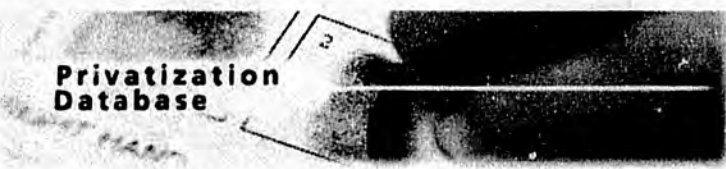


ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2724 SCOMM 122: COMMISSION ON PRIVATIZATION. ., 1999

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



Privatization
Database

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

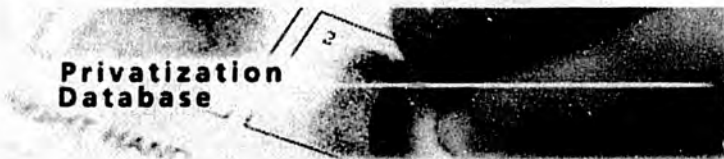
- Research the legality of public-private joint ventures.
- Allow both partners to share in the risks and rewards, but make sure the taxpayers are protected from any loss.

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.



Privatization
Database

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.

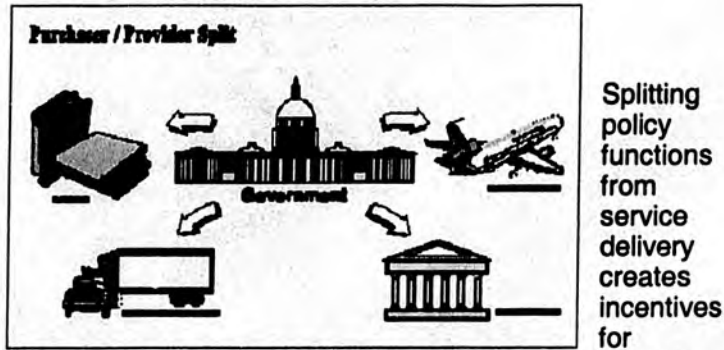
In addition, a centralized unit where a critical mass of knowledge about streamlining issues is set, should be established to manage the privatization process. Such a unit also would act as an institutional advocate for reform — publicizing and riding herd over departments that drag their feet.

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



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.

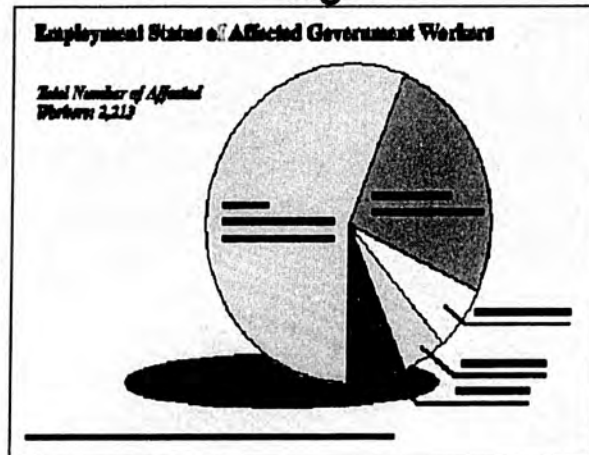
The study, titled "The Long-Term Employment Implications of Privatization," examined 34 privatized city and county services in a variety of jurisdictions around the country. The report found that of the 2,213 government workers affected over a five-year period by the privatizations, only 7 percent were 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 recognized that privatization 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 Consideration by Private Contractors

A common strategy to reduce current employee impact involves encouraging or requiring a contractor to offer first consideration for employment 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.

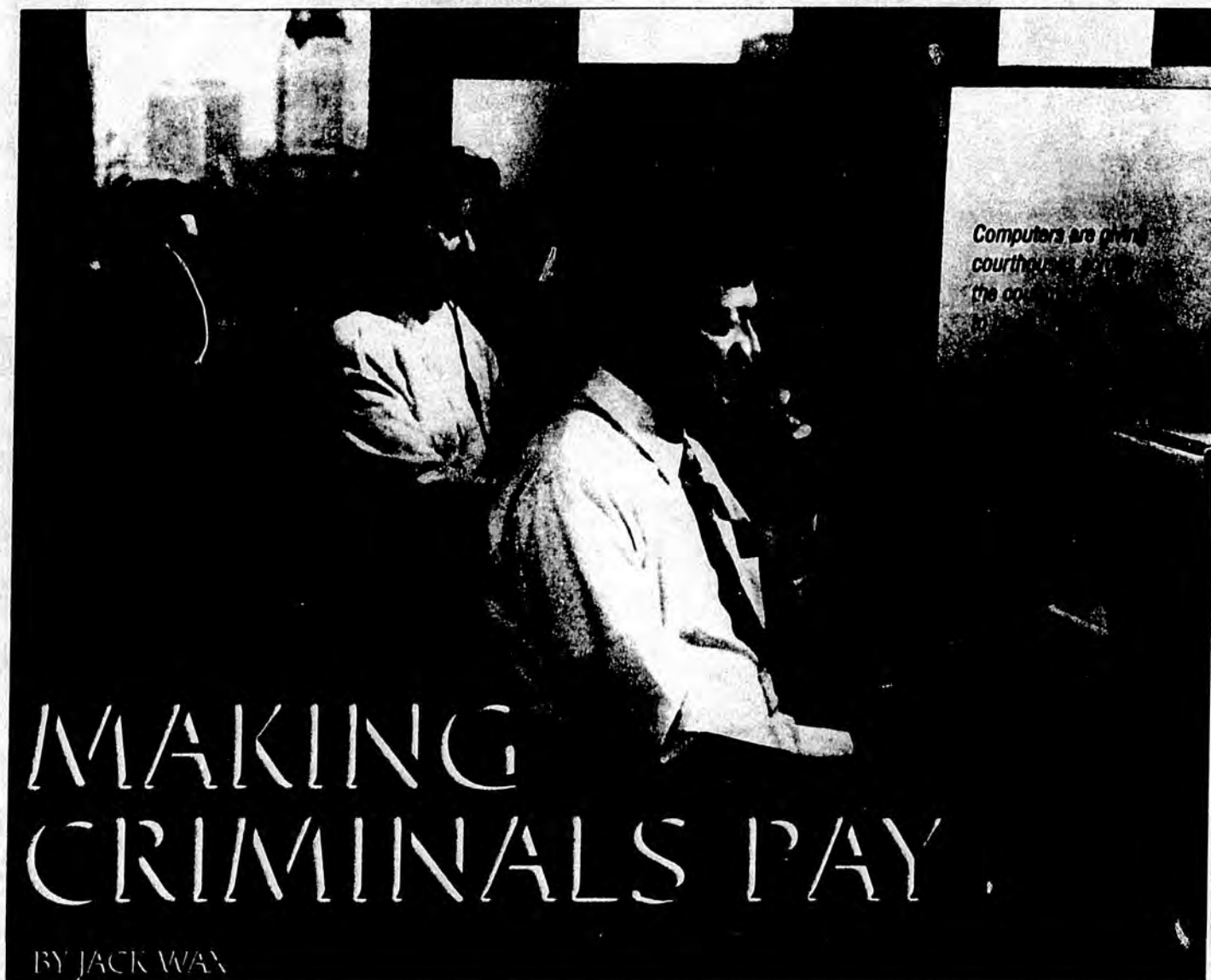
This need not occur. By following the six strategies outlined in this chapter, California cities and counties can overcome bureaucratic inertia and the resistance of interest groups and successfully implement competitive government strategies.

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.

■ COURTS



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

Jack Wax is media relations director for the Missouri Bar in Jefferson City. He may be reached at (314) 635-4128.

Justice Management Institute, a non-profit 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,

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

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 impor-

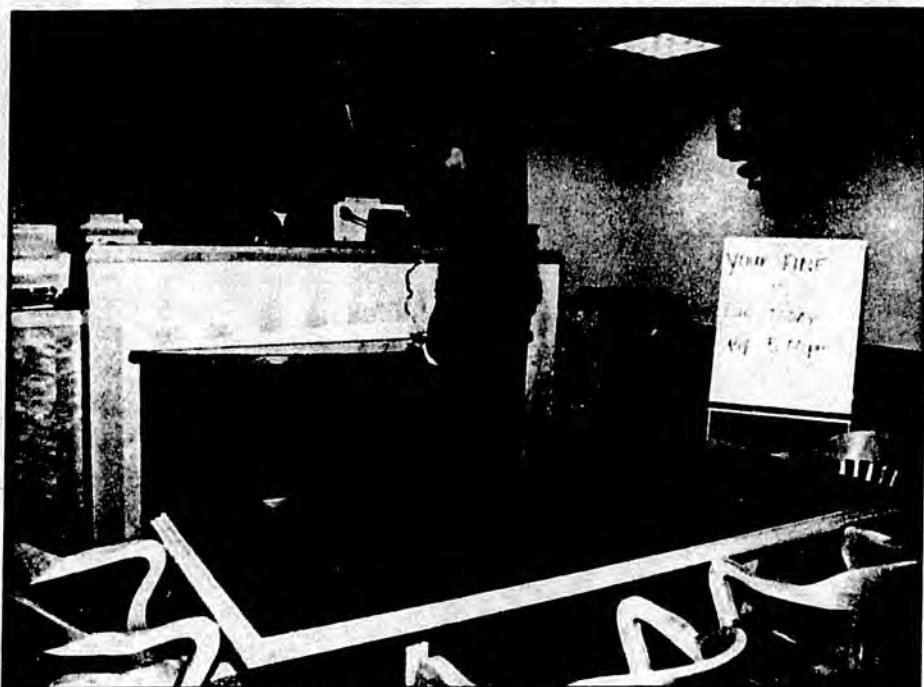
tant and the administration of justice can't help but be popular. Like programs in other states, New Jersey's has the support of the courts, the Legislature and the executive branch. Under New Jersey's program, Martin and two hearings officers visit courts and conduct hearings with probationers who are 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



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.

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."

More than revenue

Each year, Felton awards about \$400,000 to state courts to start new

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."

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."

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."

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.

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 collec-

tions 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

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 Hamp-



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.

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.

shire, 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. □

SCOMM

122:11



and Delivery of Government Services

Co-Chairs:
Representative John Cowdery
Senator Jerry Ward

Senator Al Adams
Bill Allen
Representative Tom Brice
Tom Fink
William Prosser
Helvi Sandvik
Kathryn Thomas
Don Valesko
George Wuerch

Bibliography of Privatization Articles

William Eggers, "Pro& Con: Privatization is the Wave of the Future," IntellectualCapital.com, July 13, 1997,
<http://www.intellectualcapital.com/issues/issue95/item2410.asp>, pp1-4

"What is Privatization?,"
<http://www.privatization.org/database/WhatIsPrivatization.html>, pp1-2

Reason Public Policy Institute, "Chapter 7," Privatization 1999: The 13th Annual Report on Privatization, 1999, pp.44-46

Reason Public Policy Institute, "Chapter 1- Chapter 3," Privatization 1999: The 13th Annual Report on Privatization, 1999, pp.1-22

Keon S. Chi and Cindy Jasper, "Private practices: A Review of Privatization in State Government," The Council of State Governments, March 1998

Reason Public Policy Institute, Privatization 1998: The 12th Annual Report on Privatization, 1998, pp.5-12

Reason Public Policy Institute, "Chapter 3," Privatization 1998: The 12th Annual Report on Privatization, 1998, pp.15-20

Scott Goldsmith et al., "Alaska's Asset Portfolio: Managing for Maximum Return," A Commonwealth North Study, December 1998

"Types and Techniques of Privatization," <http://www.privatization.org/Collection>, pp1-3

"A Quick Guide to Competitive Neutrality and Managed Competitions,"
<http://www.privatization.org/Collection>, pp1-4

"Political and Organizational Strategies for Streamlining,"
<http://www.privatization.org/Collection>, pp1-10

Ellen Perlman, "Public Mouse, Private Mouse," Governing, June 1999, pp20-24

Jack Wax, "Making Criminals Pay," The Council of State Governments, June/July 1996, pp13-15

IntellectualCapital.com

Issues

Pro & Con: Privatization Is the Wave of the Future

by William Eggers

Thursday, July 03, 1997



Search



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

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.



Want one site for
all your financial needs?

WINGMAN

CORRECTION

**THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION**



Rev. 6/98

Central Microfilm Services
Department of Education & Early Development
State of Alaska

IntellectualCapital.com

Issues

Pro & Con: Privatization Is the Wave of the Future

by William Eggers

Thursday, July 03, 1997



Search



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.



