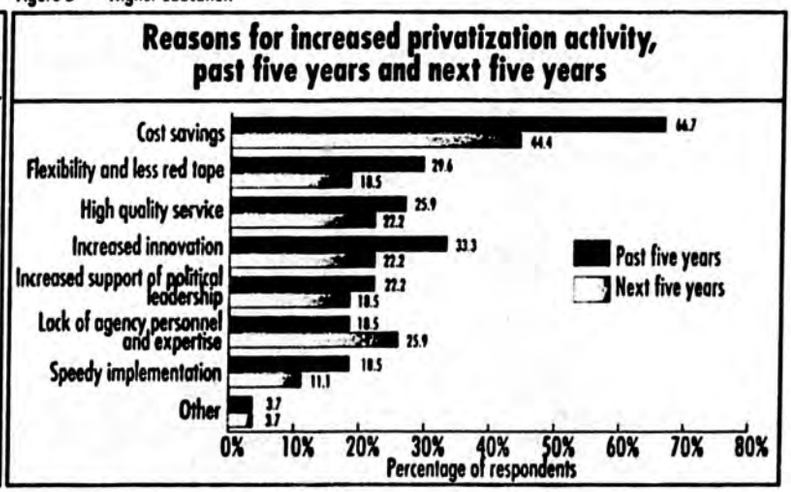


Figure C — Higher Education

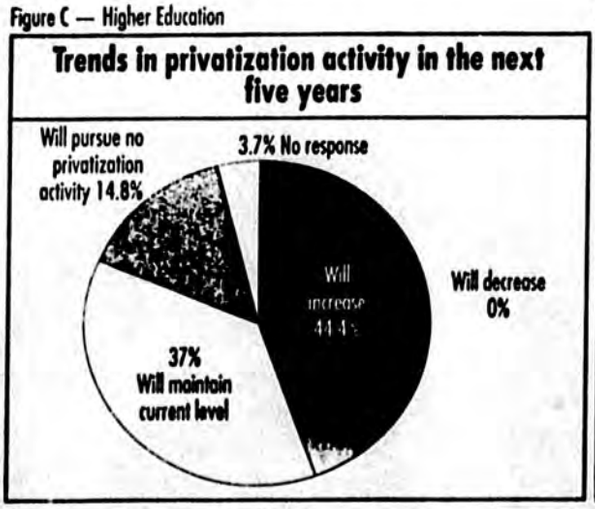


Figure D — Higher Education

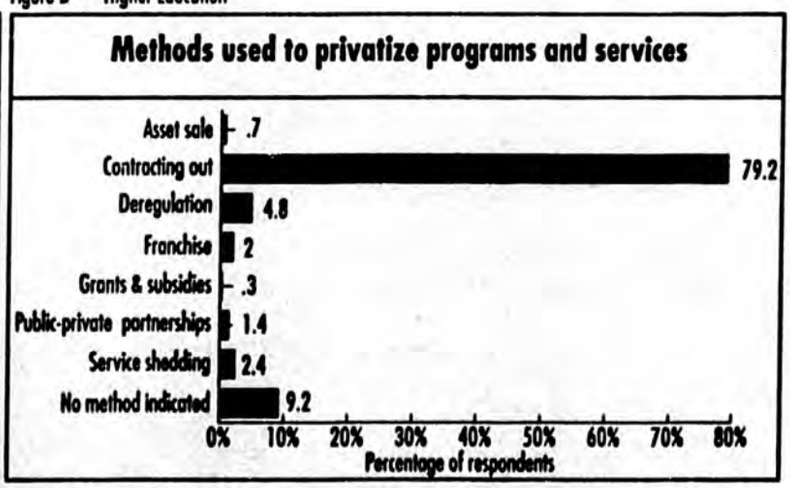


Table 5

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

PRIVATIZED	BEING CONSIDERED FOR PRIVATIZATION			
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Vending services	9	AK, CO, FL, GA, IA, MN, NJ, UT, WV	-	
Food services	9	CO, FL, GA, IA, MN, NJ, SD, UT, WV	-	
Office equipment repair/maintenance	9	AK, CO, FL, IA, MN, NJ, NY, UT, WV	-	
Collections agencies	8	AK, CO, FL, IA, NJ, SD, UT, WV	1	MN
Printing services	8	AK, CO, FL, GA, IA, MN, NJ, UT	1	NJ
Building repair/maintenance	8	AK, FL, GA, IA, MN, NJ, NY, WV	-	
Security services	8	AK, CO, FL, GA, IA, MN, NJ, NY	1	NJ
Pest control	7	CO, FL, GA, IA, NJ, NY, WV	-	
Copy machines	7	CO, FL, GA, IA, MN, NJ, WV	-	
Building construction	7	CO, FL, IA, MN, NJ, NY, WV	-	
Asbestos removal	7	CO, FL, IA, MN, NJ, UT, WV	-	
Laundry machines	7	CO, FL, GA, IA, NJ, UT, WV	-	
Fire protection	7	CO, FL, GA, IA, NJ, UT, WV	-	
Bookstores at state universities	6	CO, FL, GA, NJ, UT, WV	1	FL
Transportation services	6	CO, FL, GA, IA, MN, NJ	-	
Computer network maintenance	6	CO, FL, MN, NJ, NY, UT	-	
Entertainment	5	CO, FL, GA, IA, NJ	-	
Snow removal	5	CO, IA, MN, NJ, WV	-	
Vehicle repair/maintenance	5	CO, IA, MN, NJ, WV	-	
Mail services	5	CO, FL, GA, IA, NJ	-	
Towing	4	CO, FL, IA, NJ	-	
Computer software development	4	FL, IA, MN, NJ	-	
Publishing services	4	CO, IA, NJ, UT	1	NJ
Student loan billing	4	AK, FL, GA, NJ	1	CO
Lab services	4	CO, FL, IA, NJ	-	
Water treatment	3	CO, FL, IA	-	
Dormitories	2	FL, GA	-	
Educational services	2	CO, NJ	-	
Stadiums	2	CO, IA	-	
Purchasing	1	MN	1	GA
Additional programs and services*	21		1	
TOTALS:	190		8	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Juvenile Rehabilitation

- **Number of responses: 22**
- **States represented: 22**

Juvenile rehabilitation agencies expect more than cost savings from privatization. More than two-thirds of respondents increased privatization activity in the past five years (Figure A). Nearly 22 percent said that such activity remained the same during the period, while 9 percent said no privatization occurred. The past increase in privatization was due as much to greater political support and the need for flexibility as to the potential for cost savings (Figure B).

In the next five years, juvenile rehabilitation agencies will privatize for flexibility, speedy implementation and innovation – not for cost savings. More than three-quarters of respondents will expand privatization (Figure C), but only one-quarter expect to save money by doing so (Figure B). Cost savings have been marginal for juvenile rehabilitation agencies: 62.5 percent saved less than 5 percent from privatization, and one-quarter saved more than 15 percent.

Juvenile rehabilitation agencies privatize large portions of their activities. Two-thirds of the 18 respondents that provided an estimate privatized more than 15 percent of their programs and services. Across agencies, only 30.8 percent of respondents reached the 15-percent threshold.

Though they privatize many activities, juvenile rehabilitation agencies tend not to have organized privatization campaigns. Seventy-two percent of juvenile rehabilitation agencies tend to privatize programs on an ad hoc basis, rather than as part of either a government-wide or agency-wide initiative. Eighty-five percent said they did not use a standard decision-making process to determine which activities will be privatized. More than half of responding agencies are carefully monitoring the effects of privatization, however.

Figure A — Juvenile Rehabilitation

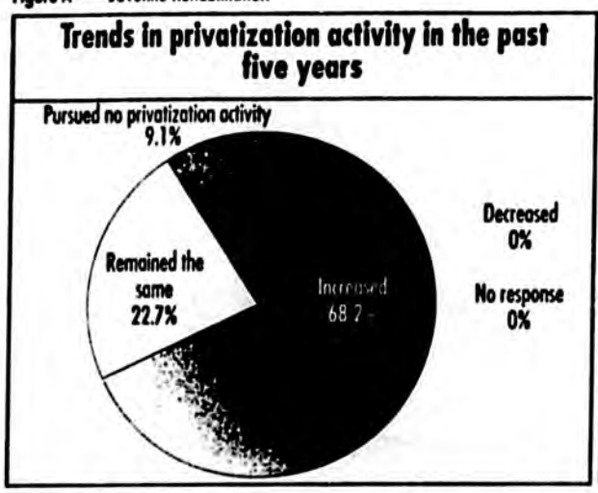


Figure B — Juvenile Rehabilitation

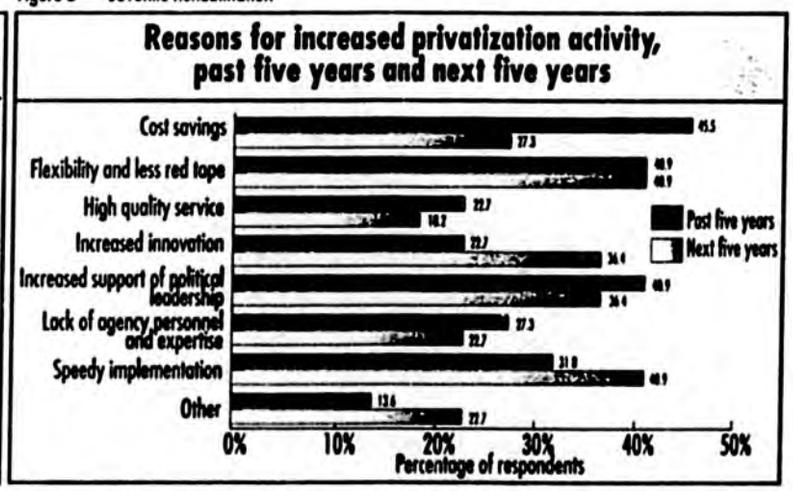


Figure C — Juvenile Rehabilitation

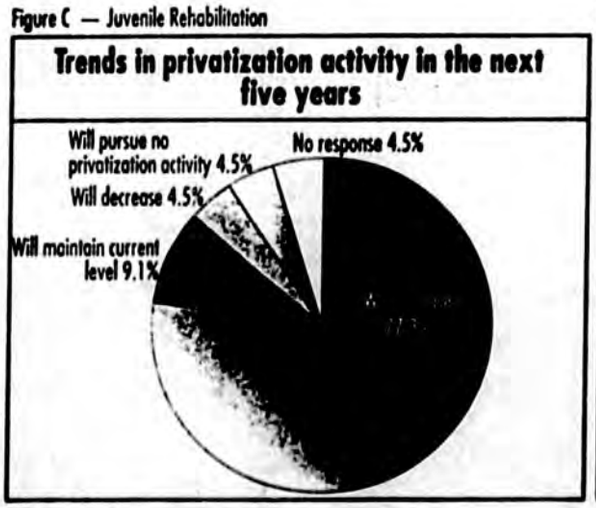


Figure D — Juvenile Rehabilitation

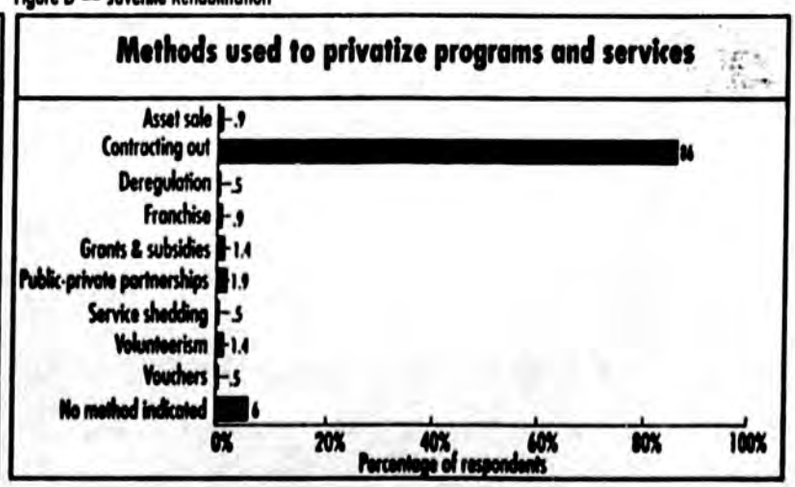


Table 6

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	Number of States	States	Number of States	States
Group homes	18	AL, CA, CO, FL, GA, HI, IA, MD, MS, NC, ND, OK, OR, SC, SD, TN, UT, VI	1	GU
Mental health treatment	15	AL, CA, CO, FL, IA, MD, MO, NC, ND, OR, SC, SD, TN, UT, VI	1	GU
Clinical evaluations	13	AL, CA, FL, GA, IA, MD, MO, OK, OR, SC, TN, UT, VI	1	GU
Institutional residential programs	13	AL, CA, CO, FL, GA, MD, MO, MS, OR, SD, TN, UT, VI	1	OK
Substance abuse treatment	13	AL, CA, CO, FL, GA, HI, IA, MD, ND, OK, OR, TN, UT	2	GU, SC
Sex offender programs	12	CA, CO, FL, GA, HI, IA, MD, OK, OR, SC, TN, UT	1	AL
Supervised independent living	11	CO, FL, GA, HI, IA, MD, ND, OK, OR, SC, TN	1	GU
Day treatment services	10	CO, FL, IA, MD, ND, OK, OR, SC, TN, UT	1	NC
Foster homes	10	CO, GA, HI, IA, MD, MO, ND, OK, OR, SC	2	GU, TN
Shelter care	9	FL, GA, HI, IA, MD, OK, OR, SC, TN	-	
Aftercare programs	8	FL, HI, IA, MD, NY, OK, OR, SC	2	GA, VA
Electronic services	8	CA, CO, FL, GA, IA, MO, SC, UT	1	GU
Juvenile court diversion services	8	FL, IA, MD, MO, OK, OR, SC, VI	1	GU
Community-based supervision services	7	CO, HI, IA, MD, ND, OR, SC	4	FL, GU, OK, TN
Mental health residential facilities	6	AL, CO, FL, IA, OR, UT	-	
Partial hospitalization services	6	AL, CA, FL, IA, NC, OR	-	
Secure institutional programs	6	AL, CO, FL, GA, MD, UT	-	
Juvenile justice boot camps	4	CO, GA, IA, OK	1	CO
Specialized probation services	4	CO, MD, OR, SC	2	FL, VI
Training services	4	AL, CA, CO, IA	1	TN
Transportation	4	CO, IA, MS, SC	2	FL, TN
Educational services for state-responsible inmates	3	CA, FL, OK	-	
Juvenile detention centers	3	MO, OK, UT	1	GA
Probation tracking services	3	IA, OK, SC	1	FL
Juvenile court intake services	1	OR	-	
Victims' services	1	CA	-	
Additional programs and services*	15		-	
TOTALS:	215		27	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Appendix

Labor

- **Number of responses: 25**
- **States represented: 25**

Compared with other executive agencies, labor departments are not jumping on the privatization wagon. Almost one-third of responding labor agencies privatized no programs or services in the past five years, and less than one-half increased privatization activity (Figure A). This trend will continue in the next five years (Figure C).

Labor respondents offered few explanations for not privatizing in the past. Four respondents were uncertain that privatization would save money, three feared a loss of control over service delivery, and two cited legal barriers, employee resistance and fear of corruption. The labor agencies that increased and plan to continue increasing privatization activity offer a variety of reasons for their decisions, particularly cost savings (Figure B).

The lack of interest in privatization among labor agencies is reflected in their modest cost savings. Seventy-seven percent of respondents that estimated cost savings from privatization saved less than 5 percent. The remaining 23 percent saved between 6 and 10 percent. No agency saved more than 10 percent. Two-thirds of respondents privatized less than 5 percent of programs and services, and only one privatized more than 15 percent.

Labor agencies use a broader array of privatization methods than most executive agencies (Figure D). In addition to contracting out (75.3 percent), labor respondents privatized through public-private partnerships (7.2 percent) and private donations (5.2 percent).

Figure A — Labor

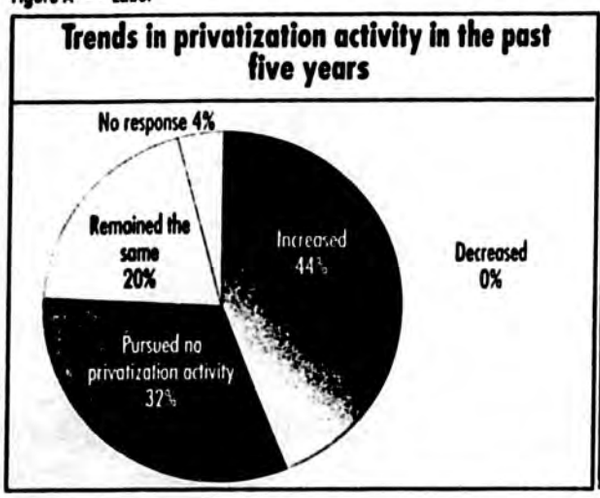


Figure B — Labor

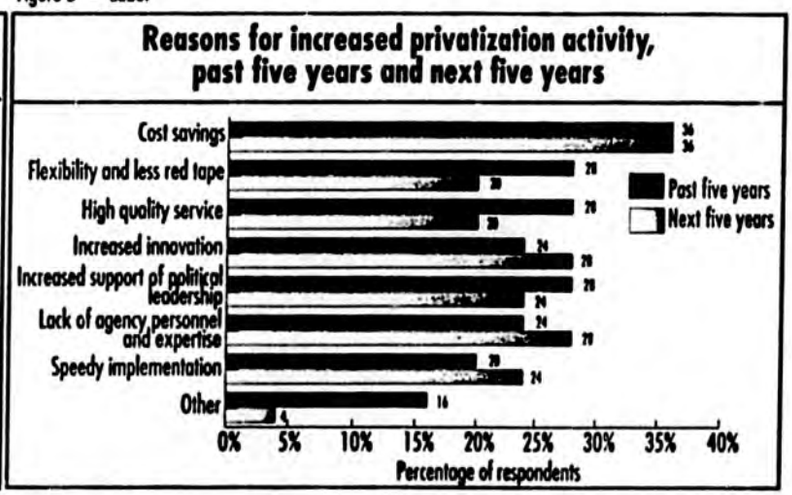


Figure C — Labor

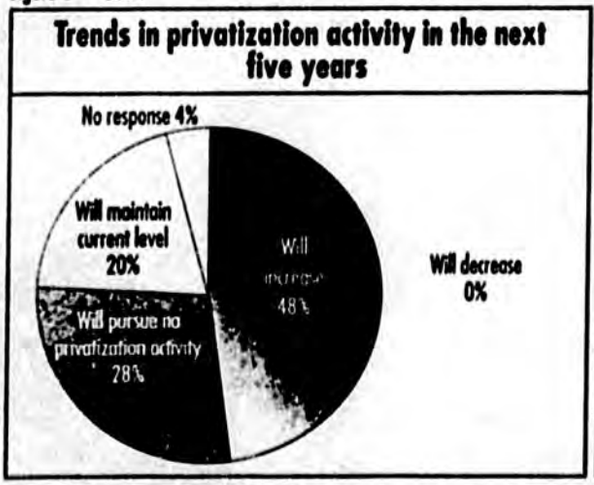


Figure D — Labor

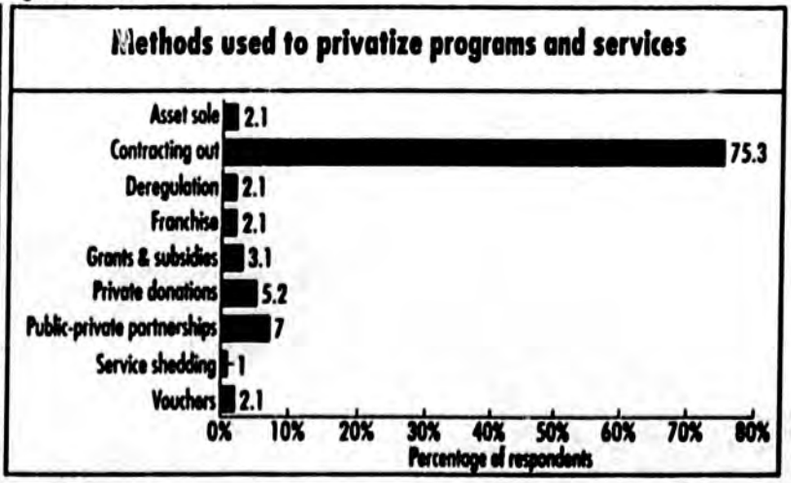


Table 7

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Temporary clerical services	11	CO ,CT, FL, KS, MI, MT, NJ, OH, SC, TX, OH	-	
Consultants/Researchers/Specialists	10	FL, TX, CT, NJ, GA, MT, OH, KS, PA, WI	1	ND
Security services	10	CT, FL, GA, HI, KS, MN, NJ, OH, SC, TX	-	
Computer services	9	CO, CT, FL, GA, HI, ND, NJ, TX, WI	-	
Court reporting	8	CT, FL, GA, KY, MI, MT, OH, WI	-	
Medical exams	8	CO, DC, FL, KY, NJ, PA, SC, WI	-	
Assistive technology services	4	FL, MT, OH, TX	1	CT
Publicity/Public service announcements	4	CT, FL, MT, WI	-	
Expert witnesses	3	FL, MI, SC	-	
Legal services	3	FL, SC, TX	-	
Adjudication of workers' compensation claims	2	NJ, DC	1	FL
Support services for disabled	2	WI, PA	-	
Accounting services	1	HI	-	
Arbitration and fact finding	1	MT	1	WI
Examination monitors	1	OH	-	
Investigative services	1	WI	1	
Additional programs and services*	17		1	
TOTALS:	95		7	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Mental Health and Retardation

- **Number of responses: 31**
- **States represented: 28**

Mental health agencies are saving money by privatizing large portions of their activities. A majority of respondents (66.7 percent) privatized more than 15 percent of their programs and services. Less than half the responding mental health agencies reported a cost savings figure, but of those, 43.3 percent saved more than 15 percent of their budgets.

Surprisingly, cost savings was not the key reason for increased privatization in mental health agencies. In the past five years, almost two-thirds of respondents raised their level of privatization activity (Figure A). An equal number of respondents – well above the 15-agency average for each reason – attributed the increases to cost savings, greater flexibility and increased support of political leadership (Figure B). Other reasons for privatization included: reduced reliance on state institutions, the need to rapidly expand services due to Medicaid waivers and more appropriate service settings.

Privatization of mental health and retardation services will continue to expand in the next five years, but activity will level off in many agencies. More than half of respondents predict increased privatization activity, one-third expect to maintain current levels, two will pursue no privatization and one will slow privatization (Figure C). Fewer respondents cited each reason to increase privatization (Figure B).

Mental health and retardation agencies favor grants and subsidies and public-private partnerships as alternatives to contracting out (Figure D).

Figure A — Mental Health & Retardation

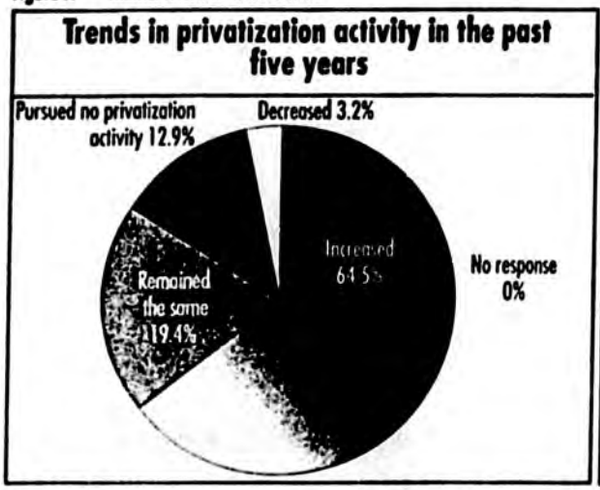


Figure B — Mental Health & Retardation

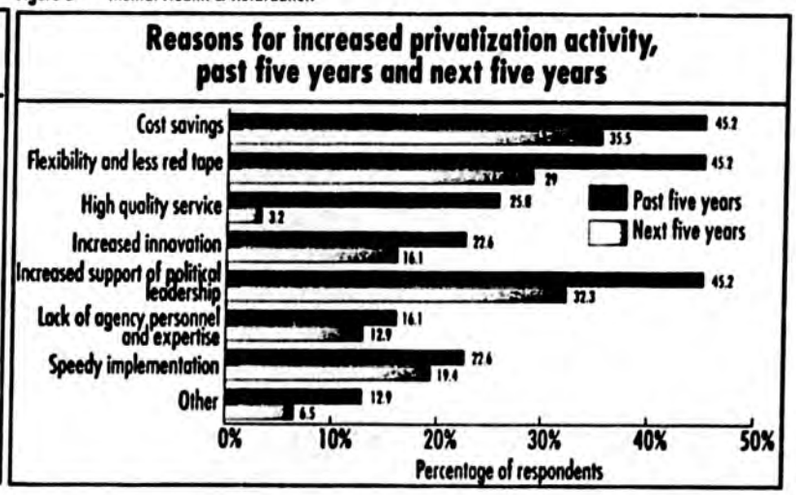


Figure C — Mental Health & Retardation

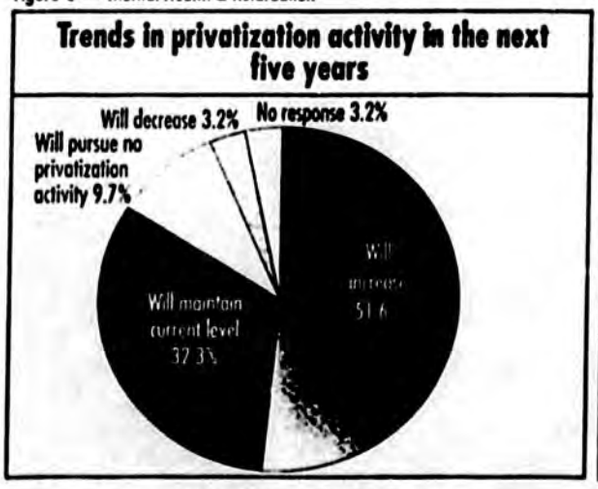


Figure D — Mental Health & Retardation

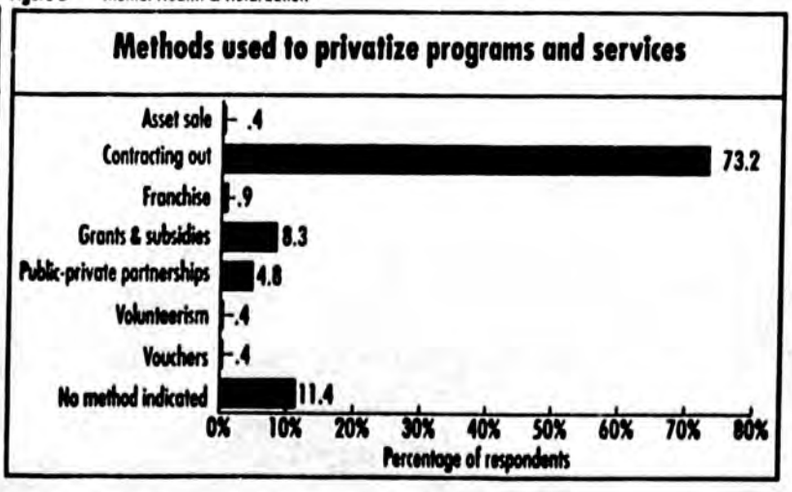


Table 8

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	Number of States	States	Number of States	States
Community living support services	17	AZ, CA, CT, DE, IN, KY, MA, MD, NE, NH, OH, OK, OR, PA, RI, TN, WA	-	
Psychiatric services	16	CA, CT, DE, IN, KY, MA, MD, NC, NE, NH, OR, PA, RI, TN, TX, VA	1	ID
Developmentally disabled services	13	CT, IN, KY, MA, MD, NC, NE, NH, OH, RI, TN, TX, VA	1	OR
Therapists (activity, speech, recreational, physical)	13	AZ, CT, IN, KY, MD, NE, NH, OH, PA, RI, TN, TX, VA	1	OR
Pharmacy services	12	CT, DE, IN, KY, MA, MD, NE, NH, OH, TN, TX, VA	-	
Transportation and ambulance services	12	AZ, CA, CT, IN, KY, LA, MA, NE, NH, OR, TN, TX	-	
Mental health care services	12	AR, CT, IN, KY, MA, NC, NE, NH, OK, OR, RI, TN	2	IA, VA
Food services at institutions	10	DE, GA, KY, MA, NE, NH, NV, OH, TN, TX	3	AR, RI, VA
Medical services at institutions	10	AR, CA, CT, KY, MA, MD, NH, OH, TN, TX	2	NE, VA
Laundry	9	AR, CT, GA, KY, MA, NE, OH, TN, TX	1	LA
Case management of mentally retarded	9	IN, KY, MA, MD, NE, NH, PA, RI, TN	2	AZ, CT
Parent support and advocacy	9	AZ, CT, GA, IN, MA, NE, NH, OK, TN	-	
Case management of developmentally disabled	8	IN, KY, MA, MD, NE, NH, RI, TN	1	AZ
Case management of mentally ill	8	DE, IN, KY, NE, NH, OK, RI, TN	2	IN, LA
Medical waste disposal	8	CA, GA, KY, NH, OR, PA, TX, VA	1	NE
Specialized foster care	8	AZ, CT, IN, MA, NC, NE, OR, TN	-	
Protection and advocacy	7	AZ, CA, IN, MA, NE, OH, TN	-	
Youth group homes	5	AZ, IN, LA, NE, OR	-	
Youth services	5	AZ, IN, KY, NE, OK	-	
Expert witnesses	4	CT, IN, NE, VA	-	
Nursing home services	4	AZ, IN, KY, OR	1	NE
Educational services for patients	3	CA, IN, NE	1	VA
Court reporting	3	IN, KY, VA	-	
Management of facilities	1	KY	1	NE
Additional programs and services*	13		5	
TOTALS:	219		25	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Natural Resources and Environmental Protection

- **Number of responses: 45**
- **States represented: 33**

Natural resources and environmental protection agencies reported little interest in privatization. A majority of respondents said privatization levels were either unchanged or nonexistent in the past five years, and less than two-fifths increased activity in that period (Figure A). These figures are the inverse of the 15-agency trend (see Figure D).

