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ANNUAL PRIVATIZATION REPORT: STATE GOVERNMENT

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(Note: Portions of this report have been published previously in various editions of Reason Foundation's *Privatization and Government Reform Newsletter* and related articles.)

PART 1

STATE BUDGET UPDATE

As the country approaches a decade out of recession, both figures and estimates for 2017–2018 showed signs, at least in the short term, for increasing optimism. In recent years, state revenues and expenditures mostly grew evenly, with regional effects, as did subcategories of revenue and spending.

Just how long the optimism continues remains to be seen: Federal legislation certainly played a role in tax revenue growth especially, but to what extent is uncertain. More broadly, growth in many forms of revenue and spending remains uncertain, except for health care costs, which should continue to grow at steady levels exceeding GDP growth for the foreseeable future.

Focusing more clearly on revenues, the SUNY-based Rockefeller Institute of Government released its most recent *State Revenue Report* in May 2018, which included an optimistic assessment of present state finances, balanced by uncertainty that could make the more recent better news short-lived.[1]

All tracked categories of tax revenue experienced “robust” (though uneven) growth in the final quarter of 2017. Combined state revenues from all sources increased 9.4% in the final quarter of 2017 compared to the same time in the previous year, far exceeding a 2.7% average over the last four quarters. State personal income tax revenues (15%) experienced the sharpest growth.[2]

Complementary to state income tax revenues, income tax withholding grew 7.4% in the final quarter of 2017, the strongest since 4Q 2012's 7.8%.[3] Another related indicator, estimated tax payments, grew up a steep 69% in the last quarter of 2017 compared to 2016, with a median growth of 39.1%.[4]

State sales tax revenues, which combine with income taxes to make up 71% of all state tax revenues, showed improvement too, growing 4.8% over the final quarter of 2017 compared to 2016 and an average of 2.4% over the previous year.[5] The numbers continue a steady growth trend since the first quarter of 2010, where sales tax revenues have grown at an average of 3.9%, although growth fell down to 2.5% over the last two years, far below the 5.3% average achieved from 1991 to 2007.[6]

Notably, the figures precede the June 2018 United States Supreme Court ruling in *South Dakota v. Wayfair*, which found that states can compel businesses to collect sales taxes from online retailers who lack physical presence in the particular state if enough transactions from the retailer in question involve state residents. Therefore, subsequent sales tax revenue figures may reflect an online sales tax boost.[7]

Motor fuel taxes grew 8.1%, even as more vehicle-miles become less subject to the tax through improved fuel efficiency and alternative fuel technology.[8] Severance taxes, which states dependent on oil and mineral production rely upon heavily, rebounded significantly as oil markets stabilized after sharp falls in both 2015 and 2016. Almost all states reliant on severance taxes experienced double-digit growth in the fourth quarter of 2017, while six energy- and mineral-rich states (AK, ND, OK, TX, WV, WY) saw severance tax revenue growth exceed 35% in the fourth quarter of 2017. [9]

Corporate income tax revenues grew for the first time in seven quarters, rising 12.5% in the fourth quarter of 2017 after declining an average of 3.6% over the previous year. Regionally, the Southwest and Mid-Atlantic both saw declines, while the Far West (states bordering the Pacific Ocean, plus Nevada) grew the sharpest, at 39.9%.[10]

At least some of the growth appears temporary, however, and attributable to anticipated tax changes prompted by the 2017 Tax Cuts and Jobs Act, which accelerated revenue growth in both personal income and personal property taxes.[11] Figures from early 2018 indicate continued strong growth, but also continued influence from federal tax reform, calling revenues for the rest of fiscal year 2018 "highly uncertain."[12]

In November 2018 the National Association of State Budget Officers (NASBO) released its most recent *State Expenditure Report*, which also showed an improving outlook in terms of spending and revenues, confirming the strengthening assessment it noted in the spring edition of its *Fiscal Survey of the States*, released in June.

Its authors estimate 4.6% total spending growth in fiscal year 2018, up from 3.8% the previous year, and exceeding $2 trillion for the first time in history, while noting both years still trail NASBO's 32-year historical average of 5.6.%.[13] When combining state general funds and "other" state funds (referred to as "state funds" in the report) established for the collection of fuel taxes and licensing or fees, expenditures rose 4.1%, while federal spending on state programs rose 5.7%.[14]

In addition to increases in total spending, the authors estimate growth in all seven areas of spending tracked for the report (K-12 education, Medicaid, higher education, transportation, corrections, public assistance, and "All Other," which includes diverse elements such as the Children's Health Insurance Program and state police forces).[15]

As has long been the case, K-12, higher education, and Medicaid represent the largest budgetary burdens for states, the three combining for over 55% of state fund spending and just under 60% of total state expenditures.[16] Trajectories of the larger spending categories vary, however: In addition to Medicaid's 7.3% estimated growth for FY2018 eclipsing K-12's 4.6% and higher education's 3.2%, Medicaid is estimated to continue to consume a larger portion of total state expenditures (29.7%) than K-12 education (19.6%) in FY2018, while K-12 education consumed a greater proportion than Medicaid just a decade ago (22% and 20.5%, respectively).[17]

Smaller categories of spending also received boosts. Total transportation spending increased 6.6% over FY2017, while total state funds dedicated to transportation increased 8.8% over FY2018.[18] Total corrections spending rose 4.6% (even as inmate populations dropped slightly) over the same time frame, but California alone accounted for 40% of all statewide corrections spending increases, with only a 1.6% median growth rate.[19] The only spending category to fall in FY2017—public assistance (mostly funds used for the Temporary Assistance for Needy Families, or TANF program)—grew a modest 0.7% in FY2018 after falling 2.1% last year.[20]

Representing a combined 28.3% of total state spending, "All Other Expenditures" saw a more modest estimated 2.2% growth in FY2018, after growing 5% the previous year. The authors note the larger increase in FY2017 is at least partly accountable to Illinois, which passed a budget in FY2017 after not doing so in FY2016. Accounting for how the increase was felt among different components for the broad category is difficult, as the category includes:

> *…CHIP, care for the mentally ill and developmentally disabled, public health programs, child welfare and family services, constitutional officers, the legislative and judicial branches, some employer contributions to pensions and health benefits, economic development, state police, environmental protection, parks and recreation, other natural resources programs, unemployment insurance, housing, general aid to local governments, and debt service.*[21]

Revealing another sign of a strengthening economy, the authors also estimate growth in revenues for states. General Fund revenues grew an estimated 6.2% in FY2018 to $837.7 billion, the largest yearly increase since FY2011, and greatly exceeding FY2017's 2.5% increase.[22] The last eight months of the fiscal year contributed greatly to the total, in which personal income tax collections—the largest source of revenue for states overall—spiked to 45.6% of general fund revenues nationally.[23] Personal income tax revenues grew the fastest at 8.7%, while corporate income taxes grew 4.4% and sales taxes grew 3.4%.[24]

Median figures for revenue growth rates roughly mirror average growth rates, suggesting a somewhat even revenue growth among states, with income tax revenues increasing 6.4%, corporate income taxes increasing 4.6%, and sales taxes, 3.9%.[25] The growth figures validate the increasingly optimistic assessment from recent editions of NASBO's *Fiscal Survey of the States*, which saw 39 states reporting revenues over projections in spring 2018, up from 27 in fall 2017.[26] Not all revenue sources experienced growth, though, as gaming and lottery revenues—which account for less than 1% of state general fund revenues—declined an estimated 10.6% in FY2018.[27]

Looking forward, the authors note that, despite the improved revenue figures, uncertainty surrounds whether the growth represents the start of a trend or an aberration, as officials sort out how much of the revenue growth results from economic activity as opposed to changes in taxes as a result of the Tax Cuts and Jobs Act of 2017.[28]

The Pew Charitable Trusts released a series of articles and resources over 2018–2019, mostly found on its "Fiscal 50: State Trends and Analysis" website, which confronts a variety of state budgetary issues.[29] In August, its researchers published an article focused largely on positive growth trends among states in early 2019, "States Kick Off 2019 With

Widespread Economic Growth."[30] After adjusting for inflation, states grew 2% in income over the first quarter of 2019 when compared to the same time last year. Southern and western states continue to see the highest growth regionally, with West Virginia (4.3%) besting a sextet of western states for the top seven in growth for 1Q 2019: Idaho (3.7%), Nevada (3.5%), Arizona (3.3%), Colorado (3.2%), Washington (3.1%), and North Dakota (3.0%).[31] The Northeast produced the most stagnant growth for early 2019, with Connecticut, Massachusetts, New York, and Rhode Island (the only state to experience negative growth in 3Q 2018) all falling below 1%. Overall, 31 states saw income growth in the first quarter outpace the 2% U.S. growth rate.

