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Privatization & Government Reform Newsletter
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In this issue:

- STATE/LOCAL BUDGETS: Reports Suggest Serious Fiscal Challenges Ahead
- SOCIAL FINANCE: Social Impact Bond Initiatives Gaining Traction in U.S.
- LOTTERIES: States Turning to Private Lottery Management
- TRASH COLLECTION: Detroit Seeking to Privatize Trash Collection
- CONTRACTING: Austin Report Finds a High Cost to Insourcing City Services
- INNOVATORS IN ACTION: Pension Reform in Utah & San José
- News & Notes

STATE/LOCAL BUDGETS: Reports Suggest Serious Fiscal Challenges Ahead

Though we're starting to hear more about an economic recovery in the wake of the 2008 recession (albeit a sluggish one), three recent reports suggest that states and local governments are going to face continued fiscal headwinds into the future-primarily driven by rising healthcare costs-that will put perpetual pressures on budgets and drive ongoing efforts to control spending and find new ways to drive innovation and efficiency in government. » FULL ARTICLE

» return to top

SOCIAL FINANCE: Social Impact Bond Initiatives Gaining Traction in U.S.

Over the last two years, a new public-private partnership concept known as "social impact bonds" (also known variously as "pay for success" or "social finance" initiatives) has been spreading rapidly in the U.S., capturing the attention of policymakers at all levels of government. In a nutshell, a social impact bond is a PPP that uses private sector funding to advance new social service delivery models on a performance basis. Experiments in social impact bonds can be expected to start spreading even further and faster this year, after the Rockefeller

Foundation and Harvard University's Kennedy School of Government announced six winners of a national competition in June to provide technical assistance to state and local governments to develop social impact bond projects. » FULL ARTICLE

» return to top

LOTTERIES: States Turning to Private Lottery Management

Since 2011, three states-Illinois, Indiana and New Jersey-have turned over major parts of their lottery operations to private managers to deliver better returns to state coffers. Unlike some forms of public-private partnerships, the goal behind these initiatives was not to increase efficiency or lower costs, as many state lotteries are already fairly lean. Instead, the private sector is being tapped to help well-performing lotteries increase net revenues through expanding sales and marketing staff, introducing new product lines, improving marketing to attract new types of lottery players, and finding new outlets for lottery ticket purchases. In a recent *Orange County Register* article, I discuss these state initiatives and suggest that California policymakers consider exploring a similar initiative in that state. » FULL ARTICLE

» return to top

TRASH COLLECTION: Detroit Seeking to Privatize Trash Collection

In the wake of Detroit's bankruptcy filing, it's become well known that Detroit's emergency manager Kevin Orr is proposing an aggressive package of reforms to help get the beleaguered city back on its fiscal feet. However, one concept being explored to cut operating costs in the short-term-privatizing residential solid waste and recycling collection-has been implemented by so many other cities that it's almost surprising it hasn't already been done in Detroit. » FULL ARTICLE

» return to top

CONTRACTING: Austin Report Finds a High Cost to Insourcing City Services

Opponents of the privatization of municipal services often try to frighten policymakers away from using competitive contracting by claiming that costs will rise because the private sector seeks a profit. Under this line of thinking, the use of in-house public employees would presumably have to be cheaper, since governments don't need to make a profit themselves. While it is certainly true that an efficiently operating government unit can be cost competitive with the private sector, it would certainly be a mistake to assume that this is always-or even often-the case. A report prepared by the City of Austin, Texas last fall demonstrates this point well. » FULL ARTICLE

» return to top

INNOVATORS IN ACTION: Pension Reform in Utah & San José

The latest installments of Reason Foundation's *Innovators in Action* monthly interview series—which profiles innovative policymakers in their own words, highlighting good government efforts delivering real results and value for taxpayers—focus on reforming public sector pension systems in Utah and San José, California. Utah became an early leader in the pension reform movement when it passed legislation in 2010 closing the state's existing defined-benefit pension plan to new entrants, creating a defined-contribution style retirement plan for new state employees, and ending the practice of retiree "double-dipping," among other reforms. And in June 2012, 70 percent of San José voters passed a ballot measure containing a comprehensive package of reforms to the city's beleaguered pension system aimed at putting it back on a path toward financial sustainability. I recently interviewed the architects of these initiatives— former Utah State Senator Dan Liljenquist and San José City Councilman Pete Constant, respectively—on what prompted them to take on the issue of pension reform, how they made the case to policymakers and stakeholders, the specifics of the reforms enacted, and more.
» Read full interview with former Utah State Senator Dan Liljenquist
» Read full interview with San José City Councilman Pete Constant
» *Innovators in Action 2013* homepage

» return to top

NEWS & NOTES

Reason Foundation's *Annual Privatization Report 2013*: This spring, Reason Foundation released its *Annual Privatization Report 2013*, which details the latest on privatization and public-private partnerships at all levels of government. The individual sections of the report cover an array of topics, including developments in air and surface transportation; federal, state and local government privatization; education; and criminal justice and corrections. The full *Annual Privatization Report 2013* is available here.

