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Annual Privatization Report 2010: Local Government Privatization

By Leonard Gilroy, Harris Kenny, Adam Summers and Samuel Staley
Edited by Leonard Gilroy



Reason Foundation



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Part 1

Parking Assets Emerge as Hot Privatization Opportunity

Just a few short years ago, few would have predicted that parking assets would be the next hot trend in municipal privatization. Then Chicago tapped nearly \$1.7 billion through long-term leases of municipal parking assets in recent years, prompting peers like Indianapolis and Pittsburgh to pursue similar transactions.

As reported in Reason Foundation's *Annual Privatization Report 2009*, Chicago received a \$1.16 billion upfront payment for a first-of-its-kind, 75-year lease of its downtown parking meter system in 2009, following right on the heels of the city's 2006 lease of four downtown parking garages (netting \$563 million) and the 2005 lease of the Chicago Skyway toll road (netting the city \$1.8 billion). Chicago's asset leases have caught the attention of officials in a number of other cash-strapped cities facing major budget deficits, underfunded public pension funds and other fiscal challenges amid the national economic downturn.

Indianapolis, Pittsburgh, Los Angeles and Las Vegas are among the jurisdictions that have initiated formal procurements to lease some or all of their municipal parking assets, and several others including Miami and New York City are discussing potential parking privatization initiatives.

A. Indianapolis Approves \$620 Million Parking Meter Lease

In August 2010, Indianapolis Mayor Greg Ballard announced the winning bidder for a 50-year lease of nearly 3,700 city parking meters in the downtown and Broad Ripple areas. Under the lease, a team comprised of Xerox-subsiary Affiliated Computer Services (ACS) and its local partners Denison Global Parking and Evens Time will take over responsibility for meter system operations, maintenance and capital investment, in exchange paying the city \$20 million up front and a \$600 million share of ongoing revenues over the 50-year lease term. The city-county council narrowly approved the deal in November.

Under the terms of the lease:

- The concessionaire would take on all of the operating, maintenance and capital costs currently borne by the city today, removing significant costs from the city's books while increasing revenues available for citywide capital improvements. "In this deal, ACS is taking basically all the financial risk," company spokeswoman Barbara Roberts told Indianapolis ABC-affiliate 6News. "It is up to us to do all of the operational side. We have to staff all the operations, all the technology deployments and the upgrades."
- The ACS team would undertake an initial upgrade of all of the leased meters, converting them to a combination of solar-powered multi-space and single-space units that accept cash, debit and credit cards. Following the initial modernization, meters would be replaced at least once a decade through the end of the lease. City officials have estimated the modernization will cost the ACS team approximately \$7 to \$10 million over the lease term.
- Having been unchanged for 35 years, the current 75-cent hourly meter rate would rise to \$1.50 over a two-year period under the lease. For the remainder of the term, all rate changes would be subject to city-county council approval, and any future rate increases would be capped and could not exceed the rate of inflation.
- The lease includes a termination for convenience clause that allows the city to cancel the contract at its discretion every 10 years. The lease agreement specifies the amounts the city would pay to buy out the lease at each ten-year interval, ranging from \$19.8 million in year 10 to \$8 million in year 40.
- The city can permanently remove up to 200 meters without impacting its revenue share, a figure that would increase if the size of the system increases more than 20%. Further, the city retains the authority to relocate an unlimited number of meters in a zone without impacting its revenue share.
- The city would retain control over all parking meter advertising and naming right proposals, and revenues would be shared only if the concessionaire sponsors the idea.

In addition, ACS has committed to locating 200 new company jobs (unrelated to the parking proposal) to the city—an estimated \$40 million in economic impact—if the parking lease is ultimately adopted.

In accordance with state law, all city revenues generated from the parking meter lease will be dedicated to street, sidewalk and other infrastructure improvements in the metered portions of the downtown and Broad Ripple areas, effectively allowing the Ballard administration to stretch its existing \$500 million infrastructure repair program even further.

In response to concerns raised by the public, the city and the ACS team modified the terms of the proposal, releasing a revised plan in October 2010. "We had many, many meetings with the council, with neighborhood groups, with business groups. We've listened," Deputy Mayor Michael Huber told 6News. "They basically asked us if we could make changes to the deal and we have announced 14 key changes." Key changes included the addition of the termination for convenience clause, lowering the upfront payment from \$35 million to \$20 million, and increasing the total 50-year payout to the city from \$400 million to \$620 million.

B. Pittsburgh

In October 2010, the **Pittsburgh** City Council rejected a \$451.7 million bid from LAZ Parking and J.P. Morgan Asset Management for a 50-year lease of 12 downtown garages and approximately 9,000 metered parking spaces, the proceeds from which would have been used to avert a state takeover of the city's severely underfunded public pension system. However, just one month later—and one month before a pension takeover—the council began considering several alternate funding plans, including a revised parking lease proposal from LAZ Parking/J.P. Morgan.

Mayor Luke Ravenstahl's administration had initiated the parking lease procurement primarily to generate approximately \$220 million to Pittsburgh's public pension system, increasing its balance to 50% of total obligations by the end of 2010 to avoid a state takeover under a law passed by the Pennsylvania legislature in 2009. The Ravenstahl administration has warned that a state takeover would bring a dramatic escalation in mandated pension payments that would necessitate tax hikes, major service cuts, and widespread layoffs of city workers. Lease proceeds would have also been used to pay off \$110 million in city parking-related debt.

The council attempted to launch an alternate plan authorizing the Pittsburgh Parking Authority to issue debt to raise \$220 million to buy city-owned parking assets, paying off the debt over time through parking rate increases. However, this proposal was denounced as “fiscally irresponsible” by Mayor Ravenstahl and rejected by the Parking Authority board in late October when it voted against hiring a consultant to analyze the plan.

The winning lease bid was consistent with an independent valuation analysis commissioned by the city council that found the parking system would yield \$2.35 billion in free cash flow over 50 years, a net present value of \$401 million in today's dollars. “The bid exceeded my wildest expectations,” said Mayor Ravenstahl in announcing the bidder selection. The LAZ Parking/J.P. Morgan team increased its bid by \$40 million in a best and final offer competition with runner-up EQT Partners, which bid \$423 million.

Concerns among the council members voting against the original plan in October ranged from the length of the lease, proposed parking rate increases and concerns regarding private operation. In November, LAZ offered a modified version of its original proposal that shortened the lease term and increased the total potential payout to the city; the revised proposal included a \$305 million upfront payment of \$305 million, up to \$355 million in revenue-sharing over a 40-year contract term and smaller parking rate increases than envisioned in the original proposal. The city council rejected the revised proposal in a December vote, leaving the prospects for a lease uncertain.

In separate news, the **Allegheny County (Pennsylvania) Airport Authority** rejected a proposal in August to lease the surface lots and parking garages (13,200 total spaces) at Pittsburgh International Airport. The lease proceeds would have been used to retire \$475 million in bonds that financed a new midfield terminal in the 1990s. Allegheny County Chief Executive Dan Onorato became interested in a lease as one potential way to drive down the airport's cost per enplanement,

among the highest in the country. Because of the extent of its bonded indebtedness, the airport's airline cost per enplanement last year was \$15.80, making it one of the most expensive U.S. airports for airlines to serve. Debt service is running at \$62 million per year, compared with about \$22 million in annual parking revenue, so under a lease the airport could have saved much more in debt service expense than it would have lost in parking revenue. The Authority rejected the parking lease idea after a consultant study suggested that a lease would increase parking rates for travelers and may not generate enough revenue to reach the goal of eliminating the airport's debt. The authority opted to continue the status quo until the debt is retired in 2018.

C. Contrasts with Chicago: New Innovations in Indianapolis, Pittsburgh Agreements

While the Indianapolis and Pittsburgh parking procurements bear many similarities to the models pioneered in Chicago, what may be more notable are some of the major differences. The more recent initiatives incorporate new innovations that reflect some lessons learned from the initial controversies in Chicago's parking meter lease (see discussion in Reason Foundation's *Annual Privatization Report 2009*), as well as other infrastructure privatization deals:

- **Use of lease proceeds:** Chicago officials have faced strong criticism for using the bulk of the proceeds from the city's long-term parking leases to close short-term budget deficits. Though the proposed Pittsburgh lease would generate a large upfront payment similar to Chicago, the majority of proceeds from the transaction would be used to shore up underfunded public pensions and pay off bonded debt, both of which target major, long-term city obligations. According to *Infrastructure Investor* analyst Cezary Podkul, this re-investment approach "shows how cities can tackle a thorny issue facing them in these kinds of deals: how to align a long-term asset with a long-term liability."
- **Revenue-sharing:** In notable contrast to Chicago and Pittsburgh, Indianapolis opted to forgo a one-time revenue windfall altogether. Instead it's structuring its lease to collect a small \$20 million upfront payment and an ongoing share of annual revenues estimated to total \$600 million over 50 years. Similar kinds of revenue-sharing provisions have become part of new-build public-private toll highway projects—including the long-term concessions for the Capitol Beltway high-occupancy toll lanes in northern Virginia and the LBJ Express and the North Tarrant Express toll megaprojects in the Dallas-Fort Worth metro area—but Indianapolis marks the first application in leases of existing parking assets. In the short term, revenue-sharing can mitigate fears of future windfall profits by a concessionaire—in Indianapolis, the greater the revenues, the higher the city's share. Over the long-term, revenue-sharing fosters a strong mutual interest in the financial success of the system by both the public and private partners.
- **Early buyout provisions:** Some public officials may be hesitant to consider multi-decade (30–99 year) infrastructure concessions without some assurance of "outs" along the way in

the event the public sector partner wants to reacquire the asset at some future point before the lease term expires. The Indianapolis transaction was revised to include a termination of convenience clause allowing the city to terminate the lease at its discretion every ten years by returning to the vendor an amount less than its initial upfront payment. That amount steadily declines over time and can be paid with bonds if necessary. Further, the city receives title to any technology improvements that have been implemented. There is a penalty, however, if the city were to replace the vendor with and borrow monies from another concessionaire.

- **Breadth of public review:** Private sector infrastructure firms take political risk seriously. After all, few vendors are keen on the prospect of spending months and millions of dollars bidding on a project that ultimately fails to receive legislative approval or gets sunk by public opposition. However, the recent parking procurements indicate that vendors may be more willing to embrace a higher threshold of political risk than is typically presumed. Both Indianapolis and Pittsburgh opted for a significant degree of public input during the procurement process, with numerous public hearings and public disclosure of all bid details along the way. Further, both cities even negotiated major revisions to the proposals based on public feedback received mid-stream, placing additional limitations on parking rate increases and making other revisions to the original lease agreements. According to Podkul, “[b]y opening up the procurement process to include key stakeholders and the public, Pittsburgh actually increased the chance that the deal would go through.”

Still, there are trade-offs. According to *Public Works Financing*, the bids in both Pittsburgh and Indianapolis were lower than they could have been because of caps on parking rates, limits on operating hours and other contract provisions aimed at “making the concessions more politically palatable” over the course of public discussions. Pittsburgh Finance Director Scott Kunka told *Infrastructure Investor* that, “We know we’ve cost ourselves some money. But we think we’ve balanced the needs of the city and the concessionaire.”