Looking back, all states saw income growth in 2018, and all 50 states have bested their pre-recession income totals, though growth continues to vary, with North Dakota leading all states in post-recession growth, averaging 3.3% growth every year since 2007.[32] As with early 2019, southern and western states saw the most growth post-recession, with Utah (3.0%), Washington (2.9%), Colorado (2.7%), Texas (2.7%), California (2.6%), Idaho (2.6%), Oregon (2.5%), Montana (2.4%), South Carolina (2.3%), and Tennessee (2.2%) following North Dakota.[33] Connecticut, Illinois, and Mississippi fared the worst, with each growing less than 1% per year, post-recession. On a more positive note, no state experienced a decline in inflation-adjusted income over 2018, which is only the third time (excepting 2011 and 2015) that's happened post recession, and only five years removed from 2013, where 40 states reported an income decline.[34]

An article released in January 2019 focused on revenues, reporting a sharp rise among states in mid-2018 continuing gains from the two previous quarters.[35] From the start of late 2017, combined state revenues improved to 12.2% above the pre-recession peak, while 36 states saw revenues surpassing previous pre-recession highs in fiscal year 2018—the most ever.[36]

When compared to the previous year, state revenues grew 5.5% from July 2017 to June 2018 after adjusting for inflation, the sharpest growth since 7% in fiscal year 2011.[37] Only two states (Mississippi and Ohio) took in less revenue in the previous year, but only because inflation grew faster than revenues in those states. Citing NASBO figures, 40 states beat their revenue projections from the previous year.

Of the 36 states besting their previous highs, 13 had reached revenue levels surpassing 15% above pre-recession levels, while three of the 14 remaining states experienced revenue levels 15% or greater below pre-recession levels (see Table 1).[38] The seven-state increase from 2017 to 2018 follows a one-state jump over the previous two years, and the largest gain since 10 states achieved the feat from 2015 to 2016.

Echoing other research, the report expects revenue growth to subside in the near term and also cited behaviors affected by provisions in the Tax Cuts and Jobs Act.

TABLE 1: STATES WITH REVENUE LEVELS 15% ABOVE AND BELOW PRE-RECESSION REVENUE LEVELS (MID-2018)	
North Dakota	47.9%
Colorado	32.2%
California	27.6%
Oregon	26.8%
Minnesota	25.5%
Hawaii	23.6%
Washington	22.8%
Nevada	22.5%
South Dakota	20.8%
Maryland	18.8%
New York	18.2%
Connecticut	16.3%
Illinois	15.5%
New Mexico	-15.3%
Wyoming	-38.2%
Alaska	-86.3%

Source: Rosewicz, Barb, et al. "State Tax Revenue Makes Biggest Gain in Seven Years." The Pew Charitable Trusts, 22 January, 2019.

Improved personal income tax collections represent a large chunk of the revenue improvements, rising 7.8% in 2Q 2018 compared to the previous year.[39] Sales tax revenues showed their sharpest gains in over three years, rising 3% in each of the first two quarters of 2018, after adjusting for inflation.

Taking the revenue focus further, an article released in August 2018 examined revenue volatilities in the states, broken down by revenue source.[40] The authors take data from different revenue streams (each providing at least an average 5% of total revenues in each state) and the states' relative reliance on the individual revenue sources between fiscal years 1998 and 2017 to establish a “volatility score” that measures year-by-year variance in state tax revenues.

Based on their findings, the average state scored a 5.0 (equivalent to a 5% average variance over the 20-year period).[41] Thirty states scored above 5.0: Resource-rich Alaska (37.6), North Dakota (16.1), and Wyoming (13.6) operated with the most revenue volatility, while Kentucky and South Dakota scored the lowest (2.7).[42]

The authors also provide scores for individual tax sources by state. Both severance taxes and corporate income taxes were consistently high, ranging from 19.1 (West Virginia) to 47.7 (Alaska) for severance taxes, and for corporate income taxes 10.5 (NH) to 47.2 (DE).[43] Personal income tax revenues and sales tax revenues were much more stable, with personal income tax scores ranging from 4.7 (WV) to 16.4 (ND), and sales taxes from 2.6 (KY) to 14.3 (WY).[44]

Another Pew article, released in November 2018, examines the “fiscal balance” of states, or the difference between state revenues and expenditures.[45] On average, states collected 102.1% of what they spent over the decade-and-a-half.[46] Ten states faced a negative fiscal balance between fiscal 2003 and 2017, with New Jersey’s the most negative, collecting 91.3% of what it spends, while Illinois (93.8%) represented the only other state where revenues fell short of spending in excess of 5% and where spending exceeded revenues in every year over the period.[47] Of the other eight states where spending exceeded revenues over the term (CA, CT, DE, HI, KY, MD, MA, NY), only California and Delaware avoided deficits in at least five of the 15 years.

In sharp contrast, Alaska achieved the highest positive balance, covering 135.9% of its expenditures over the 15-year period, followed by other states largely dependent on severance taxes: Wyoming (126.1%), North Dakota (120.8%), Utah (110.3%), and Montana (109.8%).[48] Since severance tax revenues tend to be volatile, surpluses are often used by states to hedge against years of falling energy prices, which results in lower severance tax revenues.

While most states managed to remain deficit-free since fiscal 2011, over a dozen states ran deficits in fiscal 2016 and fiscal 2017, fueled in part by slow revenue growth that ended in mid-2017, the weakest two-year stretch in a non-recession “in at least 30 years.”[49]

Despite some states operating in the red, states' treatment of rainy day funds and ending balances continues to improve, an August 2018 Pew article noted.[50] The 50-state total for rainy day funds reached $54.7 billion, representing 5.5% of spending, enough to operate governments for a median 20.5 days.[51] In contrast, states only held a combined $29.9 billion in rainy day funds in fiscal year 2007, enough for just 16.6 days, representing 4.6% of spending. Fiscal 2018 figures are expected to be even higher, with some states showing near-record levels of savings. Still, most states can no longer cover as high a share of government spending as they could heading into the Great Recession.

In fiscal 2017, Alaska's rainy day fund led all states in terms of days of operating costs it could provide (376.6 days), which was expected to drop to under 200 days in fiscal 2018. Wyoming trailed Alaska's fiscal 2017 slightly (366.9 days).[52] As a result of rainy day fund growth, nine states can now cover more days of operating costs than they could at any time since 2000. Not all states can claim successes; 11 states are capable of covering only a week or less of operations, including three (KS, MT, NJ) that have no rainy day fund balance at all, though Montana's was expected to fund at the end of fiscal 2018.[53]

Ending total balances have improved for states too, while still failing to meet pre-recession peaks. Combined total balances increased to $77.3 billion in FY 2017—8.3% of spending—and were expected to improve slightly in FY2018.[54] States could cover 30.3 days of spending with total balances in fiscal year 2017, a figure expected to have improved to 31.4 days in fiscal 2018. The improving totals still fall short of pre-recession levels in key respects: Since spending was lower in fiscal 2007, $67.9 billion in total account balances could cover 41.3 days prior to the Great Recession, accounting for 11.3% of spending.[55]

States showed a wide variance on ending balances in fiscal 2017. Alaska and Wyoming (as with rainy day fund balances) can each cover over a year of government operations with their respective ending balances; only Pennsylvania operates a negative ending balance (-17.6 days).[56]

In contrast to the more optimistic outlook from many of the *Fiscal 50* states, a Pew research policy brief focused on the ways states have still failed to fully recover from the financial crisis a decade ago:

> *Nearly 10 years after the end of the Great Recession, state governments have put the worst behind them. But the deepest downturn since World War II also has lived up to early predictions that states would face a "Lost Decade" because of missed economic and revenue growth.*[57]

The report cites many problematic areas that show states are in worse shape than a decade ago, mostly spending in education, healthcare, pensions, and physical infrastructure. Overall, higher education is still down 13% on a per student basis compared to pre-recession times, while K-12 education per pupil is down in 29 states compared to pre-recession levels—a 1.7% decrease in aggregate.[58] Medicaid spending, second only to K-12 in state budget spending, increased too, from 14.3 cents in 2007 to 17.1 in 2016, a 20% increase. Future increases are likely as many states increase their Medicaid rolls through the expansion provision in the Affordable Care Act.[59]

Pension payments, like Medicaid expenditures, continue to put increased pressure on state spending. While noting a funding gap that predates the Great Recession, by the end of FY 2016, states had only set aside enough funds to cover 66% of their total pension liabilities, the lowest total since 2003, which is the first year with such data available. While subsequent financial market performance has helped slow the bleeding a little, states still posted $1.35 trillion in combined unfunded liabilities in FY 2016.