Want one site for

all your financial needs

WINGSTAN



Privatization Database

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



Privatization
Database

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.

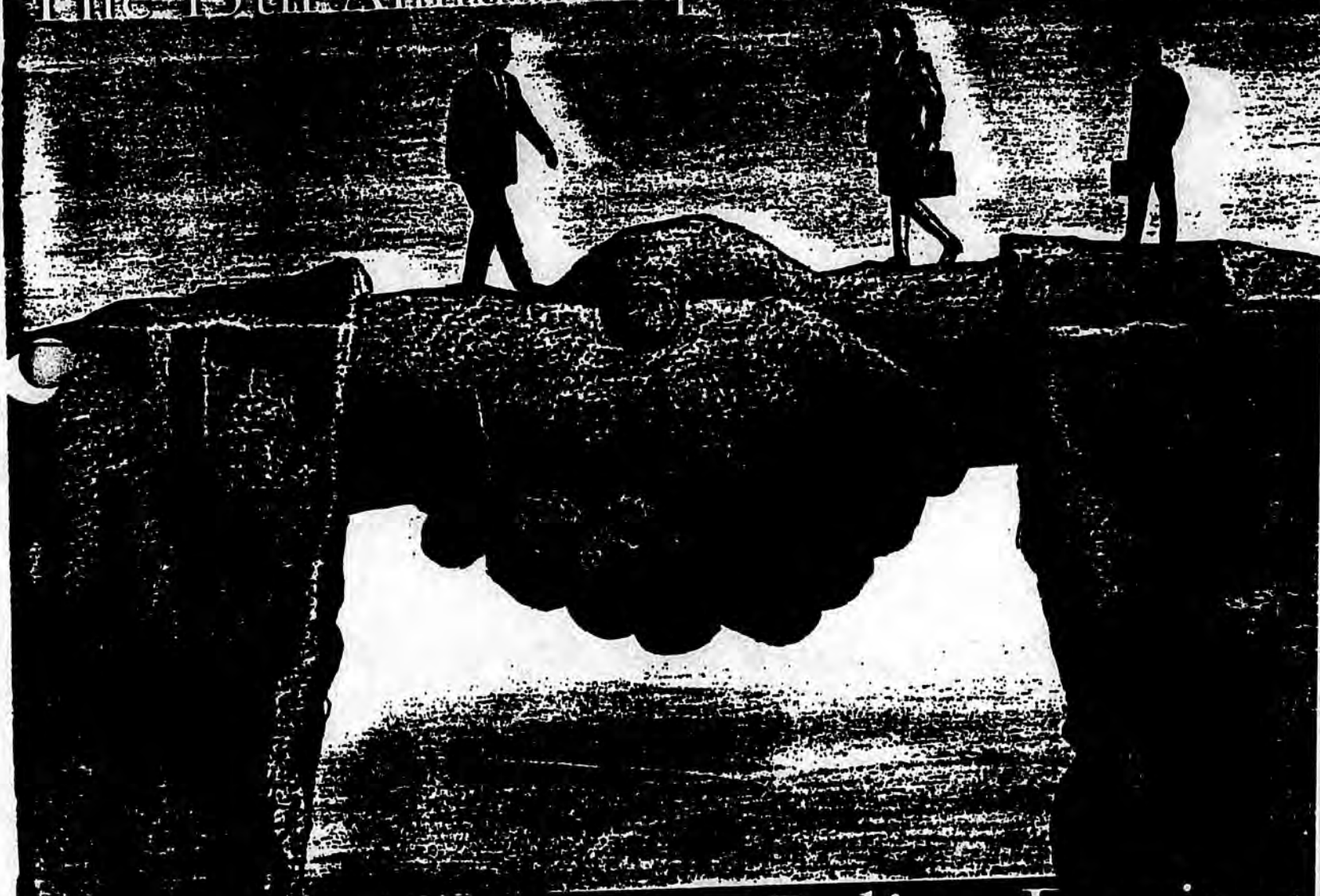
- **Commercialization (also referred to as "service shedding").** Government stops providing a service and lets the private sector assume the function.
- **Self-Help (also referred to as "transfer to non-profit organization").** Community groups and neighborhood organizations take over a service or government 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

Privatization 1999

The 13th Annual Report on Privatization



by Reason Public Policy Institute

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 a 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 \$30 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

large parcels of land to get the sections it wanted, ending up with more land than was required for the planned facility. The nonprofit is allowed to sell or lease this land to help offset its construction and operational costs.

The project will also benefit the county with increased sales and property taxes and employment opportunities for county residents. Local residents are also excited about having a greater range of businesses in their community, greatly reducing travel time for shopping.

Despite the success of the program, there have been critics, primarily the owners and operators of existing truck stops. They fear that the new facilities will draw away some of their customer base, negatively impacting their businesses. A number of truck-stop owners banded together to persuade the legislature to put a freeze on future sites until further research can be done on the economic impact of these public-private facilities.

LIBRARIES

Since July 1997, 25 public libraries in Riverside County, California, have been operated by a private contractor—the first large-scale library privatization in the nation. Riverside County officials have been extremely satisfied with the performance of Library Systems and Services Inc., (LSSI) and call the experiment a resounding success. The county and LSSI were among three partnerships honored by the National Council for Public-Private Partnerships, a 13-year-old coalition of public officials, business leaders, and nonprofit corporations. The partnership was lauded for demonstrating that public libraries can be “effectively and efficiently managed by private concerns without compromising the integrity and charter of public libraries.”

Riverside County officials report that complaints from library patrons have virtually ceased. LSSI has increased circulation by 10 percent and library hours by 34 percent; nearly doubled book purchases; maintained librarians' salaries; and even increased the number of employees from 80 to 118—all without spending more money. The company has also made the library more user-friendly; for example, books are arranged on shelves to grab the reader's attention, and paperbacks are organized and shelved, rather than left in a jumble on bookracks.

Prior to privatization, the city of Riverside had operated the county libraries for 86 years. After the state diverted a share of the libraries' property tax revenue to public schools in 1993, the county libraries lost \$4 million of a \$10 million budget. The city reduced library expenses by reducing book purchases and library hours but continued to take a 10 percent “administrative fee,” which meant that 10 percent of the library budget went to the city attorney, city budget writers, the city personnel department, and so on. The city of Riverside dropped the county library contract, and LSSI was one of three bidders on the new contract. LSSI won the contract and took over library operations on July 1, 1997. LSSI receives no fee from Riverside County, but it gets to keep any savings from the library budget.

Many critics question how LSSI can be making a profit and argue that they are just using Riverside County as an opportunity to break into the public-library market. For example, Susan Hildreth, a planning consultant for the California State Library, suggests that “they may be willing to take a loss with Riverside County to get their foot in the door, but they can't do it forever.” LSSI maintains that the Riverside operation is breaking even.

Critics have also charged that LSSI, as a subsidiary of Follett Corporation, would have an advantage in selling Follett's books to a system under its management. LSSI, however, has not bought any books from Follett for the Riverside libraries and argues that Follett would have to submit bids just like other private-book vendors.

Meanwhile, LSSI continues to sign new contracts with other cash-strapped library systems around the nation. City officials in Calabasas, California, signed contracts with LSSI and the city of Atherton, California, is considering a proposal from the company. In Jersey City, New Jersey, the city council signed a contract with LSSI that would have paid a fee of three percent of the library's \$6.4 million budget, or about \$200,000 in the first year of a three-year contract then two percent in each of the following years. However, the contract was voided by Judge Arthur D'Italia of the State Superior Court in Jersey City, who criticized the city council for failing to allow for public discussion of the matter and for failing to properly advertise the July 14 meeting at which the contract was awarded.

Public-sector Trends

STATE AND LOCAL FISCAL TRENDS

Once again, the majority of state and local governments across the United States experienced budget surpluses in 1998. On average, state governments are experiencing surpluses equal to between 8 and 9 percent of their expenditures. Budget surpluses are becoming a fact of life for many state and local governments (see Table 1-1).

This has led many, inside and outside of government, to question why budget surpluses are becoming more common. Two recent reports shed some light on the issue.

The Beacon Hill Institute's study "State Budget Surpluses," notes that in 1997 less than \$4.6 billion was re-

turned to taxpayers by the states, while spending increased an average of 5.5 percent. The habitual underestimation of revenues has led some to suggest that many governments are purposely running budget surpluses as a method of avoiding oversight and other budgetary restrictions. In this way, state and local governments are able to ensure a sizable pool of funds at the end of the year with few strings attached. This belief has been bolstered by the fact that surpluses are not all returned to the taxpayers and that the funds are often used on "pet projects" or to finance projects that failed to meet voter approval or other requirements.

The American Legislative Exchange Council's (ALEC) report, "\$74 Billion Windfall," highlights yet another interesting trend. Their work suggests that the surpluses are in large part due to significant tax cuts made over the last three years. The reduction in tax burdens on individuals and businesses has actually spurred increased economic growth. This has allowed states to increase deposits in "rainy day" funds, increase expenditures, return some of the surplus to taxpayers, and cut tax rates all at the same time—in essence, the economic pie has grown so much that there is more for everyone. The surpluses are in part due to the public sector's failure to realize that tax cuts have led to increased revenues, not decreased revenues.

Table 1-1: State Surpluses in 1995–1998
(\$ millions)

Year	Estimated Revenue	Actual Revenue
1995	\$269,532	\$274,946
1996	\$279,978	\$286,028
1997	\$295,301	\$303,622
1998	\$314,689	\$320,698

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

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	\$1,867	\$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 "prom-

ise 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/tp/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 emergen-

cy. 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/cc/home.htm.

PRIVATIZATION IN LOCAL GOVERNMENTS

Local government continues to be the most interesting and innovative area for privatization initiatives and policy. In 1998 two new studies, in Illinois and New York State, measured the extent of, methods of, and issues associated with privatization by township and county governments. And San Diego County's privatization program—one of the most innovative local government programs since those initiated by Steve Goldsmith when he became mayor of Indianapolis—has achieved notable successes and has a full head of steam going into 1999.

Illinois's In-depth Look at County-level Privatization

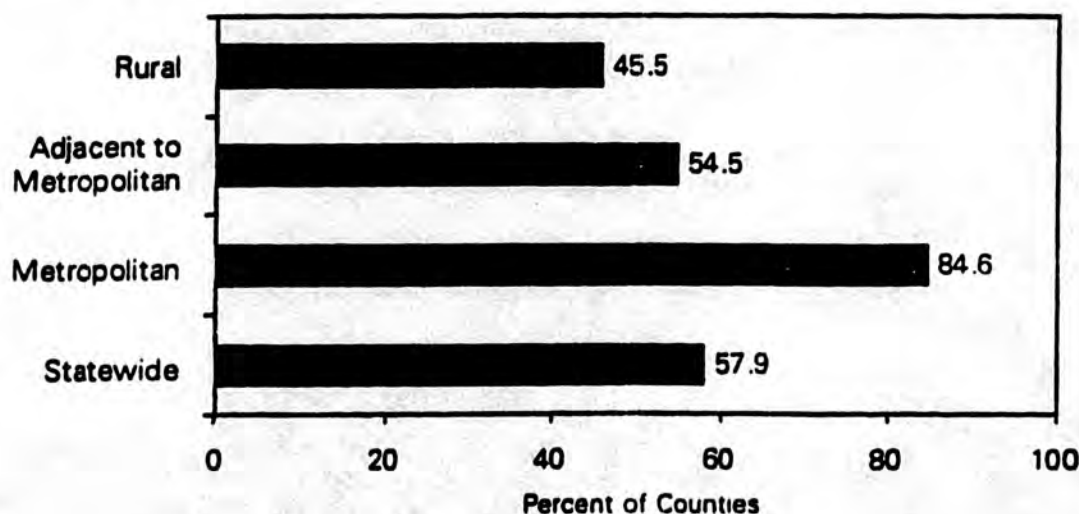
In December the Illinois Center for Competitive Government (www.ioc.state.il.us/iw/Office/LocalGov/CfCG.htm) released its report "Efficiency in County Government: The Role of Intergovernmental Agreements and Privatization." They surveyed 57 counties in Illinois on intergovernmental agreements and privatization and collected some fascinating and useful data. This appears to be one of the most detailed and comprehensive studies of county-level privatization available.