- **Revenue targets:** In contrast to Chicago, where officials set—but did not disclose during procurement—a required minimum bid amount for its leases, Pittsburgh officials made it clear to bidders from the outset that the desired minimum bid was approximately \$330 million. Significantly, knowledge of the city’s revenue target failed to dampen private bids; the city received a far higher winning bid of \$452 million.
- **Technology and Implementation:** In Chicago, meter rate increases were implemented prior to the installation of new meters that could accept credit cards and other payment types, leading to meter jams and motorist inconvenience. In Indianapolis, rates will be adjusted only after credit-card-accepting technology has been implemented to improve convenience. Also, new meters in Indianapolis will continue to accept nickels, dimes, quarters and dollar coins, while Chicago meters generally do not accept lower denominations.

- **Flexibility:** In addition to receiving a meter closure allowance like Chicago, Indianapolis can remove more than 5% of its meters in any location without impacting the revenue-share. As meters are added, that percentage can increase. Meters can be relocated in Indianapolis with no impact as well.

D. Other Parking Privatization News

In addition to Indianapolis and Pittsburgh, numerous other jurisdictions have initiated or are considering procurements for parking asset leases:

- **New Jersey Transit:** In October 2010, the New Jersey Transit Corporation (NJ Transit) issued a request for qualifications (RFQ) for a 30- to 50- year concession for some or all of its commuter parking facilities throughout the state. The proposed concession program—known as System Parking Amenity and Capacity Enhancement Strategy (SPACES)—aims to expand parking capacity and enhance services at some or all of the approximately 48,000 spaces controlled by NJ Transit statewide. The RFQ specifically lists approximately 80 parking lots as part of the bid, a mix of revenue-generating and unpriced lots (that would likely to be converted to paid spots as part of the concession).

NJ Transit received statements of qualification from 10 bidder teams in mid-November, and the following month the agency narrowed the list down to seven qualified concessionaires eligible to bid when the agency issues a formal request for proposals, expected in March 2011. The teams include KKR/ECI Investment Advisors/Ampco Parking Systems, Morgan Stanley/Central Parking System, Carlyle Infrastructure Partners/Nexus Parking Systems, Macquarie Capital/Standard Parking/TimHaahs, JP Morgan/LAZ Parking, Cintra and Edison.

- **Los Angeles, California:** In January 2011, the Los Angeles City Council unanimously approved Mayor Antonio Villaraigosa's plan to lease nine city parking garages to close a \$53 million budget shortfall and pay off \$91 million in parking-related debt. However, prospects for implementation dimmed by February, when City Administrative Officer Miguel Santana announced that none of the 12 companies that had previously been in talks with the city were interested in bidding on the proposed concession agreement, largely due to revisions the council made to the draft agreement to place additional restrictions on future rate increases. Villaraigosa had sought a 50-year concession to manage the nine garages—totaling approximately 8,400 spaces—with an option to negotiate for three more that are under construction or ready to start construction. Santana noted in a February 2011 report that the city council should either change the terms of the proposed concession to make it more attractive to potential bidders or table the idea altogether. According to the *Los Angeles Times*, the Villaraigosa administration still remains interested in advancing a concession proposal and hopes to complete a transaction before July 2011.

Santana told the *Los Angeles Daily News* in August 2010 that “[p]arking garages are not our core business [...] It’s not our core mission,” noting that the lease revenue would be critical to averting the layoffs of 1,000 workers and the addition of 10 new furlough days. The Villaraigosa administration also explored a potential concession for the city’s metered parking system as well, but the idea met resistance in the city council.

- **Las Vegas, Nevada:** The city of Las Vegas and the Las Vegas Redevelopment Agency issued a request for proposals in January 2010 seeking options for a potential public-private partnership (PPP) for their parking garages and metered parking system. The scope of services included an analysis and identification of PPP opportunities for the city’s parking systems and assets to achieve one or more of the following objectives: retire/restructure debt, maximize revenues, reduce expenses, capitalize revenue streams, stabilize revenue and optimize operations. At press time, proposals received were still under evaluation.
- **New Haven, Connecticut:** A 25-year lease/leaseback of the city’s parking meter system negotiated by Mayor John DeStefano’s administration in the spring of 2010 stalled when the Board of Aldermen indefinitely postponed consideration of the deal. Under the proposed monetization deal, Gates Group Capital Partners would pay the city \$50 million up front for an annual stream of revenue from the city’s 2,738 metered street spaces. “It’s not a popular item to the members of the Finance Committee. There are some on the committee who think a traditional loan is better than going into a monetization deal,” Alderman Yusuf Shah, chair of the Finance Committee told the *New Haven Register* in October. Proceeds from the deal would have been used to create a property tax stabilization fund to help cover future tax revenue shortfalls.
- **Hartford, Connecticut:** In April 2010, six bidder teams responded to a request for information issued by the city of Hartford for a possible long-term concession of the city’s nearly 6,400 downtown spaces, covering four garages, one surface lot and 1,645 metered spaces. Vendors responding to the city’s information request included: Bainbridge ZKS/Ace Parking, Cintra Infraestructuras SA, Duncan Solutions/UBS Global Asset Management, Kohlberg Kravis Roberts/Central Parking System/Duncan Solutions, P4 Partners LLC/Aurora Capital Group/LAZ Parking and ProPark/ACS/Kamylon Capital.

In November 2010, a city parking task force estimated that the economic value of the city’s parking assets totaled between \$80 million and \$120 million over the next 50 years. The estimate factors in \$30 million in outstanding debt on a city garage that would be paid off, as well as \$100 million in capital improvements the concessionaire would invest over the lease term. Hartford Mayor Pedro Segarra has proposed that proceeds from any potential transaction be placed into an irrevocable trust with strict rules on how it’s spent. At press time, the city had not yet issued a formal request for proposals from interested bidders.

- **Harrisburg, Pennsylvania:** Despite the Harrisburg City Council’s rejection of a proposed 75-year lease of the city’s parking garages and surface lots in late 2008, infrastructure developer Lambda Star continued to offer the city a second chance, keeping its original \$215 million bid on the table to give city officials a chance to reconsider.

Harrisburg faces insolvency, largely due to the challenge of servicing \$288 million in debt incurred to retrofit its waste incinerator in 2004. Lease proceeds would have been used to address the city’s fiscal crisis. Signs of fiscal distress abound; for example, the city missed two bond payments totaling \$35 million in October and required an infusion of \$4.8 million in state funds to make its debt payment the month before.

Complicating the lease discussion, the Harrisburg Parking Authority announced a proposal in October to take on up to \$200 million in new public debt, allocating up to \$60 million to the city to help address its fiscal issues. *The Wall Street Journal* reported in October 2010 that some municipal bond investors are skeptical that the Authority could issue debt at a low enough interest rate to make the deal feasible and that the plan would reduce the potential proceeds of any future lease. “While the prospect of getting an infusion of cash is appealing, the question is if there’s greater value to those assets,” Chuck Ardo, spokesman for Mayor Linda Thompson, told the *Journal* in October, adding that the \$215 million offered by Lambda Star represented over three times the proceeds relative to the Authority’s proposal.

- **Miami, Florida:** In November 2010, Miami voters rejected a ballot referendum that would have authorized a city takeover of the semi-autonomous Miami Parking Authority. Had it passed, the referendum would have authorized the management, sale or lease of parking facilities to a private entity. Miami Mayor Tomas Regalado and other city officials had promoted the measure as a means of generating funds to help close a \$105 million budget deficit.
- **New York City, New York:** The *New York Post* reported in October 2010 that Deputy Mayor Steven Goldsmith raised the idea of a long-term lease of the city’s 55,000 street meters at a city Department of Transportation meeting. Some industry estimates peg the potential value of the city’s parking meter system at over \$5 billion. The city’s parking meters generated \$138.9 million in revenues for the city in 2009.

However, officials were quick to caution that no proposal is currently in the works. “We’re always looking at different opportunities for new good ideas,” Mayor Michael Bloomberg administration spokesman Marc LaVorgna told the *Post*, “[b]ut it’s not something we’re pursuing right now.”

Part 2

Chicago Privatization Update

Chicago has become a hotbed of privatization under Mayor Richard Daley, who has privatized dozens of city services and tapped over \$3 billion from long-term leases of city assets during his six-term, two-decade tenure. However, the future of privatization in Chicago is unclear after Daley announced in 2010 that he would not seek another term, and he leaves office amid an ongoing budget crisis and lingering controversy over last year's long-term lease of the city's parking meter system (see discussion in Reason Foundation's *Annual Privatization Report 2009*).

Though the operational glitches that plagued the early transition to a private operator in 2009 were short-lived, the city's use of proceeds from the 75-year parking meter deal and other recent asset leases to balance recent budgets—a policy decision separate and distinct from the privatization itself—has continued to be a sore spot. Intent on not raising taxes to cover massive budget deficits—\$654 million in FY 2011 alone—Daley's recent budgets have been balanced largely by using one-time revenues from the asset leases. Under the most recent approved budget, at the end of FY 2011 the city expects to have \$500 million in reserves remaining from the \$1.83 billion lease of the Chicago Skyway in 2005 and \$76 million remaining from the \$1.15 billion parking meter lease last year.

The three major credit rating agencies took a dim view of the budget moves, with each downgrading Chicago's bond rating a notch in the second half of 2010. “The lowered rating reflects our view of the city’s ongoing structural imbalance and heavy reliance on nonrecurring revenues to bridge its 2011 budget gap, including the use of most of its remaining reserves from the sale of its parking meters,” according to Standard & Poor's analyst Helen Samuelson. Moody's and Fitch also cited the depleted reserves and a pension liability exceeding \$14 billion in justifying their rating cuts. Noting that Chicago's credit rating still falls within the average for local governments, Chicago Chief Financial Officer Gene Saffold responded in a statement that “utilizing one-time resources like reserves ... is not something Mayor Daley wanted to do, but he was forced to choose that option in order to combat the catastrophic effects of the national recession on our City budget and Chicago residents.”

Lingering controversies over Daley's asset leases have also prompted legal challenges. Alderman Scott Waguespack introduced an ordinance—known as the Asset Lease Taxpayer Protection Ordinance—that would place limits on future leases, including a 30-year limit on leases, requirements for an independent third-party valuation of assets over \$1 million, a minimum 30-day

period between public disclosure of contract details and a city council vote, and mandatory contract provisions allowing the city to buy back a long-term lease at five-year intervals on a prorated basis. At press time, the ordinance was waiting to be heard in the council's finance committee.

Also, a citizens' advocacy group—the Independent Voters of Illinois-Independent Precinct Organization—filed a lawsuit against the city to invalidate the parking meter lease, claiming that the city did not have authority for a long-term lease and that the city ceded its power to enforce parking violations to a private firm. A separate lawsuit has been filed against William Blair & Company—the financial advisor hired by the Daley administration to evaluate the parking meter lease—claiming that the firm underestimated the value of the meters. Officials with the city and the firm have repeatedly countered that the \$1.15 billion the city received was on the high end of their valuation scenarios, and the firm has filed a motion to have the suit dismissed.