The mounting fiscal pressures have affected other areas as well. In 2017, state and local combined spending on physical infrastructure dropped to its lowest level in over a half-century: 0.70% of GDP, after staying steadily between 0.8% and 0.9% of GDP through the 1990s and the first decade of the 21st century.[60] Not all areas have felt the sting; non-highway transportation infrastructure (transit, airports) received a 30% *increase* in spending from 2007 to 2017, while highways and streets saw a 6% drop. Spending on educational infrastructure (e.g. physical school buildings) fell 14% over the same juncture.

These mounting fiscal problems occurred even with state (non-educational) government employment falling 4.7% and state funding to localities (the second-largest source of local government revenue after taxes) down 0.8% over the past decade.[61]

Lastly, in December 2018, the Government Accountability Office (GAO) released its most recent *State and Local Governments' Fiscal Outlook*, which focuses largely on long-term spending and revenue trajectories of lower level governments. Based on the authors' simulations, states will face a "fiscal gap" (expenditures exceeding revenues) of 15% of their total expenditures over the next 50 years—the equivalent of 2.4% GDP—unless drastic spending and/or revenue changes occur immediately.[62]

Echoing other analyses, health care expenditures continue to drive most of the spending growth, with Medicaid expenditures alone expected to grow an average of 5.5% each year over the next decade, and with health care expenditures on government workers and retirees expected to increase too.[63] Medicaid spending appears to show no signs of slowing, either, with total spending growth exceeding GDP growth by an average of 1% each year, and per capita Medicaid spending exceeding GDP per capita by an average of 0.5% each year until 2067.[64] GAO expects similar increases for employee and retiree health benefits too, increasing an average 0.9% more than GDP over the same period, while also constituting a larger share of employee compensation.[65]

Pension contributions, in contrast, are predicted to decline over the simulation period as a share of GDP, though are still expected to modestly increase as a share of total employee compensation. During the previous decade (2007–2018), state and local governments sharply increased pension contributions as a share of employee compensation, from 8% to 12.3%, but the authors estimate an additional increase to 12.9% could be enough for lower governments to meet their pension obligations.[66] However, the authors note additional cutting of benefits or increasing of contributions may be necessary, depending on what happens to pension portfolio values, which experienced a strong boost over the recovery decade.[67]

Overall, the various assessments show continued fiscal improvements among the states, with recent spikes in revenues that likely won't persist. As states continue to sort out how changes to tax policy affect their operations, day-to-day operations will remain uncertain for states, and improved ending balances and rainy day funds at least suggest states expect some disruption in the near future.

The larger questions over state budgetary health care concerns obligations to retired and current workers as well as Medicaid, which continues to rise faster than inflation or the economy. In addition to the 15% fiscal gap stretching out for the foreseeable future, the continued sharp growth of health care and retirement spending means states will face tough decisions going forward. Particular revenue sources suffer from their own long-term problems. For example, as vehicle fuel economy improves and alternative fuels gain viability in powering motorized street vehicles, motor fuel taxes are less and less capable of funding road maintenance.

How states balance the many lingering dilemmas of covering their finances going forward should yield innovative approaches to government finance. As many states start to realize how obligations are stretching their revenue sources thin, confronting difficult questions related to government operations is a matter of “when,” not “if.” For the present, states appear to be playing defense in anticipation of these long-term challenges, though as GAO’s projections show, much more work remains to be done.

PART 2

HIGHER EDUCATION PUBLIC-PRIVATE PARTNERSHIPS UPDATE

While most new higher education public-private partnerships (PPPs) have traditionally involved bookstores, student housing construction, and parking—and many still do—state universities are discovering more areas where private expertise can improve university services and facilities. Covered last year in *Reason Foundation's Annual Privatization Report: State Government Edition*, Ohio State's energy public-private partnership and UC-Merced's $1.4 billion PPP provide two examples of the broadening scope of PPPs in the higher education space, with other universities recently choosing PPPs for ventures outside of more-traditional housing and building construction purposes.

Noteworthy developments on higher education PPPs over the past two years include:

CALIFORNIA

The **University of California-Merced** completed the first phase of its "Merced 2020" project in August of last year, opening two new residence halls with a combined 700 beds, new dining facilities that can accommodate up to 600 people, and 20 new classrooms.[68] As mentioned in *Reason Foundation's Annual Privatization Report 2016: State Government Privatization*, Merced 2020 is a $1.4 billion PPP with a Plenary-led consortium meant to accommodate the school's fast growth, while also adhering to restrictions that limit the project's negative environmental impact.

In January 2018, **Fresno State University** shortlisted four consortia—Bulldog Energy Alliance (ENGIE, Ullico Infrastructure Master Fund), Bulldog Infrastructure Group (GLHN Architects and Engineers, Meridiam Infrastructure North America III, Noresco, United Technologies Corporation), Plenary Utilities Fresno (Johnson Controls, Plenary North America, Syska Hennessy Group, Webcor Builders), and Victor E Energy Partners (Fengate Capital, Kennedy Jenks Consultants, Lyles Construction, Taylor Engineering, Veolia)—for the school's first PPP, which is dedicated to upgrading and managing the school's heating and cooling systems.[69] In May 2019, the California State University system's Board of Trustees unanimously approved of using the PPP concept to build and maintain the new central utility plant.[70] Much of the current infrastructure serving the facilities is beyond its useful life, noted Facilities Management VP Tinnah Medina, observing that "Our infrastructure is anywhere between 47 to 60 years old. By way of mechanical systems, that's already nearing its second life cycle. Usually a life cycle for this type of equipment is about 25 years."

Unionized workers employed by 10 campuses and five hospitals in the **University of California** (UC) system of campuses led a strike over concerns about outsourcing positions to private sector employers in May, the fifth such strike in the previous year, and the third related to employment practices.[71] A complaint filed by the American Federation of State, County and Municipal Employees (AFSCME) claims that the university improperly informed the workers of potential outsourcing. UC spokeswoman Clair Doan heavily disputed the claims, stating that, "UC's contracts with AFSCME bar the university from contracting out for the sole purpose of saving on wages and benefits…UC also can't lay off any AFSCME-represented employee because of a service contract. We are not looking to change those prohibitions."[72]

Lastly, in May 2018, Follett Higher Education Group took over **Riverside Community College**'s bookstore in a five-year agreement whereby the school will receive $850,000 of the operator's revenues given in year one, and roughly 14%–16% of the store's first $7 million to $10 million in revenues thereafter.[73]

CONNECTICUT

In April 2018, the **University of Connecticut** (UConn) announced its intention to pursue a PPP for its health center, expecting to name a finalist by September, but by May 2019 it still hadn't found an agreeable proposal, and appears to be pursuing the project without private financing.[74] Through a PPP arrangement, UConn hopes to strengthen its clinical practices and finances, while providing supporting faculty research in its medical and dental schools.[75]

GEORGIA

The **University System of Georgia** (USG), which has privatized student housing on several of its campuses in recent years (dating back to 2014), released a Request for Qualified Concessionaires (RFQC) in April 2018 to expand housing privatization to five more of its campuses, including Albany State University, Savannah State University, the University of West Georgia, and Valdosta State University.[76] After identifying three qualified proponents, the USG's Board of Regents elected to terminate the RFQC in August 2018.[77]

KENTUCKY

In December 2018, **the University of Kentucky** announced it would seek private partners to develop a new research facility on its Coldstream Research Campus in a potential DBFOM agreement.[78] The planned 40,000 square foot facility would include labs and offices, while also serving as a business incubator. According to the RFP, a potential tenant is already interested in leasing half the available space upon completion.[79] In February, however, the project's media partner revealed it had received no responses to the RFP, and the project appears to be on hold indefinitely.[80]

INDIANA

In August 2018, **Purdue University**'s Board of Trustees gave approval for the school to enter into final contract negotiations with a Plenary-led consortium for the school's first housing PPP, a $100 million deal that reached financial close last October.[81] Under the 65-year agreement, Plenary Properties Purdue, LLC will build, operate, and maintain two new campus residence halls that combine for 1,300 new beds. Hoping to save roughly 15% on construction costs, the new housing is expected to open in fall 2020.[82] The new housing projects come at a critical time: Purdue welcomed 8,300 new students for fall 2018, the school's largest enrollment ever, and well over its expected target of 7,800.[83]

IOWA

In July, the University of Iowa shortlisted five proponents for its Utility System PPP: NextEra Energy Resources, Meridiam Infrastructure/Engie, Axium Infrastructure/Veolia, John Laing/Acciona, and Plenary/Kiewit/Sacyr.[84] The consortia will receive an RFP later in 2019 to bid for the opportunity to operate and maintain the university's power plant for 50 years, with a commitment to making the campus coal-free by 2025.[85] The school hopes to select a preferred proponent and sign an agreement by year's end.

