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Annual Privatization Report 2017

Local Government Privatization

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Contents

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

1. Municipal Fiscal Review and Outlook

Despite a decade since the onset of the Great Recession, local governments' fiscal situation only recently rebounded, and finally is starting to return to pre-recession stability in some places. After six straight years of declining general fund revenue in the wake of the recession, some revenues have rebounded and grown over the past few years, though recovery remains uneven. And, as shown in several recent reports, local governments still face significant—though slightly calming—fiscal headwinds.

First, the National League of Cities (NLC) issued the 2017 edition of its annual *City Fiscal Conditions* report in September, which found that despite five consecutive years of growing revenues, cities still have not seen revenues return to their pre-recession levels.[1]

On the revenue side, after six straight years of declining general fund revenues between 2007 and 2012, a slight uptick in revenues began in 2013 and continued into 2015 and 2016, with 2015 revenues rising 3.73% and 2016 revenues rising 2.61%—far exceeding projections of 0.31% and 0.54%, respectively—with a projected increase of 0.9% over 2016 levels.[2] This suggests that local general fund revenues may begin to break the low-to-falling revenue growth rates characterizing the Great Recession, after hitting bottom in 2012 and reversing direction with modest growth, though low projections suggest a return to more modest growth levels in the coming year.[3]

Further, the NLC report finds that, as of 2017, municipalities have almost met previous peak revenues—reaching 97.7% of 2006's peak rates in 2017, up from 91.6% just two years ago.[4] If current trends continue, revenues may exceed their pre-recession levels in the next couple of years.

Meanwhile, general fund expenditures were projected to rise a more modest 2.1% for 2017, after 2016's total fell short of expectations (2.18% growth compared to 3.71% projected), while 2015's total exceeded them (5.57% growth compared to 2.2% projected). In both 2015 and 2016, revenue growth exceeded expenditure growth—reversing two straight years where expenditures grew faster than revenues.[5]

The 2015 report found that the three major municipal revenue sources—property taxes, sales taxes and income taxes—all declined together during the Great Recession, "creating what continues to be an extraordinarily prolonged and uncertain period for local government finances."[6] While all three revenue sources saw year-over-year increases for 2016—4.3%, 3.7%, and 2.4%, for property, sales, and income taxes, respectively—2017 projections estimate positive revenue growth generating from property taxes only (1.6%), while sales and income taxes are projected to fall 0.2% and 2.7%, respectively.[7] The numbers have looked better the last two years, but the continued pessimistic outlook calls into question whether the higher numbers constitute more than a blip, much less the beginning of a trend.

Other measures that served as some of the brighter spots for local governments' fiscal recovery over the last few years softened in 2017. Ending balances—the virtual equivalent of a "rainy-day fund" or budget reserve—as a percentage of general fund expenditures exceeded 2015's 21.7% projection, reaching 24.5%, while 2016 expects the total down to 21.7%. The authors surmise this likely reflects "the desire of cities to be more prepared for future fiscal downturns and the recognition that key tax revenues, along with state and federal aid, have become less reliable."[8]

Despite the positive news, city finance officers offered a bleaker assessment of their fiscal situation in 2017 compared to 2016. In 2017, 69% of city finance officers surveyed reported that their cities were better able to meet their financial needs, down from 81% in 2016 and a survey record of 82% in 2015.[9] Despite the significant drop from last year, city finance officers are still vastly more optimistic than in the post-recession environment of 2009 and 2010, when only 12% and 13% of them, respectively, reported being better able to meet their needs relative to the previous year.[10]

Fledgling economic improvement notwithstanding, significant fiscal challenges loom. The researchers surveyed city finance directors on what they see as the most positive and negative factors influencing their city's overall fiscal health and found that:

- The factors increasing in importance most over the previous year (positive or negative) were employee wages, infrastructure needs, prices or costs of services, employee health benefits, public safety and the value of the local tax base, while state and federal aid decreased the most in importance over the past year.[11]
- The factors seen as having the most negative impact on fiscal health were the cost of infrastructure demands (55%), public safety needs (48%), along with employee and retiree pensions and employee and retiree health benefits (45% each).[12]
- The factors seen as having the most positive impact on fiscal health were the value of the city tax base (83%), the health of the local economy (77%), and population (33%).[13]

Overall, the report concludes that "national economic indicators are on the uptick, fiscal challenges in the local and state government sectors will materialize in downward pressure on gross domestic product," while "drastic economic and technological changes occurring in the most recent recovery period, as well over the past 30 years, point to the imperative to reexamine the field's conventional thinking about the ability of city finances to buffer against economic downturns."[14] With infrastructure, pension, and health care demands increasing sharply in recent years and projected to continue to do so for the foreseeable future, "local governments will balance their budgets and make the hard choices needed to serve their communities. These forced choices, however, have consequences and threaten (cities') competitiveness and quality of life."[15] While the tone and findings of the 2017 edition of the NLC report were a bit more optimistic than other recent editions, the most recent edition stops well short of declaring a recovery from the Great Recession, noting much room for continued improvement that most likely will require large and fundamental restructuring on how local governments operate.