The natural resources and environmental agencies that reported privatizing more programs and services did so for the typical reasons – cost savings and the lack of agency personnel and expertise (Figure B). Cost savings for these agencies, however, were slightly below average; 77.7 percent saved less than 5 percent from privatization, and 7.4 percent saved more than 15 percent.

The respondents who privatized no functions cited constitutional or legal barriers and an uncertainty of cost savings. Other respondents believed their functions were unsuitable for the private sector or privatization was inappropriate for regulatory agencies.

In the next five years, three more natural resources and environmental protection agencies plan to increase their privatization activity (Figure C). One respondent, however, expects to privatize less frequently than in the past. Reasons cited to increase or to avoid privatization in the future were similar to those for the past five years (Figure B).

Eighty-three percent of privatized projects are contracted out to private providers (Figure D).

Figure A — Natural Resources/Environmental Protection

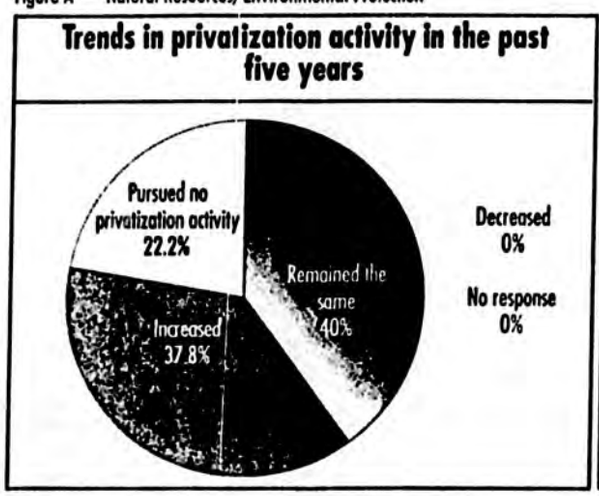


Figure B — Natural Resources/Environmental Protection

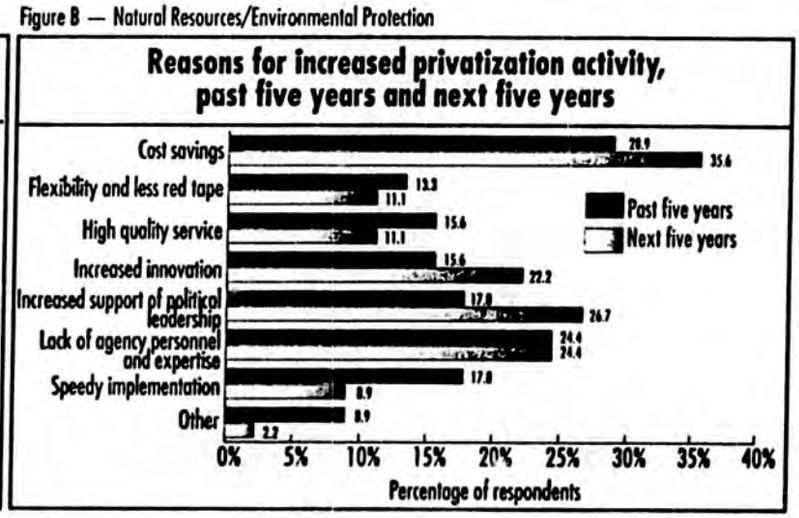


Figure C — Natural Resources/Environmental Protection

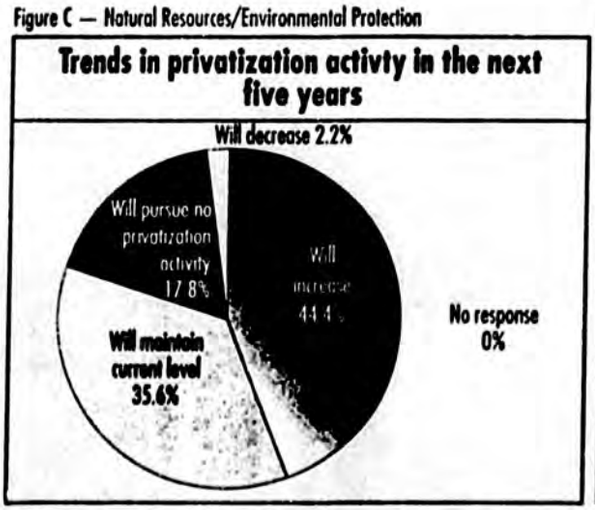


Figure D — Natural Resources/E vironmental Protection

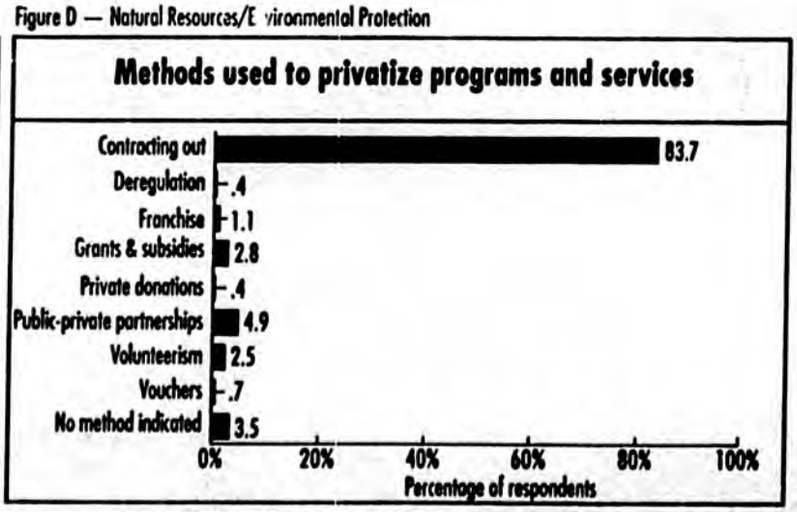


Table 9

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Professional development training	19	AL, AK, AR, CA, CT, DE, LA, MD, ME, MI, MO, MS, NE, NH, PA, PR, TX, VA, WY	-	
Engineering services	18	AZ, CA, DE, HI, IL, IN, LA, MD, ME, MI, MO, MO, MS, MT, NE, NH, NM, WY	-	
Temporary clerical services	16	AK, AZ, CA, CT, DE, IL, IN, MD, MI, MO, MS, MT, NE, SC, TN, VA	-	
Computer maintenance	15	AL, AZ, AR, CA, CT, HI, ID, IL, LA, MD, MI, MO, NH, PA, PR	-	
Court reporting	14	AL, AZ, AR, CA, DE, LA, MI, MO, MS, NE, NH, TN, TX, VA	-	
Custodial services	14	AL, AK, AR, CA, DE, HI, IL, LA, MD, MI, MO, MS, MT, VA	-	
Laboratory analysis	13	CA, HI, IN, LA, MD, MO, MS, MT, NE, NH, PR, VA, WY	-	
Legal services for special court cases	11	AL, AZ, CA, LA, MI, MO, MT, NE, PR, VA, WY	-	
Consultants/Researchers/Specialists	11	AR, CA, IL, LA, MD, MI, MO, NH, TN, TX, VA	-	
Waste removal	10	AR, CA, HI, LA, MD, MI, MS, MT, PR, VA	-	
Temporary/Seasonal help	10	AZ, CA, IN, MD, MI, MO, MS, NE, SC, WY	-	
Toxic waste oversight and cleanup	10	AZ, AR, CA, LA, ME, MI, NC, PR, TN, VA	1	HI
Expert witnesses	9	AL, AR, AZ, CA, LA, MI, MT, PA, VA	-	
Water quality monitoring	9	AL, AZ, CA, DE, LA, MO, NH, PA, VA	-	
Clean-up site characterization	8	AZ, AR, CA, IN, LA, MS, MT, TX	2	HI, NE
Agency publication distribution	6	AK, DE, MI, MO, PA, SC	2	CA, HI
Dispute resolution	5	CA, DE, MT, NH, PA	-	
Insect control	5	AL, CA, MI, MS, PR	-	
Fee appraisals	4	AZ, IL, MS, WY	-	
Fitness testing for public safety officers	4	CA, IN, MI, PR	-	
Permit management	4	IN, MO, NE, WY	-	
Air monitoring	3	CA, LA, MO	-	
Compliance inspections	3	CA, MD, ME	-	
Plugging abandoned oil and gas wells	3	AZ, MT, PA	-	
Real estate/Auction services	3	IL, MD, MI	-	
Tree planting	3	MD, MI, MT	-	
Fire detection air services	2	AL, MI	-	
Stream bank control	2	LA, MD	-	
Timber services	2	MI, MT	-	
Weather services	2	LA, MI	-	
Handicapper design	1	MI	-	
Steeplejack services	1	AK	-	
Trapper education services	1	MI	-	
Videotape commission meetings	1	MI	-	
Additional programs and services*	35		3	
TOTALS:	**277**		**8**	

*Respondents were asked to list programs and services that are privatized by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Parks and Recreation

- **Number of responses: 29**
- **States represented: 27**

Parks and recreation agencies rely less on contracting out than most executive agencies. A majority of parks and recreation respondents privatize through contracts with private providers, but they complement this method by franchising, establishing public-private partnerships and recruiting volunteers (Figure D). Other executive agencies are less diversified in their privatization methods (see Figure 7).

Departments of parks and recreation were more likely than other agencies to expand privatization in the past five years. Twenty-one parks and recreation respondents increased privatization activities, and only two said they pursued no privatization projects (Figure A). Parks and recreation directors turned to private providers seeking reduced costs, additional personnel and greater expertise (Figure B).

Respondents expect this trend to continue in the next five years. Almost three-quarters of respondents will privatize more frequently in the coming years, and most others will maintain current levels (Figure C). In addition, one agency that reported no privatization activity in the past will begin to privatize.

Relative to other executive agencies, a large portion of parks and recreation agencies (28.6 percent) are saving more than 15 percent of their budgets through privatization. Most parks and recreation respondents (57.1 percent), however, still saved less than 5 percent. They privatize an average portion of their activities: 52 percent of respondents providing an estimate privatized less than 5 percent programs and services, and 20 percent privatized more than 15 percent.

Figure A — Parks and Recreation

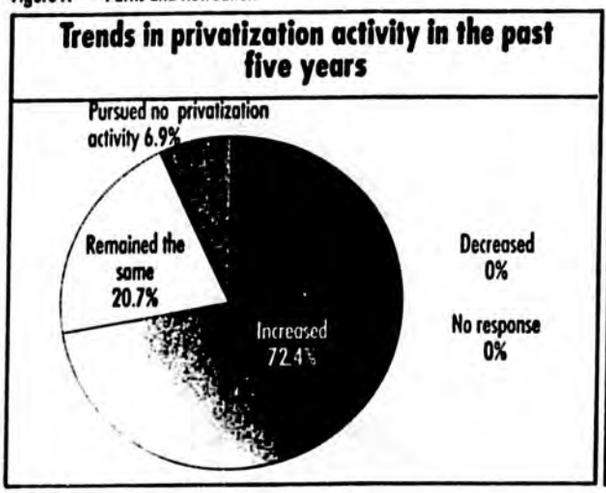


Figure B — Parks and Recreation

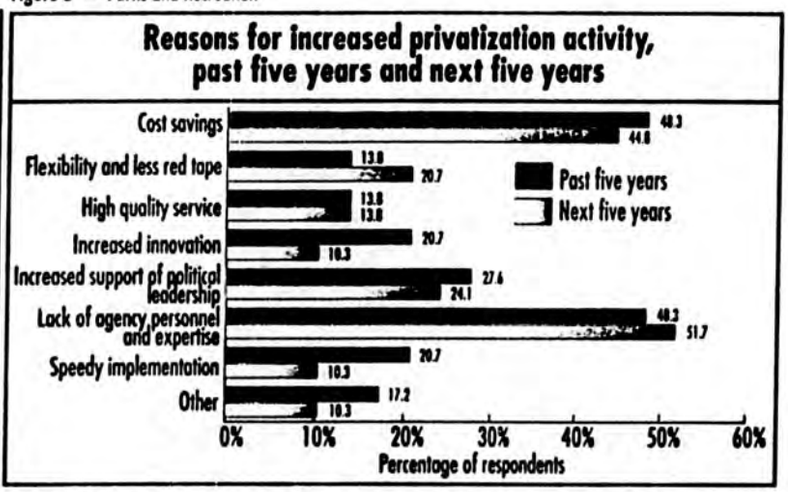


Figure C — Parks and Recreation

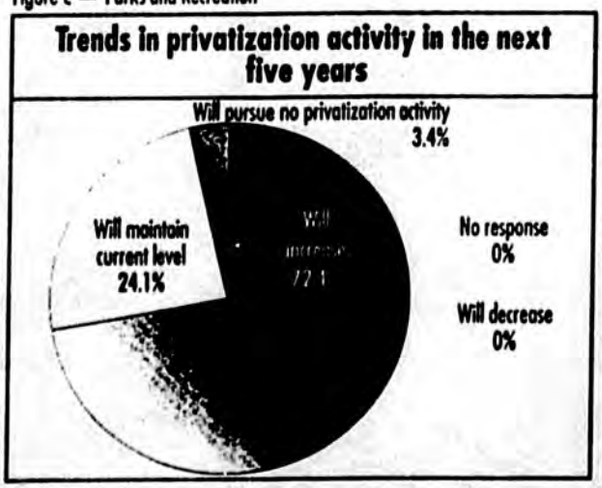


Figure D — Parks and Recreation

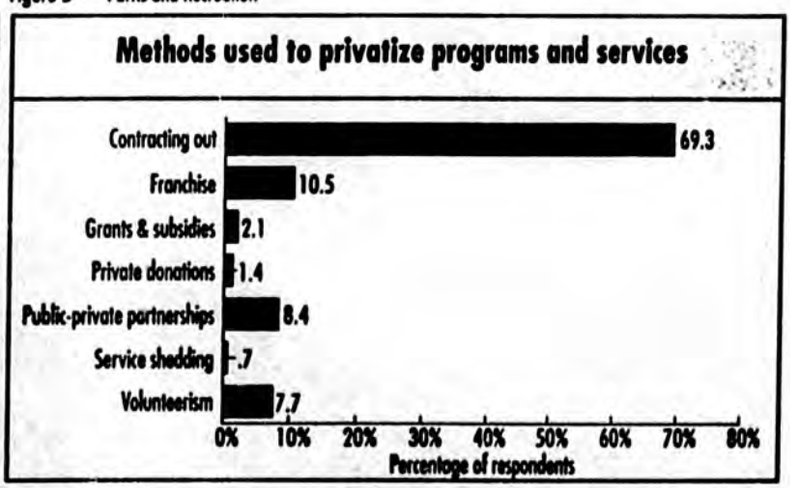


Table 10

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Construction	19	AL, CA, CO, DC, FL, GA, IL, LA, MD, MO, MT, NY, PA, PR, SC, TN, VT, VA, WA	2	HI, OR
Restaurant services	16	CA, CO, FL, GA, IL, LA, ME, MO, MT, NC, NY, OR, PA, PR, VA, WA	1	SC
Marina management	13	CA, CO, FL, IA, MD, MO, NC, OR, PA, SC, TN, VA, WA	5	GA, IL, IN, NE, NY
Golf courses	8	CA, FL, GA, IL, MD, PA, TN, WA	3	LA, NY, SC
Lodging/Resorts	8	CA, GA, IA, IL, MO, NY, OR, WA	2	HI, SC
Maintenance and janitorial services	8	AK, CO, FL, IA, IL, MT, OR, PA	-	
Operation of individual state parks	7	AK, FL, MD, MT, NY, OR, VT	2	IA, SC
Custodial services	6	DC, FL, MT, NC, OR, PA	1	VA
Pools	5	GA, MD, MO, PA, VA	-	
Security services	5	DC, MT, PR, SC, WA	1	GA
Advertising/Marketing	4	AL, LA, MT, VT	3	GA, NY, VA
Grass cutting	4	DC, FL, MD, MT	4	NC, NE, PA, VA
Vehicle maintenance	4	CO, MD, MT, SC	1	GA
Chair lift	2	PA, WA	-	
Operation of state park system	2	ME, VA	-	
Museums	2	CA, ME	1	NY
Talent	1	NY	1	IN
Additional programs and services*	23		3	
TOTALS:	137		30	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Public Safety and State Police

- **Number of responses: 25**
- **States represented: 25**

Most public safety and state police departments did not expand their use of privatization in the past five years – and even less expect to do so in the future. Nine of 25 respondents increased privatization activity in the recent past, and only four plan to privatize more frequently in the next five years (figures A and C).

Whereas 12.3 percent of all agencies reported no privatization activity in the past five years, a full two-fifths of public safety departments privatized no programs or services. In the next five years, the same two-fifths of public safety departments will avoid privatization, compared to 10.3 percent of all agencies.

Few public safety respondents could point to incentives – even potential cost savings – for an increase in privatization (figure B). The 10 agencies that are not privatizing any programs and services blame constitutional or legal barriers (70 percent), uncertainty of cost savings (40 percent), fear of loss of control of service delivery (30 percent) and political leadership's opposition (30 percent).

Most public safety and state police departments (66.6 percent) that provided an estimate privatized less than 5 percent of their programs and services. Another 20 percent privatized between 6 percent and 10 percent, but none privatized more than 15 percent of agency activities. The cost savings estimates reported were typical of all executive agencies: 54.5 percent saved less than 5 percent of their budgets and 18.2 percent saved more than 15 percent.

Figure A — Public Safety/State Police

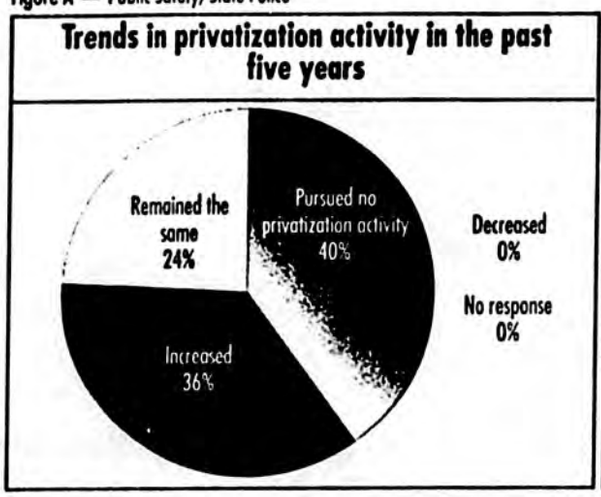


Figure B — Public Safety/State Police

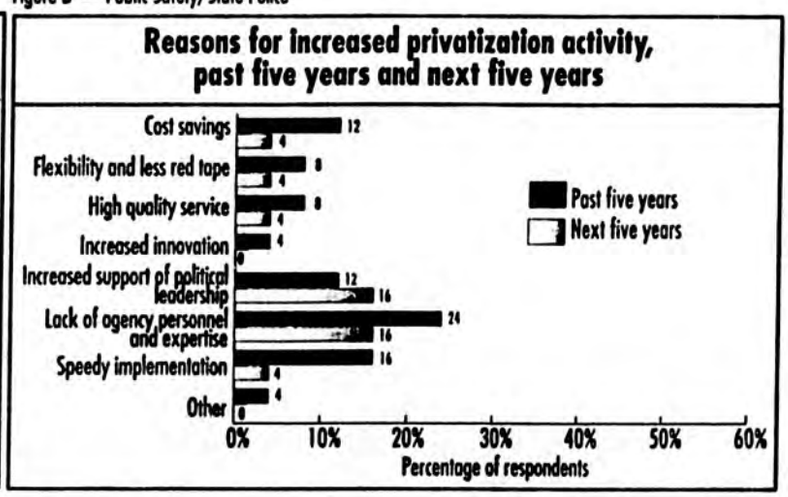


Figure C — Public Safety/State Police

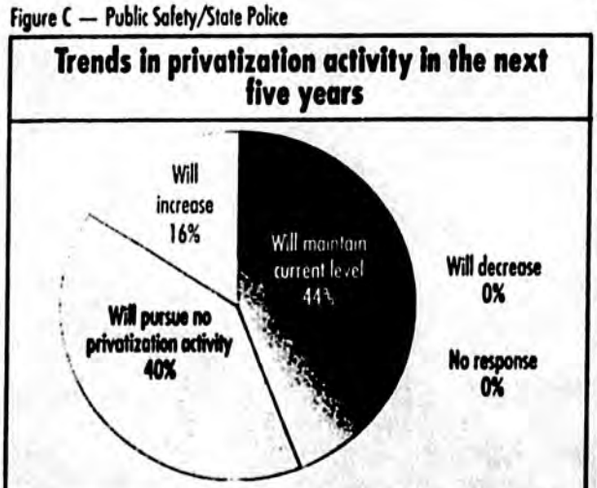


Figure D — Public Safety/State Police

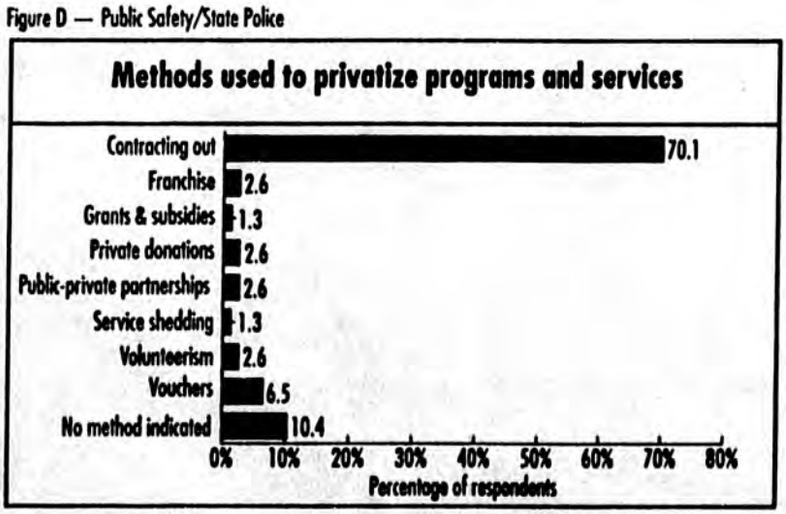


Table 11

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Towing services	12	AR, CT, GU, IL, IN, NC, NE, NH, NJ, SC, VA, WA	-	
Uniform tailoring for new recruits	12	AR, CT, GU, IN, MD, NC, NE, NH, NJ, OR, SC, VA	-	
Consultants/Researchers/Specialists	9	AK, AR, NC, NE, OR, SC, VA, WA, WY	1	NM
Medical services	9	CT, GU, IN, MD, NC, NH, VA, WA, WY	-	
Maintenance	7	AR, CT, IL, IN, MD, NE, NH	1	NM
Aircraft maintenance	5	AR, IL, IN, NH, OR	-	
Hearings reporters	4	AR, NE, WA, WY	-	
Auction services	3	IN, MD, SC	-	
Arbitration services	1	WA	-	
Clerical	1	SC	-	
Examination administration	1	MD	-	
Highway safety marketing	1	SC	-	
Surveying	1	WY	-	
Underground storage tank inspections	1	MD	-	
Additional programs and services*	10		-	
TOTALS:	77		2	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Social Services

- **Number of responses: 28**
- **States represented: 27**

Social services departments were the agencies most likely to raise their level of privatization. More than 85 percent of respondents increased privatization activity in the past five years, and three-quarters expect to continue this trend in the near future (figures a and c). Only one agency reported no privatization activity in the past nor for the next five years.

Social services agencies privatize large portions of their functions. Fifty-three percent privatized more than 15 percent of their programs and services. Actual cost savings from privatization reported by respondents were modest, however. Seventy-six percent of those providing an estimate saved less than 5 percent, and no agency saved more than 15 percent of its budget.

The social services agencies are privatizing more frequently for a variety of reasons. In the past five years, the majority of respondents turned to private providers to fill a need in agency personnel and expertise (figure b). In the next five years, support of political leadership will increase, and expectations of cost savings will be higher.

Social services departments differ from other agencies in how they privatize. First, social service agencies, like health agencies, rely heavily on grants and subsidies as an alternative to contracting out as the method of privatization (figure d). Secondly, most social services respondents (57.1 percent) use a standard monitoring process to evaluate the effects of privatization. Most often, a social services monitoring process establishes specific performance outcomes in the contract or work plan.

Figure A — Social Services

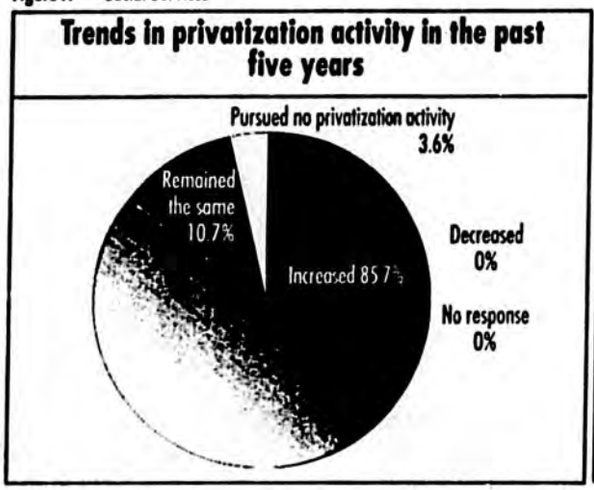


Figure B — Social Services

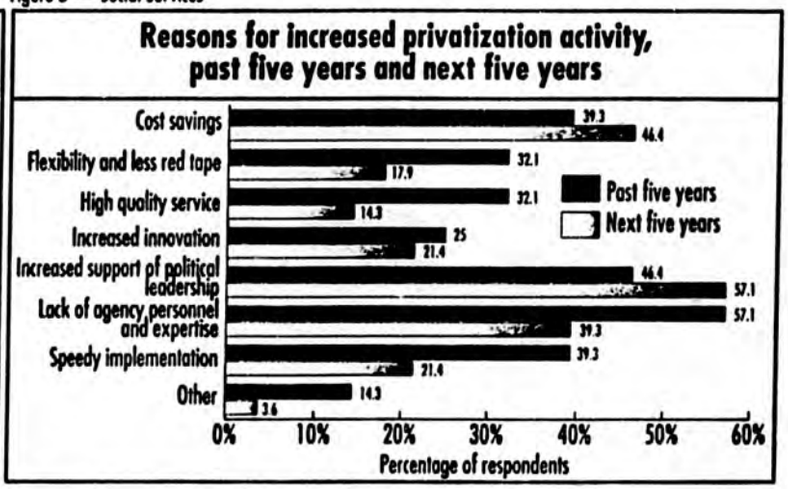


Figure C — Social Services

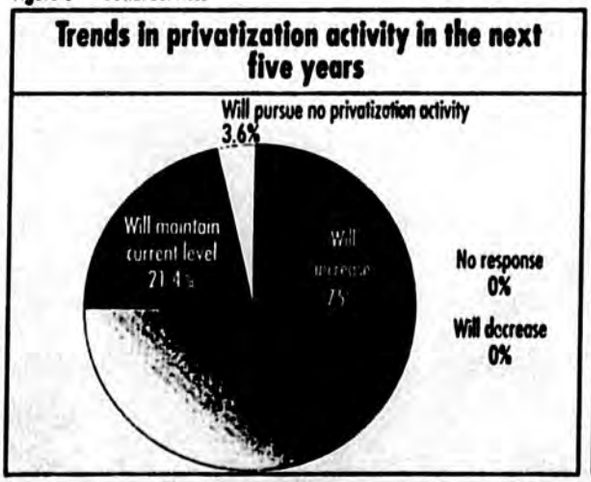


Figure D — Social Services

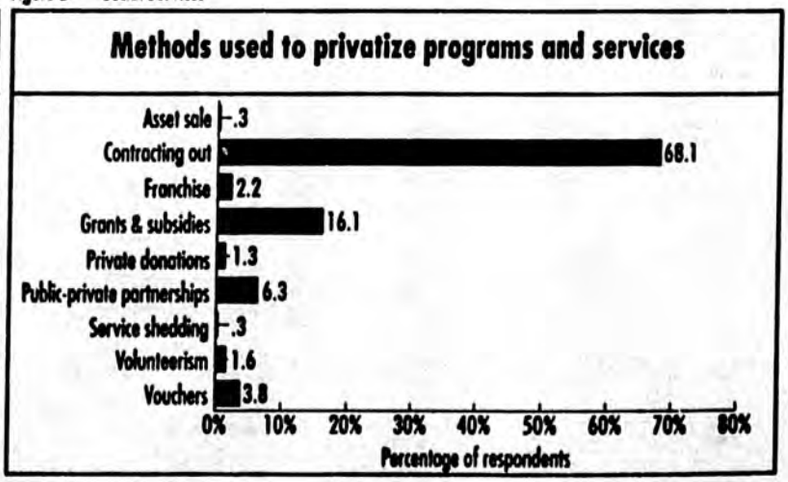


Table 12

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Child care	15	AL, AR, DC, FL, HI, IL, KY, LA, ME, MI, NC, NV, SC, SD, UT		
Consultants/specialists	14	AR, FL, HI, ID, IL, KY, LA, MI, MO, NC, ND, NV, UT, WI		
Independent living support services	14	AK, AR, DC, FL, HI, KS, KY, LA, MI, ND, NE, SC, UT, WI	-	
Food stamp issuance	12	AL, AR, AZ, DC, HI, IL, KS, LA, MI, NC, ND, SC	1	FL
Domestic violence	12	AR, FL, HI, IL, KY, ME, MI, MO, SC, SD, UT, WI	1	NC
Emergency shelters	12	AK, AR, DC, FL, HI, IL, KY, ME, MI, NE, SC, UT	-	
Refugee services	12	AR, CA, DC, FL, ID, IL, KY, ME, MI, ND, NE, SD	-	
Adoption programs	11	AL, AK, FL, HI, KS, KY, MI, MO, NC, ND, NE	2	SC, UT
Day care programs	11	AR, DC, HI, KY, ME, MI, NC, NE, NV, SC, UT	-	
Drug and alcohol treatment	11	AK, FL, HI, ID, IL, ME, MI, NC, NE, SC, UT	-	
Foster care	11	FL, HI, KS, LA, ME, MI, MO, NC, SC, SD, WI	1	UT
Employment services	10	AZ, CA, DC, IL, KS, KY, LA, MI, ND, NV	1	NC
Programs for the elderly	10	AR, HI, KS, KY, MI, ND, NE, SD, UT, WI	-	
Services for disabled	10	AK, FL, ID, KS, LA, MI, ND, NE, UT, WI	-	
Transportation of clients	9	AR, FL, KY, LA, ME, MI, ND, NE, SC	1	DC
Child welfare services	9	AR, FL, HI, ME, MI, MO, ND, UT, WI	-	
Client assessment/evaluation	8	AR, FL, KS, LA, ME, MI, SC, UT	1	NC
Psychological testing	8	AR, FL, HI, KY, LA, MI, SC, UT	-	
Medical claim payments	7	AK, AR, HI, ME, NE, SC, WI	-	
Teen pregnancy prevention	7	AR, IL, ME, MI, NE, SC, UT	1	DC
Child support enforcement	6	AZ, KS, MD, MI, SC, UT	2	DC, [illegible]
Family planning services	6	AR, ME, ND, NE, NV, WI	-	
Legal services	6	AK, FL, KY, MI, ND, SC	-	
Pre-admissions screening	5	AR, KS, ME, ND, NE	-	
Rehabilitation services	5	DC, ID, LA, NE, UT	-	
Weatherization	5	AR, MI, ND, SD, UT	-	
Advocacy services	4	IL, KS, KY, MI	-	
Delinquent youth institutions	4	AR, MI, SC, UT	1	DC
Food services at institutions	4	AK, AR, DC, KS	3	MI, NC, UT
Health maintenance organizations	4	IL, ME, NE, WI	-	
Vocational rehabilitation services	4	DC, HI, LA, NE	-	
Educational services	3	DC, LA, NC	1	MI
Pharmaceuticals	3	AL, AR, NE	1	UT
Welfare services	3	AZ, IL, NV	2	AK, [illegible]
Family assistance management	2	ME, MI	-	
Physician services at state nursing homes	1	AR	-	
Return of runaways	1	MI	-	
Occupational therapy at state nursing homes	1	AR	-	
Additional programs and services*	7		3	
TOTALS:	**287**		**22**	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.

