Privatization Watch

Celebrating 30 Years of Privatization and Government Reform
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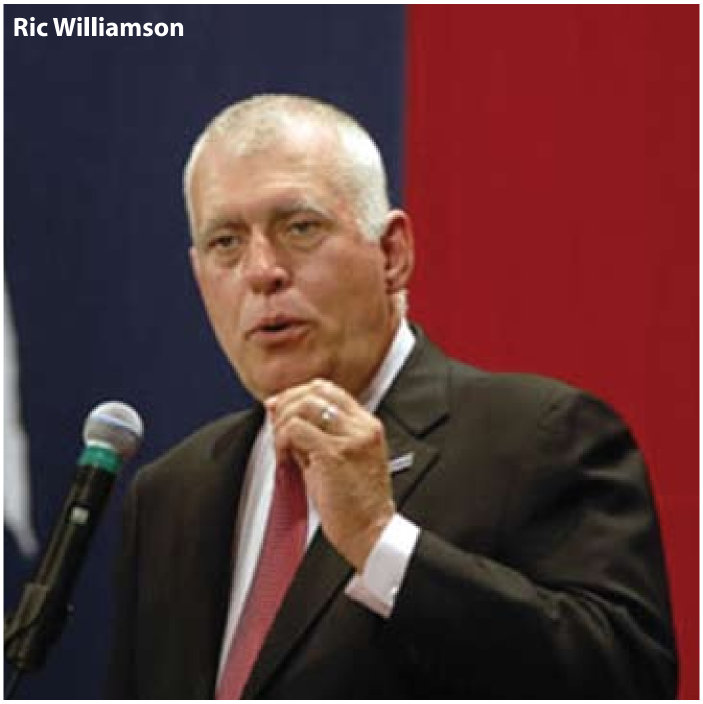

Privatization Watch

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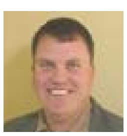

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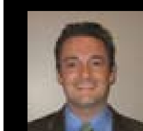

Apple co-founder Steve Jobs once remarked, "Innovation distinguishes between a leader and a follower." The innovators who have contributed the following pages certainly bear this out. Even in an era of bloated budgets, government mission creep and pervasive bureaucratic and political inertia, these state and local leaders have demonstrated not only that government reform is possible, but that it is essential to making government more effective, efficient, accountable and performance-based.

In this issue former Florida Gov. Jeb Bush, former Colorado Gov. Bill Owens, Virginia Delegate Chris Saxman and City of Charlotte, NC, Business Process Improvement Manager David Elmore describe how their willingness to embrace reform, competition, privatization and market-based policy approaches enabled them to address public challenges, lower taxpayer costs and improve public service delivery. These are excerpts from longer articles written for Reason's 2007 *Innovators in Action* report, and I would commend you to visit reason.org/innovators to read the full articles penned by these and other innovative policymakers.

On the transportation front, Texas is widely viewed as being the vanguard of a major paradigm shift in road financing amid a growing infrastructure funding gap. In keeping with the innovations theme of this issue, we are featuring an excerpt of an interview with one of the primary architects of the "Texas model," the late Ric Williamson, who chaired the Texas Transportation Commission from 2004 to 2007.

Policymakers at all levels of government can gain inspiration and learn valuable lessons from these innovators who have eschewed the confines of business as usual and proven that bold reforms offer powerful solutions.

Improvement Requires Willingness to Change

By Governor Jeb Bush

The world has changed dramatically in a short period of time. Advances in technology have revolutionized the way we live.

Thirty years ago, no one had a computer in his home. Now, many people have Blackberries in their pockets. The Internet allows inspiration and ideas to travel at warp speed across continents and oceans in seconds. Medical breakthroughs are allowing people to live longer, with a better quality of life.

The world is "flatter" and more connected than ever before. Trends that used to take years to develop, now take months to take hold. Economies are emerging every day to challenge our dominance in the global marketplace, where innovation and ideas are as commonplace as goods and services.

Yet, government, with few exceptions, still works like it did in the 1950s, with a pyramid-style, top-down bureaucracy that moves with tortoise-like speed. For America to succeed in the increasingly competitive global economy, our government needs to be able to quickly adapt to this new, changing world.

The first step is clearly defining the role of government. I believe the fundamental role of government should be to keep us safe from threats both foreign and domestic, build the infrastructure and human capital that creates opportunity and fuels our economy, and care for the truly vulnerable among us.

A government that grows significantly beyond these core responsibilities will eventually grow beyond our ability to pay for it. When government grows in scope, its size and cost grow too—often exponentially. Requiring a balanced budget, allowing the line-item veto, prohibiting earmarks, and capping the growth of government are sound fiscal measures to rein in runaway government spending.

The second step is developing a zeal for reform. Constantly challenging the status quo with questions like "why?" and, perhaps more importantly, "why not?" creates an ongoing cycle of improvement. Controlling costs is just part of the benefit. Getting better value for the taxpayers is an equally important part of the equation too.

As Governor of the great state of Florida, I spent a lot of time asking the question, "why?" and even more time asking, "why not?"

During a policy and budget briefing in the transition prior

to my taking office, I learned the state owned and operated more than 100 communications towers and plans were underway to build more. The towers were the basic infrastructure needed to establish a statewide radio system that allows emergency responders and law enforcement to communicate with each other using different technology—a priority for our state's capabilities to respond to hurricanes. More than a decade had passed since the project was launched and only 15 of our 67 counties were online. The state had already spent $120 million and the price tag for completion was estimated at more than $549 million.

