

The Benefits of Privatization of State and Municipal Functions: Issues, Trends and Case Histories

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Stephen Kleva
President, Insparisk

Dennis Vojvodich
Vice President, Insparisk

Maryland City County
Management Association

APRIL 23, 2009

Overview

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- Privatization Trends
- Benefits and Challenges
- Case Histories
 - Sample of State/Municipality Functions Privatized
 - NYC Privatization of Inspections
- What does the future hold?

Overview

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A growing national trend is the privatization or Public-Private Partnerships to provide municipal services to save taxpayers money and improve services.

Benefits of Outsourcing

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- There is nothing about private, for-profit services that inherently make them lower quality than public ones
- Private companies cannot afford to do shoddy or inadequate work because the contracts are subject to periodic review and renewal forcing a strict level of quality
- Contracts are competitively bid to maximize value of taxpayer dollars

Benefits of Outsourcing

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- Access to proven and constantly evolving processes and technological innovations from the private sector
- Performance guarantees and accountability
- Lower capital investment and added flexibility of a fixed cost environment

Benefits of Outsourcing

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- Lower staffing costs
- Enhanced ability to use current staff to address areas lacking in resources/staffing
- In large or fast-growing cities, and changing demographics, it can be very difficult for governments to keep up with the demand for services

Benefits of Outsourcing

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- Allows public sector to focus on policy and constituents
- Savings can be re-invested in public safety, education and economic development
- The added incentives provided by outsourcing lead to competition that leads to lower costs and higher quality services. When government allows private sector companies to compete, the taxpayer wins!

What is outsourced today?

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- Administrative services
- Business licensing and permitting
- Child support services
- Civil engineering
- Community development
- Corrections
- Debt collection
- Defense
- Finance, tax and revenue collection
- HR services
- Legal services
- Library management
- Mechanical, electrical, plumbing, and building code inspections
- Medicaid services
- Municipal court support services
- Municipal inspections
- Parks and recreation
- Permit processing
- Property tax assessment
- Public information
- Purchasing
- Recreation and Parks
- Street and roadside maintenance
- Traffic engineering and operations
- Transportation
- Wastewater and other utilities

Challenges

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- Job loss for government employees
- Cost of managing contracts including quality check and audit of performance
- Potential for favoritism or bias in award of contracts

Privatization Considerations

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- Create open, competitive bidding
- Determine the scope of activities privatization will include and the problems that privatization is expected to solve
- Establish the measurements and parameters that will govern the privatization contract

Case Histories

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- Centennial, Colorado
- Colorado's 10th largest city; pop. 100,000
- The entire Public Works Department was outsourced to a private company
- Services include:
 - traffic engineering and operations
 - permit processing
 - inspections
 - administrative services
 - street and roadside maintenance
- This is one of the largest conversions from county services to a private sector contract

Case Histories

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- City of Sandy Springs, Ga., suburb of Atlanta
- Georgia's 8th largest city; pop. 100,000
- A private company staffs and runs all municipal functions except police and fire
- It is the broadest outsourcing of municipal functions to a single provider in the U.S.
- City only staffs four employees

Case Histories – Sandy Springs Cont.

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- **Services include**
 - Administration
 - Finance, tax and revenue collection
 - Personnel and human resources, including benefits and payroll
 - Municipal court support services
 - Computer systems, information technology and telecommunications
 - Public information and community relations
 - Business licensing and permitting
 - Purchasing
 - Parks and recreation
 - Community development, including planning, zoning and permitting
 - Civil engineering
 - Traffic engineering; streets, roads
 - Customer service, including citizen call center management
 - Contract management for water supply, sewage collection and disposal

Case Histories – Sandy Springs Cont.

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- In 2006, received the National Council for Public-Private Partnerships' Annual Public-Private Partnership Award for Innovation
- The privately-delivered services have resulted in a total savings of an estimated 10% per year compared to traditional municipal management
- In 2008, there was a \$9 million + surplus
- Cities of Johns Creek and Milton are following Sandy Springs and using the same contractor

Case Histories

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Video Clip

Case Histories

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- Fort Worth, TX
- Began supplementing its municipal building/construction inspectors with private ones in March 1999
- Privatization caused a dramatic drop in inspection times
- Before privatization, the reviews took from 30 to 40 days. After privatization, they took only three to four days.