Transportation

- **Number of responses: 42**
- **States represented: 38**

Transportation agencies frequently rely on the private sector to perform their activities. Fifty-seven percent of respondents said their agency privatized more than 15 percent of their programs and services, and another 21.1 percent privatized between 6 percent and 10 percent. Most often, the agencies contracted with private providers of transportation services (figure d).

Saving money was not the main goal of privatizing transportation functions. An average percentage of respondents cited cost savings as a reason to privatize (figure b), but cost savings estimates were not impressive. Of 28 respondents that provided an estimate, only three saved more than 15 percent through privatization, and 19 saved less than 5 percent. Instead, a lack of agency personnel and expertise led transportation agencies to privatize. One respondent explained that private providers have greater access to the modern technologies used in transportation planning.

The trend toward greater privatization in transportation may be leveling off. More than three-quarters of respondents increased privatization activity in the past five years, but 59.5 percent expected future increases (figures a and c). The one respondent that did not privatize any services said that there was public resistance to take on public-private partnerships.

Transportation agencies tend not to privatize systematically. Rather, they privatize on a case-by-case basis (64.3 percent) using a process they created through trial and error (71.4 percent). Roughly 60 percent of respondents used neither a standard process to determine which activities are privatized nor a formal monitoring process to evaluate the effects of privatization.

Figure A — Transportation

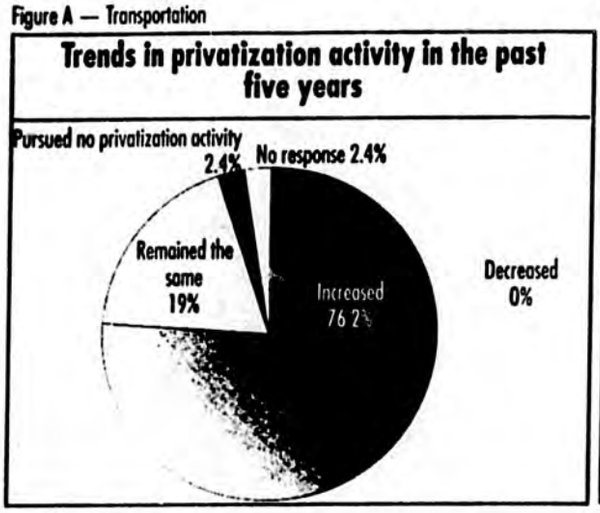


Figure B — Transportation

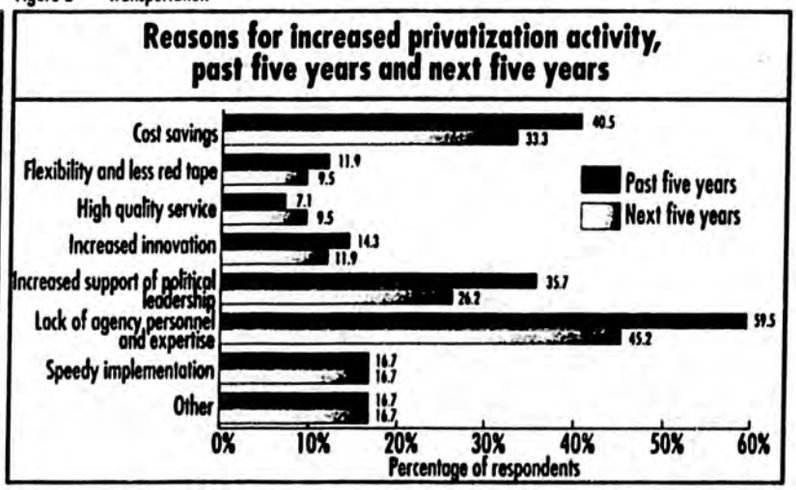


Figure C — Transportation

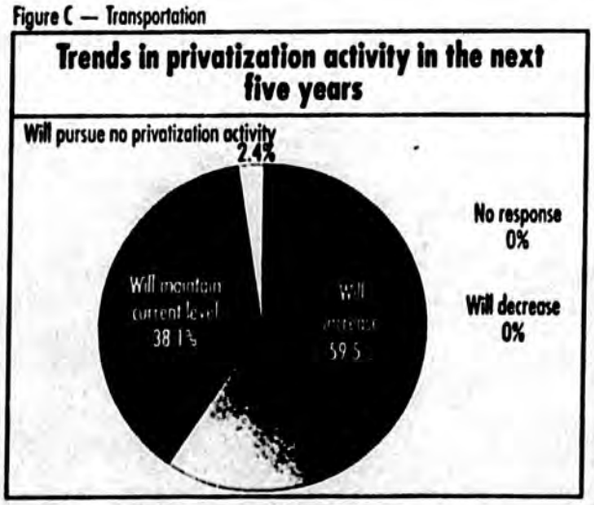


Figure D — Transportation

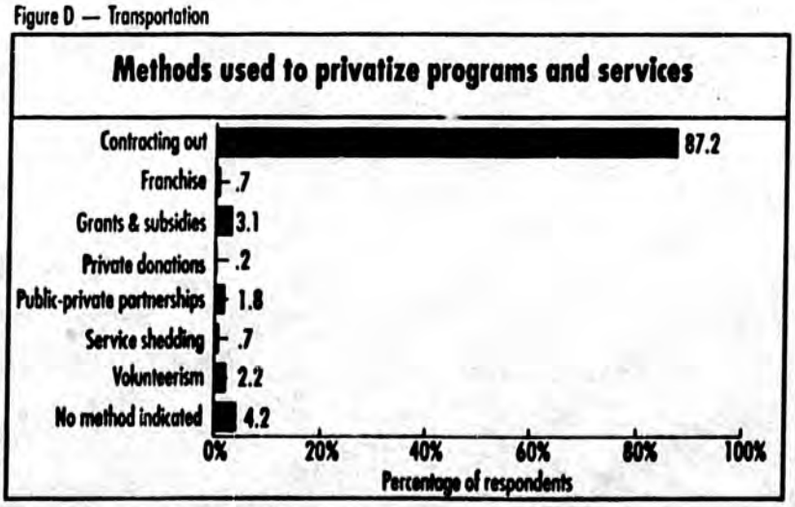


Table 13

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Highway designs	32	AR, CA, CO, CT, HI, IA, IL, KS, KY, LA, MD, MI, MN, MS,MT, ND, NE, NH, NJ, NV, NY, OK, OR, PA, SD, TN, YX, UT, VA, VY, WV, WI	-	
Road and bridge construction	29	AR, CO, CT, DC, HI, IA, IL, KS, KY, LA, MD, MI, MN, MT, ND, NH, NJ, NV, NY, OK, OR, PA, SD, TN, TX, UT, VA, VT, WV	-	
Highway maintenance	27	AR, AZ, CA, CO, CT, IA, IL, KY, LA, MA, MD, MI, MT, NE, NH, NJ, NV, NY, OK, PA, SD, TN, TX, UT, VA, VT, WV	1	DC
Grass mowing	25	AR, AZ, CT, HI, IA, KS, KY, LA, MA, MD, MI, MS, MT, NE, NH, NJ, NV, NY, OK, PA SD, TN, TX, VA, VT	1	IL
Underground storage tank removal	23	CO, CT, HI, IA, IL, KY, LA, MD, MI, MS, NJ, NV, OK, OR, PA, SD, TN, TX, UT, VA, VT, WV, WI	-	
Landscaping	23	CO, CT, HI, IA, IL, KY, LA, MD, MI, MN, MT, NE, NH, NJ, NV, NY, OK, PA, SD, TX, UT, VT, VA	-	
Road maintenance	23	CO, CT, IA, IL, KS, KY, LA, MA, MD, MI, NH, NJ, NV, NY,OK, PA, PR, SD, TN, TX, UT, VT, WV	1	DC
Road striping	23	CO, CT, IL, KS, KY, LA, MD, MS, MT, ND, NE, NJ, NY, OK, PA, SD, TN, TX, UT, VT, VA, WV, WI	-	
Rest area operation and maintenance	22	IA, IL, KS, KY, MA, MD, MI, MN, MS, MT, ND, NE, NH, NV,OK, PA, SD, TN, TX, VA, WV, WI	4	AR, CO, LA, UT
Architectural services	19	AR, CO, HI, IA, IL, KS, MD, MI, MS, MT, ND, NH, NJ, NV, NY, TN, TX, VT, VA	1	NE
Hazardous waste disposal	19	CO, CT, HI, IA, IL, KY, LA, MS, MT, NH, NJ, NV, NY, PA, SD, TN, TX, VT, WI	-	
Inspections	18	CO, CT, HI, IA, IL, KS, KY, LA, MD, MS, NE, NV, NY, OK, PA, TN, VT, WV	2	ND, TX
Equipment repair	17	CA, CO, CT, HI, IA, KS, KY, MA, MD, MI, ND, NY, PA, TN, TX, WV, WI	5	AR, NE, NJ, OK, VA
Materials tests	17	AR, CO, CT, IA, IL, KY, MD, NH, NJ, NV, NY, OK, TN, TX, VT, WV	1	ND
Litter prevention/pick-up	16	AR, AZ, CA, KY, LA, MA, MD, MT, ND, NE, NJ, NV, OK, TN, TX, VA	-	
Public transit	15	AR, CT, IA, IL, KY, MA, MD, MT, NH, NJ, NY, OK, SD, VT, WV	1	WI
Sign manufacturing	12	IA, IL, KY, MD, ND, NH, NJ, NY, PA, TN, TX, WV	-	
Security	11	AR, CA, CT, IA, LA, MD, MS, NJ, OK, TX, VA	-	
Snow removal	11	CT, IA, KY, MD, NH, NJ, NY, OK, PA, SD, VA	1	NE
Bridge rail repair	9	CO, CT, LA, MT, NJ, NY, SD, TX, WV	-	
Railroad maintenance inspections	7	CT, MD, NY, OK, SD, VT, WV	-	
Airports	6	AZ, CT, IA, IL, SD, WV	1	NY
Fleet operations and management	6	CO, IA, MD, NH, TN, WI	5	AR, CA, DC, OK, VA
Draw bridge operation	5	MA, MD, MI, TN, VA	1	LA
Motor vehicle registry	4	MD, ND, NJ, TX	1	OR
Road kill pick up	4	AZ, PA, SD, UT	-	
Shipping ports	2	LA, NY	-	
Toll booth operation	2	VA, CA	1	AZ
Tunnels	2	KY, TN	-	
Map sales	1	MA	1	WI
Additional programs and services*	22		8	
TOTALS:	453		36	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.
Source: CSG survey on privatization in state government, 1997.

Treasury

- **Number of responses: 14**
- **States represented: 14**

Half of the responding treasury departments said that their privatization activity was unchanged in the past five years (Figure A). Five respondents expanded privatization in that period, and two did not privatize at all. These trends will continue in the next five years. Half of respondents will maintain their current levels of privatization activity, four will increase activity, two will not privatize, and one will cut back on privatization projects (Figure C).

Surprisingly, only one agency cited cost savings as a reason to privatize treasury functions in the past five years (Figure B). Many treasury departments sought increased innovation from private providers, and one respondent said that the private sector offered more advanced equipment and computer technology. All five agencies that privatized no activities said their uncertainty of cost savings was the main reason they avoided privatization.

Cost savings from privatized treasury functions were insignificant. Of the seven respondents that provided an estimate, five saved less than 5 percent and two saved between 6 percent and 10 percent. Cost savings may be limited by the treasury departments' tendency to privatize few of their functions. Four respondents privatized less than 5 percent of their programs and services, three privatized between 6 percent and 10 percent, and only one privatized more than 15 percent.

Figure A — Treasury

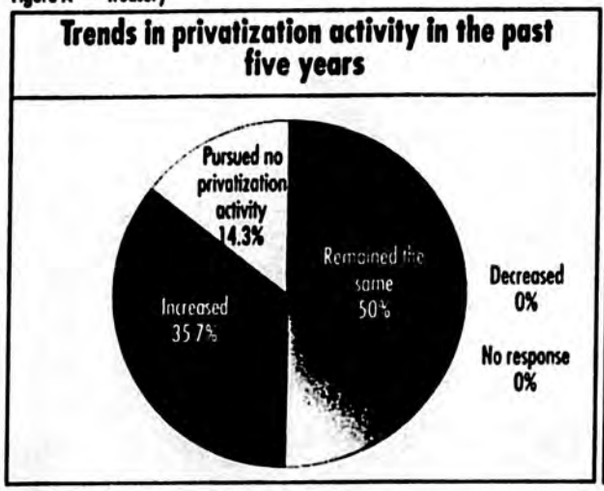


Figure B — Treasury

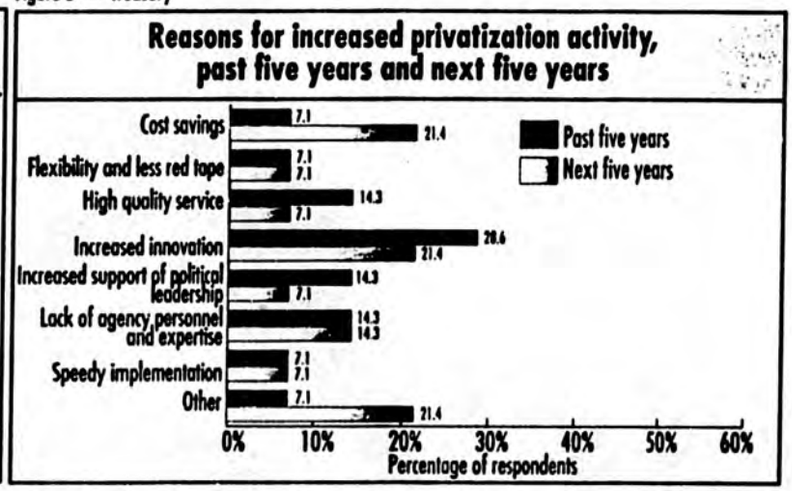


Figure C — Treasury

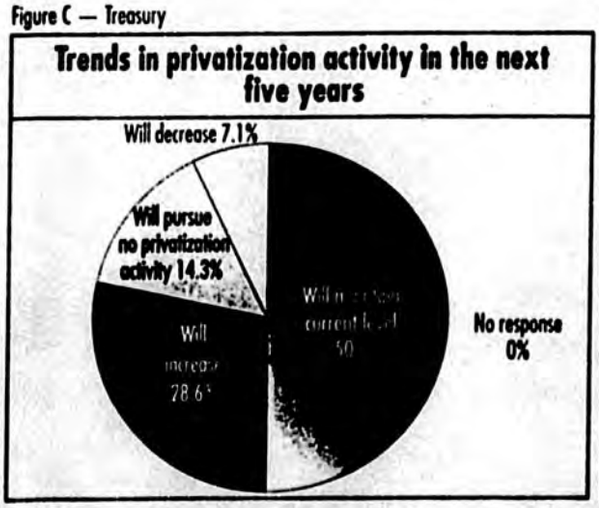


Figure D — Treasury

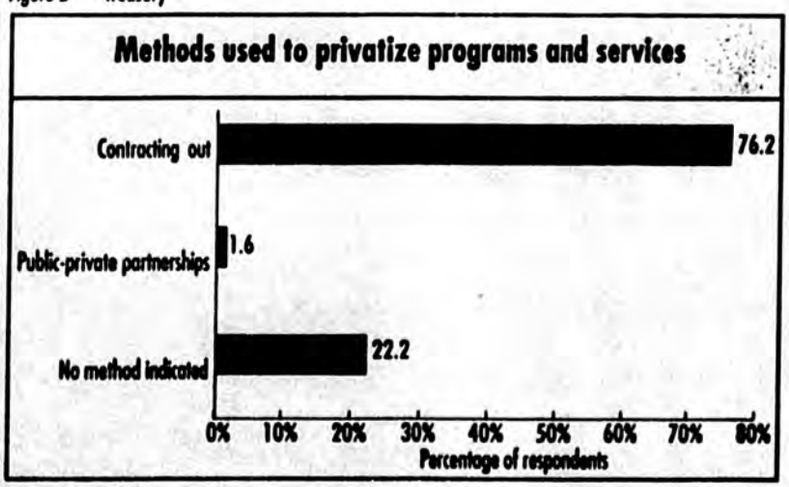


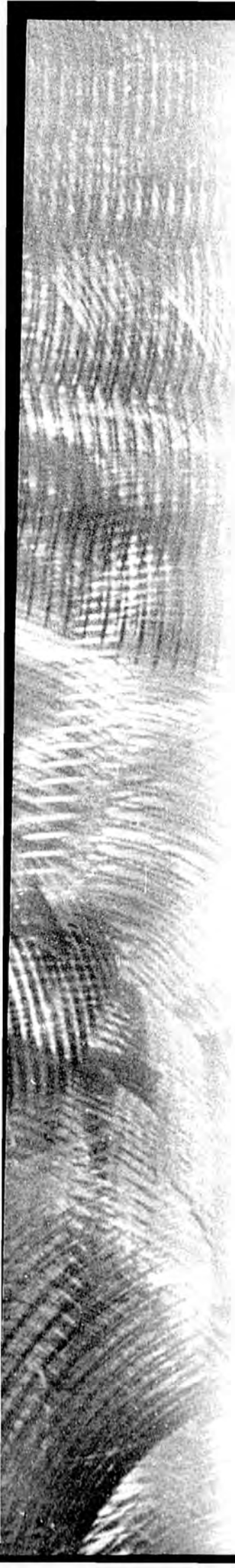
Table 14

Checklist of Privatized Programs and Services
Listed in order of number of responding states privatizing the program or service

	PRIVATIZED		BEING CONSIDERED FOR PRIVATIZATION	
Program/Service	**Number of States**	**States**	**Number of States**	**States**
Banking services	9	LA, MI, MN, MO, NH, RI, TN, WI, WY	-	
Bond counsel	8	LA, ME, MI, MO, NC, NH, RI, WY	-	
Bond underwriters	6	LA, MI, MO, NH, RI, WY	-	
Computer maintenance	6	FL, ME, MI, MN, NC, WY	-	
Professional development training	4	MI, NC, RI, TN	-	
Unclaimed property	4	MI, MO, RI, WI	-	
Bond financing	3	NH, RI, WY	-	
Cash management services	3	NH, RI, WY	-	
Legal services	3	FL, MI, RI	-	
Collection of receivables	2	ME, MI	-	
Delinquent tax collection	2	ME, MI	-	
Expert witnesses	1	MI	-	
Retirement system administration	1	MI	1	RI
Tax receipt processing	1	MI	-	
Title searches	1	MI	-	
Additional programs and services*	9	-		
TOTALS:	63		1	

*Respondents were asked to list programs and services that are privatizated by their agencies but that were not specified on the checklist.

Source: CSG survey on privatization in state government, 1997.



NORTH

Alaska's Asset Portfolio

Managing for Maximum Return

A Commonwealth North Study

December, 1998

Scott Goldsmith
Nancy Bear Usera
Study Group Co-Chairs

Board of Directors

1998 -1999

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About Commonwealth North

The mission of Commonwealth North is to educate its members and all Alaskans on relevant public policy issues and to assist in their resolution. The organization addresses state and national long-term issues and involves leaders from Alaska business, labor, education, public service, and Native community. The goals of Commonwealth North include: strengthening the private sector of Alaska's economy, understanding Alaska's role in the larger world, educating members on major issues affecting our state and nation, and influencing state and national public policy decisions.



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Executive Summary

Introduction

Alaska's financial health depends on the state's achieving a sustainable level of revenue sufficient to meet the needs of the state and its people. The Alaska Statehood Compact anticipated the use of publicly held assets for this purpose. Alaska received 104 million acres from the federal government at the time of statehood in 1959. The purposes for the endowment are set forth in Alaska's Constitution. It mandates that the state's land and resources be used, developed, and conserved for maximum benefit of its people.

If managed effectively, these assets have the potential of producing reliable and stable revenues for the state and providing continued economic benefit to the people of Alaska. This is critical to Alaska's future because no income or other individual tax will ever be sufficient to pay for necessary state services and infrastructure.

Commonwealth North wondered if the state could improve its return on these assets. Accordingly, it established a study group with 32 of its members to "identify and recommend unifying policies and principles to guide management of Alaska's public assets to maximize their return and assure their benefit to the people of Alaska."

The study group specifically looked at land and resource assets as well as the business and financial assets the state has created with its oil wealth over the past 20 years. These are the assets that are available for development and that can generate earnings. The study group did not look at conventional public assets such as public schools, office buildings, and transportation infrastructure.

Assumptions

The study's recommendations are predicated on a set of assumptions that reflect underlying principles for successful management and the operating realities of public sector management. These basic assumptions are:

1. The assets which are derived from Alaska's land-grant should be managed consistent with the Constitutional mandate to maximize their use and benefit to the people of Alaska.

2. The Constitutional prohibition against dedicated funds is recognized as a policy principle which provides that the public interest is served when all state revenues, regardless of source, are available for appropriation by the Legislature to meet Alaska's total needs.

3. There are two types of returns derived from an asset's management: financial and beneficial, and each must directly or indirectly benefit all the people by serving a public purpose.

4. Asset management is most effective within a structure which provides flexibility for maximizing returns while assuring accountability to the state and its people.

5. Performance measures for determining efficiency, results and returns are essential for public accountability.

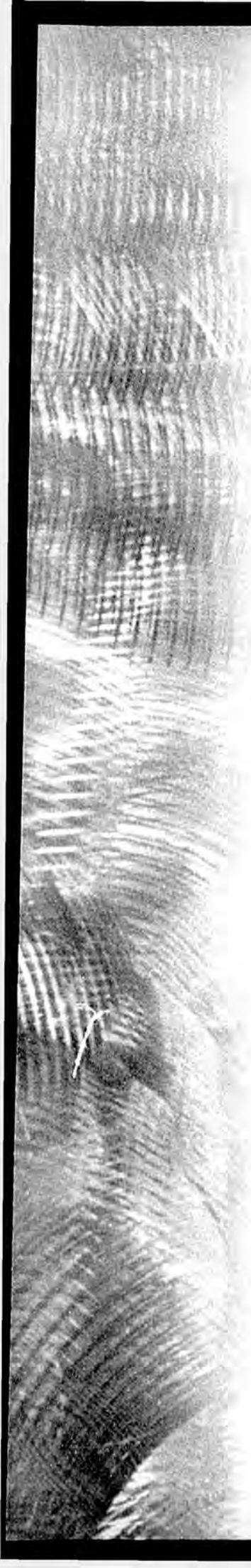
6. Private enterprise should be the first option for obtaining expertise, goods and services to develop public assets. To the extent that public sector programs compete with the private sector, their activities should be priced in a manner which minimizes adverse effects on private sector competition.

7. Maximizing returns for all assets will enhance revenue to the state as well as provide greater diversity and stability of state revenues.

Recommendations

The result of extensive research, interviews, and discussions is a set of five sequential recommendations for enhancing state revenue, assuring public accountability, and maximizing the use of state assets to benefit Alaskans.





1. Clarify Roles and Responsibilities

A. Elected leaders should establish policy and managers should be given authority and flexibility to implement those policies.

B. Assets available for development should be managed independently of the organizational authority responsible for promulgating regulations affecting the development of that asset.

C. Activities to develop assets and produce returns, to the fullest extent possible, should be carried out by, or in partnership with, the private sector.

2. Measure and Disclose Performance

A. Management performance and agency operations should be measured based on meeting mission, efficiency and financial objectives.

B. Three types of performance measures should be adopted to evaluate management of each asset:

1. Appropriate efficiency measures to evaluate the cost of operations.

2. Measures that show the organization's results in meeting its statutory mission.

3. Quantifiable measures that state the monetary value of the asset's beneficial and financial returns.

C. Financial and operational performance based on these measures should be reported to the public annually, for each asset under management, using consistent accounting and reporting standards.

3. Manage Assets as a Portfolio

A. The state should strategically manage its assets in a manner that provides for an integrated assessment of risk, potential return, debt, market conditions and cross investment opportunities.

B. Financial and beneficial returns on all assets under state management should be annually reported to the public on both an aggregated and individual basis using consistent accounting standards.

C. The portfolio of assets should be used strategically to achieve long-term sustainable revenue and return objectives.

4. Pay Returns to the General Fund

A. To the extent that financial returns exceed the need for efficient operations, beneficial returns and appropriate capitalization as determined by the Legislature, they should be deposited into the state Treasury for allocation by the Legislature based on the state's overall priority needs.

B. Every asset management organization should have an expectation to contribute a financial return to the state General Fund based on a formula appropriate to its activities and maturity.

5. Create a System to Achieve These Recommendations

A. Establish an integrated system of portfolio management which oversees, monitors and reports asset management performance on an aggregated basis.

B. Incorporate state owned natural resources available for development into the state asset management portfolio.

Conclusion

It is in every Alaskan's interest to participate in developing a sustainable system for funding government that is adequate to fulfill the state's obligations. Income taxes, or other methods of individual taxation, will never be sufficient to meet Alaska's financial needs and responsibilities. The responsible development, use and management of Alaska's assets are the only means of achieving this goal.

Fortunately, Alaskans already have considerable experience with successful models for state asset management, and must capitalize on those successes. Our purpose in setting forth these recommendations is to stimulate a public dialog on the goals of public asset management and the best means of achieving those goals.

Background and Current Condition

Alaska received 104 million acres from the federal government at the time of statehood in 1959. The purpose for the endowment was to provide an economic base for the development of the state and to provide the revenues necessary to operate the new state.

The policy of the state, reflected in its Constitution, is to use, develop, and conserve this land and its resources consistent with the public interest for the maximum benefit of its people (Sections 8.1 and 8.2):

8.1. It is the policy of the state to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.

8.2 The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and waters, for the maximum benefit of its people.

The economic history of Alaska since statehood has been largely driven by the development of its petroleum resources, first in Cook Inlet and later on the North Slope. The development of the state's petroleum reserves has resulted in a flow of revenues that has paid virtually the entire cost of operating government and building the physical infrastructure to meet the state's needs.

However, recognizing that petroleum is a depleting resource, the state has invested a large portion of the revenue from oil in other, renewable assets with earnings potential. Although the Alaska Permanent Fund is the largest and best known of these, there is an entire portfolio of financial and real assets derived from the transformation of oil. For example, the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority were both capitalized with oil revenues. Additionally, Alaska continues to hold a wealth of other resource reserves available for revenue generation through responsible development.

Although oil continues to be the dominant natural resource industry in the state, production has been declining since 1988, and revenues from oil are no longer sufficient to provide for all the needs of state government. Oil revenues will continue to be an important source of state revenues for the foreseeable future. However, the state must increasingly generate other revenues to take their place to provide a stable fiscal future.

The Permanent Fund has become the focus of public attention because it is Alaska's largest asset and because it pays a return directly to all Alaskans. But we cannot overlook the other assets in the state's portfolio that can also make a significant contribution to the state's economic welfare.

To maximize the return from these assets, they must be managed strategically and efficiently. The state has considerable experience with successful models for state asset management. However, the question was posed whether there is room for improvement. Accordingly, Commonwealth North formed a study group from its membership to explore the answers to this question and commended it with a charge to meet specific goals.



The Charge and Goals

The Charge

Commonwealth North's board of directors asked the study group **to identify and recommend unifying policies and principles to guide management of Alaska's public assets in order to maximize their return and assure that they benefit the people of Alaska.**

The Goals

The goals of the study are:

- To encourage and contribute to a public debate about the appropriate management principles applicable to Alaska's public assets;
- To produce a statement defining public expectations for management and return on Alaska's assets; and
- To recommend appropriate business management principles that can be used compatibly with government's obligations to protect the public interest.

Approach and Methodology

Thirty two Commonwealth North members participated in this study through a series of meetings, discussions and research assignments over a period of six months. Recognizing that a detailed investigation of all state assets was beyond its capabilities, the study group adopted the following guidelines:

1. The study group will evaluate general principles (not the specifics) of the management of Alaska's public assets.

2. The study group will develop a statement of general policy, principles, priorities and recommendations for the improved management of Alaska's public assets.

3. The study will be successful if it encourages and contributes to the public awareness of, and debate about, the appropriate overall management objectives applicable to Alaska's public assets.

