

Reason Foundation

December 2017

Annual Privatization Report 2017

State Government Privatization

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

1. State Budget Update

State largely continued to recover from the Great Recession in FY 2017, though they ended the fiscal year with revenues growing more slowly than expected. State-level fiscal analyses over the past year contain a mix of very cautious optimism and lingering concerns about major fiscal challenges ahead.

First, in the spring of 2017, the National Association of State Budget Officers (NASBO) issued its latest *Fiscal Survey of the States*. General fund spending among states increased by 4.8% in FY 2017, the highest annual increase post-Great Recession.¹ As for revenues, while aggregate state revenues increased for the eighth straight year, 33 states failed to meet their revenue projections—the highest total since the eight-year trend started.²

Individually, states continued to experience a wide range of fiscal outcomes over the past year with respect to revenues and expenditures.³ While 25 states surpassed their previous 2008 revenue peaks in FY2017—up from 24 the previous year—general fund revenues remained below FY 2008 figures in 23 states.⁴

Officials cited unpredictable revenue sources, falling energy prices, health care and pension obligations and federal uncertainty with respect to health care and other regulations as affecting a continued slow recovery from the Great Recession. Among the report's other findings:

- Aggregate general fund spending in FY 2017 rose to \$819.0 billion, a \$37.2 billion (4.8%) increase over FY 2016 levels, falling short of a 5.5% increase in the previous year.⁵
- For FY2018, overall state spending levels are expected to increase by only 1.0%—the lowest increase since FY2010—to \$827.6 billion.⁶
- Fifteen states plan for slight budget decreases in FY2018 compared to last year, which was the highest number since FY2010.⁷
- At the time of the report's release, a total of 22 states had closed \$7.9 billion in budget deficits in FY 2017, with 12 states reporting a need to close several billion in additional deficits by the end of FY 2017. A total of 19 states project a combined total of \$26.0 billion in budget deficits to close for FY 2018.⁸
- For FY 2018, states proposed a \$6.1 billion net increase of general fund spending for K-12, a \$1.62 billion net increase for Medicaid spending, and a \$441.8 million net increase on higher education spending. Additionally, states combined to propose a general fund net increase of \$1.19 billion in corrections spending and a \$427.8 million net increase in transportation spending.⁹
- State general fund revenues are projected to increase by 3.1% in FY 2018, to \$824.1 billion—slightly better than the 2.9% revenue gain estimated for FY 2017.¹⁰
- For taxes, 15 states proposed tax increases of \$4.9 billion, while another 12 proposed tax decreases of \$1.2 billion, resulting in a net increase of \$3.7 billion over FY 2017.¹¹

- Ending account balances combined with amounts in budget stabilization (i.e., “rainy day funds”) for all states reached an all-time high in FY 2016 of \$80.8 billion in nominal dollars—10.3% of general fund expenditures—but estimates expect that figure to shrink to \$69.4 billion in FY 2017, or just 8.5% of general fund expenditures.¹²
- Rainy day fund balances alone slightly decreased in FY 2017 to an estimated \$49.6 billion (6.1% of general fund expenditures), from \$51.9 billion (6.6% of general fund expenditures) in FY 2016. California’s \$2.7 billion projected increase for FY 2018 fuels the bulk of an estimated \$3.9 billion in rainy day fund increases for FY2018.¹³

Despite the improved fiscal conditions, the report suggests that states will continue to face short- and long-term fiscal challenges. Federal uncertainty over policy and funding urges caution in the short term, reflecting the approach of many states’ top executives. The report also notes that “[g]overnors continue to focus on building up their reserves and promoting structural balance in a tight fiscal environment charged with federal uncertainty, spending pressures, and continued slow economic growth.”¹⁴

Focusing on state revenue, the Pew Charitable Trusts released several publications in the past year that point to a continuing, though uneven, recovery. In May, Pew released an analysis of state revenues, using quarterly data. At 6.7%, the first quarter of 2016 saw the highest post-recession collection increase. By Q3 of FY2016, collections had fallen to 5.6% higher than pre-recession levels, after adjusting for inflation and seasonal effects.¹⁵ Since the authors note the rarity of revenue drops outside of recessions, they find the two-quarter fall since the first-quarter 2016 peak a bit unexpected. Meanwhile, tax revenue collections in 31 states remained above their pre-recession peaks.¹⁶ However, recovery remains uneven among the states:

- As was the case in November 2016, tax receipts were over 15% higher than the pre-recession peak in eight of the 31 states where tax revenues have rebounded, with North Dakota and Iowa nearly doubling the benchmark (28.3% and 27.7%, respectively). California, Colorado, Hawaii, Maryland, Minnesota, and South Dakota round out the list.
- Of the 19 states where tax revenues have not yet rebounded, five states—Alaska, Florida, Louisiana, Oklahoma, and Wyoming—are still seeing tax receipts down by over 15% relative to their previous pre-recession peak levels, with declining energy prices playing a crucial role. Alaska by far has seen the steepest drop (–91.8%).
- Two energy-dependent states saw their lowest revenue totals post-recession (West Virginia, Wyoming).
- Eight states—Colorado, North Dakota (both despite overall gains noted above), as well as Illinois, New Mexico, Oklahoma, Texas, West Virginia and Wyoming—experienced at least a full year of declining tax revenue by the end of the third quarter of 2016.¹⁷

Another Pew report, released in June, examined volatility in state revenues, finding a wide variance of outcomes.¹⁸ Pew determined volatility scores for each state, finding generally high levels of volatility for states heavily reliant on energy severance taxes, with Alaska, Wyoming, and North Dakota both the most volatile and the most reliant on energy severance taxes as a percentage of total revenues. Though corporate

tax revenues only account for an average of 10% of state revenues, they were the most volatile major revenue sources in the 24 states where corporate tax revenues average 5% or more of total revenues over the past decade.¹⁹

The SUNY-affiliated Rockefeller Institute's June report on state revenues cited several reasons for weakening tax revenues, providing a pointed, source-by-source assessment of several factors.²⁰ Lower estimated tax payments and revenues received from filed final returns in the second, third, and fourth quarters of FY 2016 drove reduced revenues for states, though those declines weakened over that period—from 8.2% to 0.6% for estimated payments and from 5.4% to 0.4% for final returns.²¹ The report attributes a weak stock market in 2015 and early 2016 for the declining figures, while early data from calendar year 2017 point toward lower estimated and final numbers ahead, likely the result of changing taxpayer behavior in anticipation of possible tax reforms.

Sales tax revenues grew an average of 2.5% over the first three quarters of 2016, before more modestly increasing 1.7% in the fourth quarter, a slowdown attributed largely to reduced consumer spending, with declining oil and gas prices also negatively affecting sales tax revenues.²²

State corporate income taxes also declined, with expectations that the declines will continue. State revenues from corporate taxes fell 6.6% in the first two quarters of FY 2017 compared to the same time last year. Early figures gathered by Rockefeller show a sharp 31% decline in corporate tax revenues for Q3 of FY 2017.

Looking forward, the Rockefeller reports predict a largely pessimistic 2017 in terms of revenues. Several states have already adjusted their sales and income revenue forecasts downward, and the report suggests further negative adjustments may follow, with the average state failing to meet projected revenues.

Though slightly more optimistic than last year, the Government Accountability Office (GAO) issued another sobering fiscal assessment of lower-level governments in the December 2016 edition of its *State and Local Governments' Fiscal Health*. It closely echoed last year's warnings that both state and local governments will continue to face long-term fiscal imbalances between revenues and expenditures over its 44-year simulation, absent significant policy changes.²³

The GAO estimates that taking steps to close the looming fiscal gap today would require reducing overall state and local government expenditures by 3.3% and then holding spending essentially flat as a percentage of GDP over its simulation—until 2065.²⁴ While that gap is indeed significant, that figure is down from the 5% required decrease for last year, and significantly down from the 18% needed reduction cited in the 2014 edition of the *Fiscal Outlook*, indicating that states continue to see improved fiscal conditions, though tougher challenges lie ahead.²⁵

Health costs remain a major concern for states, driven largely by state and local expenditures on Medicaid, as well as by expenditures on public sector workers and retirees. These health expenditures are all projected to

continue growing faster than GDP over the 44-year period, and are projected to increase from 4.1% to 6.3% of GDP over the span.²⁶

The GAO also cites state and local pension obligations—specifically, the growing mismatch between pension assets and liabilities over the past decade—as potentially important factors impacting state and local governments’ fiscal outlooks going forward. While the *Fiscal Outlook* does note that state and local government total pension assets increased close to 15% from 2012 to 2015, to \$2.93 trillion—eclipsing the pre-crisis high of \$2.85 trillion—it also cautioned that much remains to be done to face near-term obligations of many pension systems. For example, previous work concludes that most state and local public pension systems can meet all obligations for only a decade or so, absent significant changes to benefits or funding.²⁷

Overall, these reports suggest that, while a state-level fiscal recovery continues, state lawmakers face challenges ahead, including federal funding uncertainty, while pension and healthcare obligations threaten to overwhelm tightening budgets. Such challenges will pressure policymakers to find new ways to lower the service delivery costs and reform underfunded retiree benefit structures, among other policy goals.