The center found that intergovernmental agreements are widespread (see Figure 1-1), especially those in which counties provide services to smaller governments, such as towns or smaller counties. The most-common services provided under such agreements are public safety (36.4 percent of respondents) and public works (22.6 percent of respondents). As the report points out, "A common feature of these services (police, fire, jails, highway maintenance, and snow plowing) is a relatively large fixed cost, such as that for highway maintenance vehicles and materials or a communications system for police protection. The higher the fixed costs associated with a service, the more likely that smaller governments can benefit from contracting for it and the more receptive the larger governments will be toward a cooperative arrangement."

Privatization of services by Illinois's county governments is also widespread. Nearly half of the 57 counties in the survey contract for 10 or more services, and over 12 percent contract for at least 20 services. Interestingly, the more metropolitan a county, the more likely it is to contract for more services (see Figure 1-2). The report goes on to document the extent to which specific services are privatized by counties, and it provides a wealth of case studies and best practices (see, for example, p.10 on Lake County).

Perhaps more interesting, though, is the detailed information the report provides on the contracting processes

Figure 1-1: Counties that Provide Services for Other Counties by Contract



Source: Illinois Center for Competitive Government, 1998.

used by the county governments. Here are a few highlights of the findings.

- Top four factors that county officials say caused them to consider privatization: (1) internal financial pressure, 55.2 percent; (2) external financial pressure, 41.4 percent; (3) successfulness of others, 37.9 percent; (4) concern about liability, 31 percent.
- Top four obstacles to privatization named by county officials: (1) lack of evidence/information, 44.4 percent; (2) loss of control, 37 percent; (3) insufficient number of private service providers, 33.3 percent; (4) restrictive public-employee labor contracts, 29.6 percent.
- Top four success factors in privatization named by county officials: (1) financial considerations, 80 percent; (2) quality of work, 52 percent; (3) timeliness, 40 percent; (4) flexibility, 36 percent.

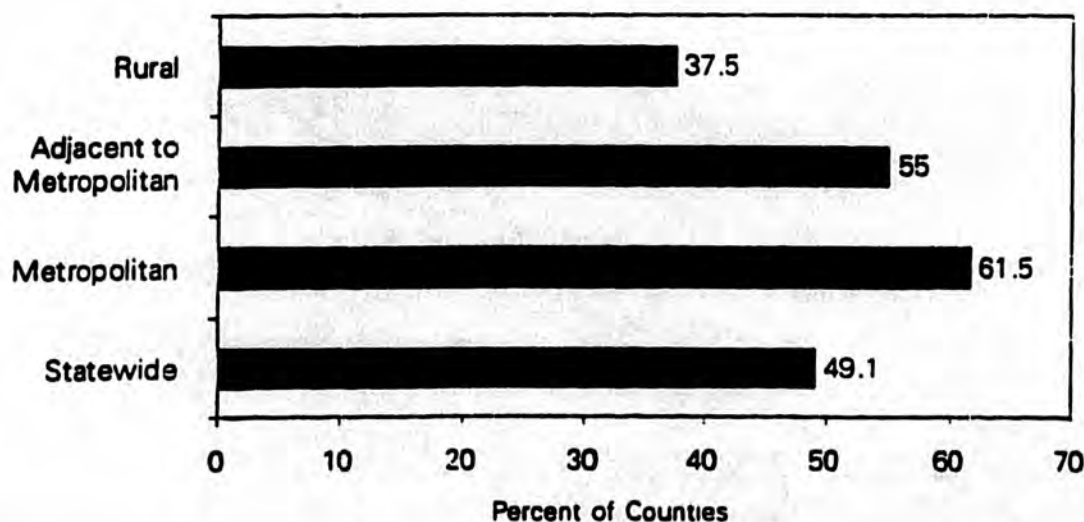
Finally, the survey examined the effect of privatization on employees. In results similar to those found in the center's survey of municipal privatization in Illinois in 1997, the county survey found that most of the time, privatization does not lead to layoffs or even to lower wages and benefits (see Figures 1-3 and 1-4). Employee-transition strategies, as well as better wages and benefits in the private sector, increasingly ensure that privatization does not negatively affect public employees.

Restructuring Township and County Government Services in New York State

Two professors in the Department of City and Regional Planning at Cornell set out to learn how local governments are restructuring service delivery and how the privatization option fits in with other strategies. The result was a study called "Restructuring Local Government Services: Privatization or Government Innovation?" (www.cce.cornell.edu/community/govt/restructuring/index.html). They surveyed 133 New York township and county officials and found that the officials are using a range of restructuring tools to try to improve service delivery. Besides privatization, some governments: (a) simply stopped delivering some services altogether, (b) used intergovernmental contracts, (c) brought formerly outsourced services back in-house, and (d) engaged in government entrepreneurship (selling government services to clients, not just local residents). The extent to which the various strategies are used varies by service (see Figure 1-5).

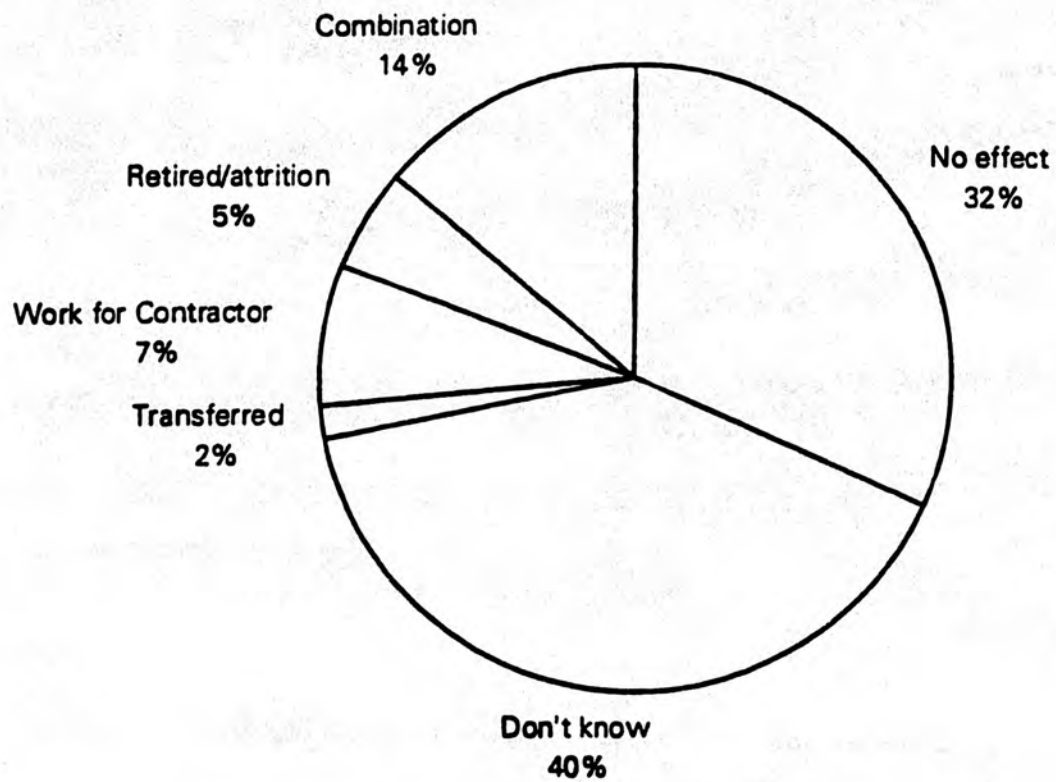
One of the most interesting things they found is how sophisticated some governments are becoming in their use of restructuring, using complex combinations to help create competition and stimulate better service delivery. They found a "continuum of restructuring forms from the most

Figure 1-2: Counties that Contract for at Least 10 Services



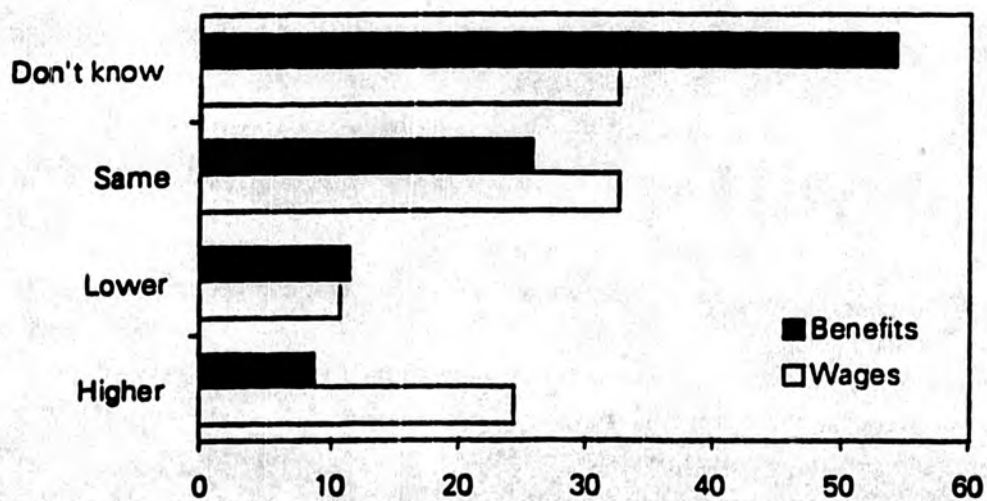
Source: Illinois Center for Competitive Government, 1998.

Figure 1-3: Effects of Privatization on Public Employees' Jobs



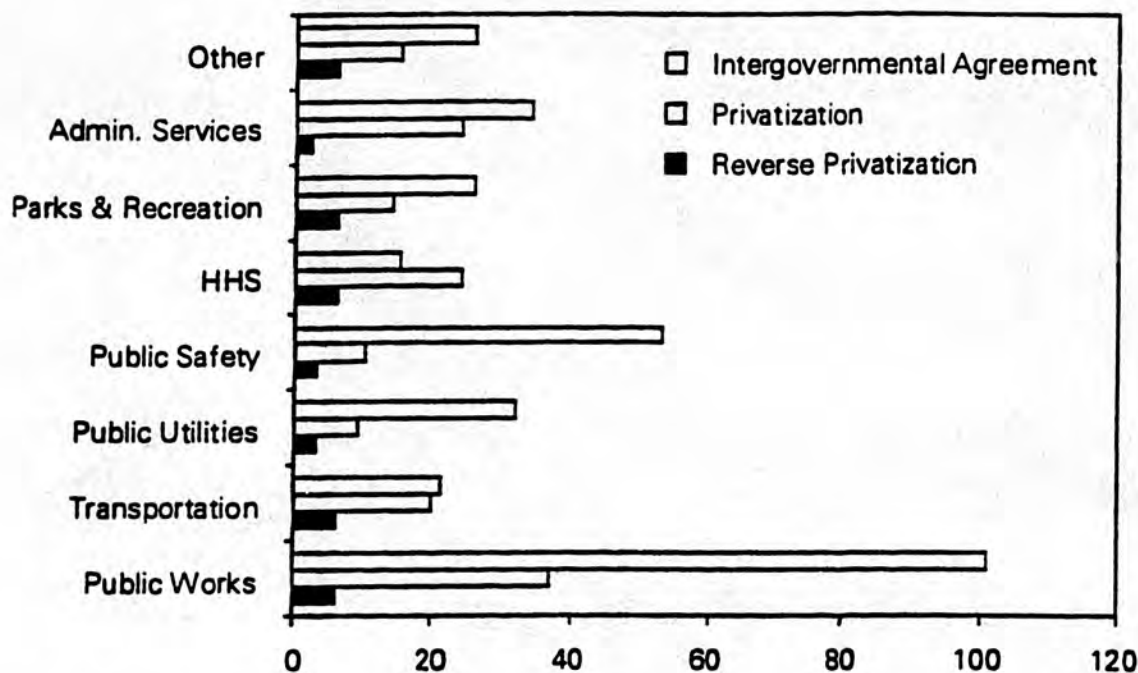
Source: Illinois Center for Competitive Government, 1998.

Figure 1-4: Effects of Privatization on Employee Wages and Benefits



Source: Illinois Center for Competitive Government, 1998.

Figure 1-5: NY County Restructuring by Form and Service



Source: "Restructuring Local Government Services: Privatization or Government Innovation?," Cornell University, 1998.

simple and common (privatization and intermunicipal cooperation) to the more radical (cessation, reverse privatization, and governmental entrepreneurship). As the level of restructuring increases so does the sophistication of forms used. As governments engage in restructuring they begin to structure the market, creating competition where none exists, achieving economies of scale—not merely responding to market conditions."