So I asked, why is government in the business of building an independent communications network? Then, why not leverage state resources to encourage investment by the private sector to accomplish the goal faster and at a lower cost to taxpayers?

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Addressing Public Challenges with Private Partners

By Governor Bill Owens

The world faces a challenge—infrastructure needs are outpacing the ability of government to respond through the traditional "tax and build" approach.

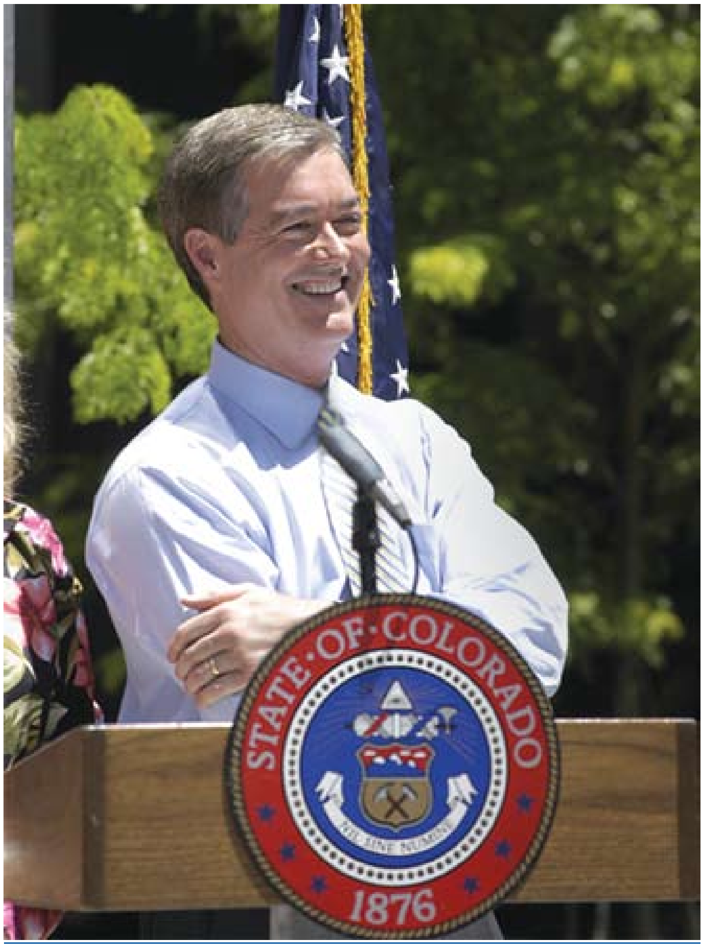
The evidence of the challenge is clear. While the needs are great—perhaps $40 billion unfunded liability in the U.S. alone—competing demands, such as a $1.5 trillion shortfall in pension funding, strain existing resources. And long-term infrastructure is often less politically popular an expenditure than is current consumption.

If we look around the world—to Europe and Australia in particular—new synergies between the public and private sector are emerging, addressing traditional public needs through partnership. Creative solutions have been fostered utilizing the efficiencies of the private sector, disciplines of the market and the profit incentive to deliver traditional public services—better, faster and cheaper than through traditional methods.

As a legislator and governor in Colorado I understood the power and importance of a robust private sector. I saw first-hand the power of the market and the role the private sector can play in transforming how governments operate. Competition makes government work smarter, better and cheaper. It puts mission and customer satisfaction ahead of process or power.

As a state legislator, I sponsored legislation that required the Denver metropolitan area's Regional Transportation District to privatize a third of its bus routes. As governor, I signed legislation that increased that requirement so that today half of Denver's bus routes are privately managed. Customer service is as good, if not better on these routes—and the private sector is able to operate them at a 20%-30% savings to the taxpayer. Despite this success, the unions are so threatened by the efficiencies of the private sector that they are pushing to limit privatization, putting power ahead of results and performance.

Another example of private sector success is Colorado's prison system. Today about 30% of our felons are incarcerated in private prisons. Not only do private prisons operate as safely as their public counterparts do, but they do it for less money.



Privatization is not just about operating services more efficiently. It's about transforming how governments operate and do business.

Private companies invest their capital to build new facilities in Colorado—facilities that we needed but could not afford otherwise. So, we get a lower per diem cost per inmate and we didn't have to utilize scarce infrastructure dollars to build the prisons in which our inmates are housed. But perhaps the biggest benefit is that competition makes the entire system—public and private—work better.

Privatization is not just about operating services more efficiently. It's about transforming how governments operate and do business. Colorado was the fourth state in the nation to convert carpool lanes into high-occupancy toll or "HOT" lanes—a concept originally championed by Reason Foundation in a 1993 paper which first proposed that underutilized carpool lanes be opened to non-carpool vehicles willing to pay a toll to use the lanes.

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Reflections of a Texas Transportation Trailblazer: Reason interview with Ric Williamson, Chairman, Texas Transportation Commission

By Leonard C. Gilroy, AICP

On December 30, 2007, the state of Texas lost a visionary leader on transportation with the passing of Ric Williamson, Chairman of the Texas Transportation Commission. After serving seven terms in the Texas legislature from 1985 to 1998, Williamson was appointed to the Commission by Governor Rick Perry in 2001 (becoming chairman in 2004) and became the key architect of the state's bold embrace of tolling and public-private partnerships as the primary means of addressing its growing urban congestion and staggering transportation infrastructure needs.