Despite the challenges, Daley has remained steadfast in his support of privatization to transform city services, and in 2010 he announced a new batch of privatization proposals to help lower costs and streamline the city, including:

- The Department of Streets and Sanitation issued a request for proposals in November 2010 for firms to take over the city's residential recycling program and reinvest cost savings into the expansion of recycling services to the two-thirds of the city currently not served. Separately, Daley is also considering a plan to provide recycling drop-off bins at various retail establishments throughout the city.
- In November 2010, the city issued a request for proposals for a private firm to run the Taste of Chicago festival and other events run by the city's Office of Special Events. Any firm ultimately selected would assume responsibility for running the events and providing security and cleaning services.
- The Department of Human Resources plans to issue a request for proposals for a private firm to take on hiring responsibilities in five city departments: Streets and Sanitation, Transportation, Water Management, Aviation and General Services. The private firm would post, check, test and recommend potential employment candidates. City hiring has been a controversial subject since a patronage hiring scandal earlier this decade in which several members of Daley's administration cabinet were either convicted or fired, in part due to investigations related to corrupt hiring practices that ultimately led to federal court oversight over city hiring.
- The Department of Fleet Management plans to seek outside vendors to provide vehicle fleet maintenance and repair services.
- The city's Animal Care and Control Department plans to seek a for-profit or nonprofit firm to take over animal feeding and cage cleaning functions currently performed by city

employees. There has been increasing pressure on policymakers to privatize Animal Care and Control since several dogs were mistakenly euthanized under city control.

- The General Services Department plans to solicit proposals from private firms for potential concession agreements to locate ATMs and movie rental boxes in city facilities to generate revenue and provide more convenience for residents.
- The Department of Revenue is developing plans to supplement its cashiering services by contracting with private vendors who would accept payments for the city.

The city will not move forward on any of these proposals if bids come back too high, according to Daley, and no additional city asset leases are currently on the table. “I want to again make it clear that we are not considering any further asset leases to balance next year's budget,” the mayor said in an August 2010 press release. Though the city has applied for repeated extensions from the Federal Aviation Administration for a long-term lease of Midway Airport—a \$2.5 billion lease was scuttled in late 2008 amid the turmoil in the global financial markets—Daley has suggested that maintaining federal approval for a Midway lease would leave options on the table for the next mayor and that he did not have further plans to move forward on a lease before leaving office.

In separate news, the city's McCormick Place convention center appears to be heading toward privatization after state policymakers passed a reform law in 2010 that sets the stage for private management. Prior to enactment of the legislation, Daley had floated the potential privatization idea as a means to make Chicago a more competitive convention destination and lower costs for exhibitors, who had been prevented by union work rules from setting up their own booths. The new law allows exhibitors to do much of their own booth set-up, revises union work rules, cuts markups on food and electrical services and reconstitutes the convention and visitors bureau that oversees the facility. At press time, the law was being challenged in federal court. Separately, the Daley administration abandoned an effort to privatize side-street snow removal after the city only received a handful of private proposals, with bids higher than anticipated.

Part 3

San Diego Managed Competition Update

There has finally been some movement in the long-stalled managed competition efforts in San Diego, but some wonder if the progress is actually a false reform. The city and its employee labor unions have come to a tentative agreement on a managed competition guide, which spells out the rules and process by which managed competition proposals may be undertaken, but critics say that by conceding to labor union demands the city has unfairly tipped the balance in favor of the government winning any bids that survive the arduous bureaucratic vetting procedures.

In November 2006, San Diego voters overwhelmingly approved Proposition C, which allowed city officials to let private companies compete with city employees for contracts to provide city services. The city's labor unions have resisted managed competition reform efforts, however, and have effectively stonewalled them for the past four years.

The city's administration and labor unions attempted to tie the managed competition guide to a half-cent sales tax increase proposal on the November 2, 2010, ballot. Proposition D would have imposed a sales tax hike expected to cost taxpayers over \$100 million a year for five years, provided that a number of conditions were first met, including the completion of the managed competition guide and the implementation of several pension reforms. Despite a well-funded campaign and the support of most city politicians, Proposition D was resoundingly rejected by voters, by a 62%-38% margin. In response, Councilmember Carl DeMaio, one of the chief opponents of Proposition D, has put forth his own plan to address San Diego's significant budget problems while preserving city services. The proposal would save an estimated \$737 million over five years through measures such as putting a number of city services up for competitive bid, moving forward with an existing city plan to sell the operation of the Miramar Landfill to a private firm, cutting or freezing city employee salaries, eliminating taxpayer-funded retiree health care for public workers, and enacting pension reforms such as excluding specialty pay—including automatic pay increases for employees who attain certain training or degrees—from pension calculations.

Critics contend that the new managed competition guide invites yet more delays by requiring unnecessary studies and providing opportunities for labor unions to tie up the process with endless labor negotiations with the city. They also note that the guide gives city employees significant

advantages by removing some city employee pension benefits, which are typically much more generous and expensive than those received in the private sector, from consideration in the cost comparisons, and by prohibiting the city from awarding contracts to private bidders unless costs are at least 10 percent less than those of the government agency's competing bid. Why, critics contend, should the city not take advantage of contracts that would offer the same services for 8% or 9% less, for example?

After the release of the managed competition guide, DeMaio characterized the effort as a missed opportunity and called for greater reform. "This managed competition guide is simply unworkable," he told the *San Diego Union-Tribune* in September 2010. "It stacks the deck in favor of the labor unions."

Even more important than the specific provisions of the managed competition guide, however, may be the political will, or lack thereof, to actually implement such reforms. Managed competition proponents point to the city's four-year track record of failure to implement reform, and the support and influence of city labor unions on most members of the city council, as evidence that no significant competition efforts are likely to take place without a drastic change in the city's political leadership.

Part 4

Georgia Contract Cities Continue to Evolve

Since 2005, five newly incorporated Georgia cities—Sandy Springs, Dunwoody, John’s Creek, Milton and Chattahoochee Hills—have formed in metropolitan Atlanta, each relying on a largely privatized city government model in which private contractors provide almost all non-safety-related services. The first four new contract cities signed contracts with the firm CH2M Hill-OMI to provide all of their contracted services. The leaders of two-year old Dunwoody ultimately took a different approach, opting to contract out bundles of services, instead of hiring one operator. Five years later, there are signs that the “startup city” model continues to evolve, an inevitable consequence of the maturation of the jurisdictions.

A. Fiscal Woes Prompt Milton to Cancel Services Contract

Severe revenue shortfalls in the economic downturn have prompted the smallest two contract cities—Chattahoochee Hills (pop. 2,500) and Milton (pop. 20,000)—to abandon their bundled service contracts, suggesting that scale may be an important consideration for the long-term viability of this contracting approach. As reported in Reason Foundation’s *Annual Privatization Report 2009*, fiscal pressures in Chattahoochee Hills ultimately forced it to cancel its original contract with CH2M Hill in 2009.

Milton followed in 2010, ending its four-year partnership with the company. A key challenge cited by officials was structural—the contract required lump payments to the company with little flexibility in ways to cut costs, given that the city’s year-over-year revenues decreased by over 20%. City officials are shifting to a more traditional hybrid system that blends public sector and private sector delivery for various services.

However, Milton city officials were quick to acknowledge the role CH2M Hill-OMI played in helping the fledgling city form. “They provide a very vital service for a new government...[t]his wasn’t a bad experience for the city,” City Manager Chris Lagerbloom told the *Milton Herald*, adding that, “We wouldn’t have been positioned such that we could make this transition if we hadn’t had somebody like CH2MHill to start us up.”

B. Sandy Springs to Rebid Services Contract

Covered extensively in past editions of the *Annual Privatization Report*, Sandy Springs made headlines in 2005 by becoming the first city in Georgia—and one of the few nationwide—to outsource most of its public services to a private company, and five years later the city continues to be a model of success. Residents cite improved performance across the gamut of infrastructure maintenance, including stoplights, sewers, roads, sidewalks, etc.

Since its inception in 2005, Sandy Springs has relied on CH2M Hill to handle all non-safety services, but in the interest of using regular competition to drive value for taxpayers, city officials are putting a somewhat revised services contract out for bid. Specifically, the city plans to issue two procurements—a smaller contract for technology and accounting services, and a larger one for the remaining, non-safety-related city services. Though firms like CH2M Hill may choose to respond to the bundled service procurement in its totality, city officials also offered vendors the option of proposing smaller contracts for specific services to determine if there might be pricing advantages to breaking out parts of the service contract, akin to the Dunwoody model.

Nearby John's Creek may pursue a similar strategy. Mayor Mike Bodker told the *Atlanta Journal-Constitution* in January 2010 that changes in the relationship with CH2M Hill were inevitable over time, noting that, "We certainly know more about what we're looking for as far as the scope of our services, as well as the economy has dictated that we make changes."

Commenting on the evolving contract city model, Georgia Municipal Association spokeswoman Amy Henderson told the *Journal-Constitution*, "The neat thing about the whole experience is you find out what works and what doesn't and you adjust [...] And the winners in the end are the taxpayers, who aren't paying for inefficiency."

In other news, Sandy Springs Mayor Eva Galambos—who handily won another four-year term in 2009 with 84% of the vote—announced that the city is cutting certain development fees in half to save money and promote investment. It will cut revenues for the government by \$200,000 but the mayor is confident that future gains will outweigh budget losses over the long-term, according to WABE News.

C. Joint 911 Call Center Launches Successfully, Despite Funding Challenges

In an effort to speed dispatching and improve emergency response times, Sandy Springs and Johns Creek agreed to jointly develop a \$5.6 million 911 center—the Chattahoochee River 911 Authority (ChattComm)—that opened in September 2009. The cities agreed on a joint contract with iXP Corp. to establish and operate the 911 network.

However, in 2010 both cities were required to transfer funds to cover 911 center operations, as the primary funding source—a monthly \$1.50 fee applied to cell and landline phones—came in nearly

\$2 million short of the center's \$3.5 million annual operating cost. However, officials in nearby Dunwoody are considering abandoning their current 911 services agreement with DeKalb County due to quality concerns and joining the other contract cities under ChattComm, which officials expect would reduce each city's share of running the facility. Though Dunwoody officials expect that overall 911 costs for the city would rise if it left the county system, the major benefit of such a move would be significantly improved service to Dunwoody citizens, as the iXP's contract requires that response times meet certain standards, lest the company face financial penalties for underperformance.

According to an October 2010 report in the *Atlanta Journal-Constitution*, the proposed deal would involve Dunwoody paying \$1.2 million per year over three years for the ChattComm services, with an additional, one-time \$570,000 expenditure for equipment and training. Dunwoody officials are also weighing the possible merits of starting up their own 911 service, and a decision on the path forward is expected by the summer of 2011.

Despite the revenue challenges, the joint 911 center seems to have already made significant improvements in service delivery relative to the Fulton County service Sandy Springs and Johns Creek sought to replace. After the first several months of operation, Johns Creek City Manager John Kachmar told the city council that the joint 911 center had already improved emergency response times, noting a reduction in dispatch time from three minutes (under the previous Fulton County 911 system) to approximately one minute, 11 seconds today. "That minute and a half is the difference between life and death in many calls," Kachmar told the council, according to the *Johns Creek Herald*.