The study group limited its investigation to Alaska's land and resource holdings received at the time of statehood, as well as the business and financial assets created with the state's oil wealth. This represents the portfolio of assets available for development and for the generation of earnings to benefit all Alaskans. Excluded from review were the conventional public assets used in the delivery of standard public services such as public schools, office buildings and transportation infrastructure.

Assets in the following agencies were identified:

State Resource Agencies

- Land, Real Estate
- Fish and Game
- Minerals
- Oil and Gas
- Timber

Business Management Agencies

- Marine Highway System
- International Airport System

Independent Agencies

Created in Statute/Boards Appointed by Governor

- Alaska Permanent Fund Corporation
- Alaska Railroad Corporation
- Alaska Housing Finance Corporation
- Alaska Industrial Development and Export Authority
- Alaska Science and Technology Foundation
- Alaska Aerospace Development Corporation

Independent Support Service Agencies

- Alaska Tourism Marketing Council
- Alaska Seafood Marketing Council
- Alaska Student Loan Corporation
- Alaska Mental Health Trust Authority

Five sub-groups were formed to investigate various categories of assets: financial assets; transportation; land; natural resources; and research, development and support activities.

The study group then adopted the following study plan:

Task 1: Gather information

Each sub-group collected information on as many assets as possible, using a standard format. This included information on the management structure of the agency in control of the asset, its mission and goals, its fiscal structure, reporting requirements, methods of evaluation, decision-making process, and planning and projections. (Report addendum available upon request from Commonwealth North.)

Task 2: Management interviews

Each sub-group engaged in a series of discussions with current and former asset managers. These discussions were used not only to collect information on current management practices but also to investigate what works, what does not work, and what improvements could be made in current practices.

Task 3: Determine findings

Based on information and interviews, each sub-group developed a list of preliminary findings covering management practices of the agencies reviewed. This list was synthesized as a result of a series of discussions among all study group members.

Task 4: Develop recommendations

Based on the findings, the entire study group developed a set of recommendations for management of public assets.

Defining Concepts

Critical to the review was reaching a common understanding of certain basic terms and concepts.

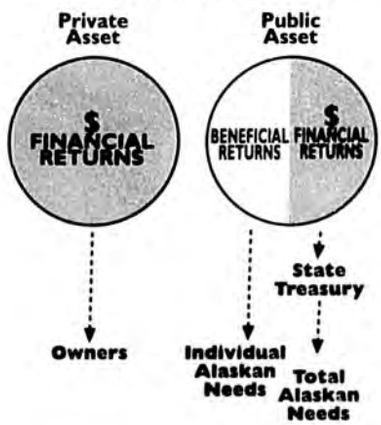
Returns on public assets

In a review of public assets, the concept of "returns" takes on a broader meaning than merely the financial bottom line. In fact, the use of public assets results in two distinct types of returns: financial and beneficial. They are mutually exclusive, but each directly affects the other. Both are intended to satisfy a public purpose.

Financial returns are paid to the Treasury and then appropriated to meet the state's needs. They directly contribute to the state's solvency. Through the appropriation process, these returns are also used to sustain management operations.

Beneficial returns benefit individuals directly through program subsidies, or indirectly through the multiplier effect of job creation and business activity. Beneficial returns serve a public purpose by providing goods and/or services otherwise unavailable or unaffordable to meet a perceived public need. But beneficial returns are not free. They are achieved by a reduction in the financial return potential.

RETURN ON ASSETS



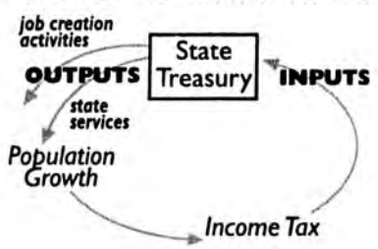
The Alaska Disconnect

The concept of economic development as a public purpose frequently surfaces in evaluating beneficial returns. Clearly, customers, vendors, contractors and others benefit when the state uses its assets for business activity. However, unlike revenue structures in virtually all other states, this business activity does not produce a financial return to the state from personal income tax revenues.

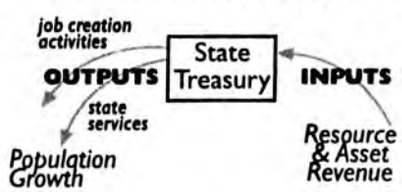
Consequently, the state's expenditures to promote economic development, while laudable, do not produce a direct return on investment. This "Alaska Disconnect" presents a paradox. The more jobs created, the greater the population growth–which results in greater demand for government infrastructure and programs. The demand for government services, including education, creates a need for greater revenue with no off-setting funding source.

This phenomenon points out the dramatic need to evaluate the cost of beneficial returns. Determining their value provides a means for measuring beneficial returns against the potential for financial return which could be used to help fund state services.

TYPICAL STATE REVENUE GENERATION



ALASKA DISCONNECT



Mission Creep

Most asset development agencies have a mission statement embedded in their authorizing statute. Over time, the activities, priorities and operation of these agencies will normally evolve due to changing needs and outdated programs. This can result in inconsistencies between the agency's activities and its stated mission.

Frequently, however, agency priorities will be driven by other factors that divert resources and interfere with an agency's ability to achieve its mission. These factors can include engaging in activities for which there is additional funding available, or responding to political pressure to participate in specified activities. The result can be performance tied to these external factors, rather than to the agency's primary mission. We call this diversion away from mission direct activities "mission creep".

TOTAL MANAGEMENT RESOURCE



Assumptions

To evaluate Alaska's current system of asset management, it is important to begin with a common understanding of management standards and performance expectations. The study group used the following assumptions as the basis for its analysis.

1. The assets derived from Alaska's land grant should be managed consistent with the Constitutional mandate to maximize their use and benefit to the people of Alaska.

2. The Constitutional prohibition against dedicated funds is recognized as a policy principle which provides that the public interest is served when all state revenues, regardless of source, are available for appropriation by the Legislature to meet Alaska's total needs.

3. There are two types of returns derived from an asset's management: financial and beneficial. Each must directly or indirectly benefit all the people by serving a public purpose.

4. Asset management is most effective within a structure that provides flexibility for maximizing returns while assuring accountability to the state and its people.

5. Performance measures for determining efficiency, results and returns are essential for public accountability.

6. Private enterprise should be the first option for obtaining expertise, goods and services to develop public assets. To the extent that public sector programs compete with the private sector, they should be priced in a manner which minimizes adverse effects on private sector competition.

7. Maximizing returns for all assets will enhance revenue to the state, and provide greater diversity and stability of state revenues.

Findings

The study group reviewed Alaska's asset management practices to reach an understanding of the public operating environment and conditions affecting return on assets. The findings listed below describe existing circumstances. Not all findings apply to all agencies or assets. However, each of the findings represents a condition that materially contributes to the state's ability to produce returns and develop its assets.

The findings are statements of fact as perceived by the study group. Most, if not all, of the findings can be interpreted either positively or negatively, depending on the reader's point of view.

Mission and Goals

1. Vague statutory mission statements result in broad and often inconsistent interpretations.

2. Goals are frequently defined by activity rather than by returns.

3. Missions may be adapted because of funding, political prioritization, and short-term expediency, which results in mission creep.

4. The public's interests are not clearly defined or reported.

Performance Standards and Accountability

1. There is no monetary value assigned to or reported on beneficial returns.

2. Performance measures, where they exist, are often tied to activities rather than to mission or returns.

3. There is no standard format for reporting operational costs and benefits returned.



Structure

1. Regulatory and asset management functions within a single agency are often incompatible for achieving optimum results.

2. Operational mandates created in statute and regulation do not allow for the flexibility necessary to efficiently adapt to evolving missions and priorities.

3. Independent agencies have greater flexibility than executive branch departments in operations and funding.

4. Assets are managed independently, with no portfolio integration that would ensure diversification of risk and return, compatibility in objectives, performance standards and measures, and coordination of activities and reporting.

Management

1. The state's annual budget process does not provide effective integrated review of asset management, does not promote a long-term view of returns, and instead focuses on operational activity as opposed to results.

2. The vagaries of the annual appropriation process and the volatility of state general fund revenues influence asset development potential.

3. Availability of, and access to, alternative funding sources influence operational activity.

4. Politicization of management appointments creates personnel turnover, which impairs continuity and returns.

5. There are few management or budgetary incentives for maximizing returns.

6. Long-term plans, and the accumulation of capital to meet long-term needs, may be used for political purposes, which creates a disincentive for strategic asset management.

7. Special interests significantly influence returns and allocation of returns.

Recommendations

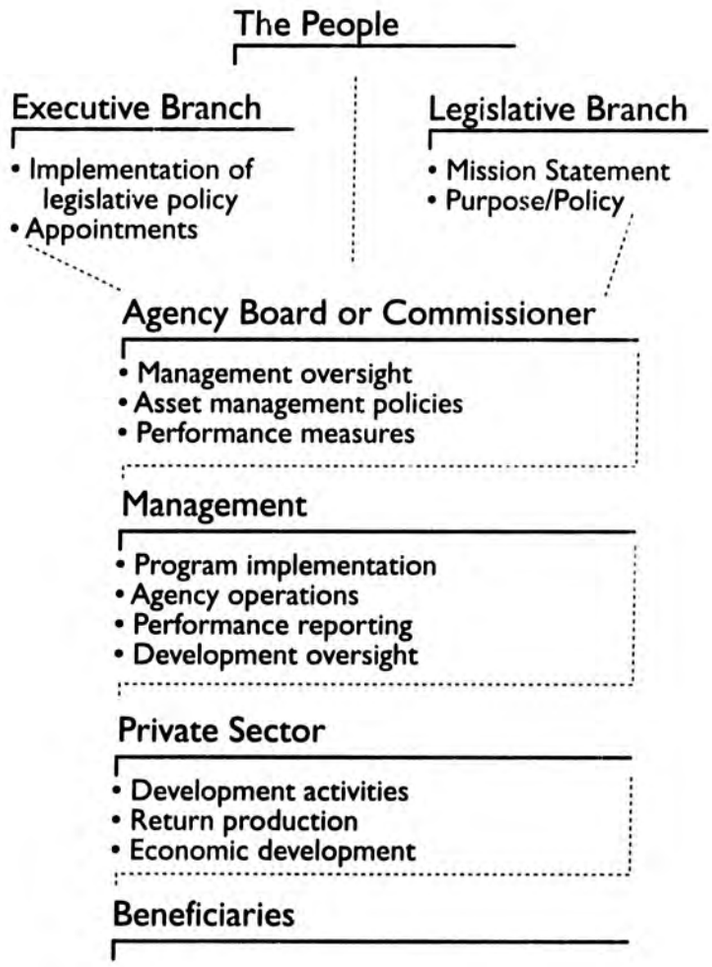
After considerable debate, Commonwealth North offers the following recommendations to Alaskans for their consideration. The recommendations are progressive–that is, each builds on the previous ones toward a more effective asset management system.

1. Clarify Roles and Responsibilities

A. Elected leaders should establish policy, and managers should be given authority and flexibility to implement those policies.

B. Assets available for development should be managed independently of the organizational authority responsible for promulgating regulations affecting the development of that asset.

C. Activities to develop assets and produce returns, to the fullest extent possible, should be carried out by or in partnership with the private sector.



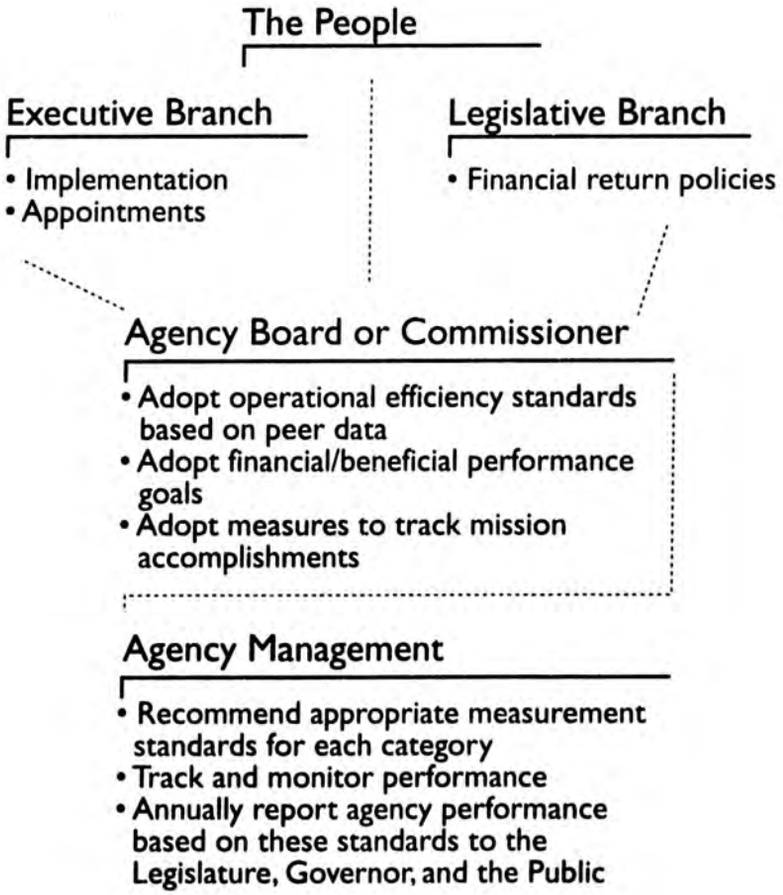
2. Measure and Disclose Performance

A. Management performance and agency operations should be measured based on meeting mission, efficiency, and financial objectives.

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1. Appropriate efficiency measures to evaluate the cost of operations.
2. Measures that show the organization's results in meeting its statutory mission.
3. Quantifiable measures that state the monetary value of the asset's beneficial and financial returns.

C. Financial and operational performance based on these measures should be reported to the public annually for each asset under management, using consistent accounting and reporting standards.

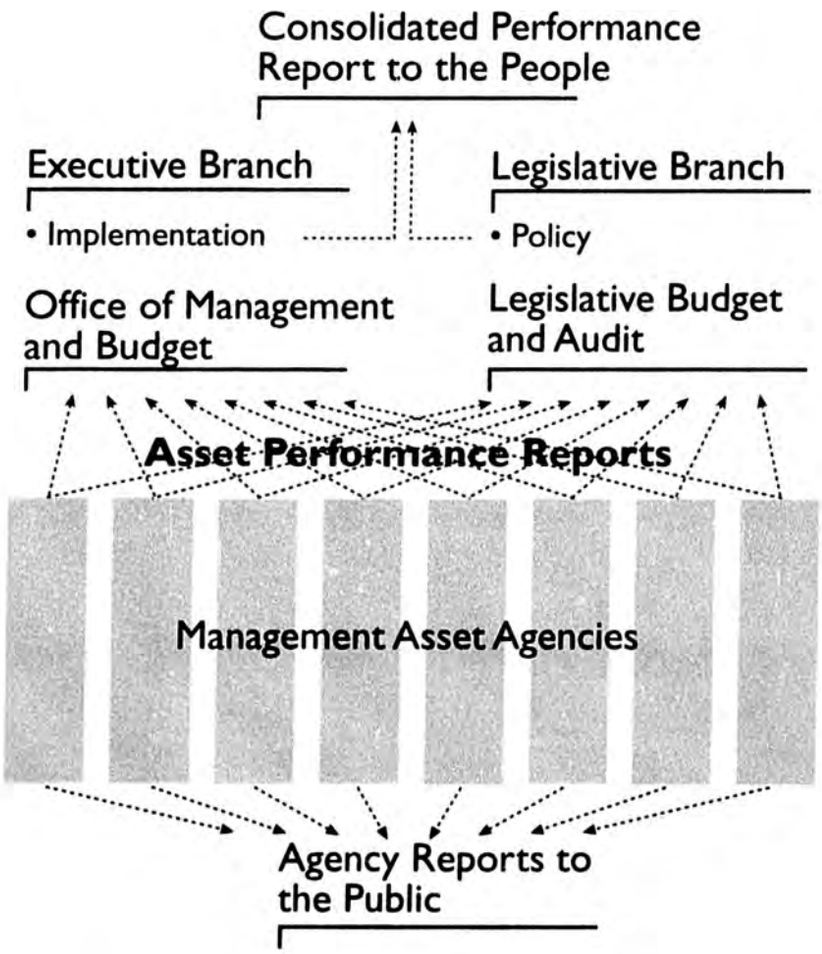


3. Manage Assets as a Portfolio

A. The State should strategically manage its assets in a manner that provides for an integrated assessment of risk, potential return, debt, market conditions and cross investment opportunities.

B. Financial and beneficial returns on all assets under state management should be annually reported to the public on both an aggregated and an individual basis using consistent accounting standards.

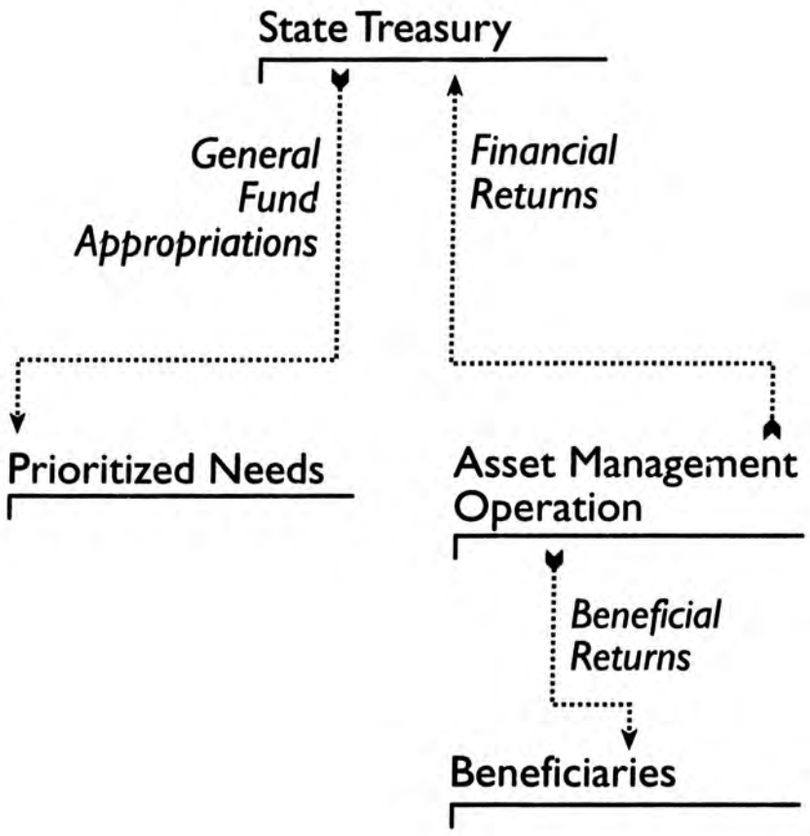
C. The portfolio of assets should be used strategically to achieve long-term sustainable revenue and return objectives.



4. Pay Returns to the General Fund

A. To the extent that financial returns exceed the need for efficient operations, beneficial returns, and appropriate capitalization as determined by the Legislature, they should be deposited into the State Treasury for allocation by the Legislature based on the State's overall priority needs.

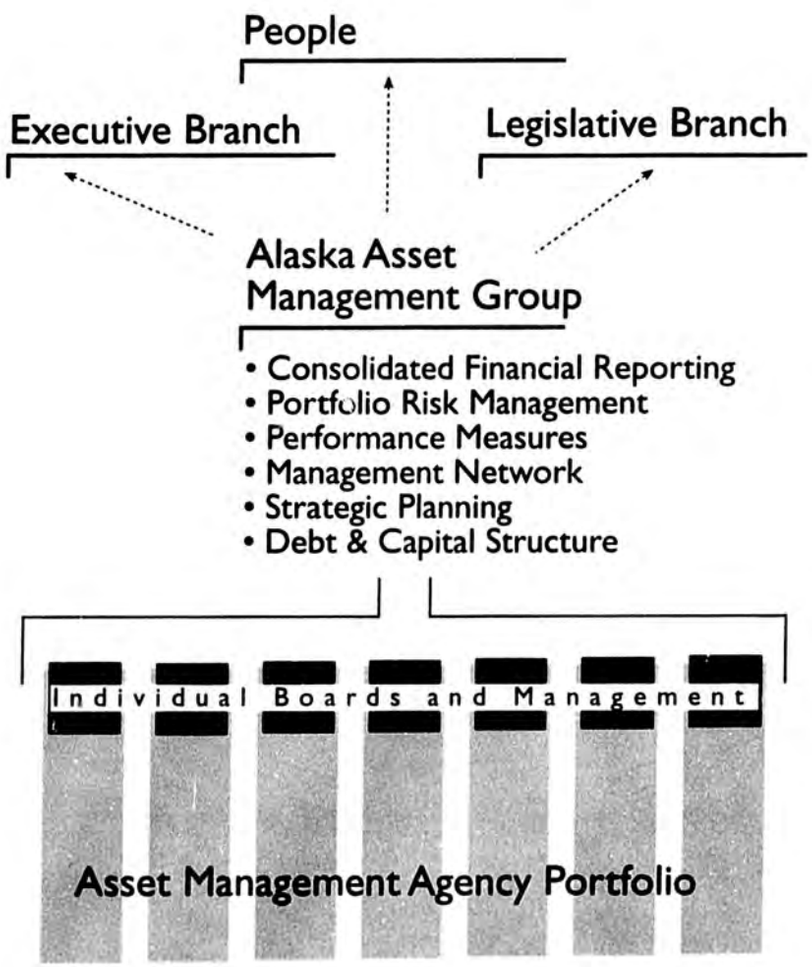
B. Every asset management organization should be expected to contribute a financial return to the State general fund, based on a formula appropriate to its activities and maturity.



5. Create a System to Achieve These Recommendations

A. Establish an integrated system of portfolio management which oversees, monitors, and reports asset management performance on an aggregated basis.

B. Incorporate state-owned natural resources available for development into the State asset management portfolio.



Conclusion

It is in every Alaskan's interest to participate in developing a sustainable system for funding government that is adequate to fulfill the state's obligations. Income taxes, or other methods of individual taxation, will never be sufficient to meet Alaska's financial needs and responsibilities. The responsible development, use and management of Alaska's assets are the only means of achieving this goal.

The Alaska Constitution directs that all these state assets be used for both the development of the state and the maximum benefit of the people. This means that Alaska's assets, both those created by the transformation of oil and those received as an endowment at the time of statehood, must increasingly contribute to Alaska's economic welfare. The state can accomplish this goal by generating earnings that provide both financial and beneficial returns. Financial returns paid into the General Fund will help pay the necessary costs of public services for the benefit of all Alaskans. Beneficial returns will help achieve the targeted public purposes identified for each asset.

Fortunately, Alaskans already have considerable experience with successful models for state asset management, and must capitalize on those successes. Our purpose in offering these recommendations is to stimulate a public dialogue on the goals of public asset management and the best means of achieving those goals.

Acknowledgements

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We particularly appreciate the contributions of former and present state asset managers who generously shared their time and perspective. Thanks also go to the Commonwealth North staff and the Hartig Fellow who aided considerably in the completion of this report.

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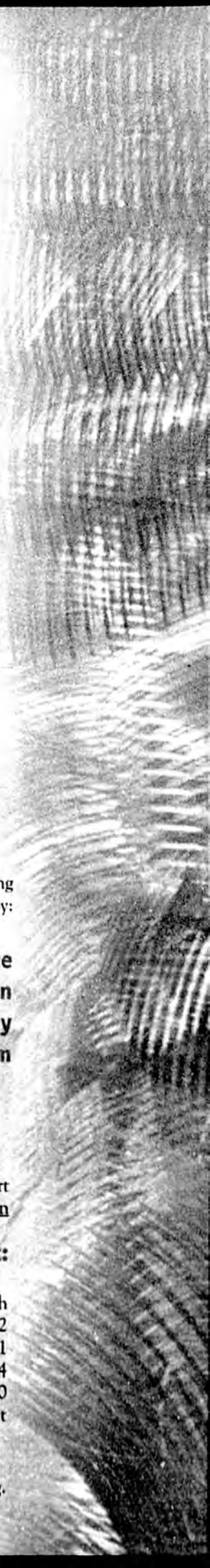
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Privatization 98

12th Annual Report on Privatization

Reason Public Policy Institute

Reason Public Policy Institute

STATE-LEVEL PRIVATIZATION

Trends

The Council of State Governments released an extensive survey of the use of privatization by state governments. The trends shown in the survey are revealing—more than half of the states have increased privatization over the last five years and plan to expand privatization over the next five years (see Figures 1-4). In most states, privatization is widespread across the services the states provide. Seven states have privatized more than 100 services and another 14 have privatized more than 50 services (see Figure 1-5).

The reasons for privatization are also revealing. Although saving money was still the dominant reason, other considerations—such as flexibility, speed, and innovation—were also very important. This conclusion is reinforced by the results of survey questions about cost savings. Few government agencies really know what it costs them to deliver services in-house, so they have difficulty calculating how much they save when services are provided privately. This might explain why less than half of those surveyed could provide savings estimates. Of those providing an answer, most reported savings of 5 percent or less; only 20 percent reported savings of more than 10 percent.

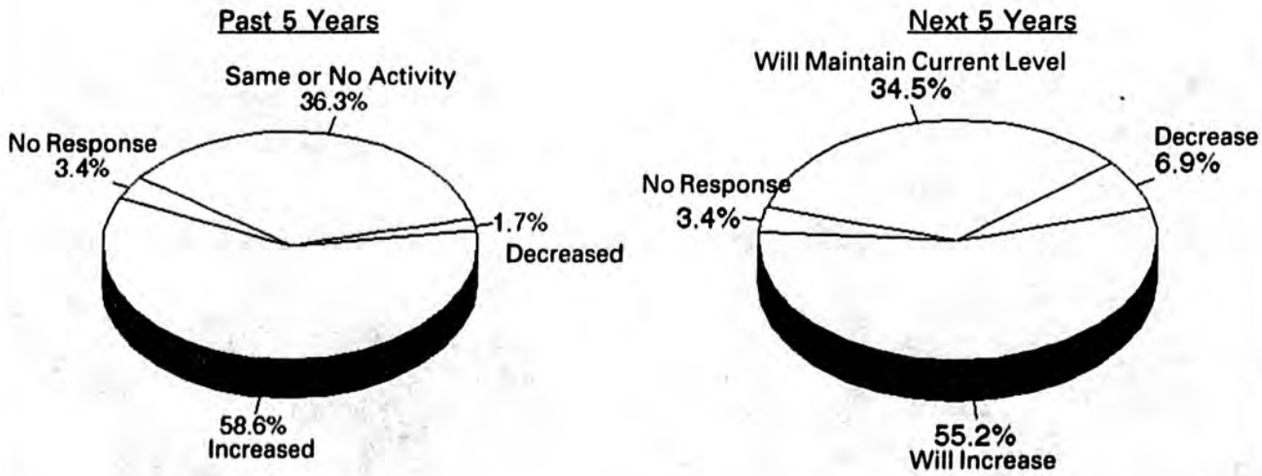
Programs

The states were not hotbeds of privatization activity or innovation in 1997. Few significant initiatives appeared, and even fewer made any noticeable progress. **Connecticutt** Gov. John Rowland proposed privatizing several government functions, but his plans are still in the works (see box). **Colorado, Delaware, and Hawaii** each saw privatization reports or proposals, but no significant legislative followup.

In **Georgia,** Gov. Zell Miller's two-year-old Commission on Privatization of Government disbanded after claiming it had helped change the culture of state government and had launched projects that will save taxpayers millions. The responsibility for privatization projects will shift to state agency heads, under supervision of the governor's Office of Planning and Budget. According to commission chairman George Israel, "[This] is not the end of Georgia's privatization effort, only the beginning. State agencies have changed the way they think."