The authors also discovered some interesting factors that shape privatization decisions. They found that unionization was cited as a major barrier to privatization only by governments that have not privatized. In contrast, governments that have privatized services do not consider unionization to be a significant barrier. Almost the same story was found with regard to legal barriers. A little actual experience with privatization quickly teaches local officials that it can be done. As the authors put it, "Innovation requires knowledge, resources and willingness to take risks. While wealthier and more complex governments with more experienced managers exhibited higher levels of restructuring, more complex arrays of restructuring were not dependent

on wealth or municipal type, only on experience. Moreover, governments which experiment with new forms of restructuring keep service quality as a primary concern. The more willing a government is to experiment with a wider array of restructuring forms, the less likely it is to be primarily concerned with budget impact."

San Diego County, California: A Holistic Approach to Government Reform

In 1998 the Competition and Reengineering Group of the San Diego County chief administrator's office (www.co.san-diego.ca.us/cnty/cntydepts/CAR) completed some major projects and established itself as a national leader in privatization and government reform.

Their approach follows two main tracks, both with the goal of moving the county government into a more concentrated focus on its core missions. County services are being systematically assessed to determine if they can be made internally more efficient or should be competitively provided. The first track, reengineering, has been applied to eight county agencies, yielding over \$14 million in annu-

al cost reductions (see Table 1-3). All savings are earmarked for specific reinvestment strategies, mostly reducing user fees, expanding services, and reducing debts.

Other services have been slated for competition. County administrators have decided to use a managed competition process for all of the competitions, allowing the in-house units to bid for contracts against the private sector. They have taken great pains to make the competition process as fair as possible and ensure maximum benefit to the taxpayers, developing a manual for managed competitions and a guide to comparing costs and developing statements of work (www.co.san-diego.ca.us/cnty/cntydepts/CAR/policies/index.html).

Two service competitions were held in 1998. The fleet maintenance contract was won by the in-house unit, which bid \$1.4 million lower for the nearly four-year contract than the lowest private bidder, thereby cutting costs by 14 percent, or \$1 million per year. A private bidder won the county's competition to provide alternate public defender and dependency services, cutting the county's costs by \$235,000 per year. County administrators are in the midst of evaluating proposals to manage the county's information technology services. After that, they plan to move on to competitions for the county workers compensation agency, correctional health services, road maintenance, and revenue and recovery services, which are expected to save the county a total of over \$2 million per year.

The bottom line is impressive—nearly \$17 million per year in cost savings, along with more-competitive and improved county services. Keep an eye on San Diego County for more innovations.

Table 1-3: Annual Savings From Privatization

Service	Annual Savings
Administrative Services	\$500,000
Dept. of Environmental Health	\$1,300,000
Children's Services	\$6,000,000
Air Pollution Control District	\$630,000
Public Works Dept.	\$3,200,000
Probation, Phase 1	\$2,000,000
Facilities Maintenance	\$800,000
Budget Office	\$300,000
Total	\$14,730,000

Source: San Diego Competition and Reengineering Group, 1998.

Lake County, Illinois: A Privatization Innovator

One of the most oft-cited counties in Illinois for best practices in privatization is Lake County, a metropolitan county of about 600,000 residents in the northeast corner of the state. The county has taken a systematic approach to privatization, with the county administrator's office developing a process for considering whether a service should be privatized. They established five criteria:

1. Core versus service functions—don't privatize regulatory, oversight, or core functions, but service functions should be considered.
2. Support functions—functions that are not direct operations of core functions should be considered.
3. Financial viability—functions where a private firm cannot cover costs with revenue from user fees may require subsidies.
4. Price versus performance—vendor qualifications must be assured first, before turning to price.
5. Staffing considerations—strive to transfer displaced public employees to the vendor or to other government agencies.

These criteria are applied on a continuing basis; services are reexamined periodically in case a change in technology, finances, in-house performance, or the private market changes the decision.

Through this process, Lake County has privatized 25 county services. For example, the County Health Department contracts with physicians and private radiology clinics and outsources housekeeping, equipment repair, security, and food services at all clinics. The county has also privatized the food services and medical care in its jail. The food service contract saved the county \$130,000 per year and did not lead to any layoffs. The medical care contract also brought cost savings with no layoffs; in addition, the private service provider was able to get national accreditation for the jail health services, thus reducing the county's potential liability and insurance costs.

For more information, contact the Lake County Board Chairman at Lake County Courthouse, 18 North County Street, Waukegan, IL 60085.

The Privatization Decision

SMALL-TOWN INNOVATION: MONMOUTH, ILLINOIS, ENTERS INTO CUTTING-EDGE PUBLIC-PRIVATE PARTNERSHIP

—By Shawn J. Gillen and Robin A. Johnson

With local governments facing issues of unfunded intergovernmental mandates, property tax restrictions, decaying infrastructures, and citizen opposition to tax increases, many officials are turning to privatization as an alternate service-delivery method. While the benefits of privatization in larger cities are well known, innovative public-private partnerships are also occurring in small and medium-sized communities.

The city of Monmouth, Illinois, recently became the largest community in the state to contract all public-works functions with a single private-sector provider. In addition to improving the quality of services to residents and saving taxpayer dollars, the agreement is noteworthy because of the support given by the local union representing city employees.

Monmouth is a community of 9,500 located in Warren County, approximately 50 miles south of the Quad Cities and 70 miles west of Peoria. The city has contracted its

wastewater treatment with Environmental Management Corporation (EMC), a St. Louis-based firm, since the early 1990s. EMC is the largest provider of contracted services in Illinois and specializes in water, wastewater, and public-works services. In 1998 the city council renewed the initial agreement for five years and invited EMC to conduct an evaluation of all public-works services and submit a recommendation for further public-private opportunities.

Key Issues

Local officials determined several important issues that had to be addressed before entering into a privatization agreement. First, privatization had to involve significant cost savings. The city was experiencing severe financial problems and was considering painful remedies such as service reductions, employee layoffs, and tax increases. Private provision of public-works services had to save money to gain public support and help address the city's financial difficulties.

Second, privatization had to increase the quality of services provided by the city. It wasn't enough just to save money, although cost savings were certainly important. Officials were looking for technological upgrades and advanced computerization to provide value-added services to residents.

Finally, the agreement could not negatively impact public employees, who were members of an AFSCME local. Local officials required that the private firm hire all current public employees, lay off no one, recognize and bargain in good faith with the union, and provide comparable pay and benefits. This requirement was intended to ensure that employees were treated fairly and not bear the brunt of the city's cost-reduction efforts.

Results

The city council passed the agreement in September 1998, and it took effect on October 1. The length of the contract is 10 years with a 10-year renewal option. EMC's proposal covered water and wastewater services, street maintenance, garbage collection, and billing. Cost savings were projected at \$200,000 or more per year, leading up to \$315,000 when the agreement is fully implemented. In other words, the firm agrees to provide public-works services for \$1.3 million, compared to the city's cost of approximately \$1.6 million.

The terms of the agreement enhance service quality. EMC upgraded the city's computer system and provided a solution to the Y2K problem. The firm implemented a switch to monthly billing of water and sewer users, which will increase efficiency and help the city's cash flow. EMC conducts a regular program of preventive maintenance and helped to develop a long-term capital replacement program for the city. In addition, during a snowstorm in early January 1999, Monmouth's streets were cleared faster and better than those of many nearby communities, which faced staggering costs for additional snow-removal contractors.

EMC also agreed to hire all current employees, recognize the union, and pay comparable pay and benefits. The current workforce of 28 will be reduced to 24 only through attrition. No layoffs will occur as a result of the agreement. This provision helped the city council overcome a source of potential opposition and led to union workers endorsing the agreement before final consideration. After approval, EMC and the union agreed to a four-year contract that was overwhelmingly approved by the membership.

Summary

In spite of improved financial conditions at the federal level and in most states, many local governments, large and

small, are facing continuing financial difficulties. Privatization is one method that communities such as Monmouth are adopting to lower costs and improve services while ensuring fair and equitable treatment for employees. The agreement adopted in Monmouth can serve as a model for innovative public-sector officials to consider as an alternative to tax increases and/or service reductions.

Shawn J. Gillen is Mayor of Monmouth, and Robin A. Johnson is Third Ward Alderman and Chairman of the Finance Committee. For more information, contact Mayor Gillen at (309) 734-2141.

OUTSOURCING IN STATE GOVERNMENT: A COMPTROLLER'S PERSPECTIVE

—By Billy Hamilton

Today's government manager must be a jack-of-all-trades. He or she not only is responsible for the programs normally associated with government, but also must master an array of different businesses required to operate a successful agency. Agencies may have large printing operations, complex purchasing processes, and massive data centers. All of these are critical to achieving the goals of the agency, but almost none is directly related to the actual services the agency delivers to taxpayers.

Taking a lesson from the private sector, more and more government managers are asking a simple question about some of the things they do: Should we be in this business? That is, should we be running our own print shop, our own mail operations, our own computer center? Often, the answer is yes. At other times, it may make more sense to outsource the operation to a business (or another agency). The key is understanding when outsourcing makes sense from a practical business standpoint and when it is being done simply as part of the latest business fad.

In Texas, the comptroller of public accounts has been a leading advocate of a reasoned approach to outsourcing. The comptroller's office has completed four comprehensive performance reviews of state government since 1991.

with savings recommendations totaling more than \$8 billion (on an annual state budget of just under \$45 billion).

Outsourcing has been a significant part of this program. At the comptroller's recommendation, the legislature in 1993 created a Council on Competitive Government, made up of the state's key legislative and executive leaders (governor, lieutenant governor, Speaker of the House, comptroller, and executive director of the General Services Commission), to look at proposals for outsourcing across the government. To date, the council has approved proposals to consolidate state printing and mail operations, renegotiate state long-distance telecommunications services, and outsource one state data center. Total savings through fiscal year 1997 are estimated at \$22 million. Another, more controversial proposal that is still in the works would consolidate and outsource at least a part of the state's large welfare-eligibility determination process.

The comptroller's office outsourced its printing operations (the successful vendor was another state agency) and a large part of its telephone tax-collection functions, both to save money and to improve the use of its staff. With telephone collectors making initial calls to remind businesses that they are late on taxes, the office has been able to free up regular staff for more-demanding work on individual accounts. The comptroller also looked at the potential for outsourcing the office's data center (which controls state tax collections and statewide accounting) but, significantly, decided that it was more cost-effective to retain the operation internally.

In all of these initiatives, we have tried to approach the issue from a business-like standpoint. If government is doing a good job and providing a cost-effective service, outsourcing often doesn't make sense. Decision makers sometimes make the mistake of assuming that the private sector is always better. Our analysis has shown that government workers are often as good as or better than the private sector and that their cost of providing a service may be lower. But not always. Here is a list of key issues to consider when thinking of outsourcing:

- **Can someone else really do a better job?** Vendors will often tell you that they can, and they may be right. However, you are best served if you have internal staff do the research themselves to identify all options.

- **What is it costing us to do it internally?** One of the most difficult challenges in our government efforts at competition has been getting a realistic internal costing of a service for comparison. Indirect costs (legal services, data support, etc.) are frequently overlooked.
- **Do everything possible to avoid changes in scope.** Once an outsourcing decision is made, the real challenges begin. You must take the time to specify the scope of services you are going to purchase. Costly change orders midway through an implementation can make for a bad experience for both the agency and the vendor. Unexpected scope changes after implementation can drive up the estimated cost or lead to significant problems with the external vendor.
- **Bid the services widely.** It violates our process to sole-source any outsourcing project. There are many vendors who can deliver most services, and you will get the best results if you give them all an opportunity. This includes other government agencies.
- **Negotiate like you mean it.** It may seem trite to say it, but you must drive a hard bargain. Especially where critical government services are involved, you should build in protections for the government to ensure that the vendor has a real stake in making the service work. This may include liquidated damages or other legal remedies for nonperformance.
- **Monitor implementation and performance.** This is an area where governments often fall down. We always try to go down to the frontline user level and see firsthand how things are going.

Finally, a word on politics: outsourcing, or privatization, has become an important policy direction for many political leaders, particularly in the states and at the local level. But outsourcing inevitably means jobs, and this means that political implications are very likely, especially if you are considering a large-scale outsourcing.

Unfortunately, this area often is a two-edged sword. Some decision makers worry about the effect on government jobs. Others may favor the approach but worry about having the private sector involved in certain government functions. For example, our legislature has generally been supportive of efforts to consolidate and outsource printing operations, but it would be much less supportive of a pro-

posal to outsource tax collection. This has been a problem with the proposal to outsource welfare-eligibility determination in Texas, and it is an issue that cannot be ignored.