The 911 center has also rolled out specialized technology in its first year, including a new record management system and a cutting-edge 911 call system ("Smart 911") that will streamline the transfer of vital information to first responders and allow 911 operators to initiate texting with emergency callers, making Sandy Springs and Johns Creek the first municipalities in the U.S. to roll out 911 text capabilities.

D. Dunwoody Update

Despite the ongoing economic downturn, Dunwoody ended a successful 2010 fiscal year with a nearly \$2.5 million budget surplus, and city officials opted to hold property taxes flat. Officials allocated \$800,000 for road paving and \$100,000 for an annual sidewalk program in the current year and plan to set aside \$1.3 million in savings for potential future capital projects. "I'm very proud at what we've been able to get done while remaining responsible in our spending," Dunwoody Mayor Ken Wright told the *Atlanta Journal-Constitution* in November.

In other news, Dunwoody took over seven parks formerly run by DeKalb County after the Georgia Assembly passed a bill granting Dunwoody the right to buy the land at \$100 per acre, resolving an

ongoing dispute between the city and county. Wright pledged to work immediately to fix run-down buildings and other poorly maintained amenities in the parks.

Finally, Dunwoody officials are considering alternative waste management options, though a public input effort suggests that many citizens remain satisfied with the trash services currently handled under an arrangement with DeKalb County. In September 2010, representatives from Republic Services proposed that the city council issue a request for proposals for commercial waste collection, suggesting the potential for dramatically lower costs relative to those charged by DeKalb County. As of press time, the council had not taken action on waste services.

E. Milton County Proposal Fails in Legislature

The latest attempt to carve a new Milton County out of the unincorporated portions of north Fulton County failed in the state House of Representatives in the 2010 legislative session. House Speaker Pro Tem Jan Jones decided to avoid a floor vote on House Resolution 21 after it failed to gather a two-thirds majority vote. Jones said she will reintroduce the bill next year.

Fulton County was created during the Great Depression from a merger of Milton and Campbell Counties, and Jones's bill would have effectively allowed voters to undo the merger via referendum. Residents in north Fulton County have long complained about excessive taxation, mismanagement and unresponsive county officials, sentiments that echo those that prompted the contract city movement. In fact, if Milton County ultimately comes to pass, many observers predict that it would embrace a similar operating model as the contract cities, relying on private contractors to provide most services.

Part 5

Dallas, Tulsa Turn to Nonprofits in Zoo Privatization

In August 2009, the **Dallas, Texas** City Council voted unanimously to privatize the Dallas Zoo, turning over operations to the nonprofit Dallas Zoological Society through a partnership expected to save the city \$1.5 million in 2010 and \$16 million over the next five years. Privatization discussions began earlier that year when Mayor Tom Leppert began exploring ways to close a \$190 million city budget deficit. According to the *Dallas Morning News*, Leppert enthusiastically supported the move, stating that the privately operated zoo “can and will be regarded as one of the best in the nation.”

Under the privatization, the Dallas Zoological Society is responsible for all zoo management, operations and animals, while the city retains ownership of all related land and the zoo’s nearly 200 physical exhibits. In the short term, the city plans to continue contributing operating funds to the zoo, though the level of subsidy is expected to fluctuate over time as the operator implements strategies to increase visitation and self-generated revenues. The agreement also requires the Zoological Society to meet or exceed current operating standards, lest it risk having to return operations back to city control.

Another benefit of the privatization is found in the potential for greater private sector support through donations, according to supporters. Michael Meadows, president and chief executive of the Zoological Society, told the *Dallas Morning News* in 2009 that, “There is a perception when something is run by a public entity, that they don’t have a need for private donations. [The City] found that donors prefer to give to privately funded institutions.” Meadows’ point was later validated after four private donors pledged \$2.25 million to the zoo within the first four months after privatization.

Meanwhile, officials in **Tulsa, Oklahoma** are in negotiations with the nonprofit Tulsa Zoo Management, Inc. (TZMI) on a privatization agreement for the Tulsa Zoo. Similar to Dallas’s agreement, city officials plan to retain ownership of the Tulsa Zoo itself, while turning over operations and management to TZMI. Though two past zoo privatization efforts have failed to materialize in Tulsa, TZMI board President Phil Lakin, Jr. told Newson6.com that, “We have no choice [...] If we don’t do anything, then we will certainly close the zoo within a year or two.”

After privatization, TZMI will take on a significant fundraising challenge, with the zoo facing an estimated \$50 to \$100 million in deferred maintenance and capital needs. Perhaps more pressing is the need to comply with more stringent accreditation requirements issued by the Association of Zoos and Aquariums (AZA) after the death of two giraffes at the zoo in 2010. In October 2010, Lakin told Newson6.com that the AZA accreditation review “underscores the need and the benefits of a public-private structure.”

Privatization is a prominent trend in municipal zoo management, and 70% of AZA accredited zoos have been privatized nationwide, according to TZMI. And privatization has generally brought success, according to Palm Beach Zoo Director Terry Maple. Commenting on the Dallas Zoo privatization, Maple told the *Dallas Morning News* in 2009 that, “[e]verything in the zoo business has changed, and Dallas is making itself part of this revolution...I think they'll be very successful.”

Part 6

Privatization Advances in Milwaukee County

Recent editions of Reason's *Annual Privatization Report* have highlighted the ongoing battles between the Milwaukee County Board of Supervisors and former County Executive/newly inaugurated Wisconsin Gov. Scott Walker over privatization issues, with the recalcitrant Board repeatedly scuttling Walker's privatization proposals in contentious annual budget showdowns. However, in contrast with recent years, the 2010 budget battle ended with significant victories for Walker.

In November 2009, Walker vetoed \$10 million in spending the County Board added to his 2010 executive budget, much of which resulted from the Board's rejection of several of Walker's proposed privatization measures. Walker's executive budget proposed nearly \$6 million in cost savings through privatizing over 200 janitorial, security, social worker, airport firefighter and IT jobs.

Ultimately, the Board voted to sustain several of Walker's vetoes—authorizing the administration to proceed on privatization of custodial and security positions at a county administrative complex—though it failed to approve the privatization of security at the courthouse complex. The privatization moves approved by the Board are estimated to save \$2.6 million in 2010.

However, citing emergency budget authority, Walker ultimately moved forward on a wider-ranging security privatization than that approved by the Board. The administration laid off over two dozen security guards at the courthouse and two other county buildings and hired international security contractor G4S Wackenhut under a one-year, \$1.1 million contract to provide security at the facilities. Unions and some Board members criticized the move on legal and contractual grounds, though Walker countered that the move was reviewed and validated by city attorneys.

The privatization of county custodial services also became contentious. After the privatization was announced in late 2009, county custodial workers began skipping work in large numbers, leaving garbage to pile up and other facility maintenance issues neglected. Walker negotiated a deal with a local bridge contractor to provide stopgap coverage until permanent contractors—Mid-American

Cleaning Contractors and CleanPower, who were selected among 15 different vendors—began their contracts in January 2010.

Despite the ongoing battles over privatization, Walker and the County Board did find common ground on the subject of zoo privatization. During the 2010 budget process, Walker proposed privatizing the Milwaukee County Zoo, citing a potential partnership with the Milwaukee County Zoological Society along the lines of the recent Dallas Zoo privatization (see discussion in previous article). The Board ultimately approved funding for a study on a possible public-private partnership for zoo operations and management.

Part 7

Library Privatization Takes Hold in California

Amid ongoing local government fiscal challenges, the privatization of public libraries has caught the attention of policymakers in several California municipalities, with several recently opting to contract out the management of their libraries to Library Systems & Services, Inc. (LSSI), a prominent national library operator.

In several cases, municipalities sought out privatization concurrent with moves to withdraw their libraries from county-run library systems that are cutting services and staff amid lingering budget woes. Bob Windrow, LSSI's vice president of business development and marketing, told PublicCEO.com in November 2010 that, "We've had a lot more interest from California cities and counties in the last six months than we've ever had." Jurisdictions taking steps toward privatization include:

- In August 2010, the **Santa Clarita** City Council voted four to one to remove three local libraries from the Los Angeles County Library System and award a six-year contract to LSSI, which has promised to lengthen the hours of operation and increase the books and media budget. However, the library activist group Save Our Library has filed several lawsuits in Los Angeles Superior Court to thwart the LSSI contract, citing privacy concerns.
- Officials in **Stockton** and **San Joaquin County** are considering an LSSI proposal that would increase operating hours in the joint city-county library system by 50%. County officials prompted the exploration of privatization as an alternative to the current arrangement—in which the county contracts with the city to run libraries in unincorporated areas and most of the county's other municipalities—where budget cuts, reductions in hours and the closure of the Fair Oaks Branch library have plagued the system in recent years. At press time, city and county officials were still considering their options, leaving the LSSI proposal open as they continued discussions on a potential new city-county agreement that would address some of the county's concerns with the city's current services.

- Two municipalities in Ventura County may be following **Moorpark**'s lead, which in 2007 withdrew from the county library system and contracted with LSSI. In October 2010, the **Camarillo** City Council voted unanimously to withdraw from the Ventura County Library System and operate as a municipal library managed by LSSI. The city estimates it will save \$600,000 annually through this contract, while affording city officials better control over the Camarillo Library. That same month in nearby **Ventura**, the city council directed city staff to prepare a study on the potential privatization of library operations.
- In February 2010, officials in **Nevada County, California** rejected a proposal to privatize the management of its public libraries, opting instead to reduce operating hours and cut staff to lower costs in the face of severe budget shortfalls. County Executive Officer Rick Haffey suggested that officials explore privatization as an alternative to layoffs and service cuts, though that plan met severe public criticism and was ultimately rejected by three separate committees charged with developing a plan to close the funding gap. A proposal received from the LSSI would have increased library hours of operation and enhanced other programming.
- In February 2010, the **Redding** City Council voted unanimously to extend its contract with LSSI to operate the three libraries in Shasta County for three additional years. According to Kim Niemer, Redding's director of community services, the contract renewal "is recognition of the progress and success of the library in the last three years [...] As a result of the LSSI partnership, Shasta Public Libraries now provide residents in Redding, Anderson and Burney with better service, more convenient hours, new technology, clean facilities, courteous staff, and programs designed by and for their communities." Local library activist Jim Ceragioli, who originally opposed the privatization, expressed similar support, noting that "my advice to other communities' Friends of the Library groups, who may share my original skepticism is, 'Go for it!' With this public-private partnership, our libraries are thriving."

Riverside County became the first municipal government in California—and the nation—to contract with a private library operator in 1997, entering a partnership with LSSI that is still in place today. In June 2010, the county published a report on the first 13 years of the LSSI partnership, highlighting an array of benefits, including:

- enhanced services, with operating hours, circulation and staffing more than doubling;
- decreased operating costs, totaling \$900,000 in the first year alone;
- an expansion in the number of branches from 24 to 33 (a 27% increase);
- over \$15 million invested in new facilities or major renovations;
- increased services and expanded growth while maintaining a flat 1.15% ad valorem library property tax;
- an average 111% annual increase in the collection development budget:

- enhanced financial accountability, and
- significant investments in new library technology, including the addition of over 200 public-access high-speed Internet terminals.