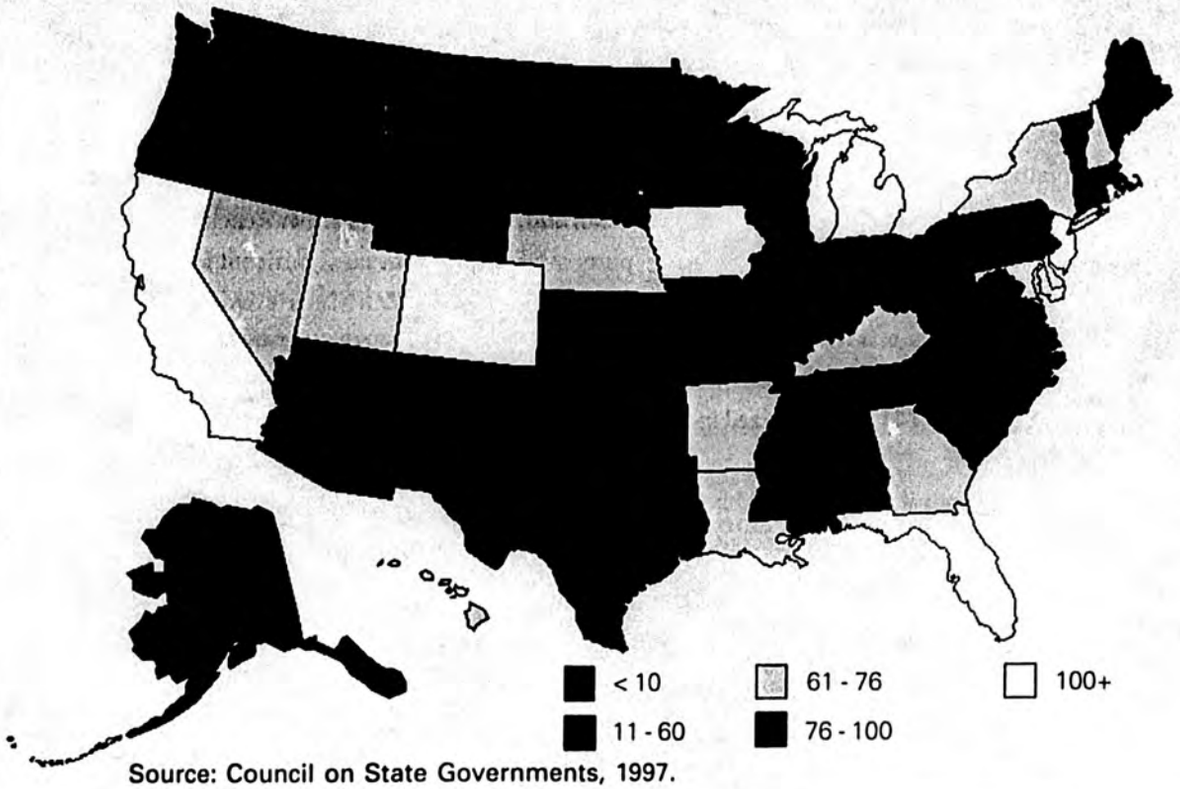
There were two key developments in 1997. In **Illinois,** the State Comptroller joined with Western Illinois State University to create the Center for Competitive Government. The center's mission is to conduct cutting-edge research demonstrating how to manage local government more effectively through privatization. They are already well on their way, having performed a comprehensive survey of the use of

Figure 1-4: State Privatization Trends



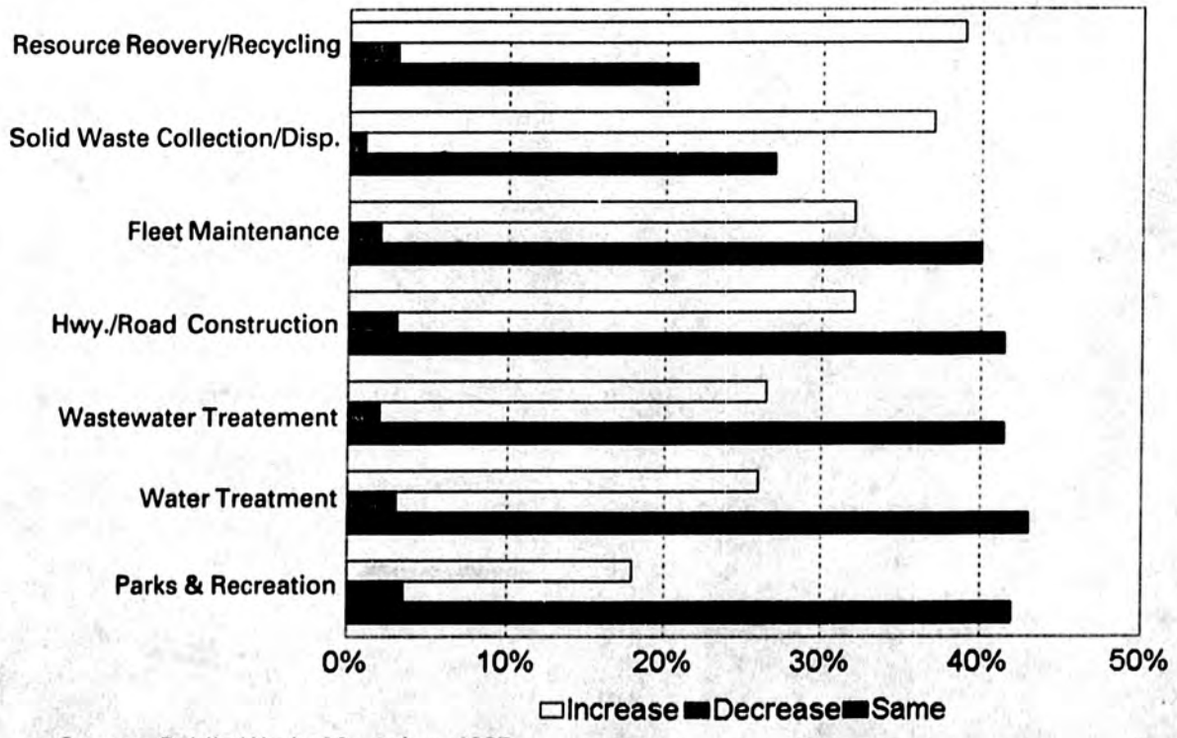
Source: CSG survey on privatization in state government, 1997.

Figure 1-5: Number of State Services and Functions Reported as Privatized



Source: Council on State Governments, 1997.

Figure 1-6: Projected Privatization Trends in Municipal Public Works



Source: *Public Works* Magazine, 1997.

Connecticut Privatization Proposals

Gov. John Rowland has proposed that the state of Connecticut privatize a number of government functions, including:

- *Data Processing:* One private service would replace the state's fragmented system. Estimated savings: $50 million per year.
- *Homes for the Mentally Retarded:* Operation of 22 group homes would be turned over to the private sector. Estimated savings: $1.6 million per year.
- *Health Services:* Competitive bidding of pharmaceutical care and contract health care for low-income and indigent patients. Estimated savings: $25 million per year.

The governor has also proposed privatization of child-support collection and some functions of the motor-vehicles department, but will face opposition from Democratic legislators and labor unions.

privatization in the state's municipalities, down to the smallest towns. The center used that information to publish *Competition for City Services: Has the Time Arrived?* This study details the trends of privatization in small communities, and highlights many key lessons learned. Director Robin Johnson's plans for 1998 include developing case studies of successful privatization efforts and practices by municipal and county governments in Illinois.

And **Virginia** continues to have perhaps the most cutting-edge state initiatives. Building on successful programs that have saved the state over $100 million, the Commonwealth Competition Council devised an initiative to make employee ownership plans part of the state's privatization program. Based on the council's recommendation, the state House and Senate passed a joint resolution supporting the use of ESOPs "to convert appropriate government functions to the private sector...."

The council followed up on the resolution with detailed research and issued a report, *Methods to Privatize Appropriate State Government Functions Through the Development and Promotion of Employee-Owned Companies (ESOPs).*

Privatization in Small Towns

Important survey evidence on privatization trends at the local level was released in 1997. *Public Works* magazine surveyed its readers, most of whom are public-works officials, on privatization trends in 1997 (see Figure 1-6). The survey results clearly reflect a growth trend, particularly in solid-waste management and vehicle-fleet and road maintenance.

More significant, though, was the release of a survey of towns and villages in Illinois that captures better than other surveys the story of privatization in small towns. The survey, conducted by the Illinois Center for Competitive Government, covers 516 cities and villages—of which almost 200 have fewer than 1,000 residents and more than 300 have fewer than 5,000 residents. We know of no other privatization survey with such a large sample of very small towns.

Ilinois Small Towns Survey

Not every state will have the same privatization trends going on in its small towns, but it seems likely that the trends revealed in this Illinois survey are indicative of trends across the nation.

Extent of Privatization. The Illinois survey showed that the motives for privatization differ significantly with the size of the town. Smaller towns (with populations under 1,000) contract with the private sector to avoid expensive labor, such as computer repair experts, or specialized-equipment costs, like snow removal machines. Larger cities reflect the motives we are more familiar with, using privatization as a means to reduce costs or improve service quality.

These motives are effective in inducing widespread privatization. Almost every city in the survey contracts for at least one service, and 274 (53 percent) contract for at least 10 services. Table 2 shows which services more than 50 percent of the cities contract out.

A number of the towns rely very heavily on private services. Crestwood (pop. 11,000) and Machesney Park (pop. 19,000) have only a few municipal employees, relying on private firms and some volunteers to perform almost all public services.

Satisfaction/Future Outlook. Roughly two-thirds of the survey respondents said that privatization was a success in most cases, and only one percent said it was a failure in most cases. However, respondents from smaller towns were more likely not to know whether privatization was a success, as they do not have expertise in comparisons. One interesting note: in towns with fewer than 5,000 people, quality of work was the main reason for satisfaction reported; in larger cities, financial considerations were dominant.

Almost 20 percent of the respondents plan to increase privatization, and about 50 percent are satisfied with their current level of privatization. Less than one percent said they plan to cut back on privatization.

Cost Savings. Sometimes privatization is intended to improve or expand services, but cost savings are usually achieved as well. Privatization saved money in all cases for 18 percent of the respondents, and another 56 percent said that privatization often saved them money. One-quarter reported that privatization did not cut costs but met other goals.

Crestwood again is a notable example. Savings due to extensive privatization have enabled the city to periodically rebate property taxes to citizens.

Effects on Municipal Employees. In most towns, privatization does not have a catastrophic effect on municipal employees. It had no effect on municipal employees in 65 percent of the towns, and only 3 percent reported layoffs. Where services once provided by municipal employees were privatized, most of the employees were transferred, were hired by the private firms, or retired. Perhaps most significant, only 10 percent of the respondents reported that private-sector wages were lower than municipal wages, and only 13 percent said employee benefits were lower.

Small-Town Privatization Stories

Statistics are instructive, but actual stories and examples can be more useful. Small towns often take two approaches toward privatization: (1) widespread privatization of whole service areas, or (2) a process of starting small and then expanding but taking each service one at a time.

Killingly, Connecticut took the latter approach. It began privatization several years ago in a small way with contracts for grounds maintenance, street sweeping, and street striping. These programs were successful, making city officials and residents willing to accept greater private-sector involvement. This was important when the need arose for significant capital investment in the town's sewer system. Rather than try to raise the needed $300,000 themselves, city officials proposed contracting out operation and maintenance of the system to a private firm. In June 1997, JMM Operational Services won the five-year contract, which not only included making the $300,000 capital investment in the first year, but also provided $170,000 per year in operational cost savings for the city. This year the town plans to follow up on that success by contracting out operation of its landfill.

A good example of a town that has evolved a more comprehensive approach to privatization is **Hoffman Estates, Illinois** (pop. 50,000). This town has been outsourcing for more than 10 years, with contracts for over 100 services or activities using more than 50 vendors. Contracted services range from the large (sidewalk/curb maintenance, janitorial services, and paving) to the small (reprographics, towing services, and pest control). All this has saved about $250,000 per year in salary costs, and it has eliminated the need for specialized training and equipment. Privatization did not

Table 1-2: Services Privatized in Illinois (Selected)

	% of Muncipalities with Privatized Services
Commercial Solid Waste	92.6%
Residential Solid Waste	87.7%
Electricity	87.3%
Gas	86.2%
Recycling	77.1%
Solid Waste Disposal	84.5%
Vehicle Towing & Storage	76.2%
Yard Waste Collection	64.0%
Street Light Operation	61.0%
Day Care Facility Operation	53.4%
Hazardous Materials Disposal	50.0%

Source: *Illinois Municipal Privatization Survey*, 1997.

result in layoffs—the workforce shrank gradually through normal attrition.

An interesting variation on the theme of systematic privatization is found in towns that contract out their entire public-works departments at once. According to the Illinois survey, this is most common in towns with populations under 5,000. The survey report singles out **Pecatonica, Illinois** (pop. 1,800) as an example. This town's contract with Environmental Management Corporation (EMC) covers the water and sewer utilities, all street repair and maintenance, and other public-works functions. Initially, the contract cost $250,000 per year, about $10,000 less than it cost the village to do the work itself. But after two years, EMC took on additional functions, including rate studies, safety equipment, and planning, while the contract price remained the same. EMC essentially functions as the village's public-works administrator.

Another good example is **Pleasant Ridge, Michigan** (pop. 2,700). The town faced difficulties keeping up with the need to expand services without raising taxes, and its public-works department had some inherent problems. The workforce was bare bones, so during peak vacation times, not all services could be delivered. And the department owned a lot of equipment that was needed only occasionally and cost a lot to maintain. To get around each of these challenges, the city decided to outsource in one contract all of its public works except refuse collection, which had long been contracted out to a private firm. The existing employees, a neighboring city, and a private firm bid for the contract. The winning bidder was City Municipal Services (CMS), which guaranteed the city 15 percent lower annual costs for public works ($59,500 off the $396,000 annual budget). Also, CMS purchased all of the department's capital equipment at fair market value. On top of the guarantee to cut costs, the contract established an incentive for greater efficiency—CMS will keep half of any savings over 15 percent as a bonus. In July 1997, the end of the first year of the contract, CMS exceeded the guarantee and saved the town 22 percent—over $87,000.



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Privatization 1999

The 13th Annual Report on Privatization



by Reason Public Policy Institute

The primary issue facing many governments is what to do with the surpluses. Tax cuts are a method of returning funds to taxpayers and bolstering economic growth. The ALEC report found that cutting sales, personal-income, and corporate taxes actually induced substantially higher revenues in 1995–98 (see Table 1-2).

In addition, permanent tax cuts are more effective than temporary ones, according to recent work done by Professor Barry Poulson of the University of Colorado, in conjunction with the Independence Institute. When tax cuts are permanent, administrative costs are significantly lower; special-interest groups are less likely to lobby for tax money, and businesses and individuals are more likely to increase savings, productive work, and investment.

Federal Privatization

Privatization at the federal level experienced few major breakthroughs in 1998, and it continues to lag behind state and local government efforts.

The U.S. Department of Defense (DOD) has taken a big step forward with its National Security Agency (NSA) Breakthrough Program. This unique program will oversee the voluntary transition of federal employees into the private sector over a five-year period. The program involves contracting with a private-sector vendor to reduce both staff and costs. The contract was awarded to Computer Science Corporation (CSC), which will be maintaining the NSA's computer-systems operations and related operations. The value of the contract will be over $10 million during the first three years of the five-year contract and will rise to a total of $20 million by the end of the fifth year.

A number of other agencies will be following the progress of the NSA Breakthrough Program and may follow suit if the program proves successful. Stephen Tate, chairman of the NSA's strategic direction team, believes that this program will enable the DOD to save taxpayers' money and increase value at the same time. As he reported in *Computer Reseller News,* "Breakthrough is a firm, fixed-price contract with all the work being performance-based, with measures built into service-level agreements and tied to an award fee plan."

One of the unique features of the program is the voluntary transition of DOD employees from the public sector to the private sector. Under the agreement with CSC, DOD employees who sign on with CSC during the initial three-month transition period will receive 100 percent of their current salary and public-sector benefits; a $25,000 signing bonus; and an extra five days of vacation and 10 days of sick leave. Those signing up after the transition period will still be eligible for comparable pay and benefits and will still receive 10 percent of their salary as a signing bonus.

Through this contract with CSC, the DOD will be able to reduce costs and staff while ensuring high levels of service through the use of performance-based payments.

After a long delay, the U.S. Air Force awarded a contract for depot maintenance of KC-135 tankers and A-10 ground-attack planes to a public-private partnership. Hill Air Force Base, in Ogden, Utah, will care for the A-10 fleet, while Boeing will maintain the KC-135s on the grounds of the closing Kelly Air Force Base, near San Antonio. They beat out a bid by Lockheed Martin, which had proposed keeping the work at McClellan Air Force Base, near Sacramento, California.

The $1.6 billion contract will run for nine years and save the air force a total of $638 million on maintenance costs. McClellan will lose about 1,600 jobs, and Hill and Boeing will each gain about 800 jobs. According to the air force,

Table 1-2: State Revenue Increases Due to Tax Cuts (in millions), 1995–1998

Type of Tax	Size of Tax Cut	Revenue Growth	% Increase in Revenue
Sales	$1,667	$23,841	21%
Personal Income	$9,571	$34,444	29%
Corp. Income/Franchise	$2,216	$7,213	28%



Source: "$74 Billion Windfall," American Legislative Exchange Council, 1998.

this contract not only saves money but also helps meet the base-closure mandate.

One of the more groundbreaking federal privatizations in 1998 was the public offering of the United States Enrichment Corporation (USEC). USEC produces 75 percent of the United States' nuclear fuel and plays a critical role in the "Megatons to Megawatts" program, which helps transition Russian weapons-grade uranium to fuel for civilian uses. The sale of USEC, long considered to be one of America's most strategic businesses, was the largest public offering ever made by the federal government and its first major public offering since Conrail 10 years ago. Much of the impetus for privatization came from the corporation's falling market share, which had dropped from a high of 100 percent to its current 40 percent.

The USEC privatization had to comply with two major restrictions: to keep the corporation under domestic control and to choose the option that would generate the greatest proceeds. Another innovation was the use of a "dual path" in the selection process: the government could either make an equity offering or sell the corporation to another firm. The federal government pursued both options as a means of generating maximum proceeds and ensuring the long-term survival of USEC. In June 1998 the final decision was made to select the equity option. Despite the fact that Lockheed Martin's bid would have generated the most proceeds, the government concluded that it did not guarantee the continued long-term operation of USEC.

The offer was managed by Morgan Stanley Dean Witter and generated $1.425 billion, with roughly 50 percent purchased by retail investors. The government will receive an additional $1.7 billion from a loan pass-through and retained revenues from USEC with the U.S. Treasury. The sale of USEC comes as the culmination of several attempts, dating back to the 1970s, to privatize the facility. The effort picked up momentum after USEC's corporatization under the 1992 Energy Policy Act, which forced USEC to operate more like a private firm.

Federal Financial Management Reforms

The U.S. government has experimented with a range of financial reforms. Historically, cash appropriations and accounting gimmicks have been an integral part of the "promise now, pay later" philosophy. In a long history of minimal accounting and reporting, the federal government has tried management reform after management reform, some coming from the legislative branch, others from the executive branch. Unfortunately, the U.S. government does not have a broad, coherent framework for financial management reform; reforms evolved in a patchwork fashion:

- The Chief Finance Officers Act of 1990 was focused on obtaining clean audit opinions for the financial statements of the agencies.
- The Government Performance and Results Act of 1993 prescribed developing unit-level performance indicators.
- The Government Results and Management Act of 1994 created a requirement for a consolidated financial report for the government as a whole.

These reforms did not encompass accrual budgeting or accrual appropriations. Nor did they place prices on outputs and structure those prices into budgets and performance contracts. The result is that progress has been far from stellar. Many took time in 1998 to look back at what these reforms have brought; for example, there were forums in *Government Executive* (www.govexec.com/) and *The Public Manager*. They concluded that there has been a lot of progress in understanding the problems with the current system but not much progress in changing how things are done.

State-Level Privatization

Texas

Texas is the nation's leader in one particular model of government reform—the performance review process. The Texas Performance Review (TPR; http://www.cpa.texas.gov/tpr/tpr.html), a commission under the state comptroller, started off in 1991 with a comprehensive report detailing almost 200 proposals to improve and streamline state government. Recommendations included internal reengineering, privatization, and sometimes adding new services or redirecting resources to new areas. In the end, around two-thirds of the recommendations were implemented, saving the state $2.4 billion. The next three years saw the TPR repeat its success, conducting in-depth examinations of state gov-

ernment functions and devising hundreds of specific legislative or administrative reforms—ranging from common-sense to revolutionary—and generating billions of dollars in savings.

In 1998, the TPR began an in-depth examination of the state's school districts. Even more significant, realizing that its methods had become a national model, the TPR published "Home Improvements: A Manual for Conducting Performance Reviews" (www.cpa.texas.gov/tpr/home/ch1. html). It provides detailed guidance on conducting performance reviews, drawing on a wealth of real-world experience.

California

Back in 1996, Gov. Pete Wilson stepped forward with a very ambitious statewide privatization plan, proposing to privatize everything from road maintenance to the state worker's compensation fund. Two years later, his successes in privatization could be counted on one hand, with a few fingers to spare. His only really significant success came in August 1998, with the gigantic, $929 million contract to operate the state government's telecommunication network.

So what happened? In many ways, Gov. Wilson's story is reminiscent of that of Massachusetts governors William Weld and Paul Cellucci—all three underestimated the opposition they would meet and were not willing to fight the tough battles required to convince people that privatization was the right policy choice. The bills Gov. Wilson introduced mostly died quietly and with little evidence of any serious effort on his part to push them through. One exception was the 1996 passage of AB 2660, which gave local governments the authority to enter into public-private partnerships for infrastructure development and reduced the restrictions on how such partnerships could be structured. Other legislation, as well as a ballot measure, all fizzled.

Even more frustrating to privatization proponents were the court cases—public employees, especially state architects and engineers, sued a number of times to stop the administration's outsourcing contracts. The courts ultimately ruled that privatization of state functions is legal as long as the private contractor can do the job for less money, state workers lack special expertise, or there is an emergency. But, since there is no legislation laying out strict criteria for making such determinations, public employees challenge many state contracts, forcing the state to prove to the court that one of the conditions is met. California's experience highlights two important lessons: (1) implementing privatization requires leadership and political capital, and (2) a first step is often to legislate clear authority to implement privatization policy.

Virginia

The nation's most innovative and effective state privatization program continued to lead the way in 1998. Virginia's Commonwealth Competition Council had a busy year pushing the envelope of state privatization, as it had in past years. This time the innovation was the use of employee stock ownership plans (ESOPs) as a method of privatizing state agencies. After the state legislature passed a resolution declaring that ESOPs have the potential to permit privatization where it might otherwise be technically or politically impossible to do, the council initiated an in-depth examination. The result is a detailed report that both lays out how ESOPs may be used to privatize state services and provides a thorough pre-assessment of three state activities: professional and occupational regulation, child-support enforcement, and alcohol and beverage control.

Not satisfied with merely exploring exciting and innovative new ways to privatize services while ensuring employee security and service quality, the council completed two other major projects in 1998. The first is a comprehensive survey of the commercial activities engaged in by state agencies, documenting which are conducted in-house and which are contracted. The survey was published in the council's annual report and is the basis for an evaluation of inconsistencies, thus allowing agencies to share experiences and ideas. The second project is "The Privatization/Competition Manual," which covers the most-typical questions asked about privatization and details processes for taking inventory of commercial activities, creating a competition process, and conducting computerized cost comparisons of in-house service-delivery costs.

More information on the work of Virginia's Commonwealth Competition Council, including its publications, is available at www.vipnet.org/ccc/home.htm.

Keys to Successful Performance-based Budgets



Define performance in terms of measurable, quantifiable outcomes, not just goals or mission statements. For example, two performance measures from Arizona agencies are: reduction in percentage of youth under 18 using tobacco (used by the Department of Health Services) and increase in percentage of MA graduates employed in their profession within one year after graduation (used by a university's Department of Architecture).

There must be executive and/or legislative leadership. Agency heads won't put their scarce time into improving performance if there is no emphasis from the top. And the leaders must demand that agencies achieve performance, not just define it.

Create incentives to perform. Rewarding for success and punishing for failure will cause more change than any other single action. It also creates a will to experiment and to learn from other agencies' successes and failures.

Create an independent oversight agency. The oversight agency should have separate divisions, one to assist agencies in achieving performance and another to audit agencies to ensure compliance. Leadership and incentives may not be enough if agencies don't have good information on how to go about reforming or if legislators don't know whether agencies are reforming.

However, the nature and effectiveness of those requirements vary widely—beginning with defining performance. To most people, performance is the link between activities and outcomes. But not all states hold themselves to so high a standard. For example, Nevada requires only that agencies include a mission statement and measurement indicators in their budgets—not that they actually track any performance. At the other end of the spectrum is Texas, which has an integrated and comprehensive approach to ensuring that government agencies achieve performance goals. It combines performance requirements in agency budgets with a strategic-planning process that incorporates cyclical feedback and improvements, and it has a statewide independent performance review agency, the Texas Performance Review (www.cpa.texas.gov/tpr/tpr.html).

States also vary widely in how they encourage performance and how they measure compliance. The GSU study found that most states require only the setting of goals—only seven have explicit guidelines for attainment of agency goals. Five of those states offer rewards such as gain sharing or employee bonuses for success in meeting performance goals. Only two of those five, Texas and Florida, also include adverse actions for noncompliance, such as restricting budgets or withholding funds.

Some of the same states have also done the most to measure compliance. The GSU study highlights the importance and effectiveness of executive offices created to assist and oversee performance measurement and attainment. Besides the Texas Performance Review mentioned above, one of the most famous is the Oregon Progress Board (www.econ.state.or.us/opb/), which has pioneered some of the best state-level service benchmarking. Another is Florida's Office of Program Policy Analysis and Government Accountability (www.oppaga.state.fl.us/), which conducts thorough audits of state agencies for performance compliance.

Pitfalls in Privatization Implementation

Although privatization and outsourcing have become increasingly popular, there are still many barriers to implementation and pitfalls in application. Difficulties arise from a variety of factors, any one of which is capable of derailing the best of intentions. Some of the more common pitfalls are political resistance, poorly designed or implemented contracts, and fear of misrepresentation. It is not uncommon to find one or more of these problems with floundering privatization endeavors.

Political barriers can be the most intransigent, often arising during initial discussions of privatization and persisting all the way through the process. According to former Congressman Scott Klug, "Everyone supports privatization until you try to privatize something in their district." Politicians often seek to protect their interests and fend off

any attempts to privatize organizations that are under their jurisdiction. The U.S. Department of Energy has been trying for years to outsource its power-marketing administrations, with little success. "We want to privatize, but our hands are tied," says the deputy assistant administrator in the Energy Department's power-marketing liaison office, Rodney Adelman. "We can't even initiate a study on our own," due to an energy and water development appropriations act that was passed in the 1980s. A revision to the act was proposed in 1995, but it never made it out of the conference committee. Political will is one of the most-critical elements in privatization; without it, most attempts are destined to fail.

Once it has been decided to privatize a service, the design and implementation of the contract are paramount. Any privatization plan is only as good as its contract; a poorly designed contract will invariably lead to disappointing results and a general disenchantment with privatization.

Hawaii's privatization of book selection and purchasing for all 49 of its public libraries serves as a reminder of contract pitfalls, in both design and implementation. The state's mistakes were twofold: the contract failed to ensure that the private firm would have the same goals as the state, and the contractor was not given appropriate information. The contractor believed that its "primary purpose is to meet the popular reading habits of the public," while the state was more interested in "giving the public a high-quality, diverse array of materials." This created an immediate conflict between the contractor and the state once the libraries began to receive "popular" titles and fewer of the "high-quality, diverse" titles.

In addition, because of delays and legal challenges, the contractor did not receive enough information on library profiles and needs. This, combined with a deadline for book purchases, resulted in the contractor having to purchase approximately 60,000 titles without any clear information on what its clients' needs or desires were, a major failure in implementation. According to the contractor's senior vice president, "A vendor is only as good as the information we're given."

Fear of misrepresentation is often an unspoken barrier to privatization. The privatization process often involves gathering basic data on costs and performance, to better judge any competitive bid and to obtain a more accurate picture of what services the government organization provides and how well it is performing. Regrettably, this information can be used inappropriately for a variety of purposes, many of them detrimental to the organization's goal of providing better, more cost-effective services.

In 1997 one of the Big Six accounting firms conducted a performance audit and released a report showing that the Prince William County (Virginia) police department's rate for clearing cases was much lower than in other departments across the nation. This resulted in a public uproar and a meeting of the police chief with the county board of supervisors to explain the poor ranking. The chief explained that the problem was not the police department's performance but how it defined clearance rates. While other departments count any case in which they feel confident they know who "pulled the job" as being cleared, in Prince William County a case is not cleared until an individual has actually been arrested and convicted. Adjusting for these differences in measurement placed the department at the top of the scale, not the bottom.

Charlie Deane, chief of police in Prince William County, says that "performance measures have real value as an internal management tool, but those kinds of statistics shouldn't be used to make comparisons." Many organizations may be leery of any attempts to quantify what they do and how it is done, because of concern about how the information will be used. While he feels this is a legitimate concern, the county manager of Prince William County, Henry Ewert, believes "it's good to be uncomfortable. I think it's healthy for the chief to have to address the issues raised by that study." Jonathan Walters, of *Governing* magazine, puts it this way: "Using the performance measurement process to bring some reason and science to the messy business of government is the logical next step."

Privatization does have pitfalls, but it is possible to learn from the experiences of others, to incorporate successful strategies, and to avoid the pitfalls.

Key Techniques for Avoiding Pitfalls



1. Learn from other's successes and failures.
2. Keep special interest concerns in perspective.
3. Write clear, complete contracts that align the contractor's interests with the taxpayers.
4. Benchmark performance, but be aware of the limits of measurement.

Chapter 7



Administrative Services

INFORMATION TECHNOLOGY

Information technology (IT) service is becoming one of the most-active areas of local government privatization in the nation. Government agencies find it increasingly difficult to keep up with technological changes and often lack qualified personnel.

The June 1998 issue of *Government Finance Review* contained results of a survey of 104 **Florida** cities by Florida Atlantic University regarding outsourcing of IT services. It provides a useful look at how cities are responding to changing needs for government information systems. Some interesting results include:

- As city size decreases, a greater percentage of city resources is spent on IT services, possibly indicating that IT services have economies of scale.
- In the aggregate, about 10 percent of IT service expenditures go to outsourced services.
- Cities with fewer than 25,000 residents are 50 percent more likely to outsource IT services than cities with more than 50,000 residents. The main cause of the difference appears to be the difficulty smaller cities have in hiring and retaining adequately trained professional staff. For all city sizes, greater need for specialized staff meant greater likelihood of outsourcing.
- Cities run by professional managers are more than twice as likely as mayor-run cities to outsource IT services.
- Cost reduction is not always the most important reason for outsourcing. Other benefits cited include freeing up management resources, upgrading hardware, and accessing new services.

By far the most-important breakthrough of the year came from the state of **Connecticut**. Currently, over 30 states operate their IT services wholly in-house, while the rest have outsourced only portions of their IT services. This may begin to change as Connecticut paves the way for complete privatization.

In a first-of-its-kind contract, the state of Connecticut will outsource all of its IT services, maintaining only an oversight team of IT planners and managers. According to Connecticut's chief information officer, Rock Regan, the primary impetus for outsourcing was a need to realize both greater savings and greater efficiency. Although the specifics of the contract have yet to be worked out, the state chose a private consortium led by EDS.

EDS will be providing everything from PC and mainframe operations to application development and system integration. The state has been spending approximately $300 million per year on IT services, and the seven-year contract with EDS is estimated to be roughly $1 billion. Both sides believe that there is substantial room for improvement, noting that state licensing issuance is currently done through 25 different agencies with 25 different IT systems.

Equally important, the state recognizes the need to maintain oversight authority and oversee the success of the

contract. The state will maintain a 90-person oversight team. As CIO Regan reported in *Computer World,* "The key to success will be managing this relationship; we're certainly not giving EDS and their team carte blanche."

IT outsourcing similar to Connecticut's is being considered in a number of states. So if Connecticut's contract provides the anticipated savings and increased efficiency, it could have far-reaching effects.

Tourism and Resorts

Privatization of resorts and other tourist facilities is likely to continue as governments focus on core areas and as facilities require increasingly expensive capital expenditures for maintenance, repairs, and renovations.