MASSACHUSETTS

The **University of Massachusetts**' Amherst campus (UMass-Amherst) voted in September 2018 to move forward with a bidding process for what would be the university's first housing public-private partnership for its flagship campus. The school looks to add 1,000 on-campus beds, while transferring financial and operational risk to a private partner. Last year, UMass-Amherst sent out a related RFI, receiving 11 responses to the potential project, which could also include new dining, entertainment, lodging, and retail space.[86]

As mentioned in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*, the UMass system's Boston campus broke ground on a PPP with Capstone Development Partners in late 2016, a $139 million project that includes the school's first on-campus housing. Early in fall 2018, over 1,000 students moved into the new residence halls.

MICHIGAN

In April, **Eastern Michigan University** (EMU) reached financial close with LAZ parking on a 35-year, $59 million lease of the university's parking system.[87] Preston Hollow Capital will pay EMU $55 million up front and implement $4 million in capital expenditures over the first two years of the deal, while managing all parking operations for the lease's term.[88] As mentioned in Reason Foundation's *Annual Privatization Report 2017: State Government*

Privatization, EMU started pursuing private partners for its parking services late last year, after entering into a 10-year contract with Chartwells for food services outsourcing.

Wayne State University reached financial close with Corvias late last year, entering a 40-year, $1.4 billion DBFOM agreement that will have the firm operate all student housing, including a new 395,000 square foot development that will create or renovate living space for close to 1,200 beds, while adding 17,000 square feet of new retail space and a new 9,700 square foot student health center.[89]

Michigan State University's Board of Trustees gave authorization for the university to enter negotiations for its first PPP in December 2018, choosing Health Innovation Partners as its preferred proponent—a consortium of MB Real Estate, Walsh Construction, Walsh Investors, and Rockford Construction & Development. In July 2018, the school issued an RFP with the assistance of real estate company JLL, seeking PPP partners to construct a second (and possibly third) building on the school's Grand Rapids Research Center site.[90] Construction is expected to start as soon as late 2019 and to be mostly complete by late 2021.

In December 2018, **Lake Superior State University** (LSSU) chose Corvias as its private partner for a comprehensive student housing PPP, a $30 million DBFOM project that would include renovating old buildings and constructing new housing capacity.[91] The selection follows an RFP released by LSSU last October. The parties hope to reach financial close by early 2020.

NORTH CAROLINA

In October 2018, the University of North Carolina's Board of Governors approved **Appalachian State University**'s (ASU's) first public-private partnership, an estimated $191 million combined housing and parking deal projected to include an additional 2,100 beds and a new parking deck with over 450 spaces, which reached financial close in January 2019.[92] Through an RFP process early in 2018, ASU selected RISE real estate for the project, which will include replacement or renovation of seven residence halls and is scheduled to be completed in three phases between fall 2020 and fall 2022. The university will retain ownership of approximately 350 beds of the project once completed, and will lease the roughly remaining 1,700 ones, as well as the parking garage.[93]

The **University of North Carolina-Wilmington** selected Balfour Beatty as its preferred proponent for the school's housing PPP in late May, a project expected to produce 1,800 new beds, with phases completed in 2020–2021.[94]

In November 2017, **Western Carolina University** issued an RFQ for a DBFOM student housing PPP. In March 2018, the school shortlisted three proponents for the project (Corvias, RISE, Servitas, and Zimmer Development Company), choosing Zimmer in July.[95] The school intends for the new 600-bed development to replace two other dormitories planned for demolition.

In July, Follet Higher Education Group began operating **Piedmont Community College**'s Person County campus bookstore. The company will pay back a fixed dollar amount of its revenues to the school in year one, after which it will provide a percentage of revenues, like the Riverside Community College agreement noted earlier.[96]

NORTH DAKOTA

In June, the University of North Dakota shortlisted four proponents for its mixed-use developments PPP project: Greystar, JPC Development, Roers Development Company, and Greco.[97] Multiple PPPs are expected to result from the project (although a final number remains to be seen), which calls for the private partner to enter DBFOM agreements for each new development, likely including housing, parking, and retail.

In October 2017, **Dickinson State University** (DSU) entered an eight-year contract with Follett Higher Education Group to manage the school's bookstore, following a May RFP that generated six responses.[98] A state audit released in August 2019 revealed the possibility of contract language misleading school officials into thinking that *annual* revenue thresholds defining school commissions were actually *cumulative* thresholds.[99] The audit also found noncompliance related to the omission of language to satisfy a requirement for bi-annual contract reviews for any state government contracts exceeding two years. DSU says it will work with the attorney general's office to ensure the contract includes "all required provisions."[100]

OHIO

As mentioned in *Reason Foundation's Annual Privatization Report 2017: Local Government Privatization*, **The Ohio State University** entered into a $1.1 billion comprehensive energy PPP with ENGIE Services, reaching financial close on the 50-year lease agreement last April. Positive news in 2018 on the deal's progress abounded, including:

- numerous energy efficiency and sustainability projects, such as conversion of 40,000 indoor lights panels to LED technology and upgrading of energy systems in 14 buildings, resulting in an average projected energy savings of 26% in each;[101]
- full coverage of tuition and fees for all in-state Pell Grant recipients; and[102]
- a pair of awards for its innovative approach, one each from the publications *IJ Finance* and *P3 Bulletin*.[103]

Also in Ohio, **Kent State University**'s Board of Trustees approved a 10-year, $1.2 billion campus transformation project in March, for which it hopes to rely heavily on PPPs.[104] School officials expect the estimated $221 million first phase of the project to rely on $127 million in private capital. The first phase includes a new $72 million College of Business Administration building (for which the Board selected Akron-based Signet Real Estate Group as designer in September), new student housing, and parking.[105]

PUERTO RICO

The Puerto Rico Public-Private Partnerships Authority (PPPA) shortlisted two potential partners in July 2018 for the **University of Puerto Rico-Mayagüez**'s campus facilities PPP: SI Mayagüez, LLC, comprising Servitas and Interlink; and The HILL (Higher Integrated Learning & Lifestyle) Team, comprising Property Services, HOK International, and Venegas Construction.[106]

The estimated $100 million–$175 million partnership is expected to include DBFOM elements for new housing and parking facilities, with the potential for additional capital improvements and O&M agreements for other campus facilities.[107] As mentioned in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*, PPPA released a draft RFQ in October of that year for the project, leading to a final RFQ last May, and a late June deadline for responses.[108] PPPA expects to issue an RFP at some point, but no updates were available at press time.

TEXAS

In April 2018, **Texas Woman's University** reached financial close on a $76 million student housing PPP.[109] The school announced in August 2017 that it had selected Balfour Beatty out of seven finalists for the project, which will house close to 900 students when completed in 2019.[110] The project will also include new student offices, fitness facilities, and retail space.

PART 3

STATE LIQUOR PRIVATIZATION UPDATE

Seventeen states and two Maryland counties maintain some form of government-owned wholesale and/or retail monopoly in distilled spirits (see Table 2). Since Prohibition's 1933 repeal, 33 states have chosen to allow and to regulate the private distribution and sale of distilled spirits through licensing and other requirements.

In the century since Prohibition first started, all changes over alcohol control, wholesale, and distribution have gone exclusively in the direction of privatization, as governments increasingly identify liquor sales and distribution as areas where direct government operation makes little sense. Citizens expect regulation with respect to alcoholic beverages by state governments, but states distributing, marketing, and selling liquor hurts taxpayers in multiple ways: State-run sales and distribution operations rob the state of private tax dollars that would be available with private distribution and sales, while monopolization of the industry results in high prices and poor consumer choice.