Second, a December update to an April 2016 analysis by the Pew Charitable Trusts reviewed data from the 30 largest major U.S. cities and found that 13 saw total revenues increase from fiscal year 2013 to 2014, down from 16 the previous year.[16] After eight straight years of revenue declines, property tax revenues rose by a modest 0.4%, with seven cities besting pre-recession 2007 levels, and total reported losses reaching their lowest post-recession total.[17] As was the case from FY 2013, in FY 2014, 21 of the 29 cities saw declines in state and federal aid to cities—the second largest source of revenue for most cities, according to the report.

Sales tax receipts provided better news over 2014, but like income taxes, not all cities collect sales taxes. Among the 20 of 30 cities in the study that collect a sales tax, revenue increases averaged 8.62%, the largest increase post-recession. Income taxes, though only collected in 10 of the cities involved in the study, increased at only 0.9%, its lowest rate since 2010.

The Pew report also found that overall spending in half of the cities (15) remained below pre-recession levels, with four cities reaching eight-year operational spending lows in fiscal 2014, improving from 2013, when over half of cities still fell below 2007 spending levels and over one-third (11) reached seven-year lows.[18]

Last, the Government Accountability Office (GAO) offered a sobering—albeit slightly more positive than last year—fiscal assessment in the December 2016 edition of its *State and Local Governments' Fiscal Outlook*, which found that both state and local governments will continue to face long-term fiscal imbalances, with a growing gap between revenue and spending through the year 2065 absent significant policy changes.[19]

The GAO estimates that taking steps to close the looming fiscal gap today would require reducing overall state and local government expenditures by 3.5% and then holding spending essentially flat as a percentage of GDP for decades to come.[20] The bleak assessment improves from a 5% expenditure projection from last year, and down significantly from the 18% needed reduction cited in the 2014 edition of the *Fiscal Outlook*, indicating a continued improving forecast, albeit a bleak one.[21]

The report sees the long-term fiscal challenges primarily to "state and local Medicaid expenditures and the cost of health care compensation for state and local government employees and retirees" which "generally grow at a rate that exceeds GDP," projecting an average 0.5% gap over GDP from now until 2065, at which point state and local governments' combined health-related costs will represent 6.3% of GDP, up from 4.1% in 2016.[22]

Overall, these reports suggest that a slow fiscal recovery—albeit an uneven one—is indeed underway and continuing at the local level, but that fiscal headwinds remain for cities, with some municipalities still well short of meeting pre-recession benchmarks with respect to revenues and spending. Municipal policymakers, already under pressure from declining sources of revenue—as other revenue sources finally begin to recover—will need to maintain a focus on fiscal restraint, looking both to reform financially unsustainable pension and employee benefit structures, and to deliver more cost-effective services.

2. Michigan K-12 Service Privatization Grows in Scope, Favorability

Michigan's K-12 school systems have experienced a great deal of privatization and outsourcing over the past decade in a half, a trend that steadily continued over the past year. While critics of outsourcing may see the trend as alarming, the public officials who work and develop relationships with the private service providers involved in the service agreements continue to appear very satisfied with their arrangements.

The Michigan-based Mackinac Center released the 15th edition of its annual *School Privatization Survey* in August, which showed continued steady—though slightly flatter—growth in service privatization agreements in Michigan.[23] A total of 386 of the state's 540 school districts (72%) reported outsourcing at least one of three major school services—custodial, food, or transportation services—slightly besting last year's record of 71%, and up from only 31% in the first year of the survey in 2001.[24]

When broken down by service, custodial and transportation services saw slight growth over the past year, while food services remained flat, though all three show significant increases over the past decade, with custodial services seeing the sharpest increase—from 14% of districts to 53% of districts from 2007–2017.[25] Over the past year, on net, one additional school district chose to contract out custodial services, upping the total number of districts to 284, or 52.6% of all districts, up from under 7% back in 2003.[26] While two additional school districts chose to outsource food services, two others took services back in house, leaving 234 (43.3%) of Michigan school districts with a food services agreement with the private sector, compared to 27% in 2003.[27] Transportation agreements saw a net gain of three, bringing the total to 141 districts (26.1%), and up from only 3.9% in 2003.[28]

In addition to school service privatization becoming slightly more popular, district officials' satisfaction with privatization service agreements continued to rise, breaking previous totals, while dissatisfaction dropped significantly.[29] While reported satisfaction with school service privatization has long remained high in the Mackinac survey (88%-93% over the past decade), last year saw total satisfaction reach 94.7%, up significantly from 90% last year, while dissatisfaction dropped from 4% to 2%, with another 2% each unsure or not responding.[30]

While discussions of outsourcing and privatizing government services among the general public—and especially in education—remain heated, passionate, and mostly removed from actual experience, Mackinac's *School Privatization Survey* provides a valuable and refreshing contrast of perspective—that of officials who both help make and continuously experience the privatization decisions themselves.