The following is an excerpt of my interview with Williamson in September 2007 regarding the genesis and implementation of Texas's groundbreaking transportation policy innovations. The full interview is available at www.reason.org/commentaries/gilroy_20071231.shtml.

Leonard Gilroy, Reason Foundation: You've presided over a major paradigm shift in TxDOT, a major change in the way the Department does business. TxDOT embraced public-private partnerships and tolling as major components of the state's strategy to fill the funding gap. Can you describe that shift and how it came about?

Ric Williamson, Chairman, Texas Transportation Commission: [...] Our overwhelming reliance on private sector financing was based upon our belief that there are two kinds of toll roads: there are toll roads of necessity and there are toll roads of convenience. Now toll roads of convenience still operate to reduce congestion, improve air quality, improve safety, and, in particular, bring economic opportunity to your community. But you characterize them as toll roads of convenience because they are the roads not chosen by the public. If we did the regional plan and the local execution correctly, then if we have five roads out here proposed and the regional planners selected the first three, by definition those must be the roads of necessity because they wouldn't have selected those three over these two if those three weren't absolutely necessary, in their view, to their regional development.

That was one of the reasons that the strategy of regional planning and local execution was so important. Because we were, for the first time at the state level, doing something that

I think hasn't been done in the rest of the country. The state system was basically turning to regional planners—as the federal highway bill envisioned 18 years ago—and we were saying, you know better how to solve your problems than we do. We know better how to solve the connection between the two—the connectivity between Dallas and San Antonio we know about. But within Dallas, Texas, you as city councilpersons, county commissioners, you know better which choices need to be made in the region. You tell us what your choices are, and you tell us if this is a short-term, mid-term, or a long-term solution, and then we'll help you frame the financing for it, either through Mobility Fund bonds, through direct gas tax investment, or through the public/private sector.

Toll roads, in our view, fall into those two categories: roads of convenience and roads of necessity. It is the roads of necessity that you want to finance with the public dollar. In fact, the truth is—whether it's a tax road or a toll road—if it's a road of necessity, that's the road that you want to finance with the public trust. If it's a road of convenience, that's a road that you want to finance with the private trust. Because a road of convenience will carry with it an element of risk or an element of delay in their cash rate of return. And the public trust isn't

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Running Government More Like a Business

By Delegate Christopher B. Saxman

I am often asked whether government can operate like a business. Growing up in a family business of just under 50 employees, I became accustomed to the demands of hard work, no vacations, responding at all hours to customers and employees and hawking accounts receivables, all in an ever-changing market. Government is, to say the least, just a little different.

Government is government, not a business. The incentives and motivations are tremendously different; so no, government cannot be run like a business. However, it can and should be run more like a business.

For starters, government never or rarely asks fundamental business questions like "why do we do it this way" or "if we weren't doing this yesterday should we be doing it today?" Taking this farther, business is dynamic and responds to markets and demands whereas governments do not. Expecting government to act truly like a business is probably a bit much to ask, however, as citizens and taxpayers we should expect our government to function efficiently and effectively—we generally don't care who or how public services are provided so long as they are.

Shortly after my election in 2001, I joined a group of outside-the-box thinkers known as the Cost Cutting Caucus—a bipartisan, bicameral group of legislators that work on legislation together that can bring efficiency, transparency and higher performance to Virginia state government. Even though we had little seniority, we joined the front-lines in the fight for a transparent budget document (2003 HB 1838) and the creation of the Council for Virginia's Future (2002—HB 252). We established the Council to set the goals and direction for the Commonwealth and the new budget document set up the funding towards those goals with objectives and measurable goals. What was unique about these landmark pieces of legislation was that everyone seemed to agree on the need to pass them—they both passed unanimously and were signed into law. Problem solved right?

Not exactly.

The executive branch still has to carry out the legislation. One of the most interesting meetings that I have had in my time in the legislature was when members of the Cost Cutting Caucus and some of our think tank allies met with the executive branch to see what the hold up was on the implementation of the transparent budget. We were told that there just was not enough money, and that they were not going to go forward with the legislation—that they had signed into law. However, at the end of 2005 after two years, the budget document had an accompanying transparent document that was widely hailed for its openness.

Undeterred, the Cost Cutting Caucus pressed on with other initiatives designed to reform government so that, in the end, it would be more transparent, accountable and competitive or more like a business would run it. We passed legislation like the Competitive Government Act that requires the state to conduct an inventory of functions to see where competition can be applied throughout state government. The legislation is similar to the federal government's competition program that has saved billions over the last few years, while improving services too.

We also have advocated for congestion pricing, reform of our Department of Transportation, school choice and most recently we have worked with the executive branch to create Operational Review Teams that look at horizontal spending in Virginia government. Rather than attacking a bureaucratically controlled silo, we are focusing on issues that impact all agencies and departments—energy, water usage, real estate, communications and employee benefits. This is what a business would do and we think we are going to realize significant long-term savings for our constituents.