Case Histories

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- Chicago
- Over two dozen functions have been privatized in past 18 years
- \$1.8 billion lease of Chicago Skyway in 2005 with a 99 year term
- \$565 million lease of underground parking garages in 2006
- \$2.5 billion lease of Midway Airport in 2008 with a 99 year term, the first major commercial airport to go private in the United States

Examples

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- **Roads and Infrastructure:** currently there are over 70 public-private partnership transportation projects worth \$104 billion at various stages of development
- **State Lotteries:** In 2007 and 2008 over a dozen states considered proposals to privatize their state lotteries, with Illinois House approving it but still searching for a contractor
- **Federal Organizations:** Throughout the years many federal entities have outsourced inspection like activities to private third-party companies

Privatization of Boiler Inspections in NYC

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- In 1991, the New York City Council adopted Local Law 62/91, which provided for mandatory annual inspection of low-pressure boilers in commercial, mixed-use and residential buildings with six or more apartments within the city's jurisdiction, and filing with the NYC Department of Buildings.
- To fulfill the need of the law, private companies were given the ability to perform these inspections on behalf of New York City.

Privatization of Boiler Inspections in NYC

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- It was the Council's intent to provide a more thorough inspection process through use of licensed professionals from the private sector in lieu of Department of Buildings personnel, who were too few in number to handle the enormous task of compliance enforcement
- NYC has more than 80,000 low pressure boilers requiring annual inspection

Insparisk's History With Privatization

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- City Spec the New York City division of Insparisk was formed in 1992 on the basis of the newly created inspection privatization
- By 1995, City Spec helped pioneer software to automate the process for data entry and e-filing of inspections with New York City
- To date, City Spec has performed more than 240,000 inspections in NYC on behalf of plumbing professionals, HVAC contractors, building owners, property managers, governmental agencies and P&C insurance carriers

Other Privatized NYC Inspections

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- **Elevators:** A Local Law was created in 1981 requiring a annual inspection, In 2009 an additional inspection layer was added by requiring a second privatized company (witness) to be present during all inspections
- **Facades:** A Local Law was created in 1982 requiring an inspection every 5 years on the facades of buildings greater than 6 stories.

The Problem of Overdue Inspections

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- There are tens of thousands of overdue inspections nationwide, representing possible injuries and fatalities waiting to happen.
- In fall 2008, it was reported that Washington, DC's Department of Consumer and Regulatory Affairs (DCRA) failed to inspect and certify thousands of boilers in District buildings

The Problem of Overdue Inspections

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- The DC Fire Department had responded to 119 boiler incidents in the previous two years
- DCRA was understaffed and, had certified as safe some commercial boilers with problems cited by insurance inspectors such as leaking relief valves, significant mineral buildups, and inoperative safety valves
- The crane accident in New York City was primarily due to an improper inspection by a City inspector that certified the unit as safe. Since the accident the City has implemented privatized inspectors to act as site safety managers.

The Problem of Overdue Inspections

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- The commercial inspections section of DCRA performs its boiler work either through in-person examinations or the certification of insurance company inspections.
- Given the shortage of public inspectors, the agency focused its boiler inspections on schools, firehouses, police stations and libraries, leaving many commercial boilers unchecked.

Overdue Inspections in Maryland

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- The Maryland General Assembly's Office of Legislative Services' audit report released in March 2008 reported that as of 11/2008 nearly 20% of boiler and pressure vessels requiring inspections were overdue
- Part of the problem is staffing shortages in the division, especially for boiler inspectors
- A bill now in the General Assembly would require building owners to hire privatized inspectors in an effort to clear the backlog of overdues
- Through privatization municipal inspectors can focus on higher risk safety inspections and oversight

What does the future hold?

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With the U.S. population expected to grow by 60 million people by 2030—most of the growth expected to be concentrated in the nation's metropolitan areas—both states and localities will need to look for innovative new ways to deliver services via privatization and outsourcing

Additional Resources

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- Reason Foundation
 - www.reason.org
- Privatization Watch Newsletter
 - www.reason.org
- American City & County Magazine
 - www.americancityandcounty.com
- Information Management Network 2nd Annual National Public-Private Partnership Symposium
 - www.imn.org

For More Information

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Contact Us

Stephen Kleva

President

Insparisk

Phone: 718-576-2940

skleva@insparisk.com

Dennis Vojvodich

Vice President

Insparisk

Phone: 718-576-2963

dvojvodich@insparisk.com