No state has ever shifted from a private regime to a state-run liquor monopoly. Additionally, some privatization already exists within "control" states. For example,

- Washington State fully privatized the state-run wholesale and retail spirits monopolies via a ballot measure in 2011.

- Iowa and West Virginia fully privatized their spirits retail monopoly in recent decades, retaining their in-house wholesale operation.
- Maine has outsourced liquor wholesale operations since 2004.
- Five states—Maine, Montana, Ohio, Oregon, and Vermont—use an "agency/contract store" model in which contracted private entities operate state-owned retail liquor stores, while three others—Idaho, New Hampshire, and Utah—use a blend of state-owned and operated retail outlets and agency/contract stores.
- Alabama maintains state control of distribution and operates government-run stores, but also allows privately run retail stores.

TABLE 2: ALCOHOL "CONTROL" STATE RETAIL AND WHOLESALE SYSTEM DESIGNS

State	Retail			Wholesale/Distribution	
	Government Operated	Agency/ Contract	Private	Government Operated	Contract
Alabama	X		X	X	
Idaho	X	X		X	
Iowa			X	X	
Maine		X			X
Maryland - Montgomery Co.	X			X	
Maryland - Worcester Co.	X			X	
Michigan			X	X	
Mississippi			X	X	
Montana		X		X	
New Hampshire	X	X		X	
North Carolina	X			X	
Ohio		X		X	
Oregon		X		X	
Pennsylvania	X			X	
Utah	X	X		X	
Vermont		X		X	
Virginia	X			X	
West Virginia			X	X	
Wyoming			X	X	

Traces of Prohibition-era restrictions can be seen in how states treat less-intoxicating alcoholic beverages, too. Despite the removal of a prohibition on homebrewing by the Carter administration in place since 1978, homebrewing did not become legal in all 50 states until 2013, when Mississippi and Alabama both made the practice legal.[111] Some states restrict retail sales of beer and wine to liquor stores or specialty shops, denying grocers some relief from a very low-margin industry. As Reason Foundation's *Annual Privatization Report 2017: State Government Privatization* noted, Pennsylvania prohibited most retail sales of alcoholic beverages (except for on-premises consumption) until Gov. Tom Wolf signed HB 1690 in 2016. Other restrictions date back further, in "dry" counties where any sale of alcohol is prohibited, and in "Blue Laws" that prohibit sales or access on Sundays. Connecticut's Sunday sales ban was finally lifted in 2012 after being in place since the 18th century.

Developments in alcoholic beverage privatization and regulation over the past year include:

MARYLAND (MONTGOMERY COUNTY):

Removal of the suburban D.C. county's government monopoly (the Montgomery County Department of Liquor Control, or DLC) over distribution and wholesale of all alcoholic beverages and retail monopoly on liquor appeared possible only a year ago, until County Executive Ike Leggett killed his own proposal to turn over DLC operations to a private entity. As noted in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*, Gov. Larry Hogan signed a bill (HB 315) that legally ended the county's liquor monopoly by allowing licensing of private liquor retailers. However, the DLC is in charge of the licensing and has neither issued a single license, nor does it plan to issue any for the foreseeable future.[112]

While candidates vying for "at-large" seats on the county council in the 2018 elections made ending the DLC monopoly part of their platform, County Executive Leggett appeared to move even further away from advocating privatization in 2018, seeking instead to change the DLC's name to "Alcohol Beverage Services."[113] DLC Director Robert Dorfman (without any hint of irony) said of the proposed name change, "The old name does not have the right connotation. *We're not about controlling how people do business*. Our job is to make sure our customers are well taken care of." [114] (emphasis added)

NORTH CAROLINA

North Carolina remains only one of two states—the other being Virginia—that prohibits the retail sale of liquor except in government-owned and operated stores. However, the state does contract out for liquor warehouse space and operations, addressed by a state auditor report released in August 2018. It revealed poor contract management by the state resulting in millions in losses to taxpayers due to ignoring existing spending controls, nonexistent contract monitoring, and failure to perform due diligence on basic change order requests.[115]

"The Alcoholic Beverage Control Commission (NCABC) did not administer the Alcoholic Beverage Control Warehouse contract in the best interest of the state," the report opens. In addition to eclipsing the contract's maximum allowable price by $11.3 million (14.5% of the total contract cost from July 2004 to June 2017), the series of contracts "exceeded the three-year contract term four times without proper review…denying the State the opportunity to reduce costs through negotiation and competitive bidding…". The NCABC also failed to "explain why it repeatedly approved price increases that exceeded the maximum allowed limits," only admitting "it had little to no resources dedicated to monitoring the contract."[116]

NCABC was under the impression its contract was exempt from requiring approval for the contract price increases by the state's Division of Purchase & Contract but could not offer any reason why it would be exempt. As with any other nonexempt state agency, "contract term or length shall not be for more than three years, including all extensions and renewals."[117]

Furthermore, the NCABC appears not to have questioned a single price increase from the contractor, LB&B Associates. The report specifically cites two instances where the contractor asked for increases based at least in part on fuel cost increases in years in which the contractor experienced reduced fuel costs.[118] In another five cases, the contractor asked for increases based at least in part on an increase in volumes of liquor shipped to local NCABC boards in years before the contract specifically obligated the state to do so.[119]

NCABC authorized a lease of additional warehouse space starting in 2011, doubling its existing capacity and increasing the contract an average $2.54 million each year despite an average of only 23% of the space being used during the contract's duration, according to LB&B's own report.[120] Auditor photographs taken during early December 2017 that were included in the report also support LB&Bs finding that the additional space is severely underused.[121] And while the NCABC stated a need for 200,000 square feet of additional warehouse space, it failed to demonstrate why additional space was needed. Post-contract results show the NCABC continued to deliver poor order accuracy after the additional lease, with the agency underfilling of over half its orders in 2017 and 39% the previous year.[122]

Finding that NCABC kept poor records, the State Auditor's Office instead obtained most of its data and documentation needed to complete its report from LB&B Associates, information which "the Commission should be requesting from LB&B as part of their ongoing oversight and monitoring activities."[123]

Following the release of the audit, papers across the state responded with editorials calling for an end to the state's retail monopoly. One in the *Charlotte Observer* stated that "(t)he legislature can and should create a new system of licensed, private liquor stores," calling the present system "inefficient" and "inconvenient."[124] Greenville's *Daily Reflector* noted it's "(P)ast time to privatize liquor sales in N.C.," calling the present opportunity to end the state's retail monopoly its "most formidable challenge in decades."[125] The *Fayetteville Observer* agreed, too, asking "why is government in the liquor business?"[126]

The backlash against the state's ABC Board spilled into 2019, with North Carolina lawmakers introducing a pair of bills (HB 971 and HB 536) that would modernize and liberalize the state's control of alcohol.[127] HB 971 would end government wholesale and retail monopolies on liquor, while HB 536 would remove various archaic and needless restrictions on liquor and other alcoholic beverages.

PART 4

STATE HEALTH CARE AND SOCIAL SERVICES PRIVATIZATION UPDATE

States turning more to the private sector for help with issues surrounding health care and social welfare programs mostly originates from a couple of factors: cost containment and innovation. Health care programs represent a large and growing portion of state spending and will continue to do so for the considerable future. To help contain costs, some states took advantage of the Affordable Care Act's provision that provides temporary federal assistance to states expanding their Medicaid rolls, while other states have turned to privately administered "managed care" models, where groups of private health care providers take on Medicaid patients on a per-capita basis, as opposed to the more traditional "fee-for-service" design that Medicaid has traditionally relied upon.

With growing obligations to health care and retirement benefits, social services can be crowded out of budgets, which gives agencies little opportunity to try innovative approaches to improve the lives of affected individuals. Often state agencies will form partnerships with private entities for social services, which can include foster care, "welfare-to-work" programs, mental health services, and substance treatment services. Increasingly, these partnerships can take the form of a "pay-for-success" arrangement, where outside financial backers receive incentive payments for improving outcomes.

Austill Stuart

Stories surrounding private sector involvement in state-level health care and safety net services over the past two years include:

ALABAMA

After planning a move to a managed Medicaid program with regional, private providers, Alabama Medicaid Commissioner Stephanie Azar announced in July 2017 that the state would no longer pursue the regionally managed care option (RCO). Instead, it would work with the federal Centers for Medicare and Medicaid Services directly to improve the fee-for-service Medicaid program at the state agency.