How have we done it? We are bipartisan and bicameral. We seek ideas from all corners of the legislature. We work with the executive branch, not against it. We extend the hand

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City of Charlotte's Privatization and Competition Advisory Committee

By David Elmore

In the early 1990s, city of Charlotte leaders saw the impact of innovations in service delivery in cities like Phoenix and Indianapolis and suspected that similar opportunities could be possible in Charlotte. The city had already partnered with Mecklenburg County to eliminate duplicative services resulting in Charlotte assuming responsibility for Police, Planning, Water, Purchasing, Customer Service Center, Insurance and Risk Management, and Animal Control. Mecklenburg County assumed responsibility for Board of Elections, Parks and Recreation, Tax Administration/Collections, Building Standards, Library, and Solid Waste Disposal.

In addition to these significant organizational changes, city leaders decided to explore privatization and managed competition. Privatization is the outsourcing of traditional government services to the private sector and managed competition allows government employees to compete directly with private sector companies to provide services for the city.

This led to the City Council creating the Privatization and Competition Advisory Committee (PCAC) in 1993 to assist the City with managed competition projects and provide oversight for asset management. The design of the PCAC is to focus on the larger issue of who should provide the services (public or private workers), while issues associated with efficiency improvement and day-to-day management of employees are the responsibility of the City Manager.

Managed competition and privatization have resulted in real dollar savings of over $10,000,000 for Charlotte.

The city's privatization and managed competition process is a component of the city's strategic operating plan process. Each year, every City Key Business Unit submits a five-year competition plan for review by the City Manager as a part of its strategic operating plan. To include a service in the competition plan the city uses a cost of service guideline of approximately $500,000 as sufficient size to begin a managed competition effort. Smaller services may be bundled together to achieve a project of sufficient size for consideration. The competition plan outlines KBU participation in the competition and privatization program for the next five years and lists the service description, service budget, number of employees,

and type of participation planned (benchmark, outsource, optimization, or competition).

With more than 60 managed competition projects and over 100 privatization projects completed, Charlotte's managed competition and privatization program can be considered mature, with well-defined structure, audit processes, program guidelines and credibility with the private sector vendors. The working relationship between the PCAC and city staff is positive and continues to have an impact on the provision of city services.

When Charlotte employees began competing with private sector companies, the city's infrastructure resources had to undergo changes. Over the years, investments in resources for Internal Audit, Legal, Procurement and department-specific staff; activity-based-costing tools, internal Service Level Agreements (SLA), business process reengineering, and employee training were necessary to be successful. The payoff of those investments is being realized today through:

- RFPs, contracts and MOUs that clearly define our expectations for private companies and city employees. Performance-based contracting is used whenever possible, providing incentives for superior performance as well as liquidated damages to improve performance;
- Use of the Internet and the automated North Carolina Interactive Purchasing System www.ips.state.nc.us to notify new vendors from around the country and the world to participate in managed competition RFPs;
- Creation of activity-based-costing reports to give timely and accurate information to managers so they can recognize trends and make adjustments to stop cost overruns;
- Measurable goals and realistic expectations communicated clearly from management to employees;

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Privatization Briefs

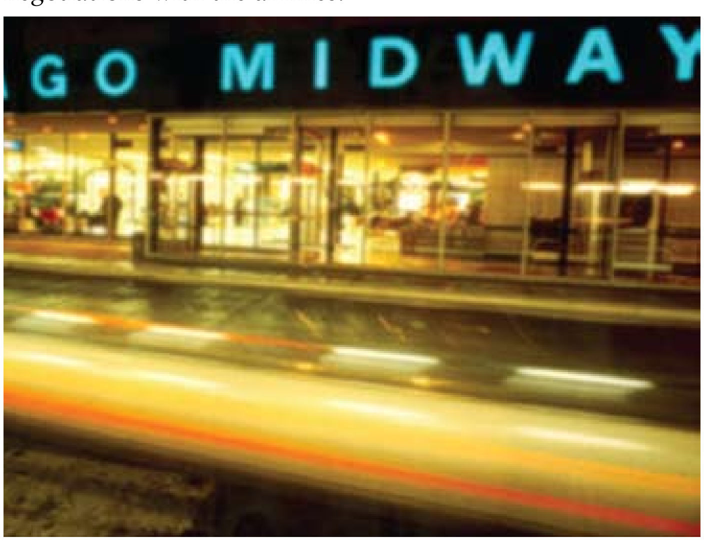
Chicago's Midway Airport Privatization Plan Advances

The city of Chicago and Southwest Airlines have reached a preliminary agreement on the proposed leasing of Midway International Airport to a private operator. Under the agreement, Southwest's fees for operating at the airport would be frozen for six years and would be increased by the rate of inflation thereafter. The accord could pave the way for the largest airport privatization in U.S. history.

According to Federal Aviation Administration rules, any privatization proposal must be approved by airlines handling at least 65 percent of the gross tonnage of planes landing at the airport in question. Southwest, the nation's largest low-cost carrier, is Midway's largest tenant, accounting for about 70 percent of the volume at the airport. The city must additionally obtain approval from four of the six airlines flying out of Midway. The other five airlines include AirTran Holdings Inc., ATA Airlines Inc., Continental Airlines Inc., Delta Air Lines Inc., and Northwest Airlines Corp. A final agreement will need to be approved by the FAA and the Chicago City Council.

The deal with Southwest "is a meaningful first step toward what we believe to be a historic opportunity for the city and the airlines operating at Midway Airport," Paul A. Volpe, the city's chief financial officer, said in a statement.