3. Water and Wastewater Public-Private Partnerships Update

Many local governments view public-private partnerships (PPPs) as a viable way to address pressing water and wastewater infrastructure investment needs, given ongoing fiscal pressures at all levels of government. Water markets in the U.S. remained fragmented compared to other utilities; according to combined figures from the American Water Works Association and the National Association of Water Companies, over 55,000 municipal water systems serve 300 million customers, of which around one-quarter are privately owned, and/or managed.[31]

Municipal governments in all regions of the U.S. entered concession leases and other long-term contract arrangements of their water and/or wastewater systems over the past few decades, while small local systems serving as few as a handful of customers often operate under private management and/or operation, too.

Public Works Financing Releases 21st Annual Water Partnerships Survey

Public Works Financing issued its 21st annual water partnerships report in June 2017, giving an updated snapshot of the current state of the U.S. water/wastewater PPP market.[32] The estimated total water/wastewater outsourcing market fell to $2.1 billion in 2016—a 5.5% drop from $2.2 billion in 2015—matching its 2014 mark.[33] Four major firms responded to the survey—CH2M HILL, Veolia Water North America, Suez North America (formerly United Water), and Severn Trent—but it does not include major provider American Water and numerous smaller water companies, leading to a likely underreporting of the true size of the private water and wastewater market.

All four of the firms responding to the survey reported new business in 2016 totaling $43 million in first-year revenues and $384 million in revenues over the underlying contracts' lives. Additionally, of the 105 contracts that came up for renewal in 2015, only four reverted back to municipal control, while 98 remained in or were transferred to private sector control, leaving three for which more information was not made available.

Table 1 below details the trend in contract renewals over the last decade. Despite a dip in the industry contract renewal rate in the years 2010 and 2011 that reversed in 2012, overall it has been remarkably steady for the last decade, with renewal rates in most years exceeding 85%.

Table 1: Private Water/Wastewater Contract Renewals and Lost Government Contracts, 2007–2016										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTAL (2007–2016)
Number of Contested Contracts	788	117	127	151	147	103	86	98	79	105	1801
Renewed	741	105	96	111	83	85	72	86	61	91	1531
% Renewed	94.04%	89.74%	75.59%	73.51%	56.46%	82.52%	83.72%	87.76%	77.22%	86.67%	85.01%
Not Renewed, Remained Private	22	6	12	5	12	7	2	6	10	7	89
Total Remaining Private	763	111	108	116	95	92	74	92	71	98	1620
Total Remaining Private, %	96.8%	94.9%	85.0%	76.8%	64.6%	89.3%	86.0%	93.9%	89.9%	93.3%	90.0%
Insourced	15	6	10	12	27	6	4	6	7	4	97
Insourced, %	1.90%	5.13%	7.87%	7.95%	18.37%	5.83%	4.65%	6.12%	8.86%	3.81%	5.39%
Other	1.27%	0.00%	7.09%	15.23%	17.01%	4.85%	9.30%	0.00%	1.27%	2.86%	4.66%

Source: Author calculations using data published in *Public Works Financing*, June 2017 edition.

Overall, among the 1,801 reported contested contracts since 2007, 1,531 (90%) were renewed with the incumbent provider or awarded to a competing private firm. By contrast, only 5.39% reverted back to municipal operation, further indicating that government clients remain overwhelmingly satisfied with their current PPP arrangements.[34]

Water and Wastewater Public-Private Partnerships News and Notes

The past year has seen a number of new and noteworthy developments in water and wastewater PPPs:

Pittsburgh, PA: In February, Pittsburgh issued an RFP for advisory services over the restructuring of the city's Water and Sewer Board (PWSB), selecting D.C.-based Infrastructure Management Group (IMG) in April.[35] The PWSB currently occupies a precarious position—in addition to over $750 million in outstanding debt, the Board needs an estimated $4 billion–$5 billion in capital investments for repairs and improvements.[36]

While Mayor Bill Peduto insists that the city will not consider a sale of the PWSB, he is open to considering a variety of PPP options to improve it, including outsourcing management and/or other services, or outright transfer to a private nonprofit in a lease.[37] The city expects to receive a thorough report on IMG's findings in November, from which it hopes to develop a more specific plan of action going forward.

Atlantic City, NJ: In November 2016, after several attempts to dissolve the authority locally failed, the state of New Jersey took over management and operations of the city's water and wastewater systems, further demanding the city lease or sell its Municipal Utilities Authority (MUA) by late May, after which the state could decide itself to sell or lease the city's water and wastewater systems.[38] The city responded to the state's actions in July 2017 by passing a local ordinance that gives Atlantic City citizens a chance to vote against privatizing or selling the authority.[39] It remains to be seen whether the ordinance can overcome the state's decision. There were no new updates available as of press time.