The pioneering privatization has been a model of success, according to report author Gary Christmas, Riverside County's former chief deputy county executive officer:

We have defied the most outspoken opponents of outsourcing public libraries to a bottom-line-oriented business operation. For the first 86 years of existence of Riverside County libraries, we outsourced the library operations to the City of Riverside. But the effectiveness of that model began to unravel as state funding for public libraries was diverted [...] We had to make a dramatic change in order to save and improve our libraries and gain more control and accountability over policy making and expenditures. And we did so without raising taxes, without massive layoffs, and without foregoing the County's sovereignty. Our libraries remain 100% public and owned by taxpayers and we have more financial accountability and control over our library system than ever before.

California municipalities are not the only governments interested in library privatization. In November 2010, the city council in **Farmers Branch, Texas**, a Dallas suburb, voted unanimously to award a contract to LSSI to operate its Manske Library, rejecting a competing proposal submitted by current library staff. According to Assistant City Manager Shanna Sims-Bradish, "We believe the quality of the services that LSSI can provide will result in an excellent library for our citizens at affordable costs to the City." City officials have estimated an annual cost savings of approximately \$290,000 through privatization.

Part 8

Public Safety Privatization Update

- After the **Oakland, California** City Council reversed course in 2009 on a plan to hire four private security officers to patrol high-crime neighborhoods, private businesses in the city's Chinatown district announced their own plan to hire private security guards for street patrols. The move was announced after the city laid off 80 police officers in July 2010 to help close a budget deficit in excess of \$30 million. Commenting on the private security plan, University of California, Berkeley criminologist Barry Krisberg told *The Bay Citizen* in August 2010, "We've been doing policing more or less the same way for a couple hundred years...[w]e've reached a point financially where we have to start exploring new ways to deliver law enforcement."
- In August 2010, the **Los Angeles, California** City Council approved the privatization of billing and collection for the fire department's ambulance services. Despite significant union opposition, the council approved a six-year contract with Advanced Data Processing Inc. to handle billing and collections, with the company being paid up to 5.5% of net revenues collected. Though the privatization of ambulance billing services will eliminate 49 positions in the emergency medical services (EMS) unit, the employees will not be laid off and will instead be transferred to other vacant positions in the fire department. Mayor Antonio Villaraigosa supported the plan, warning of an additional \$15.9 million in necessary department budget cuts if the plan were rejected. Under the plan, the city projects an increase in net revenue of \$11 million over six years; by contrast, the department only collected \$58 million of the \$151 million total billed for EMS services in 2009, according to a July 2010 audit conducted by the city comptroller's office.
- A report released earlier this year by the city comptroller of **San Francisco, California** recommended the San Francisco Police Department privatize work at their crime lab. The report suggested immediate outsourcing of DNA and drug testing, with a gradual privatization of the entire lab. The lab has been embroiled in controversy, with employees suspected of stealing narcotics from the facility and a 400-case backlog in casework. The comptroller's report showed that over a five-year period it would cost the city between \$46 million and \$53 million to operate the lab, versus \$31 million to outsource the lab work.

- In separate news, the **San Francisco** City Council rejected a budget proposal from Mayor Gavin Newsom that would have contracted out security guard positions at the Fine Arts and the Asian Art Museums, San Francisco General Hospital, Laguna Honda Hospital and other city clinics. Asian Art Museum Financial Officer Mark McLoughlin told the *San Francisco Examiner* in June 2010 that “at a time when the museum’s foundation is in grave financial difficulty, outsourcing is the sole means for The City to further reduce museum funding without threatening our very existence.”
- Officials in **Detroit, Michigan** privatized security in public schools, signing a \$6.5 million, one-year contract in July 2010 with Securitas Security Services USA to replace all of Detroit Public Schools’ (DPS) 226 security officers, saving an estimated \$4.5 million a year. The contract will increase total in-school security officers to 270, with assurances that absent officers would be covered by substitutes. Michigan’s Court of Appeals upheld DPS’s privatization moves in August 2010 after a Wayne County Circuit Court judge had ordered the district to reinstate the guards earlier that month. Another legal challenge began in November 2010 when 178 of the fired guards filed another suit against DPS demanding a reversal of the privatization and issuance of back pay. Despite the legal action, DPS spokesman Steven Wasko told *The Detroit News* that “the decision to move to managed competition for this vital and primary service resulted in annual savings of more than \$3 million and, more importantly, a highly responsive and trained work force whose attendance is guaranteed by the new performance-based contract.”
- The city council in **Orlando, Florida** unanimously approved a two-year extension of its 911 ambulance services contract with Rural/Metro in September 2010. Rural/Metro has held the contract since 1985 and also provides ambulance services in Kissimmee and Sanford, and Orange, Osceola, Seminole and Palm Beach counties. In separate Florida news, commissioners in **Martin County, Florida** voted unanimously in April 2010 to explore a potential partnership with a private ambulance firm to supplement the county’s Fire Rescue Department. Rural/Metro representatives told a local taxpayer advocacy group that contracting out ambulance services could save the county an estimated \$3 million annually. Also, Sheriff Richard Nugent of **Hernando County, Florida** signed a three-year, \$220,000 contract with Wackenhut Corporation in the fall of 2009 to provide courthouse security services. Wackenhut will operate the two checkpoints in the county government center, saving an estimated \$142,000–\$176,000 a year, according to the *St. Petersburg Times*.
- EMS workers in **Lakewood, New Jersey** agreed to a 30% pay cut after township officials threatened to privatize EMS services. Prior to the agreement, Lakewood’s EMS services had been losing over \$1 million a year; township officials estimated that privatization could save approximately \$800,000 annually, according to the *Ashbury Park Press*. Elsewhere in New Jersey, **Washington Township** officials unanimously approved a five-year 911 agreement with Atlantic Ambulance’s CenCom, a regional 911 center providing services to several other municipalities. The township had been close to signing a 911

agreement with Morris County but found a lower cost option in CenCom, allowing it to avoid \$800,000 in upgrades and radio rental fees the county agreement would have required. Mayor Ken Short told *The Daily Record* that the proposed 911 agreement with Morris County looked to be “a done deal [...] but [the CenCom agreement] allows us to provide our taxpayers with more safety at a better price.”

- Officials in **Monroe County, New York** approved a 20-year, \$224 million contract with a new local development corporation to upgrade and own the county’s public safety and security equipment, a move expected to save the county over \$10 million annually, according to the *Rochester Democrat and Chronicle*. The new quasi-governmental entity will contract out operations to the firm Navitech, which will make decisions about equipment purchasing and maintenance. In other New York news, the **Ithaca** Common Council approved a plan in September 2009 to privatize city hall security, entering an agreement with RISCs Inc., a private security firm consisting of retired Ithaca police and investigators. The arrangement is expected to reduce security costs by 40%, or \$60,000 per year, according to the *Ithaca Journal*. Also, **Warren County** supervisors are exploring the partial privatization of the county’s mailroom functions to save up to \$40,000 a year, according to *The Post-Star*.
- Officials in Pennsylvania’s **Northumberland County** announced a contract with AlliedBarton Security Services to provide guards at the county courthouse, administrative center and various other buildings, saving an estimated \$60,000 annually, according to *The News Item*.

Part 9

Solid Waste and Recycling Privatization Update

- In July 2010, **San Diego, California** City Attorney Jan Goldsmith proposed a ballot measure that would help clear the way for the potential privatization of residential waste collection in the city, which could save the city an estimated \$34 million annually. At issue is a 90-year-old city law (known as the “People’s Ordinance”) that prevents the city from billing residents for waste services as it currently does with multi-family and commercial waste collection; residential collection is currently subsidized by the city’s general fund. Goldsmith’s proposed measure—which would require council and voter approval—would pre-empt the People’s Ordinance and allow the city to charge residential collection fees, removing a roadblock to any future privatization efforts. In separate news, 16 firms responded to a request for qualifications for a private operator for San Diego’s Miramar Landfill. San Diego Mayor Jerry Sanders initiated the solicitation in July 2010, seeking ways to lower the city’s dumping expenses and generate an annual franchise fee up to \$10 million for city coffers. At press time, the Mayor’s Office was considering a request for a best-and-final-offer from interested vendors, though any privatization would ultimately require city council approval and negotiations with labor unions.
- An August 2010 report prepared by city staff in **Scottsdale, Arizona** examined the possibility of privatizing residential waste and recycling services and concluded that the city might not see major cost savings. The report found Scottsdale’s direct cost of residential waste services to compare favorably with those in nearby Chandler, Phoenix and Paradise Valley and suggested that privatization could lead to several dozen city layoffs. However, the *Arizona Republic* criticized the report in an August 26th editorial, noting that staff only reviewed the direct costs of service delivery and ignored the overhead costs that account for almost two-thirds of residents’ monthly bills.
- City officials in **Memphis, Tennessee** are considering the privatization of trash collection services after residents’ complaints about the poor quality of the city’s services have risen to a fever pitch. At a May 2010 town hall hosted by the local union representing public sector trash collectors to oppose privatization, residents turned the tables, issuing a barrage of complaints over the city’s trash services. City Public Works Director Dwan Gilliom estimates that private companies could nearly halve costs from \$26 to \$14 per household

per month. Mayor A.C. Wharton has suggested that adopting a managed competition model—where public employees bid against private waste haulers—could save taxpayers millions and significantly improve the quality of service.

- The administration of **Newark, New Jersey** Mayor Corey Booker is exploring the privatization of garbage collection services as a part of a larger effort to find citywide cost savings through outsourcing. Booker’s 2010 budget called for the elimination of 220 of the city’s 251 sanitation workers, and officials estimate that the city could save \$7 million a year by privatizing trash collection. Elsewhere in New Jersey, **Wildwood** city officials awarded a five-year, \$2.3 million residential waste and recycling contract to Blue Diamond Disposal in May 2010. Officials estimate that the contract will save the city over \$4 million over the life of the contract, with annual savings of \$700,000 in salaries and wages, \$150,000 in capital expenses, and another \$150,000 in fuel and fleet services, according to *The Press of Atlantic City*.
- **Hernando County, Florida**’s County Commission unanimously approved privatizing the county’s recycling center in March 2010, a move that will save more than \$800,000 annually according to city officials. County Utilities Director Joe Stapf told the *St. Petersburg Times* that, “As a private enterprise, [the contractor] can be more timely, more flexible and design different programs [...] You've got to be nimble and we can't do that.”
- In July 2010, the **Derby, Connecticut** Board of Aldermen authorized Mayor Anthony Staffieri to solicit bids from private companies interested in leasing and operating the town’s Pine Street transfer station. The city opted to pursue a lease structure after an earlier attempt to outsource transfer station operations in 2008 was scuttled amid a labor dispute. Noting that a recent similar lease in Hamden has reduced costs for that city, Board President Ken Hughes told the *Connecticut Post* that, “We are not going to make our decision based on the union, but based on what’s good for all residents... [Privatization] is the way to go.”
- In May 2010, **Westfield, Massachusetts** Mayor Daniel M. Knapik announced the formation of a study committee to review the feasibility of privatizing residential waste collection in the city. The commission will help city officials evaluate the viability of privatization proposals received from several national and local waste management firms the month before. The commission is expected to release its recommendations by the end of 2010.
- **West Warwick, Rhode Island**’s Town Council voted to privatize trash collection in June 2010 in a move that could save the town an estimated \$487,000 annually. The council has been soliciting private sector bids, but it did not approve a specific contract. “This is the first step in many steps toward privatization,” Council President David Gosselin, Jr. told the *Providence Journal* after the vote.