Chicago filed a preliminary application with the FAA to lease Midway in 2006. It is unknown how much the city expects to receive for the proposed 99-year lease of the airport. According to Volpe, an agreement with a private operator should be reached nine to 12 months after the completion of negotiations with the airlines.



RI Governor Wants to Roll Back "Anti-Privatization" Law

Rhode Island Gov. Donald Carcieri is looking to eliminate or privatize hundreds of state employee jobs in order to help plug a massive $450 million hole in the small state's budget. Impeding these efforts is an "anti-privatization" law passed in 2007, which was enacted within weeks after the governor promised in May to privatize "every state service that could possibly be performed more efficiently by the private sector."

The anti-privatization law established a number of regulatory hurdles to privatizing state jobs, including requiring a series of detailed notifications and cost-benefit analyses before the governor can proceed with any plan to replace state employees with private contractors. According to Brian Stern, the governor's chief of staff, "At this point, we feel that it is not possible to comply with the privatization statute as written."

The law additionally allows unions, individual employees, or even state program recipients such as hospital patients, to appeal privatizations to the Superior Court. Rep. Douglas W. Gablinske (D-Bristol) thinks this provision, in particular, goes too far. He has introduced legislation that would repeal such language from the law. Several other Democratic legislators appear to be joining Republicans in supporting the easing of restrictions on privatization efforts.

Gov. Carcieri's plan would eliminate 536 state employees by June 2008 and save an estimated $41.6 million per year. About 150 of these positions would be privatized, and elimination of temporary workers and vacant positions would account for the rest. Labor leaders have promised to sue if the governor moves forward with his plan.

Schwarzenegger Proposes More PPPs in California

In order to address a great need for public infrastructure improvements, California Gov. Arnold Schwarzenegger is call-

ing for soliciting proposals from private-sector firms to design, build, and/or operate public projects such as roads, schools, wastewater treatment plants, ports, levees, and hospitals. The plan could also include leasing state assets, similar to the governor's proposal to privatize the state lottery, and the administration is formulating a plan to create a central state agency that would be in charge of negotiating and overseeing contracts for the state's public-private partnerships.

The governor estimates that the state needs $500 billion worth of public projects over the next 20 years to address its infrastructure problems. According to Schwarzenegger, this is far too much money for the state government to absorb on its own. "There's not enough money there in the public sector, in the tax base," he said, adding, "We could never afford that." The state is already facing an impending budget deficit of at least $14 billion.

California does have some experience with public-private partnerships. The new South Bay Expressway toll road in San Diego, which opened in November 2007, was built on such a model. In addition, the use of contracts with incentive clauses successfully sped repair of roads and bridges after the 1994 Northridge earthquake, and again following a gasoline truck accident that destroyed interchanges at the MacArthur Maze in the Bay area in April of 2007. But the state has generally taken a piecemeal approach to these partnerships, and state law does not explicitly authorize or establish guidelines for such arrangements.

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This conversion was accomplished at minimal cost to the taxpayer, but allows market forces—i.e. tolls—to operate to provide more choice to the motoring public and revenue for the taxpaying public.

Despite the successful record of privatization throughout government, significant political obstacles remain. While the voting public may be largely unaware of the savings and efficiency realized through the use of market forces in government—the public sector unions certainly are, and they are fighting back. The unions are using their special privileged status within the Democratic Party to put their demands ahead of those of the taxpayer. The concentrated special interest will often drown out the overall public good in the public debate, particularly when it comes to the special interests of our government unions.

Governments need to embrace the power and ability of the private sector.

Moving forward, governments will be continually forced to innovate and adapt to meet challenges. The private sector, with its access to capital and focus on efficiencies and performance, will be an important partner. In Colorado, we repeatedly used market principles to lower costs and improve services.

Government is and always will be important, providing vital services to the public. However, gone are the days that government "goes it alone." To remain competitive in the global environment, governments will need to embrace the power and ability of the private sector, as we did in Colorado.

Bill Owens was the 40th Governor of Colorado and is Vice Chairman of RBS Greenwich Capital. The full text of this article is available at reason.org/innovators200

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geared toward taking that risk.

I'll just give you an example. Between Austin and San Antonio, parallel to [Interstate] 35, is State Highway 130 which will someday probably be part of the Trans-Texas Corridor. The public trust could not afford to build the piece from Lockhart to Seguin. It could only afford to build the piece from Lockhart to Georgetown. So for three years we'd been using the public trust to build from Georgetown down to Lockhart. And the portion from Lockhart to Seguin, it just sat there—until all the laws were passed and we started asking for proposals from the private sector. And we got the Trans-Texas Corridor proposal and signed it, which permits roads that tie directly into the corridor footprint to fall under the public-private partnership.

The public trust didn't have the money to put into that same amount of road. We gave San Antonio and Austin—the two areas that are affected by it—the opportunity to take their gas tax money and their Mobility Fund money and call that a toll road of necessity, and they passed. It became a toll road of convenience. The cost of it was a billion dollars, and by everyone's calculation it will be 21 years before it throws off free cash flow. Yet, Cintra was willing to bank that the money they made in the 22nd through the 50th year would overcome the loss they would sustain in the zero to 21st year, and they were willing to move forward with it. So we signed an agreement with them.

That is a road of convenience, being built by the private trust. If Cintra is even a little bit off on their estimates, it will go from 21 to 30 years before they make any money. If they're a little bit off to the overload, it will only go from 21 to 18 years before they start making money.