The leasing of **New Hampshire's** Mount Sunapee ski area was spurred on by an overriding concern to have a first-class ski area, coupled with the possibility of decreased state funding. A member of the executive council told the *Union Leader,* "the Legislature holds the purse strings and they have indicated they just might allow it [the Mount Sunapee ski area] 'to wither on the vine.'"

By including Okemo Mountain Resort in the lease, the state will receive $150,000 annually, as well as 3 percent of gross receipts. In addition, the private contractor paid for a $4 million renovation program. This cut the time it takes for the ski lift to reach the summit (from 15 minutes to 6 minutes), added greater snow-making capabilities, and included a number of other upgrades to the ski area. The leasing of the resort did not result in the loss of any jobs. In fact, the contract made special provisions for the state employees, who were guaranteed the same salary and seniority and a comparable benefits package. The protection of existing jobs was cited as a critical factor by several of the executive council members and helped allay public concerns over the impact of privatizing the operation and management of the facility.

Faced with an aging rest area at their Minnesota border, **Iowa's** Department of Transportation (DOT) and Department of Economic Development's Division of Tourism sought ways to remedy the situation. Tourism is the third-largest industry in Iowa and as such is critical to both local and state revenues; therefore, state officials believed it was imperative that the facility in question, expected to service upwards of 600,000 travelers in 1998 alone, make as good an impression as possible on tourists entering the state.

The DOT's initial review of the case determined that it would cost approximately $4 million to upgrade the current two-sided rest area or $6.5 million for a new facility—a costly endeavor either way.

That was when Top of Iowa Welcome Center, a local 501(c)3 nonprofit corporation, stepped in and began negotiations with the DOT and the Division of Tourism. They had an attractive proposal: more and better services for $2.5 million at a new site with lower yearly operational costs. Their plan called for the consolidation of the current two-sided rest area and the addition of a welcome center (for tourists from Minnesota and other states), just off a preexisting exchange. By moving the facility off the highway, they were able to greatly reduce costs by avoiding the mandates of the Davis-Bacon Act, which requires that wages be comparable to local unionized wages.

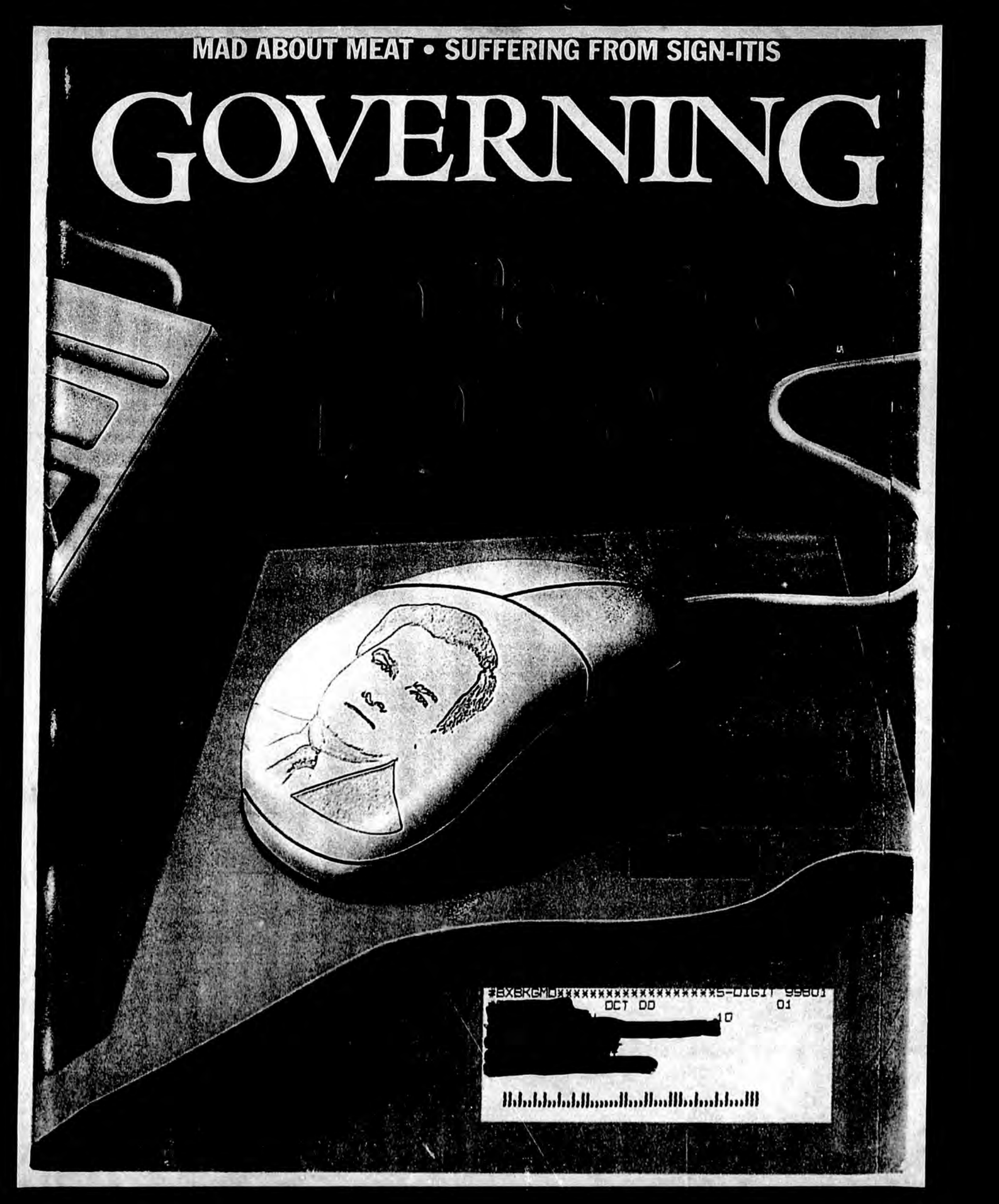
The nonprofit managed the entire project on behalf of the DOT and the Division of Tourism. They handled everything from the hiring of architects to construction to yearly operation upon completion. In addition, they arranged for some of the private organizations that were interested in setting up businesses in the new center to provide feedback on the overall design and layout of the facility. This resulted in a more-attractive and efficient site plan, because the private organizations were able to voice their concerns and recommend ways of improving the site's commercial appeal.

Looking to the future, the nonprofit installed water and sewer infrastructure for commercial and industrial development, with the hope that businesses would begin to locate around the new facility. They projected a two-year lag period after construction before any business would show interest, because most businesses are more concerned with actual traffic flows than projected flows. However, there was so much interest in this location that they already had one commitment and several others pending even before the facility opened in June 1998.

The agreement between the state agencies and the nonprofit provides for a 30-year management contract. In addition, the nonprofit retains possession of excess real estate. When the state sought land for the project, it had to buy

MAD ABOUT MEAT • SUFFERING FROM SIGN-ITIS

GOVERNING



Private Mouse

offices or move to EDS' proposed "technology transformation center," or some of each. Major technology decisions would remain with the state, according to the CIO's office. The private company would provide the computer services to make government more efficient. It isn't clear who would own the hardware and software used to run the state government.

At this point, the process has dragged out years longer than expected. The plan was set in motion in 1996 after a consultant's report found the state's computer systems to be seriously outdated and poorly run. The request for proposals was issued in February 1997, and the administration was hoping to outsource the state's systems by mid-1997. Instead, the privatization effort became part of the budget process in 1997 when the governor projected $50 million in savings from out sourcing. Legislators insisted o unusual provision, opposed by the nor, saying that either chamber legislature could veto the contrac a three-fifths majority.

By February 1998, three com nies—EDS, Computer Scien Corp. and IBM—were in final co tention for the contract, along wi the Connecticut State Employe Union, which promised an in-hou consolidation that would save t state $30 million to $40 million. E based in Plano, Texas, won the cont after a review of the proposals by an member evaluation committee with m bers from four executive-branch agencie under a "best value" process that was based on 17 criteria, price being just one. Regan says EDS offered the state some innovative proposals that included job creation, outreach to the education community, economic development benefits and high-technology training that would benefit residents as well as state employees.

Rowland's office now hopes a contract can be implemented by the first of September. But Regan insists he will not shortcut the contract work that needs to be done just to meet an arbitrary target date. "It's a complex process," he says. "There are a lot of issues we're trying to resolve. We're obligated to protect state interests."

Once the contract negotiations are completed, the contract will go to the auditor of public accounts, who will have 75 days to review it. It then will take effect automatically 45 days after the auditors send their report on the contract to the General Assembly, unless either house of the legislature rejects it by a 60 percent margin. In the House, that would mean 91 votes in a chamber that has 96 Democrats and 55 Republicans. (have only a two-seat mai

This year's se



legisla ure will not have the auditor's report in hand for debate during the regular session and may not even see the contract before adjourning. For there to be a veto vote, a special session would have to be called, something traditionally done by the governor, who, in this case, would have little interest in calling a session that has the potential of killing his initiative. However, the Senate president pro tem and the House speaker together have the power to call the legislature into session for a veto vote.

That seems likely to occur if the politics continue to play out as they have to this point. Opponents say they worry about turning the technology so many state agencies depend on over to one prime contractor and about losing IT employees and the institutional memory they hold. They also say they don't understand how a company can promise better pay and benefits for Connecticut's IT workers and buy and install new and improved technology, while saving the state $50 million a year and making a profit. They also wonder if signing a seven-year contract so entwines the state with one vendor that it will be difficult to extricate itself from the contract if need be. They fear that if the state becomes so dependent on one vendor, that vendor could demand changes in

h is unknown ab technology infrastructure me the contract is being written. In April, the Department of Information Technology was still updating an inventory of state agencies' computer systems. That original inventory, started after the Department of Information Technology was created in 1997, took more than 18 months to complete.

At the beginning of April, House Speaker Moira Lyons sent dozens of questions to Regan about the deal. She asked for details about where the $50 million in savings would be found, how privacy of state information would be protected, who would own the equipment and how the state could "dis-

Robert Sould illustrations

entangle" itself from the vendor should problems arise. She also wanted information about contract management and EDS' past performance, and on how the state could know seven years out that it would still be getting the best technology deal. "This is a giant leap for Connecticut," she says. "We are all aware our current information technology systems have huge drawbacks. But it is correct to question if we should go to a total huge privatization of every entity under one vendor."

The CIO's answers weren't specific enough to satisfy her. For instance, on the matter of savings, Regan wrote that "provisions now being negotiated will determine the savings pattern" and that details would be provided soon. On a question about how quickly the state would be able to provide basic services to residents if the state had to get out of the contract, the written response was "immediately." Many are dubious about that. Even Regan admits that if the services had to be brought back in-house, it would not be easy. Nor would former state employees who would have moved over to EDS be obligated to return to state service.

EDS offers assurances that if disentanglement were necessary at any time, the company would give the state access to people, assets, equipment and software, to use or buy. But it's clear that bringing the executive branch's computer operations back in-house would be costly for the state. "The state has a right to tell us they want to get out," says Bill Dvoranchik, managing director of the EDS Partnership for Connecticut, the team of 10 companies EDS put together to run the Connecticut project. "How that works out has to make sense. If not, if I make all those investments in two years and the state says goodbye, it doesn't make sense."

Since there is no contract to review, Lyons admits it's too early to open or close the door on the proposal. But the sheer magnitude of the endeavor is cause for apprehension in the speaker's mind. "I'm uncomfortable with the size of what we're undertaking, given there's no past experience with it."

That discomfort has led some lawmakers to introduce legislation that would layer new requirements onto the outsourcing plan. "It's kind of like boxing with smoke until you see the contract," admits Representative Alex Knopp, a Democrat who chairs the Joint Government Administration and Elections Committee. One provision would require the contractor to submit a performance bond for up to 100 percent of the total due under the contract. Another would create an Office of the Privacy Counsel and authorize it to bring actions for disclosure violations. A third would require oversight by a state information technology review board, which would monitor the contract and report to the legislature periodically. The bills have been passed out of Knopp's committee.



Connecticut CIO Rock Regan says the outsourcing program would be the most tightly managed contract in the state's history.

The Connecticut State Employees Union says it can't think of a private contract with the state that has come in on time and under budget, and argues that such a large project is a huge risk. The union points to a contract between the Department of Social Services and Maximus Inc. for privatizing the child care subsidy program. When the initial contract proved to be inadequate, leading to delays in getting subsidies to day care providers, the contract had to be modified to give the company a 50 percent increase in per-client fees.

The union concedes that the state's information technology is antiquated, but it argues that instead of turning the whole thing over to the private sector, a vendor should be brought in to reengineer processes for state workers. Rick Melita, the union's political education coordinator, says the state has done an "abysmal" job of overseeing smaller-scale contracts. "How will it develop the expertise to oversee the big ones?"

The answer, says Regan, is for the state to develop performance measures, penalize the vendor if it doesn't do well and reward the vendor if it does. In the past, he says, projects were not managed well and outcomes were not well defined, and this would be the most tightly managed contract in the state's history. A core group of about 50 to 70 people would remain state employees, get additional training and function as overseers of the contractor.

The union and legislative opponents have an ally in elected Comptroller Nancy Wyman, who is looking into a prior troubled contract between the social services department and EDS. Under Connecticut law, a breach of contract by EDS in past dealings with the state could disqualify the company from the pending contract.

Legislators have complained that there has not been a satisfactory explanation from Rowland's office for why EDS was chosen for the executive-branch outsourcing contract. A provision in one of the measures passed out of the House committee asks the auditor to review the selection process and ranking mechanism that resulted in the choice of EDS. "If there's a significant flaw in the ranking process, it might influence how the contract is viewed," says Knopp.

Outsourcing opponents point out there have been contract failures involving EDS in several other states; that EDS is in the middle of a lawsuit with Xerox, one of its

Gale Zucker photograph

Public Mouse,

Connecticut's governor wants to take state computers private. It would be a billion-dollar leap into the unknown.

BY ELLEN PERLMAN

The headquarters of the Connecticut Department of Information Technology in Hartford is a drab, squat building that sits on a corner downhill from the ornate gold-domed capitol and a gleaming legislative office building. Visitors walk past a dumpster in the back to enter, sign in with a guard and use an ancient elevator to get to the upper floors. The path to the office of Gregg "Rock" Regan, Connecticut's chief information officer, is via a corridor of stained, worn carpeting and scuffed walls. The structure literally leans to one side.

The state's information technology is in similar condition. It is a morass of disjointed systems with computers in one department unable to communicate with those in another. Information is fragmented and unnecessarily duplicated. There are at least a dozen e-mail systems, and many don't link up well with each other. Information technology has historically been poorly managed in Connecticut, and the state hasn't done a good job of procuring new systems. Nor is the security of the systems the best available. No one knows exactly how many computers the state owns.

Connecticut's IT infrastructure is in such poor condition, says Governor John G. Rowland, that the departmental tugs-of-war over technology resources so common in other states aren't happening in his state. There's so little to fight over, he says, that "there are no turf battles," th[illegible]con for other states mired in "They're at the noncomformity, parochial stage. They don't care what other departments are doing."

Rowland has vowed to clean up the mess, and he thinks he knows exactly how to do it. For four years, he has been pushing relentlessly to turn nearly all of the executive branch's IT systems over to the private sector. "We shouldn't be in the business," he says. But such a wholesale outsourcing is a great leap into the unknown, a dramatic step that no other state has undertaken. CIOs from other states and even some local governments—most notably the nation's fourth-largest county, San Diego—are watching with keen interest.

If things work out as the governor hopes, the move could elevate Rowland as a trailblazer who successfully solved the state's technology troubles and turned Connecticut into a showcase of world-[illegible]formation technology. He would



agency turf wars and procurement difficulties that often make it such a headache for governments to upgrade and connect departments with up-to-date technology.

But the outsourcing plan, which is being spearheaded by Regan, is a move fraught with political risk for the governor, who has made it a major initiative for his Republican administration. There are several ways for it to go down in flames: Either house of the Democratically controlled legislature has the power to veto the deal. Or it could go through and still fail to solve the state's information technology problems. Or costs could escalate, surging beyond the estimated $1 billion cost of the seven-year deal.

This spring, as Rowland's administration continued to negotiate contract terms with the vendor that won the outsourcing contract, Electronic Data Systems, things seemed to be starting to unravel on the legislative front. The House speaker was publicly expressing dissatisfaction with the information about the plan that she was getting from Regan's office.

With no final contract on the table yet, the arguments for and against outsourcing primarily have fallen on either side of a partisan and ideological divide. Supporters, [illegible]ainly Republicans, believe the private [illegible]or can do the job better, faster and [illegible]per than state workers can. Skeptics, [illegible]inly Democrats, are doubtful of [illegible]t proposition and more inclined [illegible]dline up behind state workers, [illegible]ose union is bitterly opposed to [illegible]e plan.

[illegible]If Rowland gets his wish, some-[illegible]ere between 500 and 700 state [illegible]ployees would become private-[illegible]or employees, but which ones [illegible]ld fall under the scope of the con-[illegible]—and where they would end up [illegible]ng and what they would be doing—[illegible]t clear. It's undetermined whether [illegible]y would stay at their desks in state



Speaker Moira Lyons: 'I'm uncomfortable with the size of what we're undertaking, given there's no past experience with it.'

major partners on the Connecticut contract; and that EDS is laying off 1,200 employees worldwide, raising concern about what would happen to state workers absorbed by the company.

One of the contract failures occurred in Virginia, where EDS agreed in 1997 to terminate a $45 million contract and pay the state $2.3 million to settle the issue of not setting up a system to track Medicaid payments more than a year after it was promised. In that case, Dvoranchik says it was too difficult for the two sides to reach agreement on a contract for a new system with client-server technology during a time when the federal government was in the middle of overhauling welfare.

In Florida, there were massive problems with a $240 million system for processing welfare applications installed in 1992. EDS officials say the Florida contract ran into unforeseen problems when state welfare caseloads increased due to a hurricane and a downturn in the economy and that the company needed more money to add hardware and software to accommodate the changes. When Florida refused to pay the balance of the contract, EDS sued for $58 million. The Florida welfare agency contended that the computer system was defective when EDS turned it over to the state and filed a counter-claim for $90 million for work that would have to be done to bring the system up to par. A state circuit court judge agreed with EDS, and after a six-year court battle, Florida agreed to pay $43 million to the company to settle the case.

While it's true that EDS has been laying off employees, Dvoranchik says the cuts have been in EDS' sales staff and that the company has been hiring programmers and analysts in the government area, so layoffs would not affect the Connecticut contract. In any case, the contract will guarantee two years of employment to former state employees. As for the Xerox lawsuit, Regan says Xerox has provided a letter saying the lawsuit doesn't affect the business relationship between the two companies in Connecticut. In all, Regan adds, Connecticut has done hundreds of reference checks on the company, checking with state agencies and other governments and companies that have contracted with EDS. Regan and EDS say the company doesn't sue often and, when it does, it continues to provide all services until there's a resolution.

Even if the project clears all of the political hurdles, it faces other possible roadblocks. Not the least of those is the fact that the federal government must sign off on the plan, since so much of the state's computer work deals with entitlement programs such as Medicaid and food stamps. If the federal government doesn't approve, the state could lose federal payments for those programs. Because of that possibility, one of the provisions passed out of Knopp's committee says the state shouldn't send the contract to the auditor until it has obtained all federal approvals.

Connecticut's may be the largest state or local government IT outsourcing in this country to date, and the furthest along, but Connecticut certainly is not the only government to consider privatizing information technology systems on such a large scale. San Diego County is asking three technology companies to bid on a 10-year, $500 million to $700 million contract for outsourcing its computer and telephone systems. The RFP went out in February, and the three companies in the running are the same ones that bid on the Connecticut contract: CSC, EDS and IBM. The county hopes to award a contract by early fall.

A management consultant's report estimates the county spends $98.5 million on information technology and telecommunications services annually. Of that, $66.5 million of the services would fall under the outsourcing contract. Not surprisingly, San Diego has experienced many of the same difficulties as Connecticut, from delays in meeting target dates for the process to unions complaining about losing jobs and arguing that the move would be costly and ineffective.

But the San Diego outsourcing project continues to move forward. In Indiana several years ago, a similar proposal blew up quickly. Former Indiana CIO Dan Houlihan says the problem was that decisions were made by a closed group that left out the legislature, the unions and state technology workers. "When the decision was announced, it was a major shock to everyone's system," he says.

Houlihan believes the state would have encountered major problems if it had gone ahead with the large outsourcing approach. "When you blanketly approach outsourcing of everything from telephones to mainframes to networks to applications development, it becomes so massive to control," he says. "Deliverables are hard to nail down. The vendor relationship becomes complicated, and it tends to unravel over time." Indiana also found that information technology employees, fearful of what would happen to their jobs, were fleeing in droves.

Michigan and Iowa also thought about outsourcing state systems but decided consolidation was a more cost-effective strategy. Pennsylvania is in the process of outsourcing its data centers, but it's not a project as massive as what Connecticut is doing.

It's the fact that Connecticut would be the first to dive into technology outsourcing on this scale that has many of the players on both sides worried. Rowland, however, thinks being first would actually be an advantage for the state. After all, the contractor will be hoping to reap profits from replicating a successful arrangement with other jurisdictions. "When you're the first one on the block," Rowland insists, "the company's going to give you the best deal and do the best performance. Failure is not an option." G

Gale Zucker photograph

Alaska's Asset Portfolio: Managing for Maximum Return
A Commonwealth North Study

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Appendix A
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PRODUCTION AND MANUFACTURING

Department of Fish and Game
Division of Forestry
Alaska Correction Industries
Oil and Gas Development
Division of Mining
Division of Agriculture

RESEARCH AND DEVELOPMENT AND SUPPORT SERVICES

Alaska Seafood and Marketing Institute
Alaska Tourism Marketing Council
Alaska Science and Technology Foundation
Alaska Aerospace Development Corporation

LOANS AND INVESTMENTS

Alaska Industrial Development and Export Authority
Alaska Housing and Finance Corporation
Alaska Permanent Fund Corporation
Alaska Fish and Agriculture Bank
Municipal Bond Bank
Student Loan Corporation

AVAILABLE FOR DEVELOPMENT AND REAL ESTATE

Division of Land
Alaska Mental Health Trust Authority
University of Alaska Lands
Department of Transportation Public Facilities
Pioneer Homes
Alaska Psychiatric Hospital

TRANSPORTATION

Alaska Railroad Corporation
Alaska Marine Highway
International Airports
State Airports and Harbors

Appendix B
Factual Summary of Agencies

Management Review

Mission, Structure & Measures

Asset: Alaska Aerospace Development Corporation (AADC)

Mission: To promote the general welfare by establishing & operating a commercial space launch facility. To promote aerospace related economic growth and to develop corresponding technology & support services.

Business Activities: Launch facility currently being built. Business is being sought for this facility.

Management Structure:

Chief Executive: Pat Ladner, Executive Director.

Management Oversight: 9 member board composed of 1 member of the UAA board of Regents, President of UAA, Director of UAA's Geophysical Institute, Executive Director of ASTF, Commissioner of DCED, 2 space industry members, 1 public member.

Financial Oversight: Through State Legislature.

Financial Overview:

Total Revenues: No operating revenue as AADC is in the startup mode.

Total Operating Budget: $1M, $641K of which $520K held in cash designated for the current construction of the launch facility.

Fund Balance: $.5M

Contributions to State of Alaska Operating Budget: None

Performance Measures: None

Present Return on Asset/Activities:

Primary Return: None

Secondary Return: Expect a positive impact on Alaska's economic growth and stability.

Public Benefit: Possible job creation.

Historical Footnotes Affecting Returns: AADC is in the startup phase of its development. The current construction of the rocket launch facility is using Air Force funds ($18M), ASTF funds ($5M) and NASA funds ($5M).

Asset: Alaska Correctional Industries

Mission: Assist in the rehabilitation of prisoners by providing realistic work experiences as much like those that prevail in private industry. Operate a work program for prisoners that will be nearly self-supporting.

Business Activities:

- Juneau commercial & hospital laundries.
- Kenai office systems and metal plant.
- Palmer auto body plant.
- Palmer meat processing plant.
- Fairbanks garment/flat goods shop.
- Seward furniture plant and assembly /repackaging of electrical supplies.

Management Structure:

Chief Executive: Correctional Industry Commissioner

Management Oversight: 9-member board of directors. 7 appointed by the Governor plus Commissioners of Administration and Corrections.

Financial Oversight: Board reviews annual budget.

Financial Overview:
Total 1997 Revenues: $3,316,165

Total 1997 Operating Budget: $3,149,511

Fund Balance : $166,654

Contributions to State of Alaska Operating Budget:

Performance Measures: Undetermined.

Present Return on Asset/Activities:

Primary Return: Program is self-supporting and prisoners directly benefit from its activities.

Secondary Return: Wages earned by prisoners are required to be disbursed in the following order of priority: prisoner's dependents, reimbursement to the State, payment of civil judgements, payment of fees, purchase of commissary items, payment of restitution.

Public Benefit: Returning prisoners to society with the skills to succeed in the labor force.

Historical Footnotes Affecting Returns:

- Wages paid to prisoners may not exceed 50% of minimum wage unless there is another requirement for higher wages.
- Work activities must have a minimal negative impact on an existing private industry or labor force.

Asset: Alaska Housing Finance Corporation (AHFC)

Mission: Manage capital assets and grants to provide Alaskans equal access to safe, quality, affordable housing and in so doing, affirmatively create jobs and value-added industries.

Business Activities:

- Mortgage loan financing to low and moderate income borrowers, veterans and those living in rural areas of the state.
- Principle source of residential financing in the state and functions as a secondary mortgage market.
- Operate state public housing and subsidize rents.
- Provides funding for the construction and acquisition of public buildings for lease to the state.
- Provides grants to non-profit organizations.

Management Structure:

- Self-supporting, non-stock public corporation.
- Management Oversight: Seven member Board of Directors, 4 of whom are appointed by the Governor, plus the Commissioners of Revenue, Community and Regional Affairs and Health and Social Services.
- Financial Oversight: Annual operating and capital budgets are reviewed by the Governor and Legislature.

Financial Overview:

1997 Total Revenues: $328,000,000.

1997 Total Operating Budget: $30,000,000 ($18,000,000 HUD).

1997 Fund Balance: $1.8 Billion.

1997 Contributions to State of Alaska Operating Budget: $50,000,000.

Performance Measures: Annual HUD Public Housing Management Assessment Program required. AHFC also conducts surveys on home ownership and homelessness, the number of program participants, number of awards received.

Present Return on Asset/Activities:

Primary Return: 2.4%

Secondary Return: Undetermined

Public Benefit: Creates jobs, reduces unemployment by maintaining a healthy home-building industry; reduces dependencies on public housing and welfare programs through Family Self - Sufficiency Program. Reduces energy bills via the Weatherization Program.

Historical Footnotes Affecting Returns:

- Most investments purchased with the proceeds of tax-exempt bonds are subject to interest rate yield restrictions of 1.125% to 1.15% over the yield of the bonds.
- Some of the tax-exempt bonds are subject to rebate provisions that may result in a payment due to the IRS.

Asset: Alaska Industrial Development and Export Authority (AIDEA).

Mission: To promote, develop and advance the general prosperity of the people of Alaska. To relieve the problems of unemployment and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises and other facilities within the State.

Business Activities:

- Acts as a secondary market for financial institutions by purchasing loan participations and providing guarantees on bank originated loans.
- Issue general obligation indebtedness to own certain development projects. The investment is repaid through user fees.
- Invests a portion of its liquid assets in investment securities that are primarily short to medium term Treasury and Agency obligations.

Management Structure:

- Public corporation of the State
- Management Oversight: Five-member board consisting of 3 gubernatorial appointees, the Commissioner of the Department of Revenue and the Commissioner of the Department of Commerce and Economic Development.
- Financial Oversight: Board of Directors, Legislature.

Financial Overview:

1997 Total Revenues: $66,800,000.

1998 Total Operating Budget: $4,000,000.

1997 Fund Equity: $916,000,000.

1997 Contributions to State of Alaska Operating Budget: $16,000,000.

Performance Measures: Earnings, number of loans participated in or guaranteed, number of jobs created or retailed and number of development projects are all measures of agency performance.

Present Return on Asset/Activities:

Primary Return: 3.64% in 1997.

Secondary Return: Undetermined.

Public Benefit: Creation and retention of jobs.

Historical Footnotes Affecting Returns:

- Reduced levels of financing, beginning in 1987, due to statewide economic recession and changes in federal tax laws, reduced uses of tax-exempt debt for economic development.
- Statutory limitation placed on interest rate charged on funds obtained by bonds.

Asset: Alaska Mental Health Trust Authority.

Mission: To administer the Mental Health Trust established in perpetuity, to have the fiduciary responsibility to its beneficiaries to enhance and protect the trust and to provide leadership in advocacy, planning, implementing and funding of a comprehensive, integrated mental health program to improve the lives and circumstances of its beneficiaries.

Business Activities: To manage its asset consisting of: 500,000 acres of Federal land, 500,000 acres of replacement land, and $200 Million in cash.

Management Structure:

Chief Executive: Executive Director.

Management Oversight: Undetermined.

Financial Oversight: $200 Million in cash is combined with the assets of the Permanent Fund for investment purposes. Division of Natural Resources manages the land assets.

Financial Overview:

Total 1997 Revenues: $2,507,000.

Total 1998 Operating Budget: $759,900.

Fund Balance: Undetermined.

Contributions to State of Alaska Operating Budget: Undetermined.

Performance Measures: Undetermined.

Present Return on Asset/Activities:

Primary Return: Undetermined.

Secondary Return: Undetermined.

Public Benefit: Creation and sustenance of comprehensive mental health programs for Alaskans.

Historical Footnotes Affecting Returns: Undetermined.

Asset: Alaska Permanent Fund Corporation (APFC)

Mission: To provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans. To maintain the safety of the principal while maximizing total return. To use the fund as a savings device managed to allow the maximum use of disposable income from the fund for the purposes designated by law.

Business Activities: Invest money received via oil revenues, legislative appropriations and earnings on investments to earn income.

Management Structure:
Public Corporation.