- In Virginia, the Rivanna Solid Waste Authority sought vendor proposals for a potential privatization of operations at the McIntire Recycling Center in **Charlottesville** and the Ivy Materials Utilization Center in **Albemarle**, but failed to receive a viable bid. The one bidder that did apply subsequently withdrew its application. At press time, the Authority had not determined if a second, revamped request for proposals will be issued.

Part 10

Animal Shelter Privatization Update

Reason Foundation's *Annual Privatization Report 2009* covered **Kansas City, Missouri**'s recent privatization of its animal shelter, and after the first year of implementation all signs indicate that the arrangement has been a major success.

In February 2009, the city signed a contract with Veterinary Management Corporation—a nonprofit created by local veterinarian R. Wayne Steckelberg—to operate the animal shelter. The annual cost of \$626,000 is \$175,000 less than it cost under public operation, representing cost savings to the city of over 21%. A February 2010 article in the *Kansas City Star* cited numerous other improvements resulting from privatization, including a tripling in the monthly adoption rate, a 30% decrease in the euthanasia rate and a reduction in crematorium costs exceeding 50%. The private operator has also entered a partnership with Spay & Neuter Kansas City to promote outreach and awareness on the benefits of sterilizing pets to reduce the number of stray and abandoned animals.

After seeing nearby Kansas City transform its shelter through privatization, officials in **St. Louis, Missouri** announced intentions to close its beleaguered Gasconade animal shelter and began soliciting private sector interest in a replacement shelter. Though the city has not yet formalized a contract, a patchwork of community nonprofits have already stepped up to help take on various shelter duties as the city winds down the Gasconade shelter.

Officials intend to grant a contract of up to \$550,000 a year—with a conditional matching of \$550,000 in privately raised funds—representing a major savings relative to the city's current \$775,000 shelter budget. The requirement for private-capital fundraising has hampered interest, but the city is moving forward and looking for a way to improve services. The city only received two bids, one of which was disqualified for not meeting the city's deadline. The other—an alliance of local nonprofits Stray Rescue and the Animal House Fund—ultimately withdrew its proposal but is partnering with the city on an unpaid basis to shelter and find new homes for city's stray dogs and cats, including transfers from the Gasconade shelter and new city pickups.

Fear of the red tape associated with a city contract may have dampened interest in the procurement among both the local nonprofits and larger organizations like the Humane Society of Missouri. City Health Director Pamela Rice Walker told the *St. Louis Post-Dispatch* in May 2010 that, "A lot of donors don't want to give money to anything the city's involved with." The city plans to keep the

Gasconade facility open at least until the two nonprofit partners can demonstrate the ability to handle the entire city intake.

In other animal shelter privatization news:

- Ongoing scandals, including the indictment of three former Memphis Animal Shelter employees in February 2010 on animal cruelty charges, have prompted **Memphis, Tennessee** officials to undertake a broad review of the shelter's operation. According to local news affiliate Fox 13, some local animal activists are recommending that policymakers privatize the animal shelter as a means of cleaning up the operation.
- In June 2010, county officials in **Canyon County, Idaho** unanimously approved the issuance of a request for proposals for private entities to manage its animal shelter. Annual operating costs for the shelter currently total \$900,000, and with decreased revenues officials are considering a range of options, including funding cuts and closing the shelter completely, according to the *Idaho Press-Tribune*.
- According to *The Herald Bulletin*, the city council in **Anderson, Indiana** approved a request for proposals for private management of the Anderson Animal Care and Control facility in February 2010.
- In September 2010, the **Midland County, Michigan** Board of Commissioners voted four to three to accept a proposal from County Sheriff Jerry Nielsen to close its animal shelter and transfer shelter operations to the Humane Society of Midland, and shift current control staff to the new county jail. According to Nielsen, the privatization would save his office approximately \$210,000 annually, per *The Saginaw News*. The Humane Society is actively trying to raise the estimated \$120,000 to operate the shelter, and it continues to negotiate various aspects of the arrangement with city officials, who are mapping out the transition.
- The Borough Council in **Paramus, New Jersey** approved the elimination of its animal control department in April 2010 and moved forward with a \$30,000 annual contract with Tyco Professional Animal Control. The borough spent approximately \$120,000 on animal control in 2009, according to *The Record*. Under the contract, Tyco will provide animal control and operate the borough's animal shelter, with an option to use the shelter to house animals from nearby jurisdictions. Tyco currently provides animal control services for nearly 20 other communities in the Bergen County area.
- In January 2010, the nonprofit Southampton Animal Shelter Foundation took over operations of the town animal shelter in **Southampton, New York**. Under city operation, it cost approximately \$1 million per year to operate the shelter; under the terms of the contract, the city will pay the Foundation between \$200,000 and \$300,000 annually to operate the shelter through 2012, according to *The Southampton Press*. No animals in the shelter at the time of privatization were euthanized, and the Foundation is following many of the same guidelines in place when the city operated the facility.

Part 11

Other Local Government Privatization News

- Acting on recommendations from a city budget task force, officials in **Phoenix, Arizona** are exploring new privatization opportunities as they seek ways to close a \$277 million city budget deficit. Long recognized as a privatization pioneer, the city currently has approximately \$432 million in contracts with private vendors across roughly 350 service areas, representing nearly 14% of the city's \$3.1 billion operating budget, according to the *Arizona Republic*. City officials are evaluating a range of proposals and will ultimately make privatization recommendations to the city council. Phoenix Councilman Sal DiCiccio has emerged as one of the most vocal advocates for privatization, arguing that the average city employee costs taxpayers \$100,000 annually, including salary and other benefits. "When everything is being competitively bid, the taxpayer knows they get every value for their dollar," DiCiccio told the *Republic* in July.
- As the city moves forward with a plan to lease nine city parking garages to private operators (see discussion in section A), officials in **Los Angeles, California** are actively exploring other privatization options to address the city's structural budget deficit. In February 2010, the city council approved seeking a private operator to take over the Los Angeles Convention Center to reduce the city's \$50 million annual expenditure and make millions in needed capital improvements. The city's chief administrative officer is currently preparing a request for proposals. That same month, the city council ordered a feasibility study on ways to privatize the operations of the Los Angeles Zoo & Botanical Gardens, partnering with a nonprofit organization like the Greater Los Angeles Zoo Association. In August, the city council approved a plan to hire Advanced Data Processing Inc. to take over the work performed by LAFD's Ambulance Billing Section, and take a 5.5% cut of whatever debts are collected. Local fire officials endorsed the move, noting that it would significantly streamline billing. Last, the council approved a plan to solicit private operators to run seven neighborhood arts centers and theaters, a move officials expect to generate a \$1.2 million cost savings in FY 2011.
- **New York City** officials are relying on private transportation firms to provide transit in parts of the city where large-scale public transportation is not feasible. In July 2010, Brooklyn replaced several unprofitable city bus routes with privately operated van

services. Following recent cuts to MTA bus routes, the city established the public-private partnership to maintain transit operations along downsized routes. The “dollar-van” program is projected to reduce fares by \$.25 from the city’s \$2.25. The partnership has come under fire from community groups concerned about the safety of the vans and the possibility of future privatization. However, Taxi and Limousine Commissioner David Yassky told the *New York Post* in July 2010 that businesses will seize the opportunity: “If they can make money transporting people, they will do it. Our market research tells us that there are providers willing and eager to serve the market.” Also, in May 2010, the New York City Health and Hospitals Corporation announced that it was seeking a contractor to take over laundry services at the Brooklyn Central Laundry to save over \$6 million of the current \$17 million budget. City officials are also considering hiring a private testing firm to administer construction industry licensing exams.

- In late 2009, **Washington, D.C** Mayor Adrian M. Fenty announced plans to privatize the city's Detoxification and Stabilization Center, citing a study showing that privatization will lower costs by \$1.7 million and allow the handling of more patients. During the summer, the administration moved to eliminate services by terminating over 100 employees at the addiction recovery agency. At press time, the city was no longer providing direct service, though it had not yet found a contractor. Fenty also moved to privatize child care services in the Department of Parks and Recreation. D.C. Councilmember Harry Thomas Jr. sponsored an amendment to halt the privatization effort that was added to the Budget Support Act. The public employees’ union filed a lawsuit to stop the effort as well, though a judge sided with the Fenty administration. The mayor has also privatized city mental health services, a move that has been similarly met with fierce union opposition. However, Fenty's moves to contract out consulting and construction work in city parks without council approval in 2009 prompted a rebuke in the council. In February 2010, Councilmember Mary Cheh introduced a procurement reform bill that would create a procurement ombudsman to monitor city contracts, direct the procurement office to review the environmental effects of contracts over \$100,000, create a website for posting all contacts and procurement-related documents, and make other changes to the city procurement process. Cheh expects the bill to be heard in the winter of 2010/2011.
- After outsourcing library services and tourism promotion in 2009, privatization has remained a hot issue in **Redding, California**. In the summer of 2009, the city council created a privatization committee—consisting of all five current council members, two former council members, a former city department head and two former mayors—to identify additional outsourcing opportunities. However, the committee disbanded after three months of work without recommending any privatization opportunities, with members citing a lack of information and an overly broad scope as the key impediments to accomplishing their work, according to *The Record-Searchlight*. In November 2010, a separate council-created commission, the Community Services Advisory Commission, narrowly voted to recommend that the council reject the privatization of some parks maintenance functions after a city parks department report suggested that privatization

would not save money. Earlier in the year, the advisory commission recommended against privatizing the management of the city's aging convention center after failing to find interested private bidders.