Scranton, PA: In December 2016, Scranton reached financial close on the sale of its wastewater system to American Water Company, a $195-million deal.[40] As is usually the case with water and wastewater system sales and concession leases, American Water will assume all compliance risk. This is critical because the system faced a consent decree from the federal Environmental Protection Agency (EPA), which mandated an estimated $140 million in system upgrades.[41] As reported in Reason Foundation's *Annual Privatization Report 2016: Local Government Privatization*, in addition to the EPA consent decree imposed on its wastewater system, the state imposed a designation of "financially distressed" on the city 25 years ago, which it has yet to remove.

North Miami Beach, FL: City commissioners in May voted 4–2 to approve a 10-year, $190-million contract to CH2M Hill Engineers to oversee the city's wastewater system and Norwood Water Treatment Plant.[42] North Miami Beach will retain ownership of the facilities and control over setting rates of the utility, which serves around 180,000 customers. The city has a long history of inadequate management of its wastewater system, leading finally to the admission by administrators that they are incapable of responsibly managing the system, calling continued in-house operation "reckless."[43] With the deal, the city hopes to adopt and maintain a more sustainable, lifecycle-focused operating and maintenance plan, while saving the city $56 million over the contract's life.[44]

Shreveport, LA: Shreveport officials met with representatives from Suez, North America in July to discuss the potential privatization of the city's water and sewer system. The plan would have Suez handling all operations and billing, while also being responsible for upgrades to the system to adhere to a federal consent decree.[45] No updates were available as of press time.

Ascension Parish, LA: A PPP deal to build a $500-million sewer system to support Ascension Parish ended after a council committee recommended killing the agreement in February.[46] As mentioned in Reason Foundation's *Annual Privatization Report 2016: Local Government Privatization*¸ Parish officials had previously agreed to start negotiations with the consortium Ascension Environmental, LLC, to finalize an agreement to design, build, finance, operate, and maintain a new system to serve the eastern part of the parish.

Those opposing the agreement cite the PPP approach as being an obstacle to restructuring a $60-million loan from the state, which Ascension is in danger of losing due to delays in other sewer work. No updates were available as of press time.

Quincy, IL: In July, the city of Quincy released a request for proposals calling for a private firm to maintain, manage and operate its water facilities.[47] According to the RFP, the city wishes to capitalize on private sector expertise to more efficiently manage its operations, both financially and in terms of compliance and permitting.[48] Proposals were originally due in mid-September, a deadline later extended to the 28th of the month.[49] No updates were available at press time.

Dowagiac, MI: The city council voted unanimously in January to privatize its wastewater treatment facility, with the added support of the mayor.[50] The state's Department of Natural Resources has called for upgrades to the facility, as well as better-trained staff, which the city hopes to address by entering into a PPP agreement. Though a representative for four city workers whose positions were to be eliminated vowed to challenge the decision legally, no further updates were available as of press time.[51]

Pasco County, FL: The Florida Water Environment Association awarded its 2016 David W. York Water Reuse Project of the Year to the Central Pasco County Beneficial Water Reuse Project at the 4G Ranch, a collaboration between the county and CH2M Hill.[52] The project, estimated at $13.6 million, called for turning a 200-acre ranch into wetlands by dispersing up to five million gallons of treated wastewater on the property daily, while also allowing storage of excess treated wastewater during rainier times.[53]

Lincoln, RI: In April, the Town Council of Lincoln, Rhode Island unanimously approved a three-year, $1.3-million contract with Veolia Water North America to operate the city's sewer system.[54] The contract calls for Veolia to handle daily operation and maintenance of the system, including preventative cleanings.

Additionally, all three current sewer division employees will keep jobs at the same pay rate within the town's Public Works Department.

La Center, WA: In August, the city council defeated, in a 3–2 vote, a proposal to form a PPP with Veolia to operate the city's wastewater treatment facility.[55] Mayor Greg Thornton led a campaign in support of the PPP, saying it would bring better technology in addition to solving the city's problems of keeping adequate staffing. Privatization opponents noted a clean record from in-house operation in the 11 years the city has run the facility.[56]

Long Hill Township, NJ: Residents rejected an $11-million deal to sell the city's wastewater system to New Jersey American Water via referendum in November.[57] Critics pointed to the low price and disincentive to invest in the infrastructure, despite being required in the township's request for bids, issued in May. New Jersey American Water's bid included making upgrades to pump stations and water treatment facilities, and improving inflow and infiltration of clean water to wastewater systems, while building new connections for residents into the system.[58] New Jersey American Water has owned and operated the town's water source for over 110 years, investing $6.5 million in upgrades in the last five years, according to the company's September mailer to residents.[59]

4. Solid Waste Public-Private Partnerships Updates

Many municipalities and counties long have relied on the private sector to conduct solid waste and recycling operations, as well upgrade facilities and equipment. Local governments that considered increased reliance on the private sector for waste and recycling services over the past year include:

Austin, TX: Austin first committed itself to achieving "zero waste" goals by 2040 when it signed the Urban Environmental Accords in 2005. Eventually the city developed a strategic plan for implementation in 2011, which calls for waste diversion (the rate at which solid waste gets reused) goals of 75% by 2020 and 90% by 2030.[60]