In the end, government decision makers are likely to decide what they have probably known intuitively all along: There are some things that we want government to do and that it can do well. Other avenues may be open to direct competition between government and business. As managers, it is an option that we should consider.

Billy Hamilton, Office of the Comptroller, State of Texas. For more information, contact him at (512) 463-4002 or see the Texas Performance Review at www.cpa.texas.gov/tpr/tpr.html

LEGAL ASPECTS OF PRIVATIZATION

Adapted with permission from the Illinois Comptroller's September 1998 special edition of Fiscal Focus on Privatization. You can view the entire issue at www.ioc.state.il.us/iw/ioc-pdf/sepff98.pdf.

This article highlights three legal issues regarding outsourcing: First, how can a government enable privatization? Second, what are the legal barriers to privatization? Third, how should an outsourcing agreement be drafted?

How Can a Government Enable Privatization?

Some jurisdictions have passed enabling statutes to facilitate privatization. For example, in 1994 Michigan's Gov. John Engler secured passage of a charter-school law, opening the way for private companies to run public schools. The Michigan legislature also took privatization off the list of mandatory subjects of bargaining in Michigan's collective-bargaining statute, enabling schools to outsource cafeteria, custodial, transportation, and other such support services.

In addition, some governments have passed laws allowing them to operate more like a private-sector business. For instance, Georgia enacted legislation abolishing civil-

service protection for state employees hired after July 1, 1996. The law reduces government rules that make it difficult to hire, promote, and fire, thus enabling public employees to be judged on the basis of performance.

Some courts have also supported privatization efforts. For example, the Wisconsin Supreme Court upheld the constitutionality of education vouchers utilized in Milwaukee's school-choice program. The use of vouchers was found not to violate the separation of church and state.

What Are the Legal Barriers to Privatization?

First, union contracts and labor laws may impede outsourcing or raise its costs. Labor agreements may prohibit outsourcing outright or condition outsourcing upon specific factual findings, such as cost-effectiveness. Courts in states including Illinois have held that subcontracting is a mandatory subject of bargaining. Therefore, governmental units considering outsourcing should determine the extent of any contractual limits on outsourcing and whether there has been a waiver by the union of any further bargaining rights.

Second, state or federal statutes can restrict the degree to which outsourcing is permissible. For example, Massachusetts's "Pacheco Law" makes it necessary to perform cost comparisons establishing that a private-sector vendor can perform the services at issue more cost effectively than the agency.

Third, the law can affect a government's financial leverage in privatization deals. Sometimes it provides financial muscle. For example, governments implementing public-private partnerships to spur development of economically disadvantaged regions may be able to offer tax increment financing as an incentive to investment. On the other hand, the law can also hamstring financing efforts. For example, government facilities built with the proceeds of tax-exempt bonds may lose their tax exemption if they are sold to private entities.

How Should an Outsourcing Agreement Be Drafted?

When negotiating an outsourcing agreement, a governmental entity often addresses the following issues:

Procurement Procedures: Rigid bidding and evaluation procedures can be time-consuming and administratively burdensome, but they also promote fairness and transparency, insulating privatizers against charges of favoritism and unfair dealing.

Goal Assessment: By issuing requests for information, privatizers can gather ideas from a host of sophisticated, experienced service providers.

Precise Terms of Service: Clear scope-of-service provisions, realistic service-level commitments, and measurable performance guidelines may help ensure that the government's expectations are met.

Pricing Models and Procedures: In selecting vendors, try to make "apples to apples" price comparisons. In developing a contract, it's useful to clarify which conditions or events will trigger payment, which method or formula will be used to calculate payment owed, and which government personnel will be authorized to oversee the vendor's performance and sign off on corresponding payments.

Accountability: If multiple vendors provide service, identifying a prime contractor may enhance accountability.

Indemnification: Government entities may not be positioned to agree to boilerplate indemnification terms. For example, funding laws may restrict governments' ability to indemnify, and many states' laws require the state attorney general to assume control over state legal defenses. Indemnification terms may need to be thoughtfully drafted.

Risk Management: The District of Columbia was sued over alleged medical malpractice by the medical staff of its privately run prison. Outsourcers may wish to consider negotiating risk-management procedures into the contract.

Anticipating Change and Conflict: Negotiating change-management procedures, contingency plans, and dispute-resolution procedures can minimize the risk of service disruption.

Exit Strategies: Specifying events that will trigger an end to the relationship, as well as mechanisms and financial responsibility for disentanglement, is best done at the start of the relationship.



MEASURING A TRANSIT AGENCY'S PERFORMANCE

What measures can be used to determine how well a transit agency is performing? Is its performance this year better than last year's? Are there trends to measure that tell whether it is growing or on a declining slope?

Monitoring transit-agency performance is growing increasingly important. Two substantial reasons why are the passage last year of the Federal Transportation Equity Act for the 21st Century (TEA-21) and the growing emphasis on transit agencies becoming a means to aid people in the transition from welfare to work.

The increase in federal resources and program responsibilities will eventually spell greater requirements for expending local and state tax dollars. Making sure those increased dollars are spent wisely will become increasingly important.

For the past two years, the American Transit Services Council (ATSC) has been exploring various ways to measure transit performance. While there are many valid measures, experience shows that what a community chooses to measure will drive particular performance behaviors.

Of course, this assumes that transit agencies actually have established performance standards. Where transit agencies competitively contract their services, service standards are established as part of the contract. If a transit agency does not contract services, it is highly unlikely that the agency has established standards and provided performance incentives (rewards and penalties) to meet those standards.

ATSC members recognized that the fundamental starting point for developing measures was defining the purpose of the transit service, which may well vary from community to community. Three possible purposes are:

- Serving community values (providing transportation alternatives, reinforcing land use patterns);
- Achieving specific mobility objectives (congestion mitigation, improvement of air quality, compliance with federal standards);
- Assuring equity of opportunity (equal access to jobs and services).

Regardless of the purpose(s) for operating transit services, the cost and performance of the services should also be measured to justify investments and expenditures and to set pricing and/or subsidy policies. For example, the goal of equal access to jobs may be achieved by expanding fixed-

route service. The question then becomes whether this is the most efficient and effective way to achieve the goal.

These questions have led the ATSC to look at whether there is one basic element common to any cost-benefit analysis of transit service, regardless of the service's purpose(s) or the criteria used to describe various activities. To answer that question, another must be addressed: What is the most basic output, or product, of transit service?

Passenger Seat Miles

The most fundamental output of a transit service is passenger-seat miles, or the number of seat miles actually used by riders. To meet any of the purposes of transit services or estimate the value of any activity (e.g., an on-time schedule), there should be measures that assess the utilization of resources expended to achieve the primary output of transit service, passenger-seat miles.

The only existing national performance measures that attempt to measure transit efficiency and effectiveness are contained within the National Transit Database (NTD). This database, which has a lag of more than two years in reporting information, is at best tedious to decipher and does not provide a clear picture that allows decision makers or citizens the opportunity to gauge what is really happening with their transit services.

The ATSC decided to develop a model that would clearly and easily show a transit agency's performance over time and allow for comparisons with peers, with a key focus on measuring the primary output of transit services, passenger-seat miles. The ATSC has chosen four key measures of resource utilization and transit output:

- Cost per passenger mile—how much it costs to transport a passenger one mile
- Cost per seat mile—how much it costs to make one seat available for one mile

- Load factor—the percentage of seats that are filled with paying passengers
- In-service productivity—passenger miles per driver

These measures can be used directly to compare different systems, assess changes from one year to another, and locate potential sources of improvement for a particular system. For example, looking at cost per seat mile, it is possible to compare the effectiveness of large buses to that of smaller buses, vans, or taxis. It is also possible to analyze particular routes or regions of a service area, given enough disaggregation of the data.

In spite of the evident improvement over the current system of performance reports, these measures still make understanding their interrelationships, as well as intercity comparisons, difficult. For example, the values for each of the different measures are not on the same scale, so it is not possible to understand how driver productivity might trade off against load factor, etc. The inability to readily see the interrelationships between the key utilization measures led the ATSC to evolve a model that creates a single, unified index to analyze performance.

Transit Performance Index

The model constructed by the ATSC utilizes three independent measures to create a single index number that reflects the interrelationship of the three measures. The measures are:

- Cost per seat mile (total operational cost divided by total seat miles)
- Load factor (percentage of seats actually used)
- In-service productivity (passenger miles per driver)

Data from each of these measures is transformed into index numbers that are normalized. The resulting number for each measure represents where that performance result

ATSC's Transit Performance Model

Measure	Description	Weight
Operating cost per seat mile	Operating cost divided by seat miles	35%
Load factor	Passenger miles divided by seat miles	35%
In-service productivity	Passenger miles divided by drivers	30%
		Total: 100%



falls within the best and worst industry performance for that measure.

Next, the model gives each of the three measures a specific weight. The weighting to be used depends on the values placed on each of the three measures. The initial analysis uses the weights shown in the box on the previous page (see ATSC's Transit Performance Model).

The model then produces one index value for each transit system, by type of service, within the same framework. Figure 3-1 shows the index numbers for one transit agency's fixed-route bus service for the years 1992 through 1996. The index reflects a relative decrease in overall performance of nearly 2 percent.

The index measures were chosen to help transit agencies address specific areas for performance improvement without being prescriptive. The model allows decision makers to see the impact of alternative policies and service strategies. Figure 3-1 shows the simulated impact of increasing passenger miles by 3 percent each year for 1993 through 1995, improving the in-service productivity by 5 percent each year for 1995 and 1996, and decreasing operating expenses by 5 percent in 1996. The overall simulated changes show a 2 percent improvement in performance.

In order to analyze causal relationships between resource allocations, policies, and service patterns, the mod-

el organizes information to let decision makers trace the factors behind the index scoring—creating a pyramid based on performance data usually collected by transit agencies for the NTD.

The Performance Pyramid

Figure 3-2 represents a transit agency's demand-response service for the years 1994–96. It shows that although cost per seat mile increased over the three years, the agency improved overall performance by improving its load factor and in-service productivity.

The performance pyramid suggests that during 1996 the agency went through some "rightsizing" exercises that slightly improved performance levels. Even though their cost per passenger mile decreased sharply in 1995, it did not significantly improve overall performance.

If a transit agency were to integrate the subelements that make up each of the base measures used in this analysis, it would be very easy to discover which discrete factors were the specific cause of the changes identified by the index. This capability offers benefits to a transit agency that wants to model alternative service strategies and policies. For example, a transit agency could answer a question like the following: What occurs to overall demand-response performance if the length of individual trip time is increased by 10 minutes; to improve overall daily service utilization by 12 percent?