- Privatization has been a hot issue in other California municipalities as well. To lower the costs of parks operation, **Anaheim, California** is privatizing trash and litter removal and janitorial services in public parks to save \$565,000 per year, according to the *Orange County Register*. Similarly, the **San Carlos, California** City Council voted unanimously in July 2010 to approve two private contracts for maintenance in city parks totaling \$281,000 per year, less than half of the \$719,000 the city currently pays for maintenance, according to the *San Jose Mercury-News*. Officials in **Palo Alto, California** approved privatization of landscaping services by signing three-year contracts with two landscaping companies in a move that will eliminate five full-time positions and save the city over \$314,000 in the first year, according to Community Services Director Greg Betts. Palo Alto officials also approved the privatization of janitorial services, maintenance of the municipal golf course and city mail and print services as part of their FY 2011 budget. In May 2010, **Fresno** Mayor Ashley Swearingin declared a fiscal emergency for the city and released a budget that proposed franchising commercial solid waste operations, outsourcing park maintenance, and partnering with community-based organizations to operate 10 community centers. That same month, the **San Joaquin County** Board of Supervisors approved a plan to privatize security and reduce transcription jobs at San Joaquin General Hospital.
- Budget cuts in **Colorado Springs, Colorado** forced the city to close six of seven swimming facilities this year, but a new partnership with Colorado Springs Swim School allowed three pools, including the indoor Aquatic and Fitness Center, to stay open for public swimming and other aquatic programs. In other news, officials at the city-run Pioneer Museum have hired a consultant to develop a plan to privatize the museum. City funding for the museum has been reduced by more than half since 2008 to \$365,000, and officials are exploring privatization as a means to increase private donations. According to the *Colorado Springs Business Journal*, the museum needs to raise more than \$1 million annually to be self-supporting.
- Officials in **Pittsburgh** and **Allegheny County, Pennsylvania** jointly solicited private sector bids for vehicle fleet maintenance in early 2010 in what may be the beginning of a shared services arrangement. Both jurisdictions ultimately signed separate contracts on similar scope and duration with the same vendor, First Vehicle Services, and the contracts could ultimately be merged if officials pursue further consolidation. In other Pennsylvania news, **Luzerne County, Pennsylvania** privatized its tax claim office in 2010 in order to lower costs and increase the collection of delinquent taxes, selecting Northeast Revenue Service LLC over seven other firms for a one-year contract (with an optional two-year extension).

- **New Haven, Connecticut** Mayor John DeStefano plans to pursue privatization as a part of a strategy to close a \$17 million deficit in the current year budget. The plan includes \$5 million in proceeds from the sale of city assets and \$1.5 million from the privatization of school custodial services. The school custodial privatization plan has been in limbo, held up by arbitration talks between the city and a local public employee union after an impasse in contract negotiations; the union refused to continue negotiations until the city rejects privatization. “I’ve never considered aggressively pursuing” privatization before,” Mayor DeStefano told the *New Haven Independent* in July 2010, but he defended the plan noting that the district spends \$15 million to clean its buildings, nearly double the \$8 million annual cost under privatization, an estimate based on bids the city received from private vendors. The mayor also noted that under the privatization plan, class sizes could be reduced from 30 students per classroom down to 24. In other Connecticut news, the legislative council in **Hamden** privatized the city-run Louis Astorino Ice Arena. Under the contract, private operator MAB Rink Management Co. LLC will pay the town \$96,000 per year, plus 5% of profits in excess of \$50,000 per quarter, according to *The Post-Chronicle*.
- **Jacksonville, Florida** Mayor John Peyton's administration is exploring a variety of privatization proposals as part of a strategy to address the city’s budget deficit and rein in salary and benefit costs. The first step was the privatization of computer repair services in the information technology department to save approximately \$300,000 the first year, according to the *Florida Times-Union*. Another move to privatize city building inspections was temporarily shelved, as the offers presented by five private firms did not represent significant enough savings to merit privatization. City officials are currently considering other privatization options, including building maintenance and intralibrary book deliveries.
- Elsewhere in Florida, **Pembroke Pines** was on the brink of outsourcing 200 city jobs to Facility Contract Services LLC, however officials brokered last minute concessions with union officials that thwarted the move. The **Palm Beach** Town Council rejected the privatization of the operations of two city golf courses upon the recommendation of an advisory commission exploring the issue. The same commission also recommended against privatizing the city's marina operations and continues to study whether to privatize the city's tennis centers and recreation center. Officials in **Sarasota County** are exploring the potential privatization of the local bus transit services after receiving expressions of interest from three potential bidders. Last, city commissioners in **Fernandina Beach** approved the negotiation of a contract with Billy Casper Golf to manage the city's municipal golf course, which has been operating at a deficit the last two years.
- **Atlanta, Georgia** called a one-month moratorium on booting, towing and ticketing as a result of newly privatized parking procedures. In January 2010, the city signed a seven-year, \$5.5 million/year contract with Duncan Solutions to provide a variety of parking management services, including the management and operation of the city’s on-street parking program, meter maintenance and parking regulation enforcement. Residents

complained that after years of little or no enforcement, parking rules were being enforced six-days a week at all hours of the day and night. After the moratorium expired in June, the company resumed work after the city made revisions to parking policies in response to citizen concerns.

- **Gwinnett County, Georgia** launched the privatization of property appraisals for all commercial/industrial and business personal property accounts in the county in 2010, a move estimated to save as much as \$500,000 annually, according to the *Gwinnet Daily Post*. The county hired two vendors: Tax Management Associates (TMA) to handle personal property appraisals, and CLT to handle commercial and industrial property valuation. According to county Chief Appraiser Steve Pruitt, “I decided to outsource everything I could to save money and retain the same level of service.” So far the results have been impressive; Gwinnett County was the first county to have its roll certified by the state’s Department of Revenue, and TMA reports that it has been able to process all of the accounts within its scope on time and under budget.
- Officials in **Decatur, Illinois** are exploring the privatization of its underperforming lake-dredging operation. A city dredging operation originally expected to cost \$25 million and remove more than 800,000 cubic yards per year has only removed less than half that amount, with costs having spiraled to \$37 million. Water department officials expect that a private company could complete the effort in less time and at a lower cost.
- Mounting debt at the city's Capital Improvement Board prompted **Indianapolis, Indiana** Mayor Greg Ballard to propose the privatization of the city's stadium and convention center management in 2009, but in July 2010 he announced that the process was on indefinite hold as various facility-related issues are resolved, including negotiations with the Indiana Pacers basketball team over the management and funding issues related to the Consecro Fieldhouse. The city received 12 responses from potential bidders after it issued a request for information from firms interested in operating the Indiana Convention Center, Lucas Oil Stadium and the Consecro Fieldhouse in 2009. In other news, the consolidated Indianapolis-Marion County government renewed its contract with Northrop Grumman to manage information technology services through 2013 in a four-year, \$34 million deal. “[Northrop Grumman] has been performing here at a high level, and that is part of the reason why that partnership was able to blossom,” Indianapolis CIO Glen Baker told *Government Executive*. “We have some significant service levels, and they consistently meet or exceed them. That sets the stage for them being able to help us on strategic initiatives.”
- In May 2010, **Baton Rouge, Louisiana**’s Metro Council rejected a proposed study of privatizing mowing, pothole repairs and other tasks performed by the Public Works Department. The proposal would have established a five-person committee to make recommendations to the council and mayor on the potential privatization of public works services. The department currently outsources approximately \$60.6 million in services,

including landfill maintenance and janitorial services, according to the *Greater Baton Rouge Business Report*.

- A 150-member group picked by **Baltimore, Maryland** Mayor Stephanie C. Rawlings-Blake released a scathing report of the city's management and called for privatization of trash collection, collecting property taxes from nonprofits and an audit of both the housing and parks departments.
- **Boston, Massachusetts**'s public school system is considering outsourcing food services in light of fiscal pressures. Boston Public Schools chief operating officer Michael Goar told WBUR/90.9 FM in May 2010 that food services are currently running at a \$3.5 million deficit, which implies that food services are absorbing \$3.5 million extra dollars away from classrooms.
- The Charter Revision Commission in **Detroit, Michigan** is considering revisions to a city anti-privatization ordinance and a policy focused on giving contract preferences to Detroit-based businesses. Critics argue that these protectionist measures have driven up public sector costs and limited cost-cutting flexibility. Under the current ordinance, agencies are required to demonstrate that any privatization initiative will save money and that contracting out work will not harm employment in the city. However, according to *Crain's Detroit Business*, former City Auditor General Joseph Harris, Sr. told officials that it is almost impossible to compile cost comparison data to comply with the law because of inadequate city accounting practices. Detroit Mayor David Bing has been vocal in his effort to change charter, but he has also moved independently to pursue privatization in spite of the policy and union vocal opposition. In April 2010, Mayor Bing included the privatization of Coleman A. Young International Airport in his executive budget proposal and began soliciting bids from private operators, a move administration officials expect could generate revenue for the city and save \$680,000 a year. However, experts suggest that the airport may have limited appeal to private bidders, as the facility is landlocked (limiting future expansion opportunities) and has limited runway capacity. Bing has also proposed a four-year, \$150 million contract with DTE Energy to purchase electricity to supplement that generated by the city's public lighting department. The contract, which at press time was awaiting a full city council vote, is expected to save the city \$3 million a year and eliminate 27 jobs.
- **Detroit Public Schools (DPS)** announced the privatization of all bus services for city public schools, moving forward on a contract officials expect will save \$50 million over five years, according to *The Detroit News*. The contractor, First Student Inc., will operate the roughly 360-vehicle fleet and will install a GPS tracking system on buses, a child-check electronic reminder system and a crossing gate to allow children to cross in front of the bus at a safe distance.

- The city council in **Troy, Michigan** approved the privatization of building department services in a three-year contract with Safe Built, a measure expected to save the city \$183,000 over the life of the contract, according to the *Detroit Free Press*. The city is also privatizing Troy's Sanctuary Lake and Sylvan Glen golf courses after rejecting competing bids by public employees, and the new contract with Billy Casper Golf will guarantee annual revenues of at least \$4 million by the eighth year of the contract.
- After the city's Board of Aldermen deadlocked, **Natchez, Mississippi** Mayor Jake Middleton cast the tie-breaking vote in December 2009 authorizing the city to proceed with the privatization of grass-cutting services, a move expected to save the city nearly \$120,000 annually, according to the *Natchez Democrat*.
- **Omaha, Nebraska's** city council is currently considering a proposed ordinance that would grant fire department managers the authority to privatize fire, ambulance and hazardous material services without council approval. Current city law requires the council to approve any private contract for those services. The move comes amid a scathing state audit of the fire department's poor accounting practices. Also, in March 2010 Omaha Mayor Jim Suttle announced that seven city golf courses would remain in government hands, spurring a bid from Landscapes Golf Group to take over operations of the courses, which lost a combined \$320,000 in 2008 under city management, according to the *Omaha World-Herald*. Officials elected to make some personnel and operating changes in hopes that the seven public courses will become profitable again.
- **Las Vegas, Nevada** privatized the Amanda & Stacy Darling Tennis Center, signing a contract with the CJMS Tennis Management Company expected to save the city more than \$200,000 annually. Elsewhere in Nevada, officials in **Clark County** are considering privatization of the University Medical Center (UMC) after an audit revealed the facility lost \$83 million last fiscal year, according to the *Las Vegas Review-Journal*.
- In other Garden State news, **Hoboken** officials announced in October 2010 that the city and the Hoboken Municipal Hospital Authority continue to make progress toward privatizing the Hoboken University Medical Center. "The long-term sustainability of the hospital is best achieved by moving forward with the plan to privatize the hospital—ending the city's ownership and transitioning governance to a new non-governmental entity [...] The transition process is now well underway," Mayor Dawn Zimmer told the *Hudson Reporter*. That month, the Authority's board reviewed initial proposals received from interested operators and established committees to consider the proposals. Elsewhere, **Nassau County** took a step toward privatizing its Long Island Bus service by issuing a request for proposals from private bus companies. **Cape May County, New Jersey** is privatizing its deficit-ridden Home Health Agency, entering a five-year lease with the Cape Regional Medical Center and Visiting Nurse Association of Central Jersey that will pay the county a percentage of the revenues, ranging between \$100,000 and \$190,000 each year of the contract. County officials also approved a plan to privatize the Cape May

County Youth Shelter, a temporary shelter that helps at-risk children and teenagers, in a two-year contract with the Camden-based nonprofit Center for Family Services.