Private entities will play a major role in meeting the city's lofty goals—whether entities contract directly with the city or smaller multifamily and commercial operations. Either way, the city seeks to design rules and initiatives that incentivize the private, non-contracted entities (private entities that handle the service of recycling for local properties without entering into a specific contract with the city) to adopt zero waste goals. Lawmakers also have made no plans to expand the operations of Austin Resource Recovery, the public entity responsible for a large portion of the city's solid waste pickup.[61]

Over the past year, the city faced a few challenges to its contracts with private entities, which could result in changes to its contracting policies:

- In February, despite recommendations from city staff, Austin's city council unanimously rejected a $7.7-million contract with Republic Services. Objections included Republic's use of a local landfill, as well as the contract's large scope, consolidating much of the city's waste pickup, which traditionally operates with many firms providing waste disposal services.
- Also in February, the city received pushback from nonprofits concerned with Austin's contract with Ohio-based Simple Recycling, which provided special bags for area residents in December 2016 to recycle used and unwanted clothing, accessories, and household items.[62] While advocates noted it helps toward the zero waste goals by eliminating clothing in area landfills, local nonprofits criticized the agreement for hauling items away that otherwise might stay in local thrift stores.
- Lastly, the council voted in April to suspend enforcement of a stringent anti-lobbying ordinance that bans companies from bidding on contracts if they participate in any banned communications.[63] Councilmember Leslie Pool revealed plans in August to draft a new proposal that clarifies which communications contractors may engage in with city employees while bidding on contracts.[64] No updates of changes were available at press time.

Boulder County, CO: In February, the county formally indicated that it would seek a competitive bidding process for its recycling operation for the first time in 17 years. In 2000 the county awarded a contract to Eco-Cycle, which has handled recycling in Boulder County ever since.[65] After 11 firms expressed initial interest, only three submitted formal bids, with Eco-Cycle ultimately receiving a new five-year contract.[66]

Unlike Eco-Cycle's previous "cost plus" arrangement, the county sought a contract where the operator covers its own costs with fees charged to customers for pickup and revenues generated from selling collected commodities. The agreement would obligate the contractor to pay an annual minimum of $2.7 million back to the county, with sales revenues in excess of the $2.7 million being shared by the county and contractor in an 80/20 respective split.[67]

The county sought the new type of arrangement to better enable Boulder to become "zero waste" by 2025 by focusing on ways to reduce nonrecyclable trash, liquids, and residues from its recycling materials, ensuring that recycled materials stay in the most sellable condition. The new arrangement started October 1st, coinciding with upgrades at the center that enable additional materials to be recycled, while improving collection rates of aluminum—the most valuable commodity to the county, according to Boulder County Resource Conservation Manager Darla Arians.[68]

Portland, ME: After soliciting for bids in late 2016 to take over solid waste management for the city in a 10-year contract, the city decided to keep solid waste and recycling pickup in-house.[69] Portland saw contracting as a means to save money, and would have included upgrading the recycling bins it distributes to its residents to collect materials—from "open" (i.e. without lids) 16- and 18-gallon containers to larger, rolling, lidded containers. Instead, the city chose to procure and distribute new 64- and 96-gallon carts itself, while retaining control over solid waste operations.[70]

Natchez, MS: In August, the city's aldermen voted unanimously to seek bids from the private sector to take over solid waste collection in Natchez, a week after deciding to not renew its current contract with Waste Pro USA.[71] An RFP is planned for some time before the end of the year, and could end up being a more comprehensive agreement that also includes the rest of Adams County.[72] No further details were available at press time.

Hollidaysburg, PA: In February, the Hollidaysburg Borough Council voted to consider a single-hauler contract agreement to replace its current, multi-hauler arrangement. Blair County's Intermunicipal Relations Committee (IRC)—which oversees solid waste and recycling pickup in Hollidaysburg and other county communities—requested the change to save on costs.[73] In June, however, the Council voted against converting to a single-hauler, seeing the benefits of having choices exceed cost savings. The decision means the borough and its neighboring communities now face a funding gap for the IRC, which likely will be met with general fund revenues.[74]

Killeen, TX: Last year, Killeen started to consider outsourcing its solid waste pickup and operations, sending out an RFQ in December for outside help in drafting an RFP for the purposes of contracting out the services. After evaluating three bids from outside companies, in March, city staff recommended using SCS Engineers to help the city draft the RFP. Further updates were not available at press time.

5. Local Government Privatization News and Notes

Arizona

Phoenix: After an *Arizona Republic* report last year found severe problems with how the city of Phoenix handles its over 90 square miles of city-owned real property—prompting city officials to launch a property divestment initiative—the newspaper reported some progress in unloading unneeded properties in March.[75] At press time, a new city website tracking progress showed 108 properties worth over $15 million as being sold since the *Republic* released the original report.[76]

Also, in June, the city of Phoenix issued a cure notice to First Transit—a private company the city contracts out to provide around one-third of its bus service—over missing service and running behind schedule.[77] While First Transit's contract stipulates 94% "on-time" (no more than five minutes late) performance, the city found that 8 of 12 routes operated by First Transit consistently failed to be on time—performance that has resulted in the city withholding more than $80,000 in payments to First Transit.[78] Transdev, another private bus operator that serves Phoenix, currently sits in good standing with the city. The city showed no intent to end the contract with First Transit prior to its June 2018 expiration, but will continue to closely monitor First Transit's performance.