Figure 3-1: Simulated Impact of Increasing Passenger Miles

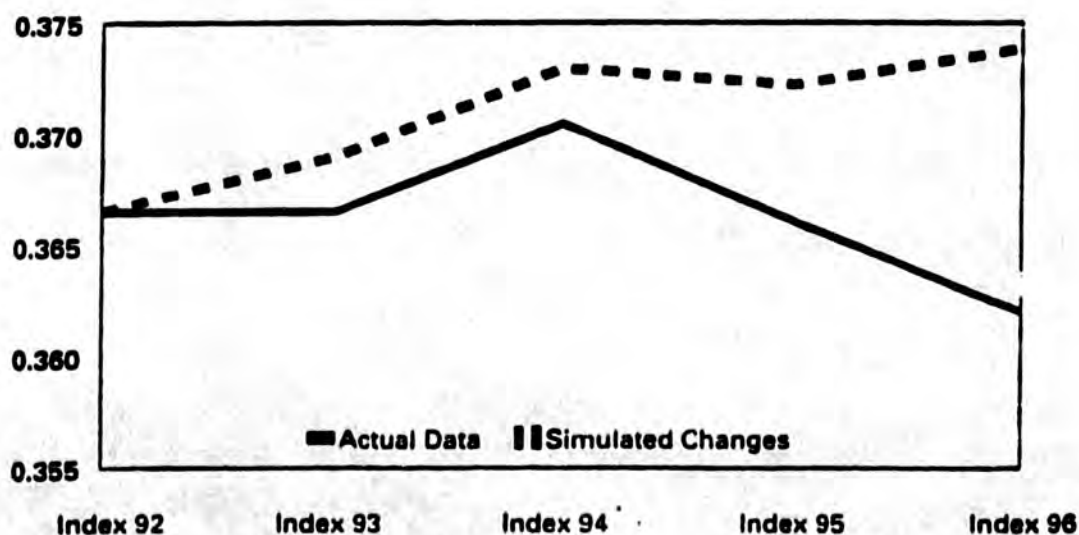
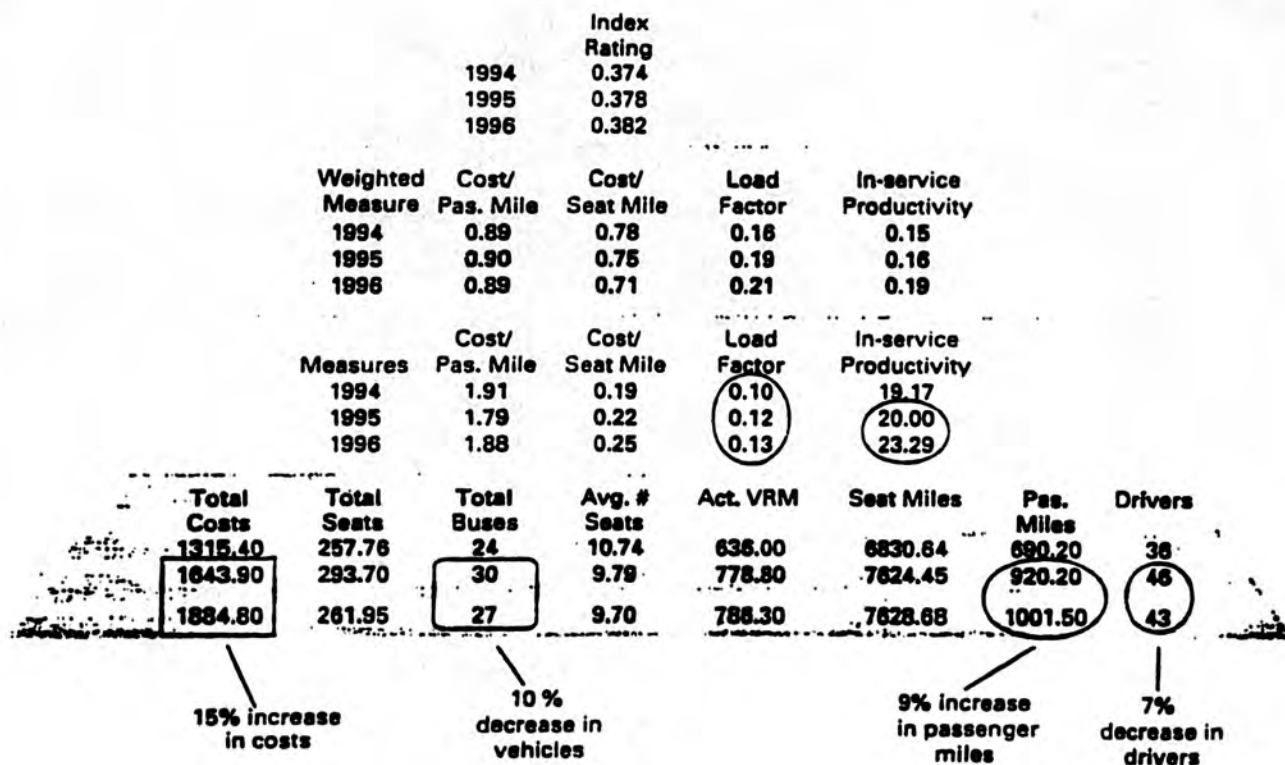


Figure 3-2: The Performance Pyramid: A Transit Agency's Demand-Response Service (1994-96)



Assessing Your Agency's Performance

The ATSC is able to provide specific results on fixed-route service for the years 1992-96. And agencies can request information comparing their transit agency with other transit agencies reporting to the NTD. The ATSC will also work with transit agencies, decision makers, or community groups to create a performance index model that may be used on an ongoing basis to fully analyze specific transit services, for fixed-route and/or demand-response services.

For further information, contact American Transit Services Council, David Foote, Managing Director, 1090 Vermont Avenue NW, Suite 1225, Washington, D.C. 20005, (202) 842-2818, E-mail: Performance@Transit.ATSC.org

PERFORMANCE-BASED BUDGETING IN THE STATES

One of the most-touted techniques for improving performance and accountability in government is to develop outcome-based (or output-based) performance measurements and tie those measurements to the budget to create performance-based budgets. A report by researchers at Georgia State University (GSU), published in the January 1998 issue of *Public Administration Review*, gives the first complete survey of the extent and effectiveness of performance-based budgeting in the 50 states.

All but three of the states have performance-based budgeting requirements, most established in the last few years.

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 state-wide 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 infor-

mation 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.

Private Practices:

A Review of
Privatization in
State Government

Full

Report



RECEIVED By
APR 5 - 1999
Legislative Research Services

Full Report

Private Practices: A Review of Privatization in State Government

by Keon S. Chi and Cindy Jasper

Edited by Michael J. Scott

**Funding for this report was provided by
CSG's 21st Century Fund**



The Council of State Governments

2760 Research Park Drive

P.O. Box 11910

Lexington, KY 40578-1910

Phone: (606) 244-8000

Fax: (606) 244-8001

Internet: www.csg.org



The Council of State Governments

Promoting State Solutions Regionally and Nationally

The Council of State Governments, the multibranch association of the states and U.S. territories, works with state leaders across the nation and through its regions to put the best ideas and solutions into practice. To this end, The Council of State Governments:

- Builds leadership skills to improve decision-making;
- Advocates multistate problem-solving and partnerships;
- Interprets changing national and international conditions to prepare states for the future; and
- Promotes the sovereignty of the states and their role in the American federal system.

Founded in 1933, CSG is an innovative, nonprofit, nonpartisan organization promoting excellence in state government.

CSG is the premier information resource and institutional voice for the state government community.

Council Officers

Chair: Rep. Charlie Williams, Miss.
Chair-Elect: Sen. Kenneth McClintock, P.R.
Vice Chair: Rep. Tom Ryder, Ill.

President: Gov. Pedro Rosselló, P.R.
President-Elect: Gov. Tommy Thompson, Wis.

Council Offices

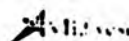
Headquarters:

2760 Research Park Drive
P.O. Box 11910
Lexington, KY 40578-1910
(606) 244-8000
FAX: (606) 244-8001
E-mail: info@csg.org
Internet: www.csg.org
and gopher.csg.org

Daniel M. Sprague, Executive Director
Shari M. Hendrickson, Deputy Executive Director/
Chief Operating Officer
Bob Silvanik, Director of Program, Policy and
Membership Services
Howard Moyes, Deputy Director for Public Affairs,
Research and Information Services



Eastern: Alan V. Sokolow, Director
5 World Trade Center, Suite 9241
New York, NY 10048, (212) 912-0128
FAX: (212) 912-0549, E-mail: csg-east@csg.org



Midwestern: Michael H. McCabe, Director
641 E. Butterfield Road, Suite 401
Lombard, IL 60148, (630) 810-0210
FAX: (630) 810-0145, E-mail: csg-midwest@csg.org



Southern: Colleen Cousineau, Director
3355 Lenox Road, Suite 1050
Atlanta, GA 30326, (404) 266-1271
FAX: (404) 266-1273, E-mail: csg-south@csg.org



Western: Kent Briggs, Director
121 Second Street, 4th Floor
San Francisco, CA 94105, (415) 971-6422
FAX: (415) 974-1747, E-mail: csg-west@csg.org
Denver, CO (303) 572-5454, FAX (303) 572-5499

Washington:

444 N. Capitol Street, NW, Suite 401
Washington, DC 20001, (202) 624-5460
FAX: (202) 624-5452, E-mail: csg-rtc@csg.org

Copyright 1998

The Council of State Governments
2760 Research Park Drive • P.O. Box 11910
Lexington, Kentucky 40578-1910
(606) 244-8000

Manufactured in the United States of America

Publication Code: C163-9800
Price: \$79

All rights reserved. Inquiries for use of any material should be directed to:
Editor, *Private Practices: A Review of Privatization in State Government*

To order the executive summary of the full report, contact CSG's Publication Sales Department at 1-800-800-1910.

Table of Contents

➤ Foreword	iv
➤ Introduction	1
Background	1
Definitions	3
➤ Privatization Activity in State Government	4
Trends in State Government Privatization	4
Privatization Boards, Commissions and Councils	6
➤ Privatization Activity in State Agencies	7
Trends in Agency Privatization	7
Cost Savings	10
Methods of Privatization	13
➤ Major Issues in Privatization	15
Privatization Decision-making	15
Cost Comparison: In-house and Contractor Costs	16
Barriers to Privatization	17
State Employee Concerns	18
➤ Conclusions	19
Recommendations for Successful Privatization	19
➤ Tables	
1. Arguments For and Against Privatization	2
2. Methods of Privatization	3
3. Statewide Privatization Boards, Commissions and Councils	6
4. Number of Privatized Programs and Services, by Agency	9
5. Agencies Reporting More than 15% of Programs and Services Privatized	9
6. Map Data	11
7. Number of Responding Agencies in Each State Reporting More than 10 Percent of Programs and Services as Privatized	11
8. Cost Savings from Privatization, by Region	12
9. Agencies Reporting Cost Savings of more than 15 Percent	12
10. Comparison of Methods of Privatization in Selected Agencies, 1993 and 1997	14
➤ Figures	
<i>State Respondents</i>	
1. Trends in Privatization Activity in the Past Five Years	4
2. Trends in Privatization Activity in the Next Five Years	4
3. Reasons for Increases in Privatization Activity	5
<i>Agency Respondents</i>	
4. Trends in Privatization Activity in the Past Five Years	7
5. Trends in Privatization Activity in the Next Five Years	7
6. Reasons for Increases in Privatization Activity	8
7. Methods used to Privatize Programs and Services	13
➤ Map 1	
Number of Services and Programs Privatized, by State	10
➤ Appendix: Privatization Activity in Selected State Agencies	21
Administration and General Services	22
Corrections	24
Education	26
Health	28
Higher Education	30
Juvenile Rehabilitation	32
Labor	34
Mental Health and Retardation	36
Natural Resources and Environmental Protection	38
Parks and Recreation	40
Public Safety and State Police	42
Social Services	44
Transportation	46
Treasury	48

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.

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 state¹ 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.

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

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 . . .
 use of the private sector
 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

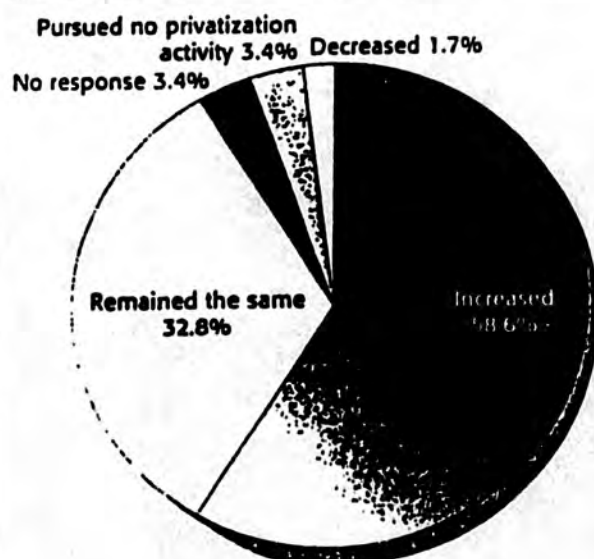
Many states are turning to privatization to achieve cost control, efficiency and administrative expediency, according to the CSG survey. The state respondents reported that there are few comprehensive privatization initiatives. Instead, individual agencies privatize their activities as necessary and 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).

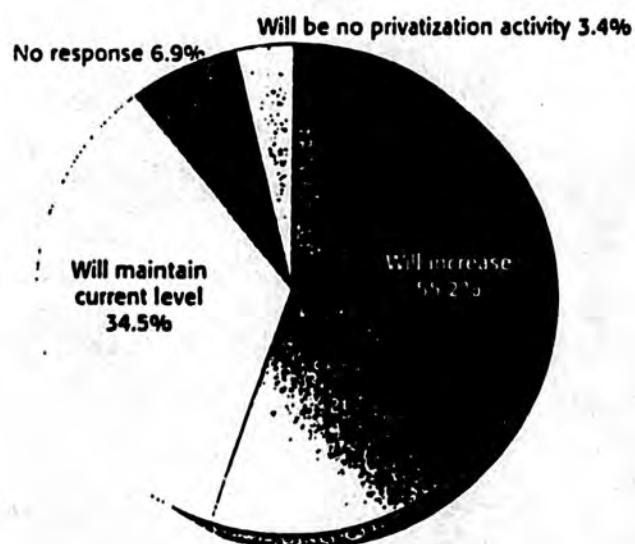
When asked to predict the trend for the next five years, responses were slightly different. A vast majority (91.7 percent) of respondents from state legislative service agencies believe that privatization activities will increase. Most auditors, budget directors and comptrollers agree, but were more 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.