Executive Director appointed by the Board of Trustees and is not a member of the Board. The Governor appoints the six-member board. And includes the Commissioner of the Department of Revenue.

Management Oversight: Board of Trustees and Governor

Financial Oversight: Board of Trustees and Legislature

Financial Overview:

Total 1997 Revenues: $2.1 Billion

Total 1998 Operating Budget: Estimated at $30 Million

1997 Fund Balance: $17.9 Billion

1997 Contributions to State of Alaska Operating Budget: $1.7 Million. $746.8 million distributed to the residents of the State.

Performance Measures: The market.

Present Return on Asset/Activities:

Primary Return: 9.2% return in FY 97

Secondary Return: $746.8 million distributed to the residents of the State.

Public Benefit: Lower unemployment.

Historical Footnotes Affecting Returns: Statutory restrictions as follows:

- The fund may at no time own more than 5% of the voting stock of a corporation.
- Domestic stocks, except for bank and insurance company stocks, must be listed at the date of purchase on an exchange registered with the SEC.
- At the time of each investment, the aggregate investment of the fund in each stated category of investment may not exceed the following percentages: 15% mortgages, 15% real estate, 20% CD's or term deposits, 50% corporate stocks.

Asset: Alaska Railroad Corporation (AKRR)

Mission: To provide safe, economic and efficient rail transportation to freight users, businesses, passengers and military installations in the state. To foster and promote the long term economic growth and development of the state. To develop and implement plans for a rail transportation network. To foster and promote the development of the state's land and natural resources.

Business Activities: Provides freight and passenger service throughout the railbelt. Owns and manages 578 miles of rail right of way from the Port of Seward, through Anchorage and to Fairbanks, with a line from Fairbanks to Eielson AFB. The Corporation owns approximately 38,000 acres of land including the rail right of way.

Management Structure:

- Independent corporation owned by the state of Alaska.
- Management Oversight: Seven-member board of directors appointed by the Governor.
- Financial Oversight: The Board approves the annual budget and all capital projects. Legislative oversight provided by the Legislative Budget and Audit Committee.

Financial Overview:

Total 1997 Revenues: $76,386,000, Grant Revenues: $1,230,000.

Total 1997 Operating Budget: $75,200,000.

Equity Balance: $84.040,000, which includes State of Alaska investment of $34,174,000.

Contributions to State of Alaska Operating Budget: None.

Performance Measures: An annual Performance Audit is prepared by an outside expert in the railroad business. The railroad also submits to the legislature an annual report of the year's activities.

Present Return on Asset/Activities:

Primary Return: 1997 Net income of $10,590,000.

Secondary Return: Undetermined

Public Benefit: Undetermined

Historical Footnotes Affecting Returns:
Undetermined.

Asset: Alaska Science & Technology Foundation (ASTF)
ASTF was created through statutory authorization (37.17.01 0). Funded by an endowment of $101 million.

Mission: Enhance the development and application of science and technology for the direct benefit of Alaskans. ASTF will help establish an environment where Alaska has the confidence, know-how, technology and risk capital to grow an economy of sustainable wealth.

Business Activities:

- Makes grants to technology-based firms with preference to startups and existing firms branching into new products or processes.

Management Structure:

- Independent Agency.
- Management Oversight: Board of directors appointed by the Governor; Legislative confirmation required.
- Financial Oversight: Governor appointed board of directors makes all funding decisions and the Legislature approves the budget.

Financial Overview:

Total 1997 Revenues: Two types: Investment income and grant/loan repayments
Total 1997 Operating Budget: Approximately $9 million.

Fund Balance (if any): Endowment is $101 million with additional earnings of $15 million.

Contributions to State of Alaska Operating Budget: None.

Performance Measures: Undetermined.

Present Return on Asset/Activities:

Primary Return: Increased science and engineering capability to sustain the economy.

Secondary Return: More R&D and headquarter functions to aid in gaining control over Alaska's economic destiny.

Public Benefit: Latest evaluation shows 615 jobs as a result of ASTF projects.

Historical Footnotes Affecting Returns: ASTF's goal is to help finance and put together projects to reach the above goals. The Board has discussed the possibility of privatizing the ASTF, but are not at all clear that the Legislature would want to accept this loss of control or accountability. Moving to a two-year budget would be an improvement on the existing system thus eliminating the threat to the future of the organization each year. There is a concern that certain non-revenue functions of ASTF would go away if privatized. The threat to ASTF's existence is to transfer the endowment to support a perceived financial crisis.

Asset: Alaska Seafood Marketing Institute

Mission: To increase the consumption of Alaska seafood and to promote the quality and superiority of Alaska seafood products.

Business Activities: Promote through marketing programs the consumption of Alaska seafood. To promote within the industry a program to improve the quality of Alaska seafood.

Management Structure:

Chief Executive: Barbara Belkamp, Executive Director.

Management Oversight: Oversight is by a 25-member board. Twelve members are fishermen and twelve members are processors. One member is from the general public.

Financial Oversight: Through the State Legislature.

Financial Overview:

Total Revenues: Revenue is obtained by a 1% salmon tax, a .3% processor tax and some federal export monies that require a state match. FY97: $6.2 M ($3.5 M from the 1% salmon tax, $2.7 M from the .3% processor tax).

Total Operating Budget: $.9M Administration, $.2M R&D, the balance to programs.

Fund Balance: Minimal.

Contributions to State of Alaska Operating Budget: None.

Performance Measures: Internally they have well defined performance measures in the marketing program, restaurant usage and quality programs. The one problem area is in getting information from retailers and they consider such information confidential.

Present Return on Asset/Activities:

Primary Return: None

Secondary Return: Undetermined.

Public Benefit: Jobs in the seafood industry.

Historical Footnotes Affecting Returns: Since the majority of the monies spent are from self-taxation or federal sources, the organization is not a drain on the general state treasury.

Asset: Alaska Tourism Marketing Council

Mission: To stimulate statewide economic growth, diversification and employment through the promotion of Alaska as a visitor destination.

Business Activities:

- Design and execute an integrated marketing program directed at U.S. and Canadian markets determined to have the greatest potential for producing new and repeat visitors.
- Dissemination of visitor information by media advertising, public relations and research.

Management Structure:

Chief Executive: Director of the Division of Tourism

Management Oversight: 21-member board, 10 appointed by the Governor, 10 appointed by Alaska Visitor's Association, plus the Director.

Financial Oversight:

Financial Overview:
Total Revenues: No direct revenues generated.

Total FY97 Operating Budget: $5,310,600.

Fund Balance : N/A

Contributions to State of Alaska Operating Budget: No direct contributions, however tourism yields $124 Million in taxes and fees.

Performance Measures: Undetermined.

Present Return on Asset/Activities:

Primary Return: Increase in the number of year-round visitors from the U.S. & Canada.

Secondary Return: Increase in jobs in the tourism industry. Additional fees going to state and municipal treasuries.

Public Benefit: Allows small businesses with affordable access to a national marketplace. Increased tourism benefits the overall economy.

Historical Footnotes Affecting Returns:

- ATMC is a public corporation within the Department of Commerce & Economic Development.
- A joint venture between the State and private sector. The Alaska Visitor's Association represents the private sector.

Asset: Department of Natural Resources, Division of Agriculture

Mission: To administer promotional and experimental work, agricultural projects and long term, low interest loans for the purpose of promoting and developing the agricultural industry within the state.

Business Activities:

- General agricultural development and administration.
- State Fairs
- North Latitude Plant Materials Center (NLPMC) which supports industry through production and development of plant materials.
- Agricultural Revolving Loan Fund (ARLF).

Management Structure:

Chief Executive: Division Director

Management Oversight: Commissioner of DNR.

Financial Oversight: Governor submits the budget to the Legislature for review and approval.

Financial Overview:

Total Revenues: $352,000 of Federal funds and $508,000 from ARLF.

Total 1997 Operating Budget: $940,000 for NLPMC.

Fund Balance:

Contributions to State of Alaska Operating Budget: None

Performance Measures: None found.

Present Return on Asset/Activities:

Primary Return: Undetermined.

Secondary Return: Undetermined.

Public Benefit: Agricultural commodities priced at market-clearing rates.

Historical Footnotes Affecting Returns:
Legislature has replaced General Fund support for the Division with assets from ARLF. Assets are declining as they are appropriated for the Division's operating costs.

Asset: Department of Fish & Game

Mission: To maintain and enhance the health and population of the various species of fish and animals, including habitat protection, and then to allocate the harvest of fish and game among sport, subsistence and commercial users, and escapement, using the principle of sustained yield.

Business Activities:

- Strategic management and allocation of the various resources.

Management Structure:

Chief Executive: Commissioner of the Department of Fish & Game.

Management Oversight: Board of Fish & Game.

Financial Oversight: Legislative.

Financial Overview:

Total Revenues: Unavailable.

Total Operating Budget: Unavailable.

Fund Balance: Unavailable.

Contributions to State of Alaska Operating Budget: Unavailable.

Performance Measures: Undetermined.

Present Return on Asset/Activities:

Primary Return: Undetermined.

Secondary Return: Undetermined.

Public Benefit: Sustained resource

Historical Footnotes Affecting Returns: Undetermined.

Asset: Alaska Department of Natural Resources, Division of Forestry.

Mission: To protect the State's forested land and forest resources and to manage them for multiple use and sustained yield.

Business Activities: Manage timber sales and issue personal use fuelwood, houselog and sawlog permits. Fight wildfires, plant seedlings, support public education and research. Administration of Rural Community Fire Protection Grants.

Management Structure:

Chief Executive: State Forester who is under the Commissioner of DNR.

Management Oversight: Alaska Board of Forestry appointed by the Governor.

Financial Oversight: Legislature.

Financial Overview:

1997 Total Revenues: $1,200,000.

1997 Total Operating Budget: $9,826,800.

1997 Fund Balance: None.

1997 Contributions to State of Alaska Operating Budget: None.

Performance Measures:

- Number of timber sales, volume of timber sold.
- Numbers of firefighters trained and number of fires fought and controlled.
- Numbers of acres inventoried and assessed for insect and disease conditions.
- Number of permits for public use.
- Research results from collaborators at U of Alaska or federal agencies.

Present Return on Asset/Activities:

Primary Return: $1,268.656 return from 1996 timber harvest.

Secondary Return: Response to wild fires, wildlife habitat improvement, and forestry research.

Public Benefit: Permit issuance for personal use timber, timber sales provide employment, public education on forestry issues.

Historical Footnotes Affecting Returns: Undetermined.

Asset: Department of Natural Resources, Division of Mining

Mission: DNR's mission statement is, "To develop, conserve and enhance natural resources for present and future Alaskans". Mining Division adds, "To facilitate the development and stewardship of Alaska's mineral resources...by processing major mineral and coal actions necessitated for tracking title and compliance requirements".

Business Activities:

- Regulation of the mining industry
- Resource development
- Program administration
- Public safety
- Property rights

Management Structure: The Division of Mining & Water Management is a division of the Department of Natural Resources that answers to the Governor.

Chief Executive: Director of the Division of Mining & Water Management.

Management Oversight: Alaska Mineral Commission, Department of Natural Resources, Governor.

Financial Oversight: Annual State budget process.

Financial Overview: FY 98

Total Revenues: $3,450,000

Total Operating Budget: $3,888,900

Fund Balance: N/A

Contributions to State of Alaska Operating Budget: Undetermined.

Performance Measures:

- Input from interested groups: Alaska Miner's Association, Div. Of Geological & Geophysical Surveys, Div. Of Trade and Development, Division of Fish & Game, Alaska Minerals Commission, Environmental groups.
- DNR-Division of Mines provides performance criterion.

Present Return on Asset/Activities:

Primary Return: Mineral royalties, rental fees, lease fees, permit fees, and permit assistance fees.

Secondary Return: Job creation, infrastructure development, and resource development.

Public Benefit: Same as Secondary Return.

Historical Footnotes Affecting Returns:

- Assets consist of state lands for mineral production
- Revenues are derived from taxes on mining, claim rental fees, net license tax, mine application assistance, net royalty from state owned lands, corporate income tax
- Additional revenues come from federal abandoned mine program grants
- Expenditures in FY 98 are $3,889.000 and will be cut to $1,996,000 in FY 99.

Asset: Department of Natural Resources, Oil & Gas Development

Mission: To maximize economic and physical recovery to the state from its oil and gas resources. Five items are important to decision making:

- Economic and physical recovery
- Maximizing competition
- Maximizing use of Alaska's human resources
- Encouraging assessment of the state's resources
- Minimizing adverse impact

Business Activities: Issuing and controlling oil & gas leases.

Management Structure:

Chief Executive: Director of management unit

Management Oversight:

Financial Oversight: Legislative budget and audit as part of the annual budget process.

Financial Overview:

Total Revenues: Undetermined.

Total 1997 Operating Budget: $4.2 million.

Fund Balance: Undetermined.

Contributions to State of Alaska Operating Budget: Undetermined.

Performance Measures: Undetermined.

Present Return on Asset/Activities:

Primary Return: Undetermined.

Secondary Return: Undetermined.

Public Benefit: Undetermined.

Historical Footnotes Affecting Returns: Undetermined.

Asset: University of Alaska Lands. Statewide Office of Land Management (SOLM).

Mission: The purpose of land ownership is to support the operations of the University.

Business Activities: SOLM currently generates the majority of University real property income from timber harvesting, residential/recreational subdivision and other land sales, and from commercial leasing. More than 50% of the land does not produce income, but does incur costs such as monitoring trespass/theft of resources, processing requests for easements and protecting the land from environmental contamination.

Management Structure:

Chief Executive: Martin Epstein, Director

Management Oversight: Accountable to the University Board of Regents.

Financial Oversight: SOLM reports to the University's VP of Finance.

Financial Overview:

Total Revenues: FY 97: $5.8 M, FY 98: $9.0 M, (Forecast) FY 99: $7.5 M, FY 00: $8.0 M.

Total Operating Budget: $2.6 M.

Fund Balance: 6/30/97 $80 M.

Contributions to State of Alaska Operating Budget: None.

Performance Measures: The University's Statewide Office of Land Management publishes an annual report which includes a Financial Report, Annual Progress Report toward their Strategic Plan and a review of both investment property and educational property projects.

Present Return on Asset/Activities:

Primary Return: Provides for the University students.

Secondary Return: Jobs are created as a result of certain land office transactions/timber harvests, etc.

Public Benefit: The presence of a University for Alaska.

Historical Footnotes Affecting Returns: Gross revenues from real property have increased from $200,000 in FY 85 to $10 M in FY 94 as a result of change of focus in the management and development office. The University is running out of prime land holdings for generating income.

Appendix C
Agency Interview Questions

1. Are the public purposes well defined and relevant?
2. Is the fiscal structure sound and realistic given the purpose?
3. Does the management structure adequately balance the beneficiary purposes of the agency/asset against the interest of the equity owner and other public purposes?
4. Are there current performance measures? Is this reporting adequate?
5. Does the agency know and track its beneficiaries? Does it monitor its effectiveness in meeting its public purpose with these beneficiaries?
6. To what extent does this entity compete with the private sector for goods or services?
7. What are the explicit or implicit expectations of beneficiaries, the legislature, the general public and others with this agency/asset?
8. What changes to the structure of the agency/asset management would the managers themselves make?
9. Does this agency/use of this asset have an appropriate public purpose?
10. What other paradigms/structures might be appropriate for the management of this asset?
11. Most assets are managed for dual objectives—either ownership/regulatory (land) or public service/return on investment. How is the balance between these objectives handled within the management of the agency/asset?

Appendix D
Biographies of Co-chairs

N A N C Y B E A R U S E R A

Nancy Bear Usera is currently Senior Vice President for Corporate Relations at Alaska USA Federal Credit Union. Prior to accepting that position in 1995, Usera served in key positions in the Administration of Governor Walter J. Hickel. Over the four-year term she served as Commissioner of Labor, Commissioner of Administration and as the Governor's Chief of Staff. She also served on a number of state boards including the Alaska Permanent Fund Corporation and Alaska Housing Finance Corporation.

Prior to state service, Usera spent 20 years representing a variety of state and national trade associations and was active in civic affairs. She currently serves on the boards of Commonwealth North, Anchorage Economic Development Corporation and the Alaska State Chamber of Commerce.

Before moving to Alaska in 1981, Usera was vice president of a Washington, D.C. association management and lobbying firm. She currently resides in Anchorage and has three sons.

O L I V E R S C O T T G O L D S M I T H

Professor Scott Goldsmith was been a faculty member of the Institute of Social and Economic Research, a public policy research arm of the University of Alaska, Anchorage, for 23 years. He holds a joint appointment in the College of Business and Public Policy at UAA. His research interests include regional economics, Alaska fiscal policy and energy demand. He has constructed several Alaska economic models that are regularly used at the Institute for a variety of political analyses and projections. He is the principal author of the ongoing *Fiscal Policy Paper* series, which examines the fiscal implications of the dominance of petroleum in Alaska's tax base. Professor Goldsmith contributes the results of this research regularly to academic journals as well as to a more general audience through Institute publications and frequent speaking engagements. His teaching interests include business forecasting and mathematics for economists.

Professor Goldsmith is active in professional service to the community, having served as Chairman of the Anchorage Municipal Budget Advisory Commission, as a member of the Alaska Bypass Mail Post Office Task Force and the Child Support Enforcement Task Force, as well as on various other councils and boards over the years. He is also a member of the United Way of Anchorage Allocation Panel and on the boards of a number of Anchorage athletic events.

Professor Goldsmith is a native of Chicago, a graduate of Princeton, and holds a Ph.D. in Economics from the University of Wisconsin. He is married and has two daughters.

Appendix E

Study Group Members

PRODUCTION AND MANUFACTURING:
(Fish & Game, DNR timber, Alaska Correctional Industries, oil & gas, mining, agriculture)

Chair: Cheryl Frasca – C. Frasca Co.
Sole proprietor of government relations consulting firm with expertise in the legislative process and state fiscal policy issues. Past positions include Deputy Chief of Staff to the Governor; Director, Division of Budget Review; and Chief of Staff to the Senate President. Civic board/leadership positions include Anchorage Chamber of Commerce; Budget Advisory Commission; Small Business Development Center Advisory Board; American Society for Public Administration; and Alaska Council on Economic Education. Ms. Frasca holds a Master of Public Administration from University of Alaska Southeast, and a BA. in political science from California State University Hayward.

Matthew Cronin – LGL Alaska Research Associates, Inc.
Mark Dawson – Swalling Construction, Inc.
David Hudspeth – First National Bank
James Kenworthy – Alaska Science and Technology Foundation
Steven Rieger – S. Rieger & Co.
Kirk Wickersham – Attorney at Law

RESEARCH AND DEVELOPMENT AND SUPPORT SERVICES:
(ASMI, ATMC, ASTF, Alaska Aerospace Development Corp.)

Co-chair: Mary Ann Pease – Aurora Power Resources, Inc.
Vice President of Aurora Power Resources, Inc., and is the former Finance Director for Municipal Light and Power. She has a master's degree in finance from the University of Bridgeport, Connecticut. She is on the board of directors for Alaska Children's Services and is on the Anchorage Chamber of Commerce Municipal Committee.

Co-chair: Tim Wiepking – Cardiff Wireless Communications
Operations Manager for Cardiff Wireless Communications. He has a BS degree in Business Administration from the University of Colorado in Boulder and is currently working toward his MBA degree from the University of Alaska, Anchorage. His past employment includes operating his own business and Budget and Policy Analyst for the Municipality of Anchorage.

John Hoyt – Brigadier General (retired)
Dave Kester – Ribelin Lowell & Co.
Gene O'Hara – Providence Alaska Medical Center

Jerry Strang – Remax Properties

LOANS AND INVESTMENTS:
(AIDEA, AHFC, APFC, Alaska Fish & Agriculture Bank, Municipal Bond Bank, Alaska Student Loan Corp.)

Chair: Phoebe Wood – ARCO Alaska, Inc.
Vice President of Finance, Planning and Control for ARCO Alaska, Inc. Responsibilities include ARCO Alaska's information systems, materials, purchasing, contracting, planning, evaluation, accounting and financial analysis. Ms. Wood has been Vice President for Business Development at Vastar Resources, Inc., Vice President of Finance, Planning and Control at ARCO British Ltd., Planning and Evaluation Manager for ARCO International Oil and Gas Company, and Manager of Corporate Finance at ARCO Corporate. She currently serves on the Board of Trustees of Alaska Pacific University, and on the Executive Committee of the Boys and Girls Clubs of Greater Anchorage. Ms. Wood is a graduate of Smith College and holds a MBA degree from UCLA.

Richard Barnes – Enstar Natural Gas Co.
Carla Beam – BP Exploration (Alaska), Inc.
Joe Griffith – Chugach Electric Association
Max Hodel – Commonwealth North Founding Member
Jo Li Sellin – National Bank of Alaska
Mead Treadwell – Institute of the North

AVAILABLE FOR DEVELOPMEMENT AND REAL ESTATE:
(Division of Land, Mental Health Trust, U of A lands, DOT public facilities, Pioneer Homes, Alaska Psychiatric Hospital)

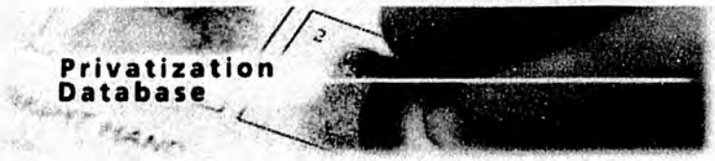
Chair: Patricia DeMarco, Ph.D. – AEDC
President of Anchorage Economic Development Corporation. A graduate of University of Pittsburgh with degrees in the field of genetics. She spent seven years conducting biochemical research at Yale University and Boston University Medical Center prior to entering the field of energy and environmental policy analysis. She served as Executive Director of the Power Facilities Siting Council and as Senior Rates Specialist to the Department of Public Utility Control for Connecticut. Dr. DeMarco operated a consulting firm for four years, and in 1989 joined the Connecticut Municipal Electric Energy Cooperative as Senior Policy Advisor, where she was instrumental in founding the technology transfer company, TECHCONN, Inc. Dr. DeMarco is a member of the Anchorage Downtown Rotary and the Log Cabin Quilters.

Don Dietz – Port of Anchorage
Mano Frey – Alaska State AFL-CIO
Gov. Walter J. Hickel – Hickel Investment Co.
Lana Johnson – Northwest Strategies

TRANSPORTATION:
(AKRR, Marine Highway, International Airports, State airports, harbors and ports)

Chair: John Copeland – Elmendorf Air Force Base
Chief Information Officer for the 611th Air Support Squadron and Federal Mediator and counselor for the 3rd Wing at Elmendorf. Previous positions have included remote radar sites at Shemya Island for the 5099th Civil Engineer Squadron, the Alaska Railroad, IBM Corporation, and the United States Air Force at Elmendorf Hospital.

Wiley Brooks – Wiley Brooks Co.
Milton Byrd – Charter College
Darrell Chambers – ARCO Alaska (former Hartig Fellow)
Joseph Henri – Southcentral Timber Development, U of A Regent
Loren Lounsbury – International Management Group



Types and Techniques of Privatization

A variety of alternative service delivery techniques can be employed to maximize efficiency and increase service quality. Some methods will be more appropriate than others depending on the service. In searching for ways of cutting costs and increasing delivery, consider using a combination of these techniques:

- ***Contracting Out (also called "outsourcing").*** The government competitively contracts with a private organization, for-profit or non-profit, to provide a service or part of a service.

- ***Management Contracts.*** The operation of a facility is contracted out to a private company. Facilities where the management is frequently contracted out include airports, wastewater plants, arenas and convention centers.

- ***Public-Private Competition (also called "managed competition," or "market testing").*** When public services are opened up to competition, in-house public organizations are allowed to participate in the bidding process.

- ***Franchise.*** A private firm is given the exclusive right to provide a service within a certain geographical area.

  [See Franchising and Privatization by Antony W. Dnes]

- ***Internal Markets.*** Departments are allowed to purchase support services such as printing, maintenance, computer repair and training from in-house providers or outside suppliers. In-house providers of support services are required to operate as independent business units competing against outside contractors for departments' business. Under such a system, market forces are brought to bear within an organization. Internal customers can reject the offerings of internal service providers if they don't like their quality or if they cost too much.

- ***Vouchers.*** Government pays for the service; however, individuals are given redeemable certificates to purchase the service on the open market. These subsidize the consumer of the service, but services are provided by the private

sector. In addition to providing greater freedom of choice, vouchers bring consumer pressure to bear, creating incentives for consumers to shop around for services and for service providers to supply high-quality, low-cost services.

- ***Commercialization (also referred to as "service shedding").*** Government stops providing a service and lets the private sector assume the function.

- ***Self-Help (also referred to as "transfer to non-profit organization").*** Community groups and neighborhood organizations take over a service or government asset such as a local park. The new providers of the service also are directly benefiting from the service. Governments increasingly are discovering that by turning some non-core services—such as zoos, museums, fairs, remote parks and some recreational programs—over to non-profit organizations, they are able to ensure that these institutions don't drain the budget.

- ***Volunteers.*** Volunteers are used to provide all or part of a government service. Volunteer activities are conducted through a government volunteer program or through a non-profit organization.

- ***Corporatization.*** Government organizations are reorganized along business lines. Typically they are required to pay taxes, raise capital on the market (with no government backing—explicit or implicit), and operate according to commercial principles. Government corporations focus on maximizing profits and achieving a favorable return on investment. They are freed from government procurement, personnel and budget systems.

- ***Asset Sale or Long-Term Lease.*** Government sells or enters into long-term leases for assets such as airports, gas utilities or real estate to private firms, thus turning physical capital into financial capital. In a *sale-leaseback* arrangement, government sells the asset to a private sector entity and then leases it back. Another asset sale technique is the *employee buyout.* Existing public managers and employees take the public unit private, typically purchasing the company through an Employee Stock Ownership Plan (ESOP).
  [See Guide for Divesting Government-Owned Enterprises
  The Esop Association
  Virginia Competition Council --choose ESOP]

- ***Private Infrastructure Development and Operation.*** The private sector builds, finances and operates public infrastructure such as roads and

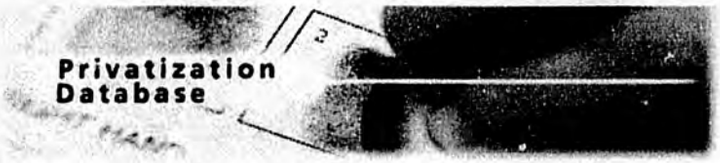
airports, recovering costs through user charges. Several techniques commonly are used for privately building and operating infrastructure.

- With *Build-Operate-Transfer* (BOT) arrangements, the private sector designs, finances, builds, and operates the facility over the life of the contract. At the end of this period, ownership reverts to the government.

- A variation of this is the *Build-Transfer-Operate* (BTO) model, under which title transfers to the government at the time construction is completed.

- Finally, with *Build-Own-Operate* (BOO) arrangements, the private sector retains permanent ownership and operates the facility on contract.

- Also See Terms Related to Privatization Activities and Processes



A Quick Guide to Competitive Neutrality and Managed Competitions

[This is condensed from Competitive Neutrality: Ensuring a Level Playing Field in Managed Competitions, *RPPI How-to Guide #18, 1998.]*

Increasingly, when governments decide to contract out services, in-house units are also given the opportunity to bid for providing the service. This model of public-private competition is often referred to as "managed competition." It has brought competition to many jurisdictions where public services had long been the exclusive domain of public monopolies, but increasingly, private providers are crying foul, arguing that the playing field is often tilted against them in public-private competitions.

For managed competition to be an effective tool to cut costs and increase efficiencies, an ample supply of private firms must be eager to bid against the public sector for the opportunity to deliver public services. This requires that the potential bidders be confident that the playing field will be level.

What Is Competitive Neutrality?

Competitive neutrality means designing a set of policies and legal arrangements ensuring that all individuals and organizations - public, for-profit, and nonprofit - are treated in an equal manner in the bidding process. To the extent possible, all protections and special privileges that public units usually enjoy over private firms simply by virtue of public-sector ownership should be removed, as should barriers that hamper the public-sector unit's ability to increase productivity and therefore effectively compete with the private sector.

To create a level playing field in a managed competition, the government must do many things that are not necessary if the service is contracted out only to private entities, including: determine the fully loaded costs of in-house service, build a firewall between the government as purchaser and the government as service provider, and make transparent any differences between the public and private bids.

Governments often do a poor job of ensuring competitive neutrality. Anti-competitive practices include: failing to fully cost out in-house services, requiring excessive

performance bonds from private firms, rejecting lower bids from private firms, and permitting in-house teams to adjust their bids or proposals after seeing the private bids.

Needed: A Uniform Template for Managed Competition

When designing a managed-competition program, public officials should strive to ensure as much equality as possible for each component of the procurement process, ranging from determining current in-house costs to defining the consequences of performance failure. While it may not be possible to have absolute equality in each area, governments should strive to get as close as possible.

Currently, there are no real guidelines that lay out how governments should conduct fair public-private competitions. The result is that the rules of the game vary from city to city, county to county, and state to state (sometimes the rules even change during the course of individual procurements). The following guidelines can assist governments in achieving a level playing field in managed competitions.

Costing the Public-Sector Bid

- Bring in an objective third party to determine the department's true costs.
- Extend competition as completely as possible into the department.
- Allocate to the target department or service a portion of the overhead costs, based on its use of overhead support.
- Include depreciation costs, interest expenses on borrowed funds, and the cost of hiring outside consultants in any calculation of total costs.

Sealed Bids

- Subject in-house bidders to the same requirements concerning sealed bids as private bidders.

Subsidies

- Any subsidy should be available to both the in-house unit and external providers.

Qualifications

- Public units should not be automatically pre-qualified

in the competition process.

- Consider the varying qualifications, technical, and managerial expertise of both public and private bidders when awarding the contracts.

Risk Valuation and Allocation

- Examine the issue of risk before embarking on a managed-competition project.
- Value and include in the public bid any risk allocated to the private sector in a transaction.

Performance Guarantees

- Establish provisions for loss sharing (as well as gain sharing) for the public units.
- Apply sanctions if the public team fails to achieve the service levels agreed upon at the promised price.
- Do not permit the in-house unit to bid in the next round if it exceeds its bid by some threshold amount.
- When possible, avoid requiring a performance bond from private bidders.