Looking Back at the First Year in Washington State's Liquor Privatization: Washington State made history in June 2012 by becoming the first of the 18 so-called "control states"-those who set up a state-owned liquor retail and/or wholesale systems after the end of Prohibition-to fully privatize its liquor retail and wholesale enterprises. And the sky did not fall, as some opponents feared. In May, Melissa Allison of the *Seattle Times* wrote an excellent wrap-up of developments at the end of the one-year mark. Among her findings were that liquor sales have increased slightly; liquor-related tax revenues increased by over 33 percent compared to 2011 (largely due to the imposition of additional spirits taxes, some of which will expire in the coming years); prices of some products have risen, while others have dropped; liquor jobs gained have exceeded those lost; underage sales have been flat; drunk driving fatalities are down; and incidents of shoplifting appear to have increased. Further, Jason Mercier at the Washington Policy Center has published data from the Washington State Police showing that DUI-related accidents and arrests between June 2012 and June 2013 were down from the previous year (and in fact, were at their lowest levels in five-years). On balance, despite the inevitable hiccups associated with such a massive privatization initiative, it appears that the new private market is settling out fairly well and that many fears-including widespread social costs-have not materialized.

LSU Health System Exec Cites Smooth Transition to Private Hospital Management : Louisiana's state-run charity hospital system is in the midst of a major transition to privatization, with nine of the ten hospitals operated by Louisiana State University shifting to private management. The privatization initiative—developed by Gov. Bobby Jindal's administration as a way to shed costs in response to a decline in federal Medicaid funding for the state—is still early in implementation but has been proceeding smoothly and is already yielding improved patient outcomes, including reduced prescription waits and increased cancer screening and disease prevention, according to Frank Opelka, LSU's Vice President for Health Affairs and Medical Education Redesign. "What the partners have done in the transition is just beyond my imagination," Opelka told the Associated Press in September. The Jindal administration has recently cited additional benefits of the privatization, including shortened emergency room waits, improved access to specialty services for the uninsured, expanded care offerings, reduced delays for needed surgeries, and increased numbers of graduate medical education residents, according to the AP.

Atlantic City Expressway Sees Estimated 43% Savings Through Privatized Toll Collection: In August, *The Press of Atlantic City* reported that South Jersey Transportation Authority (SJTA) officials are seeing significant savings in toll collection on the Atlantic City Expressway since contracting out that function to Faneuil, Inc, in early 2012. SJTA estimates the privatization initiative will yield nearly $7.5 million in savings by the end of 2014, translating to a 43 percent savings over three years. SJTA's Acting Executive Director Sam Donelson told *The Press* , "It's been doing exactly what we intended it to do [...] The savings have been substantial."

Temple University Study Finds Significant Savings through Competitive Contracting in Corrections : Recent research from Temple University's Center for Competitive Government makes a valuable contribution to the academic literature and long-running debates over the comparative costs of public and private sector prison operation. Temple economics professors Simon Hakim and Erwin Blackstone analyzed government data from nine states with higher numbers of inmates in privately operated prisons (Arizona, California, Florida, Kentucky, Mississippi, Ohio, Oklahoma, Tennessee and Texas) and Maine (which does not contract out prison operations), and their research estimates that the use of contracted prison operations brings long-run cost savings of 12 percent to 58 percent, with equal or better levels of performance than publicly-operated prisons. Notably, the research accounts for depreciation, pension obligations and retiree healthcare costs, which are factors often overlooked in comparative cost studies. The full report is available here.

Reason Report on Private Management of the Indiana Toll Road: In recent years, some state and local governments have taken steps to turn over the operation of public sector toll roads to private sector investor-operator teams in order to improve their financial and operational performance and stretch traditional transportation dollars further. A recent Reason Foundation policy brief (available here) examines the results from the Indiana Toll Road lease after its first six years of private operation. The report finds that the lease has been a major boon for Indiana, allowing it to make enviable investments in transportation infrastructure statewide and leaving the state in a far stronger position than it otherwise would have been.

» return to top

Additional Resources:

- More privatization news
- More government reform news
- *Innovators in Action 2013* homepage
- *Annual Privatization Report 2013* homepage