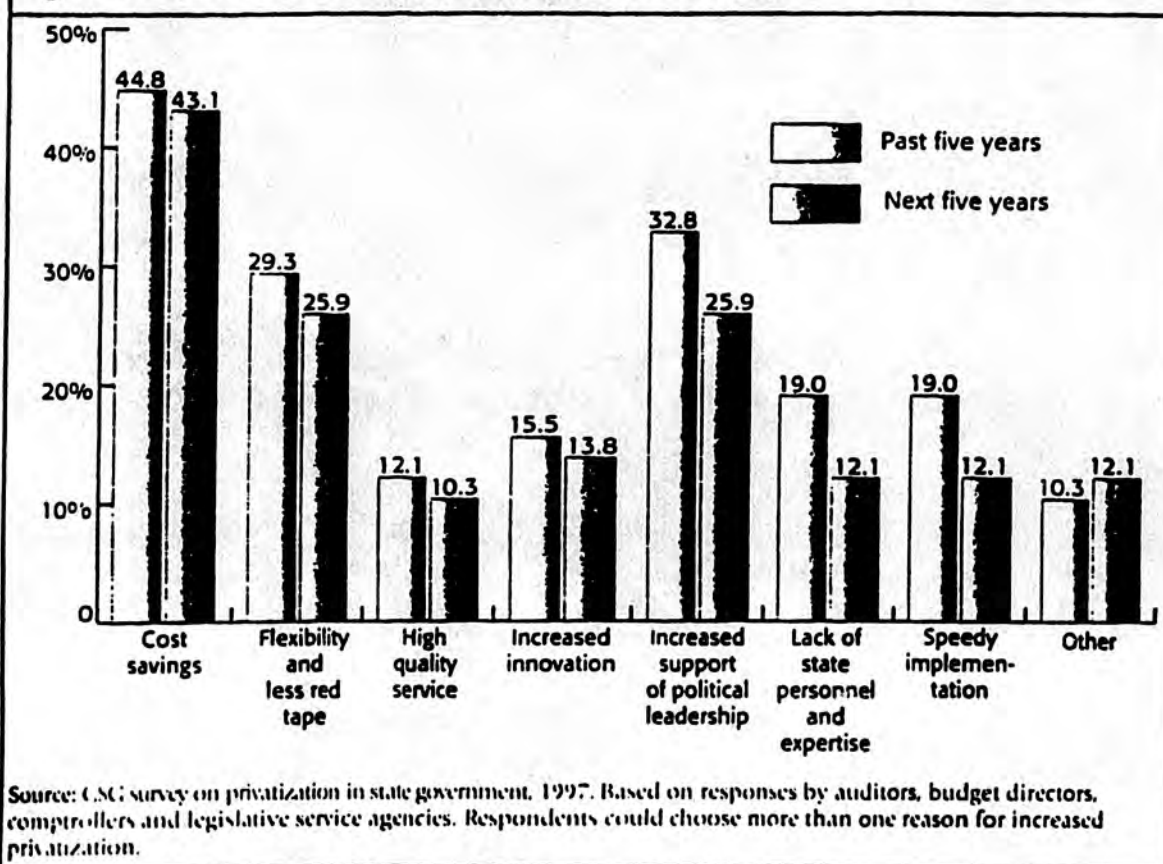
Figure 2: Trends in Privatization Activity in the Next Five Years



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



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.

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.

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

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

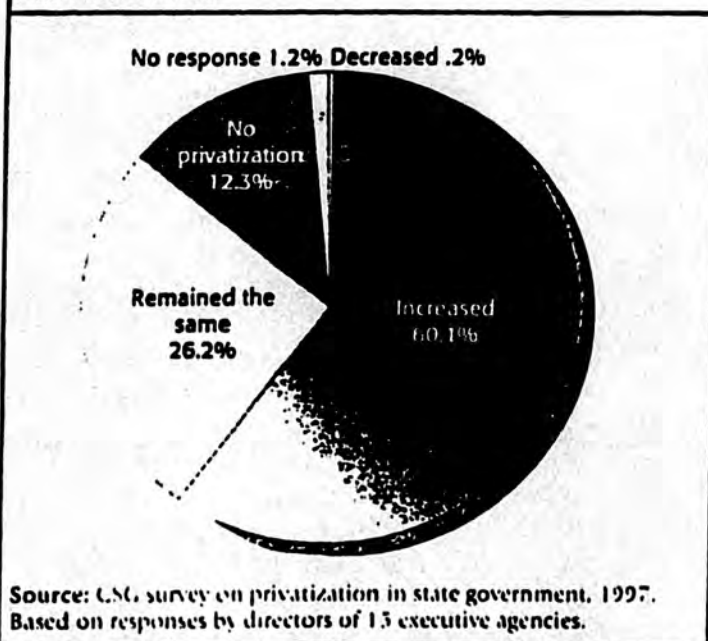
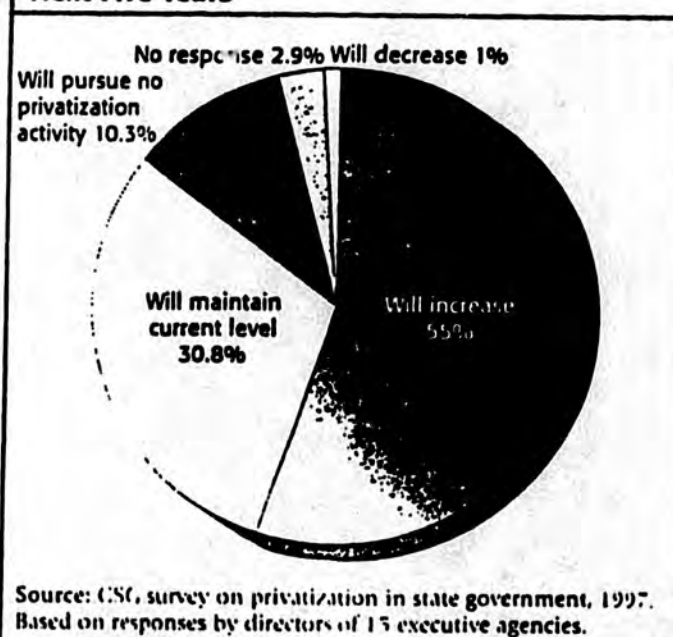
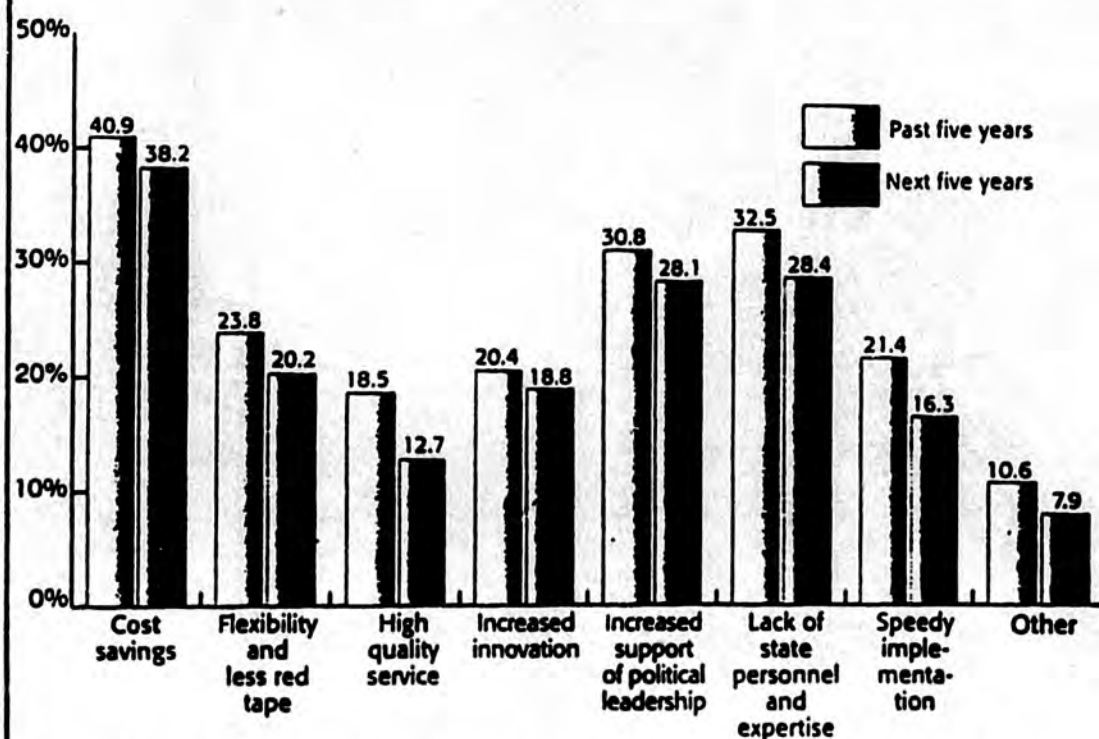


Figure 5: Trends in Privatization Activity in the Next Five Years



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/General Services	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

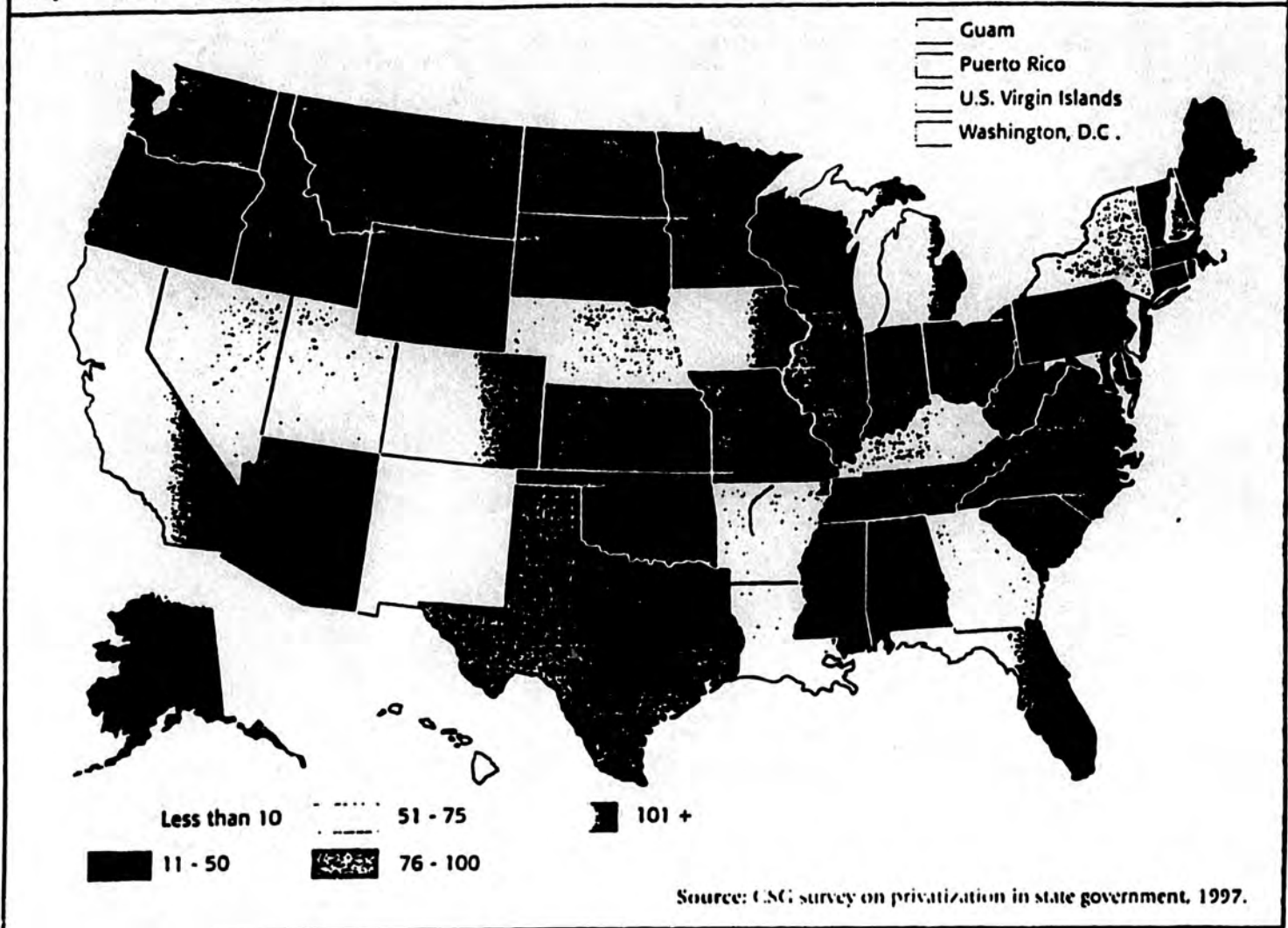
Source: CSC survey on privatization in state government, 1997.