So they've got a whole lot to lose and not much to gain. So by reverse, the public has a got a whole lot to gain and not a whole lot to lose from the traffic pattern on this road of convenience. That is the asset you want to build using private money and permitting the private sector to take the risk, and take the rewards. If the road ends up being in less demand than you thought, they take the hit. If it ends up being in more demand than you thought, they take the gain. You cap the toll rate at something reasonable, and you permit the private company to raise or lower that toll rate below that cap to incent people to use the road.

In the process of doing that, you know somebody's going to use that road—you don't know if enough people will use it for Cintra to make money—but you see, that's not the public's problem. The public doesn't have to worry about that. Once the public has decided that this is a road of convenience, then the public need not be concerned about how many people do or do not use that road, because it doesn't matter to the public. Except to the extent that it takes cars off of the road of necessity with which it competes—in this case, Interstate 35 sits right next to Highway 130. Interstate 35 is bumper-to-bumper congested. To the extent that you and I decide to take our car off of [Interstate] 35—the road of necessity—and to State Highway 130—the road of convenience—we've made every other driver on [Interstate] 35 more efficient in the use of the public road.

Gilroy: Can you describe what the transition was like from an institutional perspective? You were taking a government agency that had been doing things a certain way for many years and then embarked on an entirely new course. What was the learning curve like, and what lessons would you offer to another state DOT going on a similar journey?

Williamson: We approached it a different way. Normally, when government is going to change, it stops and spends some time trying to figure out how it's going to get the institution to change with it. We made the conscious decision that in our state, we had 15,000 employees who would adapt, who knew how to adapt, and we didn't need to spend any time training them. We just leapfrogged that whole process. We went straight to the top with our administrative employees—the 25 leaders out of 15,000—and we said this is what we're going to do, and the rest of the employee base will follow us and they will adapt. That's a key decision we made early in the process, and it turned out to be correct. Most of our employees adapted very, very well. [...]

Whereas, if we would have started from the start with that, it might have taken us years. Because the problem is, the private sector doesn't do it that way. In the private sector, you get up every morning and you adapt to the competitive pressures that are there. And so you learn to change quickly and to change in a positive way in order to persevere and move on. We just applied private-sector principles to the public sector.

We just said, the equity owners—or in this case, the legislature—decided to change the law, and we're changing, and here we go.

The late Ric Williamson served as chairman of the Texas Transportation Commission from 2004 to 2007. The full text of this interview is available at reason.org/commentaries/gilroy_20071231.shtml.

Managed Competition in San Diego

By Adam B. Summers and Leonard C. Gilroy


The following is an excerpt from *Streamlining San Diego: Achieving Taxpayer Savings and Government Reforms Through Managed Competition*, a study jointly published by Reason Foundation and the San Diego Institute for Policy Research. The full text of the study may be accessed online at http://www.reason.org/san_diego_managed_competition.pdf.

The city of San Diego's current financial straits have led residents and elected officials to search for serious solutions. One promising measure is the introduction of competition to provide government services.

Managed competition is different from simply "outsourcing," or "contracting out," in that it encourages public employees to submit bids and compete with private bidders. Thus, it is a way of bringing private-sector competitive pressures and incentives to the public sector. Under managed competition, it does not matter whether public employees or private providers earn the contract; the simple introduction of competition means that taxpayers win either way.

San Diegans welcomed the idea in November 2006 when 60 percent of voters approved Proposition C, allowing the city to utilize competition with the private sector to provide cheaper and better services to the community.

For our study, we reviewed the city's budget and activities and identified at least 11 functions currently performed by city workers that are prime candidates for managed competition. Our cost savings estimates, based on an extensive analysis of managed competition and privatization case studies, assumed an average tax-dollar savings range of 10 to 25 percent. If all 11 of the identified managed competition targets were contracted, the expected savings would be $80 million to $201 million per year. Even if the city achieves just a 15 percent savings rate (toward the low end of the potential savings range), this would result in savings of almost $120 million each year.

While cost savings is often the biggest reason given for implementing the managed competition process, this is just the tip of the iceberg. There are numerous benefits of competition and contracting.

Cost Savings

Competition encourages would-be service providers to keep costs to a minimum, lest they lose the contract to a more efficient competitor. Cost savings may be realized through economies of scale, reduced labor costs, better technologies, innovations, or simply a different way of completing the job.

Quality Improvements

Similarly, a competitive process encourages bidders to offer the best possible service quality to win out over their rivals.

Timeliness

Contracting may be used to speed the delivery of services by seeking additional workers or providing performance bonuses unavailable to in-house staff.

Flexibility to Accommodate Peak Demand

Changes in season and economic conditions may cause staffing needs to fluctuate significantly. Contracting allows governments to obtain additional help when it is most needed so that services are uninterrupted for residents.

Access to Outside Expertise

Contracting allows governments to obtain staff expertise that they do not have in-house on an as-needed basis.

Innovation

The need for lower-cost, higher-quality services under competition encourages providers to create new, cutting-edge solutions to help win and retain government contracts.