Preparing the In-House Units for Competition

- Give maximum flexibility to in-house units to re-engineer their operations.
- Don't set an arbitrary time period for re-engineering in-house operations and commencing a competition, but as a general rule, the period should be as short as possible and no more than two years.

Bidding on External Contracts

- Either prohibit or restrict in-house units from bidding for outside contracts in areas where a commercial market exists.
- If you choose to allow external bidding, do not provide the in-house units with any funding for capital or additional personnel that would be used for beefing up their operations for fulfilling outside contracts.

Using Consultants

- Use separate consultants to manage the competition process and assist the in-house team in preparing its bid.

Unnecessary Requirements

- Avoid saddling the contractor with government wage and benefit mandates.

Public-Private Joint Ventures

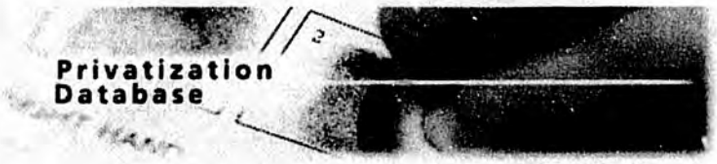
- Research the legality of public-private joint ventures.
- Allow both partners to share in the risks and rewards, but make sure the taxpayers are protected from any loss.

Creating the Right Institutions for Competitive Neutrality

- Organizationally split the government as purchaser from the government as provider.
- Give managers the flexibility to decide whether managed competition is appropriate on a case-by-case basis.
- Consider transforming winning public-sector bidders into corporatized or commercialized organizational forms.

If managed competition is to become a major tool for driving change and increasing efficiency in the public sector, then governments must do a better job of creating a level playing field between public and private bidders.

By following the set of commonsense guidelines laid out above, governments at all levels can maximize the benefits of competition and minimize charges of unfair favoritism or discrimination from private and public bidders alike.



Political and Organizational Strategies for Streamlining

Introduction

Many attempts to inject competition and market forces into government operations fail. As we have examined hundreds of programs at every level of government across the country and around the world, we have identified six key political and organizational strategies for successfully implementing competitive strategies. These are:

- Need for a political champion
- Adopt a comprehensive approach
- Don't study it to death
- Create a high-level central unit to manage competition
- Uncouple the "purchaser" and the "provider"
- Design an employee adjustment strategy.

Strategy #1: Need for a Political Champion

A revolution doesn't just happen. Quantum changes such as those described in this guidebook require leaders — forceful leaders who possess a coherent vision of a new and better governance. Citizens must provide the impetus for dramatic change by expressing their discontent, but it requires leadership to direct that energy into constructive channels.

Achieving privatization and competitive government reforms requires leaders who will expend political capital on the issue and who have the skills to secure approval and support from service other wings of government whose cooperation is key to success.

Out of hundreds of governments we have studied over the past two decades, we have found relatively few examples where the kinds of changes we have outlined have occurred without a strong and determined political champion who is willing and able to withstand withering opposition to reform. Writes historian James McGregor Burns: "Leaders, whatever their professions of harmony, do not shun conflict; they confront it, exploit it, ultimately embody it .... But leaders shape as well as express and mediate conflict."

The political champion is bound to make some enemies in the process. Barry Rosen, the former director of the

Milwaukee Public Museum, who took the museum private in 1992, told us:

> *"You make a lot of enemies when you do this, and you don't get them back just because you're successful. You're not going to be the most beloved human being in the world. But I wouldn't let it stop me. I was obstinate."*

Lastly, successful leadership in streamlining government requires vision. A coherent vision consists not only a concept of a desired outcome, but a workable framework for achieving that outcome. Opponents of change — within government, the legislature, and among special interests — almost always will prevail over a political champion who lacks vision. You can't beat something with nothing.

The successful leader, says Tom Peters, should be a "cheerleader, enthusiast, nurturer of champions, hero finder, wanderer, coach, builder and dramatist." Leaders persuade. They change people's beliefs about what is possible — and about what is desirable. They communicate a sense of urgency and purpose.

If politics is the art of the possible, the political champions must redefine what is possible. They must bring bold ideas to fruition. With visionary leadership, the "politically impossible" can become reality.

Strategy #2: Adopt a Comprehensive Approach

OK, let's say you've decided to embark on a competition/privatization program. How do you get started? Well, how about announcing a pilot project in one of the departments and then see how you do? Sounds good, right?

Wrong. Such an approach likely will doom your competition program to failure before you even get started. Why? The opponents of privatization will all gang up on the one unlucky manager who happens to have the only privatization program in town. They will marshal all their firepower to kill or sabotage this project because they know if they can kill this they probably can kill the whole program.

Here's a better way. Announce that you are launching a comprehensive competition program and that competition is to become a way of life in your government. You will start off with several projects in each of the major departments. Eventually, nearly all service the government delivers will be subject to competition.

This approach is far more likely to succeed. It does several things. First, it spreads out your enemies. They not only will have to kill numerous projects, but you force them to try to defeat the whole broad concept of competition.

Second, this approach democratizes the process. No one unit feels singled out and picked on. Everyone knows that they too eventually will have to compete.

Third, by putting projects out in every department, you have a better chance at achieving a ripple effect across government. This occurs when even in-house units not yet subject to privatization begin coming up with cost savings proposals in an effort to stave off contracting.

One last word. This all doesn't mean you shouldn't start up with the easier, low-hanging fruit. By all means you should, but you should do it within the context of a comprehensive approach.

[See City of Ft. Worth Embraces Privatization
City of Fresno Embraces Privatization]

Strategy #3: Don't Study It to Death

Also known as "death by committee." This process gives the illusion of progress, then degenerates into an exercise in generating paper.

In summer 1992, Michigan created a commission to study privatization opportunities. By winter 1993, the state had introduced a process called PERM, by which every function in available every department would be reviewed, and a recommendation made to privatize, eliminate, retain or modify. For more than two years, this ambitious effort chugged along with little real impact.

The real progress that has occurred in Michigan has been the result of strong-willed individual administrators who have pushed for it.

The moral: Just do it! Spend some time putting together a sound Request for Proposals (RFP) that states precisely what outcomes you want (but leave inputs to the discretion of the contractor) and then see what you get back from the market.

Strategy #4: Create a High-Level Executive Position and Specialized Unit to Manage Outsourcing Relationships

The successful operation of a given government increasingly depends on being able to manage a network of service providers and market-based arrangements (vouchers, internal markets and public-private partnerships). Doing so effectively requires creating a new high-level position whose responsibilities include establishing, maintaining and cultivating outsourcing relationships. This individual would have experience in, or be trained in, the following:

- Identifying privatization opportunities and potential

contractors

- Overseeing the Request for Proposals (RFP) process
- Evaluating vendor proposals
- Managing outsourcing relationships
- Monitoring contractor performance.

These new government executives will have to handle a variety of complex issues and relationships like employee transitions; asset transfers; developing outcomes, performance goals, and penalties; terminations; dispute resolution; and risk management.

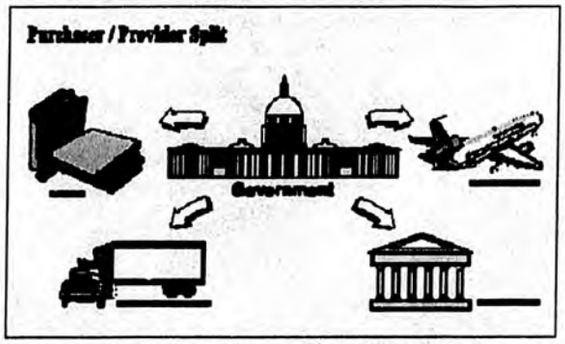
In addition, a centralized unit where a critical mass of knowledge about streamlining issues is set, should be established to manage the privatization process. Such a unit also would act as an institutional advocate for reform — publicizing and riding herd over departments that drag their feet.

Strategy #5: Uncouple the Purchaser and the Provider
(Also Called The "Purchaser-Provider Split")

When the purchaser and provider are split, policy and regulatory functions are separated from service delivery and compliance functions and transformed into separate and distinct organizations (see Figure 1). Australia, Great Britain, and New Zealand all have embraced this reform (Great Britain has uncoupled three-fourths of its civil service, while in New Zealand the percentage is likely more than 90 percent).

The goal is to free policy advisors to advance policy options that are in the public's best interest but may be contrary to the self interests of the department. For example, a central problem with government organizations is "agency capture." This refers to the tendency of service departments to capture the policy advice process from policy makers and top managers, using this power to recommend themselves as service providers and to bias policy advice towards increasing the size of their budgets. One example: a housing authority recommending staff and budget increases in order to build and manage more government housing.

Figure 1



Splitting policy functions from service delivery creates incentives for governments to become more discriminating consumers by also looking beyond government monopoly providers to a wide range of public and private providers.

In Victoria, Australia, the government has separated policy and delivery functions in the corrections department. The Correctional Services agency is now exclusively a service delivery agency. A separate entity called the Contract Administrator has been established to administer arms-length contracts with the private sector. The Contract Administrator is charged with "purchasing" correctional services and monitoring and evaluating the performance of private and public operators on a neutral basis. In this way, the government is creating a "market" for correctional services.

In Kansas, the agency that previously delivered child welfare services such as adoption and foster care, no longer delivers these services to Kansas children — it purchases them. The agency is almost exclusively a purchaser of services and contract monitor.

Uncoupling also is designed to reduce the conflicting objectives that arise when the same agency is involved in service delivery, regulation, and compliance — for example, the Federal Aviation Authority, which regulates airline safety while at the same time is charged by Congress with promoting low-price airline travel.

In New Zealand, agencies regulating transportation industries — airlines, railroads, trucking, and road safety — have been split off from the Transport Ministry into separate independent entities and put under private-sector boards of directors. Regulatory outputs are now "purchased" from each agency by the Transport Minister.

In Indianapolis, one department regulates businesses and residential dwellings and another is charged with eliminating unnecessary regulations. Similarly, an Enterprise Development group has as its sole mission to inject competition into government wherever possible and monitor public and private providers on an arms-length basis.

Strategy #6: Design Employee Adjustment Strategy

Privatization is a political process. Despite evidence of sizable cost savings, public officials often face strong

opposition to privatization and competitive contracting. The greatest political opposition comes from public employees and their unions. Experience in the United States and overseas has demonstrated that making privatization attractive for impacted workers is vital to achieving the political support needed to implement competition strategies.

The best way to reduce opposition is to communicate to workers a commitment to fair treatment. Keeping employees informed can reduce antagonism and avoid the morale problems often associated with organizational change.

The cooperation of public workers is essential to a successful privatization program, and public officials should communicate a commitment to fair treatment for current employees. One of the principal reasons public employees are hostile to privatization is the perception that they will lose their jobs as a result of it. Fortunately, privatization need not be a hardship for public workers.

Table 1
Privatization Policies Adopted by 28 Local Governments

Labor Policy for Affected Workers	***Percentage***
No layoff policy/guaranteed other government jobs	29%
Right of first refusal w/contractor	35%
Informal policy/work with individual workers	6%
Retraining	6%
No employment policy	24%

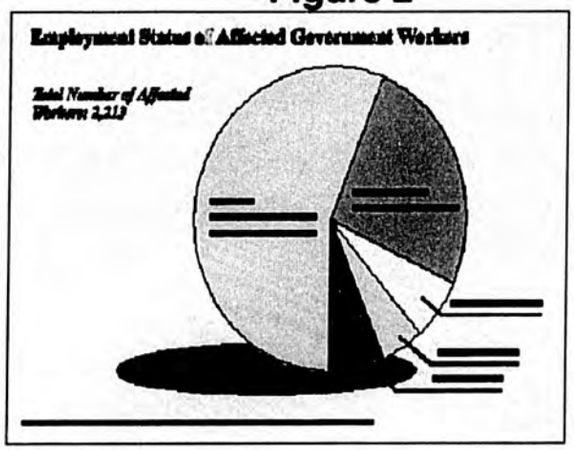
The most comprehensive evaluation of the effect of privatization on government workers was conducted in 1989 by the National Commission on Employment Policy (NCEP), a research arm of the U.S. Labor Department. The study, titled "The Long-Term Employment Implications of Privatization," examined 34 privatized city and county services in a variety of jurisdictions around the country. The report found that of the 2,213 government workers affected over a five-year period by the privatizations, only 7 percent were laid off. More than half the workers (58 percent) went to work for the private contractor; 24 percent of the workers were transferred to other government jobs, and 7 percent of workers retired (see Table 2) . The study concluded that "in the majority of cases, cities and counties have done a commendable job of protecting the jobs of public employees."

These findings are similar to those of other studies examining job displacement from privatization. A 1985 General Accounting Office (GAO) study found that of the

9,650 defense employees affected by contracting out, 94 percent were placed in other wazzu government jobs or retired voluntarily from their positions. Of the 6 percent of displaced employees, half obtained jobs with the private contractor.

Recent large-scale privatization initiatives have demonstrated similar results. The city of Indianapolis has privatized 70 services over the course of the past five years, yet no public union workers have been laid off.

Figure 2



It also must be recognize that privatizati is not a zero-sum equation — although the number of public jobs may decrease, jobs also are created in the private sector from privatization. Since launching its comprehensive competition program, for example, Indianapolis has experienced its most rapid private-sector job growth in decades.

There are a number of techniques to officials to insulate workers almost entirely from the potential of job loss. Techniques that can attenuate the impact on current workers include:

- Working within the rate of natural attrition
- Encouraging or requiring first consideration by contractors
- Offering early retirement incentives
- Allowing public departments to bid for contracts.

Working Within the Attrition Rate

Perhaps the easiest method to reduce privatization of functions within the normal rate of attrition. Workers on a given function targeted for privatization are simply shifted to other government work, with staff reductions occurring only as employees retire.

Government officials typically make a strong effort to provide for current public workers even when embarking on extensive privatization programs. Between 1982 and 1986, for example, Los Angeles County privatized

functions that affected one of 1,300 workers, yet only 36 permanent employees were laid off due to the contracting out program (see Table 2).

Table 2
Summary of Job Displacement Resulting from Los Angeles County Contracting 1982-1986

Classification	*Number*	*% of Affected Workers*
Employees placed with county	1,061	80%
Employees who left county service voluntarily	96	7%
Employees placed with contractor	128	10%
Employees laid off	36	3%
Total affected employees	1,321	

First Considera by Private Contracto

A common strategy to reduce current employee impact involves encourag or requiring a contracto to offer first considera for employm openings to all qualified public workers. Private contractors are usually quite happy to have access to an experienced labor pool. In adopting this policy, however, government officials should be careful not to constrain contractors with burdensome mandates.

Public officials should avoid restrictions that mandate wage or benefit levels for contractors. Requiring private providers to match public sector wages and benefits in perpetuity can reduce the potential cost savings from privatization. Contractors should be allowed maximum flexibility to perform the given function in the most cost-effective fashion possible.

Early Retirement Incentives

Given that privatization often entails a reduction in the overall labor force, another strategy for avoiding layoffs is enticing public workers to voluntarily leave government employment by offering them early retirement incentives. Such programs can be cost-effective if they enable governments to adopt otherwise politically unattainable cost-saving privatization measures. In cases when the vacated slots are left unfilled, early retirement programs can generally save money by reducing the government payroll.

Letting Public Departments Bid on Contracts

Because it reduces opposition to privatization, allowing public-employee units to compete for contracts makes good political sense. It also makes good economic sense. Cost savings from privatization arise from the efficient operating practices that a competitive market promotes. The difference is not one of public vs. private, but of monopoly vs. competition.

Structuring the Transition

For public employees that go to work for private contractors and for public departments that bid for contracts, the government can and should take steps to ease their transition into a competitive market. The change from a protected monopoly to a competitive environment can be accomplished more smoothly if public officials take steps to assist public workers.

Training Assistance

One strategy to enhance the chances of successful bidding by public departments is to train the managers and workers in productivity, cost-saving strategies, and customer service. Workers and managers may require new skills to excel in a competitive environment. Training can provide them with the tools needed to make the transition as painlessly as possible, and increase the awareness of the need for continuous improvement and productive efficiency.

Human Resource Strategies

As governments move to competitive contracting and providing public managers with more workforce flexibility, human resource departments will need to evolve. Rather than simply reacting to the changes in government and processing paperwork, human resource departments will need to become employee advocates — assisting employees with career paths and identifying new career opportunities within and outside of government.

Human resource departments will have to take a more active role in the city's long-term planning process and should be included from the beginning when devising privatization processes.

Human resource agencies should take the lead in analyzing the government's capability to absorb surplus workers from outsourced areas elsewhere within government. Among the variables that should be analyzed to assess absorption capacity are turnover statistics, feasibility of hiring freezes, rate of growth of workforce, pay scales relative to private-sector employment alternatives, availability of early-retirement incentive programs, professional capability of HR function, and quality of

facilitating systems (e.g., job posting, outplacement agencies, etc.).

Gain Sharing

In addition to providing managerial incentives for privatization, governments may want to consider sharing part of the savings from implementing privatization with department employees. Indianapolis structured gainsharing incentives for its public employees into most of its public-private competitions.

Table 2



Conclusion

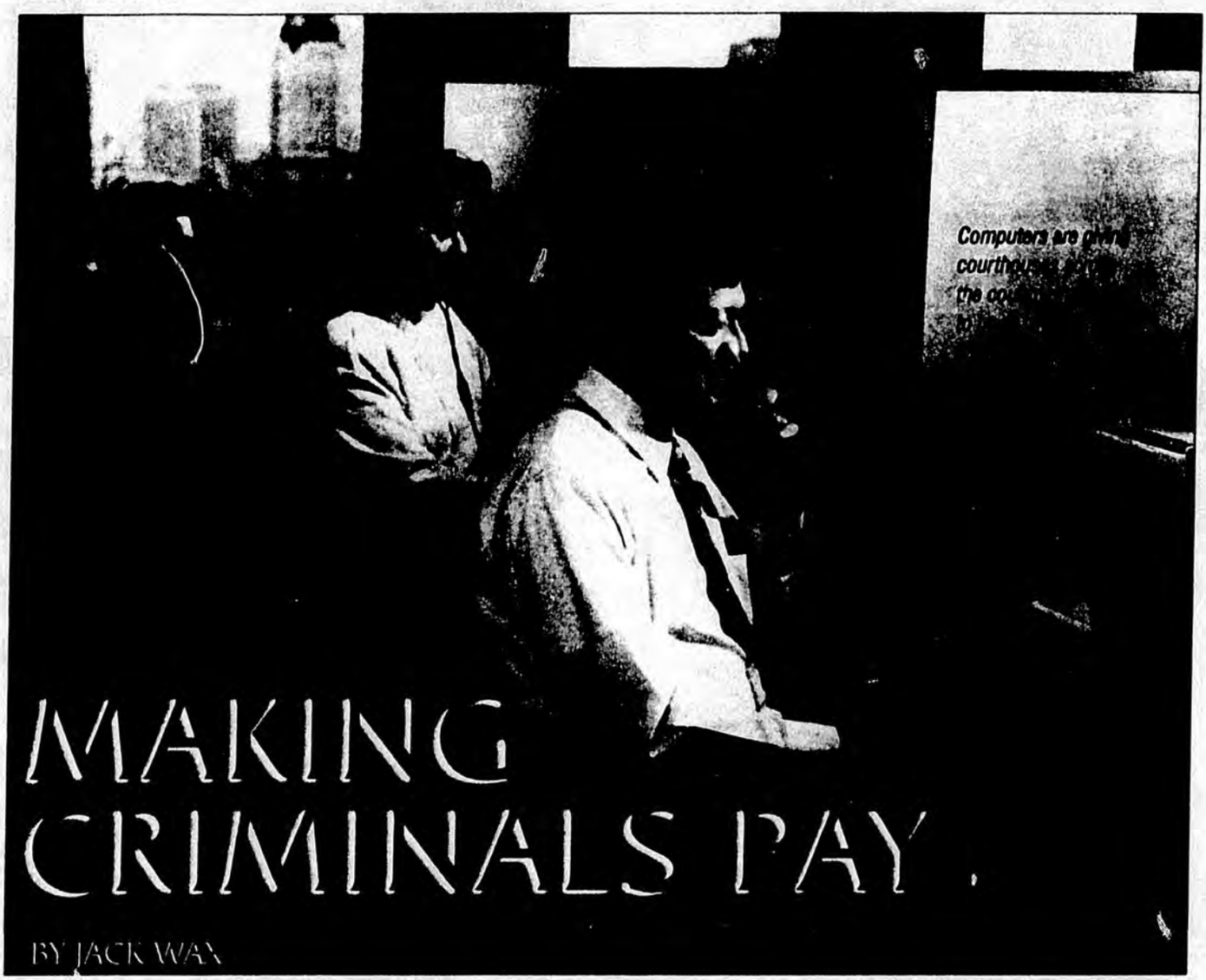
Privatization is a proven cost-effective technique for delivering public services. Nevertheless, due to political resistance from public employees and their unions, many governments fail to pursue privatization opportunities. The result: taxpayers are forced to pay more for services than would be necessary in a more competitive market.

This need not occur. By following the six strategies outlined in this chapter, California cities and counties can overcome bureaucratic inertia and the resistance of interest groups and successfully implement competitive government strategies.

Additional Resources

Privatization: Lessons Learned by State and Local Governments, United States General Accounting Office, Washington, D.C., March 1997.

Revitalizing our Cities: Perspectives from America's New Breed of Mayors, RPPI Policy Study #186, 1995.



MAKING CRIMINALS PAY

BY JACK WAX

State courts shouldn't let offenders escape paying millions of dollars owed in fines. By collecting the debts, courts save taxpayers money and increase respect for the law.

Millions — possibly billions — of dollars are missing from our nation's 16,000 state and local courthouses. The money hasn't been stolen: It just hasn't been collected.

Most courts aren't organized to seriously pursue the fees and fines owed them or the people who owe it. "Some courts are beginning to pay more attention to collections, but it's still a relatively small minority of courts," said Barry Mahoney, president of the Justice Management Institute, a nonprofit research and training center in Denver, Colo.

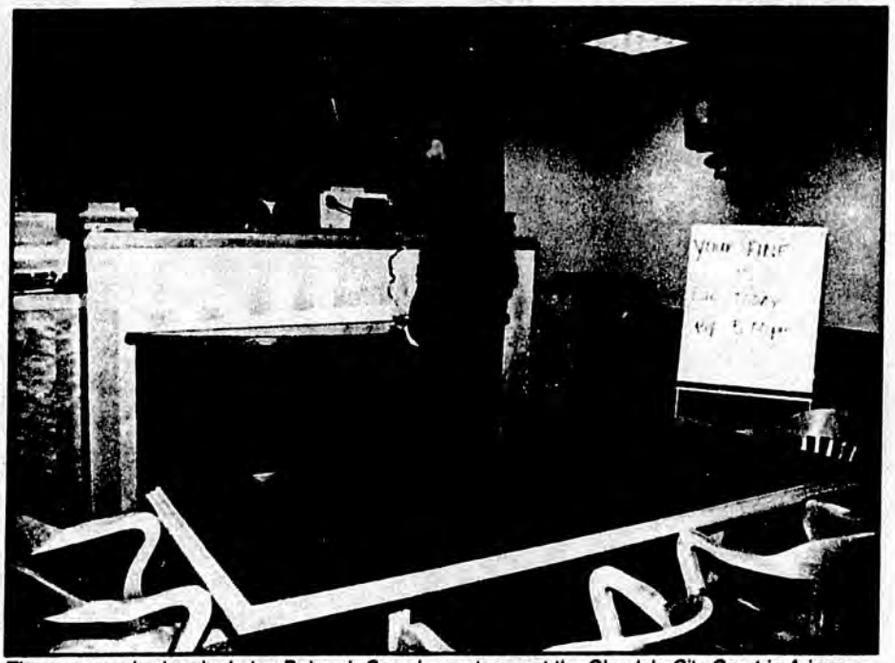
Many courts can't even calculate their collection rates because they don't know how much money individual defendants owe them and how old the debts are. "Very few courts have good data on that," Mahoney said.

Uncollected fines are more than a revenue loss — much more. Each unpaid fine is a court order that has been ignored. "If a fine isn't collected, it's as if someone wasn't punished at all," said John Matthias of the National Center for State Courts. Matthias recently visited 40 courts in 22 states,

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helping them find ways to improve their collection process. "They realized they needed some help, and that's why they called," he said. "Many courts would like to do more, but they lack the staff and computer systems to do it."

In a growing number of states and court districts, legislators and court officials are funneling resources into programs that help courts manage and enforce collections. They are finding that money spent on collections isn't a drain on state coffers; it's an investment that can pay for itself. In Arizona, a statewide program provides grants to courts for improving their collection practices. "It's a moneymaker," said Agnes Lesh Felton, director of court services for the Arizona Supreme Court. "We have found that within six to nine months, if certain basic principles are followed court revenues will increase more than the costs for staffing a program."



The message is clear in Judge Deborah Cruze's courtroom at the Glendale City Court in Arizona: The court expects fines and fees to be paid.

More than revenue

Each year, Felton awards about $400,000 to state courts to start new collection programs throughout the state. Since the Arizona Legislature authorized funds for the program in 1989, court collections have improved 118 percent. Although court filings have increased only 2 percent in the same time period, collections have increased by about $200 million. "Revenue is not the reason we're doing this," said Felton. "Fines are an important obligation people have. Part of doing justice is to make sure people obey their sentences."

Last year, the New Jersey Legislature authorized a program for increasing collections from criminal offenders who are on probation. The Comprehensive Enforcement Program was set up to pay for itself. "We have no additional appropriation to run the program," said Dennis Martin, chief of probation collections for New Jersey. "But we can keep 25 percent of most of what we collect."

All the funds his office collects for victim compensation, restitution and medical expenses pass directly through to designated accounts. Any program that brings in money for victims and the administration of justice can't help but be popular. Like programs in other states, New Jersey's has the support of the courts, the Legislature and the executive branch. Under New Jersey's program, Martin and two hearings officers visit courts and conduct hearings with probationers who are behind in their payment of fines. "We try to work with them to establish a realistic payment schedule," Martin said.

From January through December 1995, the program brought in an extra $2.5 million, enough money for Martin to hire three more hearings officers and a research analyst. On average, New Jersey probationers come out of court owing about $1,200 to $1,500. If a person is truly destitute, a payment schedule of $1 a week may be set up. "But in a lot of cases, people haven't paid because nobody is asking them to or nobody has set it up in such a way that there will be consequences for not paying," Martin said.

Ways to collect

In New Jersey, probationers who don't pay the courts face a wide range of possible consequences: garnished wages, judgments against property, attached income tax refunds and suspended drivers' licenses. As a last resort, probationers who owe but won't pay can be sentenced to serve a few days in the county jail. The sentence is then converted to an equivalent number of days in an enforced community-service program, which includes chores such as washing police cars, raking leaves or picking up trash along the highway. If they don't show up for the community service, the probationers can be jailed for contempt of court.

Colorado courts rely on collections investigators in each of the state's 22 judicial districts. "It's an upfront, preventative approach," said Paul Litschewski, management analyst for the Colorado Judicial Department. Before defendants leave the courthouse, a

collections investigator sits down with them and discusses their options to pay their fines. In addition to boosting collections of criminal fines, the Colorado program has increased collections of traffic fines. "In a large way, it's the smaller fines and fees that add up," said Litschewski. "It doesn't take anything extraordinary or extensive — it's just that little push that's needed." When the little push doesn't work, Colorado's collections investigators can resort to a full range of standard collection techniques or turn the debt over to a private collection agency. In Virginia, private collection agencies handle millions of dollars worth of delinquent fines for the courts.

In 1995, 114 Virginia courts used private collection agencies to collect $5 million owed in fines and fees. Two years ago, Virginia courts were mandated to begin serious collection efforts for any debt that was more than 41 days old. "We've seen a significant increase in total dollars collected," said Robert Baldwin, Virginia's state court administrator. Virginia courts must choose one of three methods for collecting fines and fees: They can set up in-house collection systems, use private collection agencies or rely on the state tax department collection system.



Minutes after the hearing is over, the collection process begins in Glendale, Ariz. Before leaving the courthouse, a defendant is screened by a collections court for her ability to pay fines and court costs.

Computers key to success

Private collection agencies can improve the bottom line for courts, but they don't make the justice system more efficient. To manage more efficiently, courts and justice system agencies are contracting services from private-sector companies. Money from improved collections can be put back into the system to pay for better, more efficient services. In Los Angeles, Lockheed Martin IMS is starting an 18-month pilot project to test new ways of monitoring criminal offenders on probation. The company, which provides data processing and business management services, is doing the pilot on a contingency fee basis, funded by expected improvements in collections from the probationers. "Improved collections is a vehicle to help courts and agencies re-engineer and focus more on caseload management issues," said Norm Early, senior vice president of the criminal-justice services division for Lockheed Martin IMS.

Without the computer power to track collections, courts can do little to improve their collection rates. "The courts must be able to put fines, fees and restitutions into a collection system that has the capability of printing out letters, tracking collections electronically, and providing information necessary to garnish wages and take legal actions against individuals who owe the debts," said Ken Bien, director of justice and public safety practice for Andersen Consulting, a private-sector company with extensive experience in automating government agencies.

Computers are the backbone of central fine-processing centers. As computer systems become more widespread, more states are shifting traffic-fine collection from local courthouses to a central fine-processing center. Connecticut developed the first such center in 1986, and processes about 2,000 traffic tickets each day through its Centralized Infraction Bureau in Hartford. The center has proven itself to be so efficient at handling fines that it now processes fines for other minor criminal infractions. Other states that have moved to a central traffic-fine processing system include New Hampshire, New Mexico and Massachusetts.

Court personnel are relieved when they finally get collections under control. The public also likes the results. Judge George Lindley of Duncan, Okla., has been promoting effective collection methods among Oklahoma courts for almost a decade. He has gauged the reaction of the public and of judges to pilot projects within the state. "Citizens are extremely happy," he said. "They can actually see the punishment being complied with, and they understand that you are also increasing revenues. When judges know that fines will be enforced they see them as an alternative to incarceration," he said. ❑