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: CSC survey on privatization in state government, 1997.

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



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 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

Full Report**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: CSC survey on privatization in state government, 1997.

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

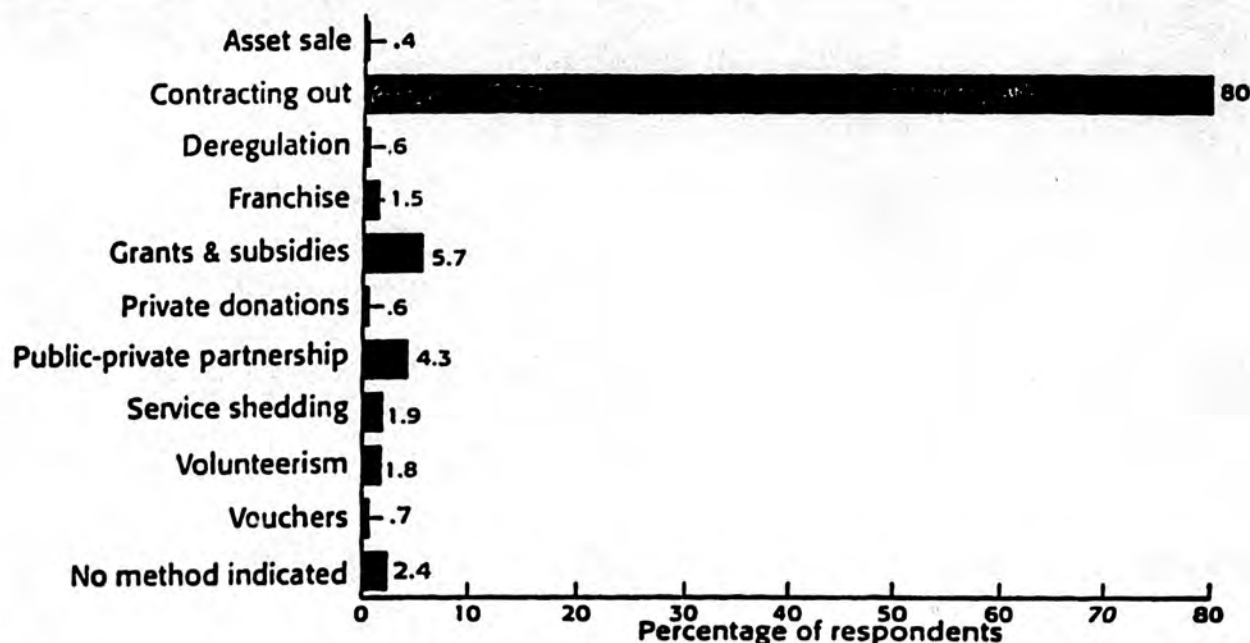
Agency	Region	States
Administration/General Services	East	CT, NY
	Midwest	IL
	South	AL, AR, MD, OK
Education	Midwest	MI
Health	East	PR, RI
	Midwest	MI
Higher Education	South	FL, WV
Information Systems	East	PA
Juvenile Rehabilitation	South	MS, TN
Mental Health and Retardation	East	CT
	Midwest	OH
	South	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: CSC 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 privatization 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.

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.

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 through 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

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.

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.

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.

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 cited 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

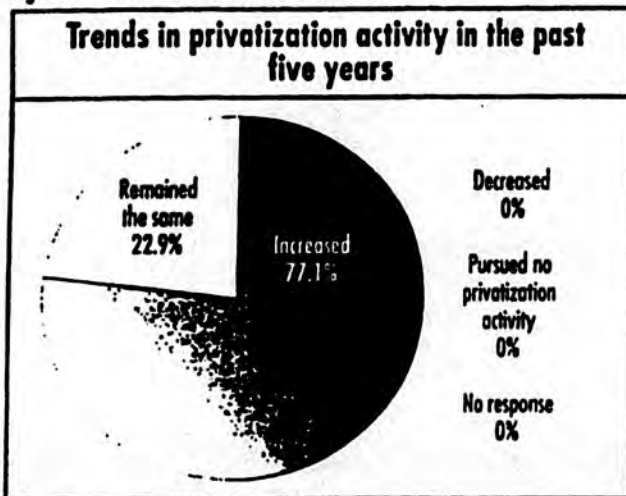


Figure B — Administration and General Services

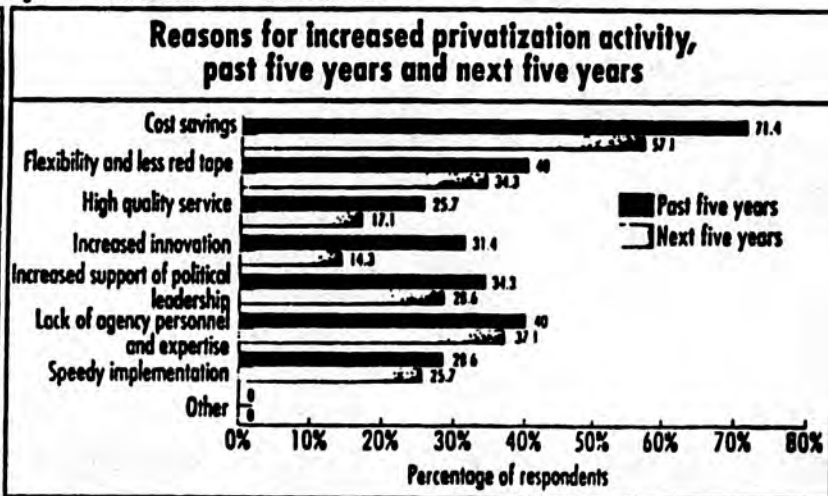


Figure C — Administration and General Services

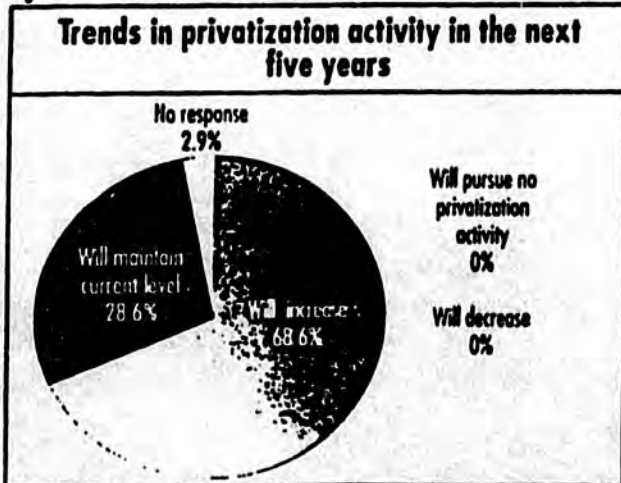


Figure D — Administration and General Services

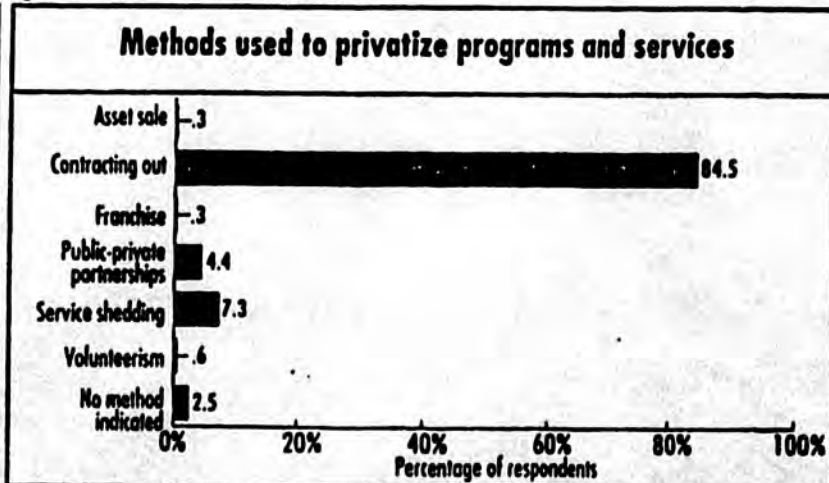


Table 1

Checklist of Privatized Programs and Services

Listed in order of the number of responding state agencies privatizing the program or service

Program/Service	Number of States	PRIVATIZED	Number of States	BEING CONSIDERED FOR PRIVATIZATION
		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, 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, WY	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 privatized 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 respon-

dents 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

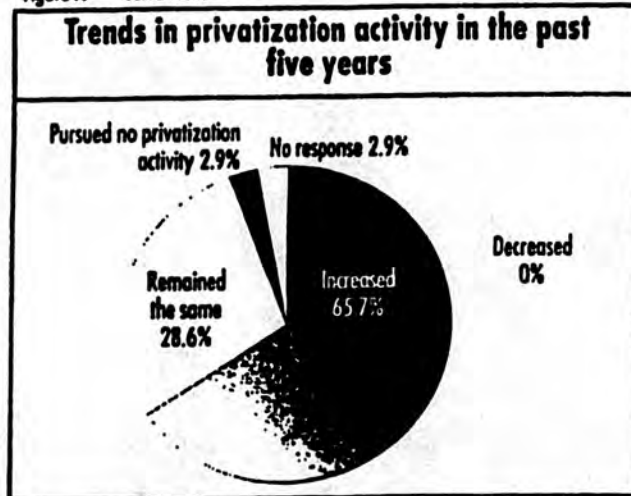


Figure B — Corrections

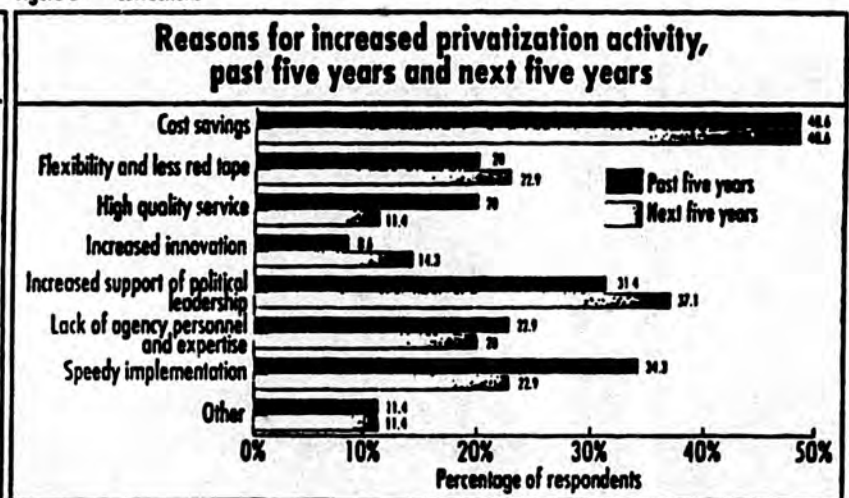


Figure C — Corrections

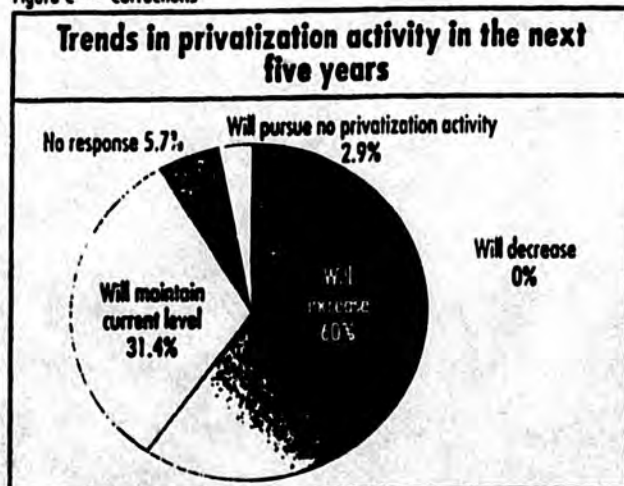


Figure D — Corrections