California

Los Angeles: In February, after receiving unsolicited proposals, LA Metro advanced four proposals that would use the private sector to accelerate two of its larger projects—the West Santa Ana Branch Transit Corridor, which would link Union Station and the town of Artesia via light rail, and the Sepulveda Pass Transit Corridor, which seeks to add an express bus lane to I-405 and a subway tunnel running under the Sepulveda Pass.[79] Skanska- and Kiewet-led consortia submitted proposals for the West Santa Ana Branch, while the Sepulveda project saw Parsons- and Cintra-led consortia submitting proposals.[80] Metro followed up in May with an RFP for outside consulting help to complete a feasibility study of the Sepulveda Pass project.[81]

In July, the LA Board of Airport Commissioners formally gave approval for authorities to advance LAX's planned $3-billion DBFOM "People Mover" train project, for which LAX hopes to approve a final contract early next year.[82] Three consortia are set to bid on the project: Meridiam/Skanska, OHL/Acciona/Star America, and Fluor/Hochtief/ACS.[83] The move comes after the Board conducted separate RFQs for both the train's operating systems and for its facilities.

Lastly, in August, Los Angeles debuted a new, searchable online database for its city-owned properties, hoping to better manage its 9,000 municipally owned properties.[84]

San Diego: In January, the city issued a list of demands of Rural/Metro—the city's ambulance services provider, which was acquired by AMR in 2015—which, if not met, would lead to termination of the city's contract with AMR.[85] The city's move follows repeated fines for missed and late pickups. For example, AMR received $291,000 in penalties from the city in October 2016 for failing to meet a 12-minute response time for ambulance trips at least 90% of time in the first quarter of FY2017.[86] The contract remained in operation as of press time.

Vallejo: In August, the city released a request for qualifications (RFQ) with the intention of obtaining concepts for the revitalization of its Blue Rock Municipal Golf Course.[87] The city has three objectives according to the RFQ: revitalize the golf course so it can operate as an affordable public course, independent of city subsidies; fund a new or renovated clubhouse and connected facilities; and preserve or improve the current visual setting, quality, property values, and views of the neighboring environment.[88] Responses were due in September, with no new updates as of press time.

Hermosa Beach: As firefighting and ambulance services of Hermosa Beach's Fire Department transferred to the Los Angeles County Fire Department, the City Council of Hermosa Beach voted in September to proceed with contracting out the city's ambulance transport services, seeking bids.[89] Hermosa will still respond to local emergencies from the existing fire station but the decision to contract out the services will be for ambulance transport services after first responders arrive.[90]

Palo Alto: In August, the city council approved a letter of intent in a 7–1 vote to permit Pets in Need, a Redwood City-based nonprofit, to manage animal services for the city, eyeing a start date as early as March 2018.[91] A 2015 auditor's report found a net loss of $900,000 annually for Palo Alto Animal Services, while outsourcing to Pets in Need would reduce that loss by about $200,000 per year. [92]

As previously noted in Reason Foundation's *Annual Privatization Report 2016: Local Government Privatization*, the city was looking to privatize its animal shelter and services, a process started in 2014. In October 2015, the city issued its initial Request for Proposals, to which only Pets In Need issued a full response (of seven applicants). A second RFP, issued in early 2016, resulted in responses from three organizations—Pets In Need, the Humane Society of Silicon Valley, and the county of Santa Clara.

Escondido: In late August, Escondido's city council voted 3–2 to pursue outsourcing of library operations to the private firm Library Systems & Services (LS&S). LS&S claims the deal will save the city $4 million over 10 years in operational expenses, while achieving additional savings in reducing pension liabilities.[93] The move comes in spite of unanimous opposition from the library's board of trustees, which merely played an advisory role in the decision.

San Clemente: In August, San Clemente's city council voted 4–0 (with one recusal) to approve a five-year, $6.3-million emergency medical transport services contract to Care Ambulance Services.[94] In March, the city announced that it would look to outsource ambulance service after the Orange County Fire Authority—which had handled those duties for 24 years—announced that it could not compete with private competitors in terms of costs.[95]

Calexico: In November 2016, the city council voted to allow the city manager to consider private sector proposals for public safety and police services.[96] In a report delivered to the Calexico Council, City Manager Armando Villa said of the city's finances, "The City's General Fund can no longer sustain existing and anticipated safety and law enforcement costs."[97] There have been no further updates in 2017.