- The Horace Nye Nursing Home in **Essex County, New York** faces possible privatization after county officials decided to issue a request for proposals for a private operator for the facility, seeking to lower costs and eliminate a \$2 million annual operating deficit. **Cayuga County, New York** recently entered an agreement with Rochester-based Genesee Region Home Care Association Inc. to take over management of its home health agency and long-term home health care program. Officials in **Putnam County** are considering a similar privatization of their home health care operations.
- The Oklahoma state legislature passed a law (HB 2359) in 2010 requiring all municipalities to use the state tax collection services, a move aimed at preventing **Tulsa, Oklahoma** Mayor Dewey Bartlett from proceeding with plans to hire Alabama-based Revenue Discovery Systems (RDS) to privatize city tax collections. Preliminary estimates show privatization would allow the city to recover 4% to 6% in additional revenue. The city filed a lawsuit against the state claiming its right to enter negotiations with a private firm for sales tax collection. Mayor Dewey Bartlett believes the city may be able to pursue the agreement despite the new law, as it had already signed an agreement in principle to negotiate a contract with RDS prior to the law's enactment, according to the *Tulsa World*. In November 2010, an Oklahoma County judge denied a motion filed by the state to dismiss the lawsuit. In other news, Bartlett has also proposed the privatization of parking meter operation, enforcement and collection and is considering a public-private partnership to take over management of the Tulsa Performing Arts Center.
- City officials in **Dallas, Texas** began to solicit private bids to take over operations of the police automobile pound as a means to increase city revenue. Officials expect to bring a privatization proposal to the city council in late 2010. Dallas officials are also soliciting bids for a private company to run the Dallas Farmers Market, which has been running annual losses in excess of \$700,000 in recent years. Proposals are due in December 2010.
- Privatization has also been a hot topic in several other Texas municipalities. City officials in **Corpus Christi** hired Crowe Horwath, an Indianapolis-based privatization consultant, to develop a plan to outsource additional city services. The firm released a report in the summer of 2010 finding \$15-\$38 million in potential savings through the privatization of road maintenance, waste collection and other services. At press time, city officials had not taken further action on the proposed privatization initiatives. In August 2010, **Carrollton** City Manager Leonard Martin announced plans to privatize 21 jobs in city fleet operations and technical services at the library as part of \$1 million in cuts proposed in his preliminary budget proposal. Officials in **McKinney** are soliciting bids for the potential privatization of the city's performance arts center, which currently costs the city \$500,000 a year to operate. The **San Marcos** City Council directed staff to negotiate a contract with Texas Aviation Partners of Austin to manage the San Marcos Airport. According to the

San Marcos Local News, the city plans to retain ownership of the airport and responsibility for administration, operations and maintenance under the proposed partnership, while the private partner would take over responsibility for the airport's development and redevelopment. Finally, officials in **Plano** are moving to privatize the Douglass Community Center in a partnership with the Boys & Girls Clubs of Collin County expected to save the city \$400,000 annually

- In late 2009, the board of commissioners in **Brown County, Wisconsin** rejected a proposal to study the potential privatization of the county's planning department. According to the *Green Bay Press-Gazette*, representatives from Patrick Engineering, a local engineering firm, told officials that it could have saved the county \$226,000 in 2010 if it were providing planning and zoning services.

Part 12

Market-Based Land Development Meets Houston's Housing Needs

The U.S. economy officially bottomed out in June 2009 according to the National Bureau of Economic Research, but many states and metropolitan areas are still struggling economically. The housing industry continues to be in a depressive state, and national economic growth at an annualized 2% is unlikely to sufficiently revitalize this industry or restore much consumer spending. Indeed, Fitch Ratings estimates that the housing industry has a “shadow” inventory of seven million homes that will take 40 months to clear through foreclosure and liquidation.

While the causes and consequences of the bursting housing bubble will be debated for years to come, the uneven nature of the recession and the housing market crash has prompted some to examine the role local regulation played in creating or sustaining the housing bubble. Policy analysts such as Wendell Cox and Randal O'Toole, for example, have claimed that restrictive zoning and land-use regulations pushed prices to unsustainable levels on the east and west coasts. Support for this observation has come from unlikely sources, including progressive liberal *New York Times* columnist Paul Krugman who noted that “flatland” states were able to adjust their housing markets more effectively to real demand compared to “coastal” states that saw housing prices skyrocket unsustainably.

Nowhere is this probably more evident than in the state of Texas and in the city of Houston more particularly. Wendell Cox, for example, notes that “Even in the more liberal lending environment characterized by ‘sub-prime’ mortgages, Texas has experienced far smaller house price increases than in California, Florida and many other states. House prices in California increased at a rate 16 times those of Texas, while Florida house prices increased 7 times those of Texas. As a result, the subsequent house price declines were far less in Texas.”

Real-estate consultant Mike Inselmann made a similar point in a presentation sponsored by Houstonians for Responsible Growth in October 2009 (just a few months after the Great Recession technically ended). Because Texas cities tend to be supply-responsive, land is unburdened and affordable, and the development process is predictable with relatively simple development rules, so the housing market tends to be resilient. In short, Texas urban housing markets peaked later and troughed sooner, with less variability, than comparable cities and urbanized areas.

Thus, given their performance over the past several years, an examination of how Texas cities achieve this market-oriented approach to development control is warranted.

In a survey of zoning and planning regulations in the 50 largest U.S. metropolitan areas, the Brookings Institution found that Texas cities were in a league of their own. “It all starts with zoning,” the authors wrote in *From Traditional to Reformed: A Review of the Land-Use Regulations in the Nation’s 50 Largest Metropolitan Areas*. “Texas counties are not allowed to adopt zoning, nor can they adopt binding comprehensive plans.” Cities can voluntarily adopt zoning, and they can extend zoning to unincorporated areas within five miles of their city limits. But counties do not have the legal authority to zone, leaving investment to the dynamics of market supply and demand. In fact, cities often do not even provide basic infrastructure to development outside city limits. Developers fully fund water, sewer and other utilities by creating independent Municipal Utility Districts, or MUDs. Thus, the overall regulatory structure is far more permissive of market forces than most cities in other parts of the nation.

The result is a housing and real-estate market that is more fluid, adaptive and dynamic than traditional cities constrained by formal master plans and cumbersome planning approval procedures.

For example, the city of Houston is famous for its resistance to zoning, turning back referenda to add zoning numerous times during the 20th century (most recently in 1993). Forty five percent of the jurisdictions in the metro area do not have zoning, the Brookings Institution survey found. As a result, 90% of the Houston metropolitan area’s population and land is not zoned. In short, Texas development regulations tend to be more market-driven than plan-driven.

This regulatory approach has significant benefits for the housing market since it allows supply to ebb and flow more closely to changes in demand. Such market-driven housing markets should be less susceptible to bubbles.

Again, take the example of Houston. The city includes more than two million people and 870,000 housing units according to the American Community Survey conducted by the U.S. Bureau of the Census. Thus, city residents represent nearly half of the population of Harris County and 35.3% of the metropolitan area. The city also houses 16.7% of the total housing units in the metropolitan area.

In practical terms, the mere absence of zoning can shave months or possibly years off the approval process. Conventional development procedures require approval of a change in land use through the rezoning process for most sizeable projects. Conventional rezoning procedures typically entail subjecting an application to a pre-submission review by planning staff, a referral to the planning commission (established to advise the elected city council), public hearings before the planning commission, and then a formal referral to approve or reject the proposal to the city commission. Once the application is recommended for approval to the city commission, the city holds its own public hearings on the project before formally voting on the change. At each stage of the process,

comments and suggestions tweaking the proposal are often made. These changes often require the submission of new plans. Since public hearings often require public notice of 15 to 30 days, gaining approval for just the land-use change easily can take six months under the conventional approach. For large projects, rezoning can take years.

Rezoning, however, is just the beginning of the process. After the rezoning is approved, the developer must submit a preliminary site plan to the planning commission for comment, review and approval. The site plan will provide the subdivision layout (if it's a residential development), identify key utilities, provide a map of intended roads and other infrastructure, and provide a list of covenants and other restrictions on property owners. This process is also subjected to public hearings.

Because the city of Houston avoids the zoning approval process altogether, housing and land development is jump-started. Project timelines are reduced by months and sometimes years because development is presumed to be approved. Despite the much-storied private covenants that restrict development on privately owned land, hundreds of parcels within the city are unencumbered. Land uses are determined almost exclusively by market triggers and signals.

In short, development is already entitled. By leapfrogging the rezoning process, developers within the city of Houston begin with the presumption in favor of development. Even developers investing in high-rise residential towers and mixed-use projects can expect to go from land purchase to leasing space within a year.

Development in Houston is not completely unregulated. Land developers are required to ensure their projects conform to public infrastructure requirements. Buildings face set back requirements. Traffic impact analysis has also been added to the list of issues that developers must address. But most of these requirements are performance-based and can be handled administratively. As long as developers ensure sufficient infrastructure—roads, water, sewer—exists to meet the added demands on capacity, development is largely unencumbered.

While Houston's land use regulation clearly ranks as the most market-friendly among large U.S. cities, the city is aided by a supportive state regulatory environment. Counties are not allowed to zone by law. Thus, unincorporated areas tend to see development follow market demand as well.

This effect is significant. The Houston metropolitan area, for example, includes ten counties spanning 8,928 square miles of territory. The city of Houston is located in Harris County, a county that covers 20% of the metropolitan area. Yet, the city of Houston represents just 579 square miles, or just 6.5% of the metropolitan area's land area. The ability to accommodate large changes in population and the demand for diverse types of housing and land development is essential for the city's growth and development.

Houston is holding its own in terms of development. Wendell Cox has noted that Houston ranks among the fastest-growing urbanized areas in terms of infill—redevelopment of existing urban

areas. From 2000 to 2007, Houston's density increased by 14.3%, faster than Portland, OR, Phoenix, Miami, Los Angeles and San Francisco-Oakland. Despite the huge expanse of the metro area, the city of Houston includes 56.4% of all housing and 37.8% of new housing units built in Harris County from 2000 to 2008. About 11.3% of the city's housing stock was added during this period. The city's housing stock has nevertheless remained affordable. The median home in the city was valued at \$124,700 in 2008 compared to \$131,500 in Harris County.

While not the only factors, the ability of the city of Houston and other Texas cities to accommodate market demand through streamlined approval processes has likely contributed to the state's ability to weather the housing depression better than most. Because supply and demand were more evenly matched, the impact of a housing bubble was likely much lower and less pronounced. These lessons are worth pondering for other cities as they begin to regroup in the aftermath of the Great Recession and the ongoing housing market depression.



Reason Foundation

3415 S. Sepulveda Blvd., Suite 400,
Los Angeles, CA 90034
310/391-2245
www.reason.org