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BUSH

In September of 2000, Florida entered into a public-private partnership with M/ACOM, a leading supplier of communications equipment, to finish the network. The state transferred our assets and provided a one-time payment of $40 million. The project was completed in 2006. An existing fee of $1 for vehicle and vessel registrations pays the $13 to $18 million needed to maintain the system and the state earns 15 percent on all third-party tenants for the life of the 20-year agreement, which is projected to generate $22 million in revenue. Today, Florida's emergency responders can communicate across jurisdictions with multiple radio systems all on the same network during good times and bad—strengthening public safety to the taxpayers.

Florida tapped numerous other opportunities to maximize the strengths of both the private and public sectors. Custodial services, security at state buildings, housekeeping at veterans nursing homes, data entry and mail delivery are among the many other services outsourced by the state of Florida. Since 1999, outsourcing reduced the government workforce by 9,570, saved more than $741 million in actual dollars and prevented an estimated $1.4 billion in additional costs.

- In 1999, toll booth operations on the Florida Turnpike were outsourced, reducing the public sector jobs by 792 and saving $30 million under the contract.
- In 2001, food services in the state's prisons were outsourced, eliminating more than 472 government jobs and saving more than $66 million through the life of the contract.
- That same year, health services in some of our state prisons were also outsourced, eliminating 478 government jobs and saving more than $49 million under the life of the contract.
- In 2003, the process of negotiating leases was consolidated within one agency and outsourced. Under the comprehensive approach, in less than four years, government reduced the amount of private leased space by 6.2 percent, secured $12.6 million in cash from landlords for tenant improvements and negotiated $86.2 million in rent reductions over the term of the leases.

At the same time, the discussion of competition and the prospect of privatization often spurred reform within an agency. The modernization of Florida's welfare system is an excellent example.

Under the traditional system, applicants for Food Stamps, Medicaid and Temporary Assistance for Needy Families had to apply at one of the many brick-and-mortar offices in the state. In 2003, we asked, why not use technology to increase access and improve efficiency? We began discussions with outside providers but ultimately "insourced" the project to the Department of Children and Families.

That is when Florida began migrating from the storefront model to a consumer self-service model where applicants could apply for help by Internet, phone and mail. Other enhancements provided for a modern system of document management. Moving to a technology-based system expanded access, reduced errors and expedited the review process, resulting in better customer service and smaller government. By the end of fiscal year 2007, the reform eliminated the need for 3100 government jobs—a reduction of 43 percent of the workforce resulting in an estimated savings of more than $115 million.

New outsourcing projects can be a process of trial and error. In 2001, Florida state government outsourced its human resource departments rather than replace an antiquated computer system that tracked personnel actions at a cost of as much as $90 million. At nearly a foot high, the initial contract was so prescriptive it actually hindered the process of problem solving through the transition, leading to frustration by rank-and-file state workers who were resistant to the change from the beginning.

Overcoming the inherent fear of change within a bureaucracy is a constant challenge to the success of outsourcing, and transformational reform as a whole. As Albert Einstein wisely said, "Insanity: doing the same thing over and over again and expecting different results." To improve services and systems, we need to be willing to change.

Changing the way government operates opens the door for entrepreneurs to offer innovative and cost-effective solutions to today's problems. Outsourcing provides numerous benefits—economies of scale, greater expertise in diverse fields and much-needed flexibility in this new changing world.

The most efficient, effective and dynamic government is one composed primarily of policymakers, procurement experts and contract managers who provide quality assurance and accountability, with the private sector doing a bulk of the actual work.

Jeb Bush was the 43rd Governor of Florida and is the Founder and Chairman of the Board of the Foundation for Florida's Future, a not-for-profit organization that advocates for education reform. The full text of this article is available at reason.org/innovators2007.

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SAN DIEGO

Improved Risk Management

Through contracting and competition, governments may better be able to control costs by building cost-containment provisions into contracts. In addition, contracting may be used to shift liability from the government to the contractor.

An analysis of the city of San Diego's budget revealed that there are a number of services that are not inherently governmental, providing opportunities for managed competition. These services include:

- Water/Wastewater Treatment
- Environmental Services (Including Trash Collection, Landfills, and Recycling)
- Fleet Maintenance
- Street Maintenance
- Parks and Recreation
- Golf Courses
- Libraries
- Permits
- Facilities Management
- Information Technology
- Printing/Copying

Deciding to implement a managed competition process is only the first step. As is the case in all contracting, there are good and bad ways to execute it. In order to avoid potential pitfalls and maximize the benefits of managed competition, there are a few keys to success that San Diego officials should use when putting the voter-approved managed competition program into practice:

1. Trained Procurement Staff

Staff must be properly trained in contracting best practices and, in particular, how to build service level standards into agreements and monitor provider performance, in order to avoid possible ambiguities, misunderstandings, and disputes.

2. Centralized Managed Competition Unit

The city should maintain an expert team of procurement and competition officials to guide other departments in developing their managed competition initiatives. This central unit will help to break down the "silos" that departments sometimes operate within and identify city-wide or enterprise-wide competition opportunities that might not otherwise be considered.

3. Performance Measures

It is crucial that the city identify good performance measures to fairly compare competing bids and accurately evaluate provider performance after the contract is awarded.

4. Reliable Cost Comparisons

The city must establish formal guidelines for cost comparisons to make sure that all costs are included in the "unit cost" of providing a service so that an "apples-to-apples" comparison of competing bidders may be made. This is especially important when public employees are competing with private-sector bidders since the public and private sectors operate under different rules.

