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## **Privatization & Government Reform Newsletter**

### **Issue No. 10 — August 2014**

By Leonard Gilroy  
Director of Government Reform, Reason Foundation

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#### **PENSIONS: New Pension Reform How-to-Guide Released**

Reason Foundation recently released a pension reform handbook as a comprehensive starter guide for state and local reformers. This handbook aims to capture the experience of policymakers in those jurisdictions that have paved the way for substantive reform, and bring together the best practices that have emerged from their reform efforts, as well as the important lessons learned. By presenting these alongside the general principles and approaches that work to reform public policy, this handbook represents a "what you need to know" starter guide for prospective reformers, examining in detail what it takes to build a successful reform effort from the ground up.

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#### **INNOVATORS IN ACTION: Interview with Indiana Congressman Todd Young on Incentivizing "Pay-for-Success" Partnerships at the Federal Level**

The latest installment 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—examines "social impact bonds" (known variously as pay-for-success contracts and social innovation financing), a new type of public-private partnership that generally refers to privately financed, evidence-based social interventions delivered by nonprofits on behalf of governments.

U.S. Representative Todd Young (R-Indiana) recently introduced the "Social Impact Bond Act" (H.R. 4885) with co-sponsor Representative John Delaney (D-Maryland). The Act would allow state and local governments to compete for a share of a \$300 million federal funding allocation dedicated to social impact bond projects addressing recidivism, long-term unemployment, reduced welfare dependence, child abuse and neglect, and other social challenges currently targeted by federal programs. The goal is to fund projects that work, both in terms of delivering positive social outcomes and taxpayer savings. I recently interviewed Congressman Young on the social impact bond concept, the proposed legislation, the federal role in state and local social impact bond activity, and more.

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## **PRIVATIZATION: Illinois vs. Indiana—A Tale of Two Privatized Lotteries**

Illinois and Indiana are two states that have turned to private management of their lotteries in recent years in an attempt to generate higher net revenues to the state. This month brought news that the experiences of these two states could not be more different. While Illinois announced plans to cancel its lottery contract after the private manager missed its revenue targets for the third straight year, Indiana officials reported that their private manager came in just shy of its revenue target and hit historic levels of revenue growth. What do these disparate experiences tell us about the early experience with private lottery management?

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## **MUNICIPAL ASSETS: Baltimore Seeking to Privatize Parking Garages**

Baltimore Mayor Stephanie Rawlings-Blake recently announced a plan to sell off city-owned garages to generate between \$40 million and \$60 million that would be used to make improvements to city recreation centers. In a recent *Baltimore Sun* article, Maryland Public Policy Institute president Christopher Summers and I wrote that this plan would represent an encouraging step toward shedding non-essential city assets and investing in more important priorities for the city's residents and long-term fiscal health.

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## **TRANSPORTATION: Responding to Populist Opposition Against Tolling & PPPs**

In a recent *Public Works Financing* article, Reason Foundation's Robert Poole explores the opposition to highway tolling and public-private partnership concessions among some grass-roots, right-wing populist groups. According to Poole, it's time to take this populist opposition seriously, as a failure to analyze and refute their arguments could lead to major setbacks for these critically important policies.

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## Reason is Hiring!

Reason Foundation is currently seeking applicants for policy analyst positions in the areas of privatization, education, infrastructure and water policy. For more information on the positions and how to apply, visit Reason's [Employment Opportunities](#) page.

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## NEWS & NOTES

**Interim Report Shows Promising Results from First U.K. Social Impact Bond Pilot** : Earlier this month, an interim report on the first phase of the U.K.'s Peterborough Prison Social Impact Bond—the first social impact bond pilot program in operation, aimed at reducing recidivism among released short-sentence inmates—found that the program delivered an 8.4 percent reduction in reconvictions among the first cohort of 1,000 prisoners in the program, relative to the national baseline. Overall, the Peterborough pilot saw 142 reconvictions per 100 prisoners, compared to 155 reconvictions per 100 prisoners in the national control group. While the results were not high enough for private investors to recoup their investment in the program at this interim point—which would have been triggered at a 10 percent reduction in reconvictions for this first cohort—the project sponsors are confident that the program is on track to hit its final target of a 7.5 percent reduction across both program cohorts in the project by 2016, the threshold at which investors would generate a return on investment in the program. The full report by the program's independent assessors QinetiQ and the University of Leicester is [available here](#), and more discussion is available [here](#) and [here](#).

**Ventura County, CA Pension Reform Initiative Removed from Ballot**: Earlier this month, a Ventura County Superior Court judge ordered the removal of an initiative from the November ballot that would have placed all newly-hired county employees within a defined-contribution retirement system, essentially closing off the current underfunded defined-benefit pension plan to new entrants. Reason Foundation's Lance Christensen analyzed the decision and its implications in a recent blog post [here](#). An [actuarial analysis](#) of Ventura County's proposed reforms published by Reason Foundation in March found that the initiative would have produced \$460 million in cost savings over 15 years and eliminated \$1.8 billion in pension debt, while reducing future risks to taxpayers.