Commissioner Azar cited changes in federal regulations, high costs of transitioning to the regional program, and greater flexibility in Medicaid management provided by the Trump administration as triggering the move away from the region-based model, which was set to go into effect last September. Azar explains:

> *It is highly likely that federal healthcare changes are on the horizon. While the financial implications could be challenging for our state, the new flexibilities and waiver options that the Trump Administration is willing to consider gives our state Medicaid program new options to accomplish similar goals without incurring the same level of increased upfront costs associated with the RCO program.*[128]

IOWA

In May of last year, the Iowa Department of Human Services announced that Iowa Total Care, a subsidiary of Centene, will replace AmeriHealth Caritas in its managed Medicaid program in July 2019.[129] As reported in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*, while the state noted savings in the managed Medicaid program's first year in a June 2017 report, providers lost a combined $450 million. AmeriHealth left the program in November 2017.[130]

KANSAS

In June 2018, the Kansas Department of Health and Environment awarded three new contracts to managed care providers for KanCare, the state's Medicaid program: Sunflower State Health Plan, United Healthcare, and Aetna (which replaces Amerigroup).[131] As noted in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*, Centers for Medicare and Medicaid Services denied the state an extension for its previous contracting arrangement, leading the state to implement an RFP process to initiate new contracts for KanCare.

Also in Kansas, the state's privatized foster care system continues to face challenges, recently appointing a Child Welfare System Task Force to seek improvements to the system, which could potentially include taking operations back in-house.[132] In September 2018, Kansas Department of Children and Families (DCF) Secretary Gina Meier-Hummel warned contractors of fines resulting from the practice of patients sleeping in offices due to lack of bedroom space.[133] Contractor KVC Behavioral Healthcare claims DCF fails to provide adequate resources to provide for children in their care. The Task Force expects to issue recommendations to reform the system by the end of the year.

As mentioned in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*, an audit last year faulted DCF for failing to provide adequate resources for its contractors, while also privatizing the agency's contract management and compliance practices.

LOUISIANA

In August 2018, Gov. Jon Bel Edwards announced that Louisiana State University (LSU) would join nonprofit Ochsner Health to operate public hospitals in the state's northern cities of Monroe and Shreveport.[134] Ochsner replaces BRF, which had operated the hospitals with LSU since 2013 as the only operator willing to do so at the time. The rocky relationship between BRF and LSU led to both parties seeking to exit the contract.[135]

NEW YORK

The New York State Department of Health announced in October that it would be partnering with ILÚM Health Solutions (a subsidiary of Merck) and OpGen to help fight infectious disease through antimicrobial research. ILÚM will institute the Infectious Disease Digital Health & Precision Medicine Platform—a new means of connecting public health officials based in the Wadsworth Center in Albany to health providers. OpGen will provide support in detecting and tracking pathogens with technology it hopes to eventually submit to the FDA for approval beyond its current "Research Use Only" designation.[136]

The state's Life Sciences Support Initiative will provide $22.4 million, while Merck will invest up to $48.6 million over the next five years for the project.[137] OpGen will operate the 12-month, $1.5 million demonstration program, which has the potential to be expanded over the next five years.[138]

OHIO

In September 2018, the Ohio Bureau of Workers' Compensation (BWC) announced that it would begin a pilot program that provides up to $5 million in support to employers who hire and retain individuals struggling with opioid addiction and other chemical dependencies.[139] County-level alcohol, drug addiction and mental health boards will determine eligible providers and monitor their performance, while serving as a conduit between BWA funds, provided in quarterly lumps sums, and providers.

SOUTH CAROLINA

While 49 states largely delegate school bus service to local government, the state government of South Carolina manages the state's entire fleet. In recent years, state school buses built in the 1990s have been subject to a series of fires, while other buses date back to the 1980s.[140] Inability to meet rider demand by the state's fleet management led Charleston County to partially privatize its operations, contracting with Durham School Services for up to 120 buses and management services.[141]

With hope of getting the state entirely out of the school bus business, State Representative Wendell Gilliard introduced H.5389 in November 2017. The bill would prohibit the state from owning school buses, as well as requiring all related maintenance and operations to be sold or leased, while returning decision-making power over school bus operations to local governments.[142] While the bill died in Committee, Rep. Gilliard filed H. 3220 in December 2018 for the new legislative session, which ends in 2020.[143]

TEXAS

The state's Department of Family and Protective Services announced in June 2018 that it would expand a privatized foster care program to an additional 30 counties.[144] As reported in Reason Foundation's 2017 *Annual Privatization Report: State Government Privatization*, Gov. Greg Abbot signed a bill last May to build on an initial 2014 child welfare privatization pilot in the Fort Worth area. The state had persistent problems keeping foster children in their communities, with many counties moving over 30% of children to other parts of the state. It hopes to emulate the success of Ft. Worth, where the community-based approach has brought the figure down to 10% in just a few years.[145]

VERMONT

In October 2018, the Vermont Agency of Natural Resources issued an RFP seeking a private partner to help with an electric school and transit bus pilot program.[146] The agency and partner would choose providers for vehicles and equipment, with an eye toward potential statewide expansion. The state will use $18.7 million in funding received from the Volkswagen Environmental Mitigation Trust Fund to help pay for the pilot.[147]

WEST VIRGINIA

In August 2019, West Virginia revealed it had received three bids from firms looking to manage and operate the state's foster care system: UniCare, The Health Plan, and Aetna.[148] The move follows the passage and Governor Jim Justice's signing of House Bill 2010, which requires the state to outsource state-provided care for young people.[149]

In August 2018, Gov. Justice announced he's pursuing plans to help make the state's Public Employee Insurance Agency (PEIA) more solvent, possibly through privatization.[150] The governor cited success in privatizing the state's workers compensation insurance fund as a possible model to be used for PEIA privatization. Skeptics point out that at the time of the workers compensation insurance privatization, no private market existed for workers compensation insurance, while PEIA operates in an already private health insurance market.[151] The state also appointed a task force to study PEIA reform without privatization. According to Gov. Justice:

(T)he Task Force is working in one direction, I'm working in another direction from a privatization side to completely explore that avenue to see if there's a possibility of doing this in a BrickStreet way that we did before with workers comp—to see if there's a way to do it and pull it off.[152]

PART 5

STATE INFRASTRUCTURE PRIVATIZATION UPDATE

DELAWARE

In September 2018, Delaware Gov. John Carney, the Diamond State Port Corporation (DSPC), and Gulftainer signed a 50-year concession lease agreement in which Gulftainer will take over management of the port. During the first 10 years of the lease, Gulftainer agrees to invest up to $584 million in the facility, of which over $400 million would be used to build a new container terminal, while also paying fees to the state based on the amount of cargo handled by the port.[153] As mentioned in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*, DSPC issued an RFQ in early 2017 for a private entity to operate the port in a concession lease in response to a master plan for the port released in 2016.

In another Delaware update, and after delays in June over bids and funding issues, Delaware's plan to construct a new multimodal transportation center took a big step forward. Last November, the state named Transit Center, LLC (a consortia made of Colonial Parking, EDiS Company, and Emory Hill Real Estate Services) as its private partner to design, build, operate, and maintain the estimated $10 million facility. While the project was originally budgeted for $2.4 million, the Wilmington Urban Area Metropolitan Planning Organization (WMPO) requested an additional $1.7 million.[154] Officials expect the project to be completed by the end of 2019.[155]

GEORGIA

In October 2018, it was reported that the Georgia Department of Transportation had shortlisted three proponents for its highway broadband project. While no official word has appeared on its website, sources cited by *Inframation News* say that one team includes AECOM, a second one includes Star America and Zayo Group, and a third team includes John Liang.[156] However, a March 2019 article on *Inframation*'s site cited "sources familiar to the project" claiming the project was cancelled, while recognizing it could be revived in the future.[157] As planned, the project called for a private partner to add over 1,300 miles of fiber optic cable to the state's interstates in a 20-to-25-year DBFOM project. [158]

ILLINOIS

In August 2018, Gov. Bruce Rauner signed HB 4508, which extends amendments to the state's Public Utilities Act that allow for water and wastewater system PPPs, while also changing language to allow the purchase of water systems that serve more than 7,500 residents.[159] Critics of the legislation cited it as a means for private water companies to institute large rate hikes, but the legislation specifically gives governmental entities (The Illinois Commerce Commission, or a "large public utility") the authority to approve water and sewer rates.[160]