5. Performance-Based Contracting

Performance-based contracts should be used as much as possible to place the emphasis on obtaining the results the city wants achieved, rather than focusing merely on inputs and trying to dictate precisely how the service should be performed. Performance standards should be included in contracts and tied to compensation through financial incentives.

6. Vigilant Monitoring and Evaluation

Regular monitoring and performance evaluations are essential to ensure accountability and transparency, and that the city's management and the service provider are on the same page. This can help to address any problems that might arise early, before they become major setbacks.

For some time, the trend has been toward increased contracting and managed competition programs at all levels of government. Decades of experimentation and success stories have demonstrated that competition is an important tool for improving government efficiency, accountability, and transparency. By aggressively pursuing managed competition initiatives while following the best practices outlined in this study and heeding the lessons of other jurisdictions, the city of San Diego can achieve significant cost savings while maintaining or improving the quality of the services it provides. Considering the city's financial difficulties, taxpayers deserve no less.

Adam B. Summers is a Policy Analyst at Reason Foundation. Leonard C. Gilroy is the Director of Government Reform at Reason Foundation.

San Diego Implementing Managed Competition Reforms

Following the publication of this study, San Diego Mayor Jerry Sanders announced that the city is considering privatizing more than a dozen city services, including trash collection, road work, and the maintenance of traffic lights, storm drains and sidewalks. The services being pondered for outsourcing make up approximately $120 million of the current city budget. The privatization effort would potentially affect more than 560 city jobs. Under the city's plan, contracts with private firms could run up to five years, and could be terminated for poor performance.

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CHARLOTTE

- Production standards based on industry best practices and local conditions;
- SLAs between support departments and operating departments to define roles and expectations for internal support services such as vehicle maintenance and technology, and
- The right mix of temporary and full-time employees, to provide services in the most efficient manner.

Because managed competition requires substantial cultural and operational change, obstacles to implementation have to be dealt with expeditiously. Overcoming employee resistance to change and fears of lay-offs; acquiring the technical expertise to establish fully allocated costs for services; establishing credible evaluation, auditing and monitoring process; and dedicating enough time to successfully compete are some other examples of challenges that Charlotte has faced and addressed.

The committee is currently looking beyond managed competition and has begun to focus on asset management. The City owns over 1,500 parcels of real property, which the PCAC is reviewing to analyze the location, tax value, acreage, and reason acquired to determine if alternative recommendations might increase the value of these assets to the City.

Innovative programs such as bid-to-goal are also currently being examined by the PCAC and City staff to evaluate if they have a place in our competition program. While traditional managed competition has worked well for Charlotte, we realize that it may not be the solution for every service. This evaluation of alternate methods is part of a comprehensive review of all the PCAC policies and guidelines taking place for the first time since 1993.

Managed competition and privatization have resulted in real dollar savings of over $10,000,000 for Charlotte. The current five-year competition plan lists 31 projects (competition, outsourcing, optimization, and benchmarking) from 10 of the City's 14 KBUs, involving 848 employees, and $87,000,000 in services. The managed competition program and the PCAC have provided countless other savings by improving business processes, increasing employee morale, and enhancing communication between employees and management.

David Elmore is the Business Process Improvement Manager for the City of Charlotte. The full text of this article is available at reason.org/innovators2007

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COST CUTTING

of trust and expect it to be extended back. We are not naïve to political reality but we also do not let it get in our way. We ask the public to work with us and fortunately we've been able to forge strategic partnerships with leading public policy research organizations like Reason Foundation.

In essence, the Cost Cutting Caucus runs like a business. We seek better products and services at a lower price to the customer. We are trying to create value for the consumer.

We recognize that government did not get in this position overnight, so it will take some time to turn it around. But has the question "Why?" been answered? Not yet.

Simply put, if government does not continually try to provide better services at a lower price, it will never keep up with the demands placed upon it via voter action. We have excruciatingly huge liabilities at the federal level that will suffocate the future of our nation if we do not get a hold of them now. One must recognize that the federal legislature and executive branch do not have the political will to deal with the problems for fear of losing their jobs.

The states must once again be the laboratories of reform so that the federal government can see that not only is getting the fiscal health of our government necessary, it is politically popular to do so.

Delegate Christopher B. Saxman represents the 20th District of Virginia in the Virginia House of Delegates and is the Chairman of the Virginia General Assembly's Cost Cutting Caucus. The full text of this article is available at reason.org/innovators2007

Who, What, Where

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Streamlining San Diego: Achieving Taxpayer Savings and Government Reforms Through Managed Competition, September 2007, By Geoffrey F. Segal, Adam B. Summers, Leonard C. Gilroy, and W. Erik Bruvold

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Upcoming Conferences

IMN's 2nd Annual National Public Private Partnerships Symposium, March 3-5, 2008, Hyatt Regency Huntington Beach Resort & Spa, Huntington Beach, CA

American Dream Coalition, 2008 Preserving the American Dream Conference, May 16-18, 2008 Omni Houston Hotel, Houston, Texas

American Legislative Exchange Council, Spring Task Force Meeting, May 15-18, 2008, Hot Springs Convention Center, Hot Springs, Arkansas

American Legislative Exchange Council, 35th Annual Meeting, July 30 - August 3, 2008, Sheraton Chicago Hotel & Towers, Chicago, Illinois

Reason Foundation studies are archived at www.reason.org/policystudiesbydate.shtml.

Privatization Watch back issues are available at www.reason.org/pw.shtml.

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