Colorado

Denver: In August, Denver City Council approved a 34-year, $1.8-billion contract to Ferrovial Airports to make renovations and to manage concessions at Denver International Airport.[98] With the structural changes, which could be completed as early as 2021, passenger screenings are expected to increase dramatically—from 4,500 to 8,500 passengers hourly.[99] Officials anticipate costs for renovations alone to be close to $700 million, while creating 800 permanent jobs and an expected $3.5 million annual increase in tax revenue for the city.[100]

Colorado Springs: In late August, a district court dismissed a March lawsuit filed by private fleet management firm Serco against the city of Colorado Springs, after the parties agreed on a settlement. According to the agreement, the city will compensate Serco for losses it incurred during the first three years of the contract, based on factors such as increased maintenance costs due to the city's aging fleet of vehicles.[101]

As previously noted in Reason Foundation's *Annual Privatization Report 2014: Local Government Privatization*, in November 2013, Colorado Springs and the city-owned Colorado Springs Utilities signed a five-year, $35-million contract with Serco to provide vehicle fleet management and maintenance services, a partnership expected to save $4 million over the contract term, beginning in 2014.

District of Columbia

Washington: By late September 2017, the District of Columbia's Office of Public Private Partnerships (DC OP3) received 11 Statements of Qualifications (SOQs) from companies looking to modernize the District's network of over 75,000 street lights by converting them to LED technology. The upgrades will include remote monitoring and control capabilities and will deploy Smart City technology with wireless access points, expanding the District's broadband Wi-Fi network and functioning as a platform for future applications.

Called the "Safer. Smarter. Greener." project, it is a combined effort of the District Department of Transportation, the Office of the Chief Technology Officer, and DC OP3.[102] In a September press release, OP3 announced that, after the District's assessment of the SOQs, it will shortlist the number of qualified firms and send out a request for proposals.[103]

Also in D.C., in June, the *Washington Post* reported the District of Columbia claimed American Medical Response (AMR) should pay $198,590 in performance penalties for lengthy ambulance response times since November 2016.[104] AMR claims its contract contains an exemption for issues beyond its control such as spikes in requests for service, which the company claims "will greatly reduce or eliminate any penalties."[105]

In spite of those issues, since going into effect last November, the DC Fire and EMS (FEMS) services contract with AMR improved unit availability, promoting better staff training, additional hiring of paramedics and firefighters, improved maintenance and repairs, and a minute and a half improvement in average response times.[106]

As stated in Reason Foundation's *Annual Privatization Report 2016: Local Government Privatization*, in October 2015, the D.C. City Council passed legislation that outsourced low-priority ambulance services, ultimately choosing AMR the following February. The move came after FEMS officials asked the council last year for outside help, citing the problem of fire department and EMS resources being repeatedly used for non-emergency incidents at the expense of more serious ones.

Florida

Miami-Dade County: Five Expressions of Interest (EOIs)—submitted by Meridiam, Sacyr, FCC Construction, and two consortia led each by Plenary and Skanska—were received in June by Miami-Dade County for its planned new courthouse and criminal justice complex, a DBFOM project estimated at $360 million.[107] A tentative RFP is planned for release some time in the first half of 2018.[108]

As reported in Reason Foundation's *Annual Privatization Report 2016: Local Government Privatization*, area voters rejected a bond issue for the complex in 2014, leading to the creation of the Miami-Dade Court Capital Infrastructure Task Force, which recommended using a PPP to replace the court house in late 2015.

Georgia

Augusta: After an ongoing fight with ambulance service provider Gold Cross, the city voted in October to pursue becoming the zone provider for the Augusta-Richmond County area.[109] The main issue in the Augusta Council's latest attempt to challenge Gold Cross concerns fees the company started charging at the beginning of 2017, such as arriving at an incident and not administering care, or administering care but providing no transport.

For all of 2017, Gold Cross has operated without a contract, after rejecting an offer of a new contract from the city that would have cut its annual subsidy 65% from the previous year—from $1.1 million to $380,000. When the city didn't agree to a counter-proposal from Gold Cross, calling for a $900,000 subsidy, the contract expired.[110] Absent the subsidy, the operator says it's necessary to charge for non-transport services to cover costs, as Gold Cross uses a large part of its subsidy to cover providing services after insurance providers or customers refuse to pay for them.

Gold Cross first started providing services in Augusta in 2006, applying for zone designation in 2013 after the Region EMS Council voted to open the zone provider designation to bidding.[111] Gold Cross applied for, and won, the designation of zone provider in 2013 from the Georgia Department of Public Health, a decision city officials challenged until June, when a state appeals court dismissed the challenge.[112]

While the city lacks the resources to handle its own ambulance services in-house, becoming a zone provider would mean the Augusta Council could make its own decision about outsourcing ambulance services.[113] No updates of an agreement were available at press time.

Cherokee County: In July, the county's Board of Tax Assessors voted unanimously to eliminate the county's in-house Personal Property Appraisal Department and outsource all of its work to the private firm Tax Management Associates, a move expected to save $37,000 annually by eliminating four in-house positions.[114] The Board wished to both cut costs and increase the quality of its work, and saw the use of a private firm the only way to achieve both.