Despite Council Opposition, Detroit Emergency Manager to Issue RFP for Parking: The [Detroit Free Press reports](#) that Detroit Emergency Manager Kevyn Orr has decided to issue a request for proposals seeking a private operator for the city's parking meters and garages. The decision comes over the objection of the city council, which recently voted to reject the solicitation. Orr's office notes that it is seeking private bids to gather information on the potential value of the system as part of the bankruptcy process and that any proposed privatization contract would still be subject to council approval. The proposed bankruptcy plan of adjustment envisions a potential privatization of the parking system, as I discussed in [this February 2014 article](#).

Gov. Christie Vetoes New Jersey Anti-Privatization Bill: As expected by many observers, Gov. Chris Christie has vetoed Senate Bill 770, legislation that would have placed significant roadblocks in front of future state-level privatization efforts (see details in the [May 2014 edition](#) of this newsletter). "By proposing additional red tape into an already time-consuming process, and erecting further barriers to privatization, this bill will adversely impact New Jersey's already overburdened taxpayers," Gov. Christie explained in his [veto statement](#). "I will not support this thinly veiled effort to stymie privatization efforts under the guise of transparency."

Feds Approve Continuation of Florida Medicaid Privatization Program : After the Florida legislature approved the statewide privatization of its Medicaid program in 2011—essentially extending a five-county pilot program in Medicaid managed care to all counties across the state—the state's Agency for Health Care Administration announced earlier this month that it had completed the full rollout of the program ahead of schedule. The agency also announced that the federal government had approved an extension of a waiver allowing the state to continue operating the program through June 2017. The agency anticipates approximately \$2 billion in cost savings over that time period. More information is [available here](#).

Arizona DOT Selects PPP Delivery Method for Major Highway Project : In late July, the Arizona Department of Transportation selected a public-private partnership (PPP) project delivery approach for the long-planned South Mountain Freeway in the Phoenix area. If the Final Environmental Impact Statement for the project—expected to be completed next month—recommends the roadway's construction, then the agency will launch a procurement seeking a private partner to design, build and handle long-term maintenance of the project through a PPP. If the project moves to procurement, it would be the first highway project to be delivered through a PPP in Arizona since the 2009 adoption of its state PPP enabling legislation. More information is [available here](#).

Grand Canyon Lodging, Food Concession Contract Rebid: The National Park Service is rebidding a 15-year contract for the operation of main lodging and food facilities at the Grand Canyon after an earlier solicitation failed to generate compliant bids. [According to the Associated Press](#), the new contract will require prospective bidders to pay the agency a minimum annual concession fee of 14 percent of gross revenues, commit to major room upgrades at two lodges, expand patio dining options at the historic El Tovar lodge, add new food truck options at the crowded South Rim, and pay \$57 million to the current concession holder for

upgrades it made during the current concession period. The concession is expected to be awarded in January 2015.

South Miami Officials Reject Solid Waste Privatization Contract: Earlier this month, *The Miami Herald* reported that city commissioners rejected a proposed agreement to privatize the city's solid waste services in order to save an estimated \$600,000 on an annual basis. South Miami's city manager had negotiated an arrangement with Waste Pro to have the city piggyback onto an existing contract the firm has with the Village of Biscayne Park.

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## QUOTABLE QUOTE

"[...] Outcomes finance - whether a [social impact bond] specifically or something similar - seems to trigger a willingness in government to then take a hands-off approach to bodies they fund. We'd like them to take the same approach with contracts or grants, but they won't.

I don't know that public bodies are completely wrong, either. After all, they do need to protect their money, and it takes a lot of trust just to say to someone - 'here's some money, get on with it, we trust you', which is effectively what they'd do if they grant-funded something like the Peterborough project. [...] But if you only pay if the outcome is achieved, there's no trust necessary. So long as you've designed your metric right - and that's a big if - you either get what you want and save money, or you don't get what you want and save nothing. Also, you pay when the saving's achieved, not when you agree the deal. And in government, that's important.

So whether the sector likes outcomes finance or not, it might be the price it has to pay to get a good delivery model."

—David Ainsworth, "[Can the Peterborough social impact bond be judged a success?](#)," Civil Society Finance, August 12, 2014.

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## Additional Resources:

- [Reason Foundation privatization research archive](#)
  - [Annual Privatization Report 2014 homepage](#)
  - [Innovators in Action 2014 homepage](#)
  - [Privatization & Government Reform Newsletter archive](#)
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