The Illinois Department of Transportation (IDOT) revealed in September 2018 that it received 30 responses to an RFI related to modernizing street lighting around the state's highways, likely to include installation of LED lights and maintaining all lighting structures in a DBFOM agreement.[161] The move follows the "smart state" RFP released by Illinois in March 2017, mentioned in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*. In January 2018, Gov. Bruce Rauner announced the IDOT's intent to pursue a "master contract" agreement for the state, allowing local governments throughout the state to participate, ultimately leading to the August 2018 RFI.[162]

LOUISIANA

In August 2019, Gov. Jon Bel Edwards announced the state would enter a PPP contract with private firm LA Energy Partners—a venture comprising Johnson Controls and Bernhard Energy Solutions—which includes a lease of state-owned chiller systems and a series of energy upgrades to 31 state buildings.[163] The state will receive $3 million for the chiller systems, located at the Shaw Center for the Arts in Baton Rouge, and will give the operator

$6 million for the chilled water generated by the chillers and used for cooling the venue. State building improvements, which include the Governor's Mansion, State Capitol, and State Supreme Court Building, are estimated at $54 million.[164]

MARYLAND

In December 2017, a federal appeals court issued a ruling that allows for the Purple Line light rail project to continue construction. The appellate court ruling reverses a 2016 District Court ruling that would have delayed the project by requiring completion of an additional environmental impact study before construction could proceed. Judge Judith W. Rogers wrote the three-judge panel opinion, stating the plaintiffs lacked enough evidence to show how reduced ridership would warrant an additional environmental assessment.[165] As noted in Reason Foundation's *Annual Privatization Report 2017: State Government Privatization*, the Maryland Department of Transportation and consortium Purple Line Transit Partners, LLC reached financial close in June 2016 on the 16-mile, $5.6 billion light rail project, which will connect to three lines of the DC Metro.

In September of 2017, Gov. Larry Hogan revealed a $9 billion PPP project to manage traffic in the state's D.C.-area suburbs, looking to widen I-495 and I-270, while also converting existing High Occupancy Vehicle (HOV) lanes to High Occupancy Toll (HOT) lanes and adding additional toll lanes and dedicated bus lanes. State Road 295 (a.k.a. the Washington-Baltimore Parkway) could potentially be widened to six lanes (from four), in part contingent on the state receiving ownership of the road from the U.S. National Park Service.[166] According to Lisa Choplin, PPP project director for the Maryland Department of Transportation, commuters in the affected routes often experience average speeds lower than 15 mph, with severe congestion occurring seven to ten hours per day.[167]

MASSACHUSETTS

In September 2018, the Massachusetts Bay Transportation Authority (MBTA) published its annual report concerning the transit agency's projected operations. Due to its waiver from the state's "Pacheco Law," which severely limits agencies from participating in competitive sourcing and outsourcing agreements, MBTA plans to carry forward its contracting practices. It projects continued large savings from a greater reliance on competitive sourcing of services—$450 million over the next decade—including over $80 million from outsourcing warehouse activities to Mancon, Inc., $96 million savings from outsourcing cash handling operations to Brinks (a 75% cost savings compared to its previous in-house operations), and over $275 million achieved from contract negotiations with the agency's two largest labor unions.[168]

The report further notes "benefits from the waiver extend well beyond actual and projected operating dollars saved…(e)ven when (competitive sourcing) does not result in outsourcing, the availability of the waiver has caused the authority—and its unions—to examine and rethink internal processes and operations in ways that had rarely, if ever, happened before."[169] Other MBTA improvements tied to the waiver include a drop in crime due in part to outsourcing police dispatch (allowing more cops in the field), improved fare collection through a $701 million public-private partnership with John Liang and Co. dubbed Automated Fare Collection 2.0, increased customer service hours and presence throughout the T system, and improved parts delivery and warehousing operations through outsourcing.[170]

NEW YORK

In April 2018, Gov. Andrew M. Cuomo announced that the New York State Thruway Authority (NYSTA) would seek private partners to redesign and upgrade 27 service areas along the 570-mile highway stretching from New York City to the Pennsylvania border near the state's southwest corner.[171] In October 2018, NYSTA announced it had sent out an RFP for the project after receiving numerous responses to a Request for Expression of Interest released earlier in 2018.[172]

In September 2019 NYSTA selected Empire State Thruway Partners (John Laing) as its preferred proponent from five finalists to lease the service plazas for 30- and 33-year terms in a design-build-finance-operate-maintain (DBFOM) public-private partnership agreement.[173] Sixteen of the locations will be available for redevelopment in 2020, while 11 others will be at the end of 2022, after a current contract with McDonald's expires.

PENNSYLVANIA

The Pennsylvania Department of Transportation (PennDOT) continues to show an interest in entering PPPs, issuing calls for unsolicited PPP proposals in October 2018 and April 2019.[174] One area in which PennDOT specifically seeks guidance is wetlands mitigation, issuing a February 2018 RFI for what could eventually lead to a wetlands mitigation PPP.[175] PennDOT's interest stems primarily from wanting to transfer regulatory and operating risk to a private entity with more expertise in wetlands mitigation:

> *Regulatory changes have made it increasingly difficult for PennDOT to satisfy its own mitigation needs. Given the greater risks and higher costs associated with wetland banking, there have not been any PennDOT wetland mitigation banks permitted since 2008. This is mainly due to the operation and maintenance of a banking site not being a core service of PennDOT.*[176]

PennDOT also looks to enter a PPP to help relieve problems concerning parking space for large trucks. In January it announced it had received 19 responses to a request for information (RFI) for a potential PPP for truck parking services.[177] The state faces problems with parking availability for truck drivers along its highways as well as accurate information about available space, often very rare between midnight and 5 am. PennDOT's PPP Board intended to decide in a May 30 meeting whether the project would be pursued as a PPP or through an alternate procurement method, but no updates were available at press time.

Lastly, in late 2017, PennDOT and the Pennsylvania Turnpike Authority shortlisted four proponents to design, build, finance, operate, and maintain a 550-mile fiber optic network for the turnpike: Keystone Broadband Partners (led by AECOM), Keystone Broadband Partners (led by Star America and Zayo Group), Penn FiberWay (led by Macquarie) and Plenary Broadband Infrastructure.[178] In December 2018, however, PennDOT canceled the PPP project and announced it will pursue a DB contract, citing higher-than-expected costs.[179] As mentioned in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization,* the estimated $200 million project would work to facilitate communications and the transfer of toll data, while also looking to help utilize emerging technologies as they become available.

PUERTO RICO

The commonwealth's public power utility, Puerto Rico Electric Power Authority (PREPA), underwent substantial changes in 2018, with privatization on some level likely to occur within the next few years, and widespread damage from Hurricane Maria hastening the need for a long-term solution for PREPA. In January, then-Governor Ricardo Rossello announced plans to sell the utility, calling PREPA "a heavy burden on our people, who are now hostage to its poor service and high cost." In July, PREPA's new (the previous day) CEO (one of six CEOs serving PREPA since November 2017) and five of the utility's eight board members resigned.[180] Its current CEO sees privatization as the best (and likely only) means of handling a couple of challenges: lowering electricity rates from its current average of 21.5 cents (The average U.S. resident pays around 10.2 cents per kWh with only Hawaii's

23.9 cents topping Puerto Rico's rate.[181]), and upgrading and modernizing the island's power grid, including transitioning from oil to natural gas as the principal source of its electricity generation.[182]

As the author co-wrote with Reason Foundation's Marc Joffe in May 2018, PREPA and Puerto Rico's poor fiscal situation and lack of a plan to compensate creditors requires private capital and direction, as increasing losses without capital investments would ensure a poor situation would only continue to worsen: "When a government runs a corporation with monopoly power and less-than-transparent finances, one can expect losses and rent-seeking, and PREPA is certainly no exception."[183]

Additionally, Puerto Rico's privatization agency, the Puerto Rico Public-Private Partnership Authority, (PPPA) shortlisted proponents on a quartet of projects in 2018 after it reported receiving 20 unsolicited proposals in January:

- In late September 2018 PPPA shortlisted four consortia for a PPP to upgrade the island's water metering system, a 15-year DBFOM project: Blu Water, IBT Group, Puerto Rico Advanced Intelligent Metering Services, and Suez Group.[184] The Puerto Rico Aqueduct and Sewer Authority is evaluating three proposals for the expected $400 million agreement. As of late August 2019, the Puerto Rico Aqueduct and Sewer Authority was reviewing three proposals for the project and hopes to award a final contract next year.[185]
- Also in September 2018, PPPA announced it had shortlisted Balearia Caribbean, HMS Ferries, Priority Roro Services, and Seastreak for a PPP project to improve ferry services between a pair of routes: the port cities of San Juan and Cataño and the island municipalities of Vieques and Culebra off the east coast of the main island.[186] In July, it was revealed the Puerto Rico Maritime Authority was negotiating with HMS Ferries as its preferred proponent for the estimated 23-year, $25 million DBFOM project.[187]
- A third September 2018 shortlist saw AES/Fluence Energy Invenergy Storage Development, PowerSecure, and Tesla invited to bid providing various island substations with energy storage capabilities.[188]
- Finally, in November 2018, PPPA shortlisted five potential partners, naming three—Global Ports Holding, Acciona/Ports America, and Sacyr—for a PPP to repair, upgrade, operate, and maintain cruise terminals in San Juan Bay.[189]

RHODE ISLAND

In December 2018, the Rhode Island Department of Transportation (RIDOT) selected May Mobility for its autonomous vehicle program, awarding the firm a contract to develop autonomous shuttle service for the city of Providence.[190] For the first year of the project, RIDOT will provide $300,000 in funding through a Federal Highway Administration grant and $500,000 through the state Attorney General's Office. Service started at the end of spring 2019.[191]

PART 6

STATE PRIVATIZATION NEWS AND NOTES

ALASKA

In July 2018, the Alaska Aerospace Corporation's (AAC's) wholly owned private spinoff, Aurora Launch Services, began operating. The Kodiak Island-based company looks to provide low-cost space launch services for public and private clients.[192] The state-owned AAC announced it would create the new company in late 2017, after first looking at operating the AAC under a PPP or privatizing the company outright.[193] As mentioned in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, three years ago the AAC's board of directors recommended pursuing privatization to help facilitate the corporation's interest in diversifying beyond its current primary focus on rocket launches. With the new subsidiary, AAC hopes to provide a more diverse set of launch services to government and private clients.

ILLINOIS

Private firm Camelot Illinois took over operations of the state's lottery in a 10-year, $2.2 billion contract in January 2018.[194] After the contentious and early ending to its previous lottery contract with Northstar due to management problems, effective and open contract management by the state will be crucial in determining the new relationship's success. Reason's Nicholas DeSimone wrote in January 2018:

> *Contracts, like all relationships, are two-way streets, and both sides need to hold themselves accountable for their own failures. For its part, if Illinois doesn't repeat the failure and mismanagement of client-vendor relationships with Camelot as they did with Northstar, then perhaps Camelot will be able to successfully implement its plan and sustainably enhance lottery revenues in a state facing massive fiscal challenges.*[195]

INDIANA

The Hoosier Lottery's marketing and sales agreement with IGT Indiana generated a record $308 million profit off $1.27 billion in sales from July 2017 to June 2018, which the state will spend on pensions, education, and tax relief for motor vehicle registrations.[196] The record profit also generated a $9.1 million incentive payment for IGT, which had fallen short of targets in previous years, resulting in fines for the company, now over five years into its 15-year contract with the state.[197]

LOUISIANA

In June 2018, the Louisiana Coastal Protection and Restoration Authority (LCPRA) sent out a Request for Statement of Interest and Qualifications (RSIQ) for its PPP project designed to improve the state's coastline, a project potentially worth as much as $65 million.[198] After evaluating RSIQ responses, LCPRA shortlisted six proposers in October, consortia each led by Crosby Dredging, Delta Land Services, and T. Baker Smith, LLC; CSRS-Eco Coastal, LLC; Ecological Restoration Services, LLC; Ecological Service Partners, LLC; Ecosystem Investment Partners; and Restoration Systems, LLC. [199] LCPRA looks to enter performance-based DBFOM contracts with private partners to restore and/or increase the durability of the state's shoreline. A separate RFP process is expected to follow, in which proponents will be invited to submit proposals for specific projects.

MARYLAND

In August 2018, the Maryland Lottery and Gaming Control Agency (MLGCA) issued an RFP for a private firm to handle advertising and marketing for the agency, seeking an initial three-year contract that could potentially be renewed for two years.[200] In March, MLGCA selected firm MARC USA as a private partner for a three-year contract, with additional two-year and six-month extension options, for $116 million.[201]

NEW HAMPSHIRE

In August 2019, the state issued an RFP seeking outside vendors to handle the state's new sports gambling operations, made legal when Gov. Chris Sununu signed HB 480 in July.[202] Vendors will be asked to provide support in at least one of three areas: mobile sports betting, retail sportsbooks, and a platform to connect the lottery's retail network.[203] While costs aren't a major concern for the state (no pricing information is to be included with proposal submissions), the RFP is very prescriptive:

- Retail sportsbook operators will be required to maintain at least 10 locations, each approved by the New Hampshire Lottery Commission, and approved by corresponding local communities via referendum.
- Sportsbooks are required to be "first-rate entertainment venues with commercially appealing locations, atmosphere, and décor."
- Respondents must currently operate mobile platforms in at least three separate jurisdictions outside of New Hampshire.
- Vendors should allow for applications allowing "single sign-on" capability between iLottery (the state lottery's online platform) and subsequent sports betting applications.[204]

RFP responses are due in September, with pricing proposals due in October. The state hopes to award contracts by November.

NEW JERSEY

After seven consecutive years of increases, the New Jersey Lottery's sales fell $100 million in FY2017, its third year in a 15-year sales and marketing contract with Northstar. Despite the fall in sales, lottery revenues contributed $7 million more to social services ($994 million) than in FY2016 ($987 million).[205] However, the Lottery Enterprise Contribution Act, which took effect in July 2017, will divert lottery net revenues to Pension Fund L, a newly formed conglomerate of three troubled state pension funds—the Police and Firemen's Retirement System, the Public Employees' Retirement System, and the Teachers' Pension and Annuity Fund—meaning affected social services will have to rely more heavily on general revenues for funding for the next 30 years.[206]

UTAH

In October 2018, the state of Utah's Division of Parks and Recreation issued an RFP, seeking a private firm to operate its four state-run golf courses—Wasatch Mountain, Soldier Hollow, Palisade, and Green River—ideally in a 10-year lease.[207] Proposals were due in November, and officials hoped to decide on awarding a contract by the end of 2018, but no updates were available as of press time.

VIRGINIA

In August 2018, the Virginia Information Technology Administration (VITA) ended its 13-year contract relationship with Northrop Grumman to provide IT services for the state government, and spent little time before announcing new contracts with multiple IT service providers.[208] As noted in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, Virginia began the process of removing itself from its single-provider IT contract with Grumman to a multi-provider in 2015.

As of early November 2018, VITA had awarded five contracts for its new multi-provider IT setup, which officially started December 15, 2018:

- 5.5-year, $297.3 million contract with Verizon for voice and data network systems[209]
- 6-year, $242.4 million contract to Unisys for computer management, information storage and data management services[210]
- 5-year $189.8 million contract to Iron Bow Technologies for end-user computing services[211]
- 5-year $165 million contract (expandable up to seven years and $272 million) with Science Applications International Corporation (SAIC), to transition the agency to the multi-provider setup (which it began in August), and serve as multisourcing service integrator after the transition[212]
- 5-year $30 million contract with Xerox, for print and document services[213]

"When this new model is fully implemented, the agencies will be better able to serve the citizens and businesses of the Commonwealth," noted VITA CIO Nelson Moe in a press release after awarding the Iron Bow and Xerox contracts.[214]

WASHINGTON

A pair of bills affecting privatization—one seeking to allow more of it, the other looking to curtail its use—died in the Washington State Legislature over the past couple of years:

- House Bill 1851 would have subjected state agencies wishing to outsource to a laundry list of requirements before contracts could be entered, including a cost-benefit analysis, an impact assessment, and a thorough statement describing the decision-making process that led to the decision to outsource.[215] It died in the Senate in March after passing in the House in February.
- Senate Bill 5550, which died after favorable committee votes, and was not acted on in 2018, would have removed some requirements for agencies looking to outsource, including the notification of all affected employee unions of any potential outsourcing decision.[216]

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Prior to joining Reason, Austill worked with policy in a variety of settings—nonprofits, on Capitol Hill, and in fundraising—where areas of focus included small business regulation, privatization, health care, and labor. Before moving to the D.C. area in early 2009, he worked for five years in the financial services industry, mostly in wealth management.

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