Illinois

McDonough County: In June, the McDonough County District Hospital's Board voted 8–1 to recommend privatization of the county's ambulance service, with at least three firms expressing interest in providing the services.[115] The move comes as the county struggles to provide enough resources to handle the duties in-house, citing consistently slow response times to emergencies. The Board would need to approve any contractual agreement with a private firm. No further updates were available at press time.

Iowa

Council Bluffs: Citing years of operating at a loss, Council Bluffs officials pondered privatizing management and operations of the city's Dodge Riverside golf course in June, following up with an RFP in August.[116] The RFP showed an award date of October 9, but the city council meeting agenda for that specific date contained no mention of the RFP or any contract award.[117] Attempts have been made to put the course back in black figures—eliminating positions and increasing greens fees among them—but such moves only partially reduced losses, from around $300,000 in FYs 2014 and 2015 to a projected $200,000 in losses in FY2018.[118]

Maryland

Howard County: By September, nine parties submitted expressions of interest to build a new courthouse for Howard County, estimated at $138 million.[119] The county expected to announce a shortlist of three candidates by the end of October, but no announcements were available as of mid-November. After shortlisting parties, the county plans to release an RFP, expecting to both select a preferred bidder and reach financial close on the project in 2018.[120]

New Jersey

Paterson: In February, Mayor Jose Torres announced he would seek proposals to privatize the city's emergency call dispatch, but reconsidered in May after only one firm—IXP Corporation—submitted a proposal.[121] Despite rejection from city officials, the state recommended taking on the proposal and was reviewing the city's cost comparisons, which projected the IXP proposal to cost $1 million more per year than in-house operation provided by the police department.[122] No further updates were available at press time.

Pennsylvania

Washington County: In January, the county issued a request for qualifications and proposals for the sale of the Washington County Community Health Center, coming to an agreement to sell the Center to Premier Healthcare Management LLC in June, for $26.8 million. Premier—which beat out five other companies' bids for the Health Center—owns and operates nursing homes throughout the eastern U.S.[123] While Premier did not submit the lowest bid of the three finalists, only Premier promised to keep all current Health Center employees if selected.[124]

South Dakota

Sioux Falls: In July, the Sioux Falls Parks and Recreation Department requested proposals from companies to manage three municipal golf courses: Elmwood, Prairie Green and Kuehn Park.[125] The current contract with Dakota Golf Management, which has handled operation of Sioux Falls golf courses since 1994, expires in December.

After the August 31 submission deadline passed, five companies remained in pursuit of the contract: Dakota Golf Management, GreatLife Management, Kemper Sports Management, Landscapes Management Company, and Orion Management Solutions. The request for proposals comes in response to a recommendation the Parks Department routinely place the contract through a competitive RFP process, following a 2014 internal audit.[126]

Texas

El Paso: In August 2017, the city council decided unanimously to grant a new three-year contract—effective September 1, and with options for one or two-year extensions—to the private financial advising firm First Southwest of Dallas to manage the city's debt, with payments to First Southwest based on the amount of debt ultimately handled by the firm. The city has a longstanding relationship with First Southwest, awarding an initial five-year contract in 2006, which has been extended and renewed since then. After only First Southwest initially submitted a bid, the city reached out to at least five other firms, but none responded with a competing bid.

Waco: In July, the city of Waco began the process of outsourcing its janitorial services, which it hopes to complete later this year. The council sought proposals in September and received responses from 11 firms, with the eventual winning firm beginning work initially in at least 12 of the city's 22 buildings.[127] Officials expect the move to reduce costs from $950,000 to approximately $656,000 annually.[128] No existing janitors will lose their jobs for at least a year, and the selected firm will offer similar compensation and benefits as in-house operation.

Virginia

Charlottesville: In June, the city council sought to buy out 344 downtown parking spaces owned by the private Charlottesville Parking Center (CPC), passing a resolution for the transaction.[129] The city and CPC have been in a couple of legal battles since spring 2016, costing the city $117,000 in outside legal help, and prompting local business to demand a resolution between the two parties. CPC first filed a lawsuit against the city in March 2016, contending the city kept parking rates artificially below market rates; CPC filed a second suit in late June for the city's neglect to assess the property value of the CPC.[130] As of press time, the disputes have not been resolved.

Roanoke County: In August, the county-owned Explore Park sent out a request for proposals for PPPs to bring new amenities to the 1,100-acre park. [131] The county seeks to enter into multiple PPPs to provide a range of services and improvements, which are laid out in its master plan, stressing the need for the private partners to provide initial funding for their projects.[132]

After initially entering discussions with five respondents that submitted proposals for different parts of the project, the county chose one out of two that submitted a project to develop a treetop adventure course—Georgia-based Treetop Quest, which would offer up the initial investment of $550,000 for the attraction.[133]

While pleased with the initial response, the county hasn't fully fulfilled all the items on its list, and plans to issue another call for submissions later this year.

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