2. Higher Education Public-Private Partnerships Update

Higher education is the third largest category of state spending after Medicaid and K-12 education, accounting for an estimated 9.7% of total state expenditures in FY 2016, according to the National Association of State Budget Officers.²⁸ And though state budgets continue their slow recovery from the Great Recession, relatively faster growth of Medicaid and K-12 education spending creates more competition for state general fund dollars. As a result, state university systems must increasingly rely on tuition and fees rather than state general fund appropriations.

Increasing fiscal self-sufficiency and the persistent need to modernize campus facilities have prompted university systems to engage the private sector creatively through various types of public-private partnerships (PPPs). These PPPs span a broad range, from outsourcing operational and administrative services to tapping private financing, operations and maintenance for new university facilities. Such PPP models help reduce operating costs, better maintain existing facilities, and develop new and modernized academic buildings, dormitories and other campus facilities.

While most new higher education PPPs involve student living space or parking, developments such as Ohio State's new energy public-private partnership (see page 8) and last year's \$1.4-billion UC-Merced deal (see Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*) demonstrate the potential for a much larger scope for higher education PPPs in the future.

Noteworthy developments on higher education PPPs over the past year include:

California: In October 2016, the University of the Pacific broke ground on a new residence hall in a PPP arrangement—its third in the last 15 years. Pacific selected Capstone Development Partners in spring 2015 to develop the \$36-million project that will house close to 400 students in the 158,000 square foot development.²⁹ Mogavero Architects of Sacramento designed the development, with Sundt Construction serving as builder.³⁰

Florida: Last December, Seminole State College of Florida's Board of Trustees approved agreements calling for the construction of a second campus building to the college's Altamonte Springs campus. Orlando Health Realty, LLC serves as developer in the PPP and will enter into a 45-year land lease with Seminole State to obtain the land on which to construct the roughly 178,000 square foot building.³¹ The school would then lease a little under half of the office space in the completed building.

Louisiana: In September, Louisiana State University (LSU) revealed further details of its Nichols Gateway PPP housing project. LSU chose RISE Real Estate as preferred bidder for Nichols Gateway student housing

project in February 2016, which will include housing for roughly 1,600 students on a 28-acre site. The \$575-million project, expected to be financed with \$226 million of bonds from the Louisiana Public Utilities Authority, will include RBC Capital Markets as sole underwriter, while Kutak Rock will provide bond counsel and Foley & Judell will provide counsel to the underwriters.³² The deal is expected to generate \$218 million in new revenue for LSU over 40 years.³³

Also in the Pelican State, Southern University issued an RFP in October, seeking private firms to manage the school's energy assets in a lease agreement.³⁴ Responses are due in mid-November. LSU looks to enter into an energy asset lease PPP, too, and likely will release an RFP in the coming months.³⁵

Massachusetts: In December 2016, the University of Massachusetts' Boston Campus (UMass-Boston) broke ground on its first on-campus student housing, a 1,000-bed residence hall, with a fall 2018 completion date.³⁶ As reported in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, UMass-Boston selected Alabama-based Capstone Development Partners as its preferred bidder to construct the project in February 2016. The parties reached financial close on the \$139-million project in October 2016.³⁷

Michigan: Wayne State University reached agreement with Corvias Campus Living in September 2016 to manage the Detroit university's housing expansion in a 40-year, \$300-million PPP.³⁸ Corvais will develop, build, operate and maintain Wayne State's student housing in the agreement, which includes constructing new housing for over 800 students, while renovating housing for another 3,100. The agreement also will allow Wayne State to eliminate \$102 million in old debt.³⁹

Separately, Eastern Michigan University (EMU), mentioned in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization* for outsourcing its food services to Chartwells in a 10-year contract, currently is considering parking privatization.⁴⁰ Officials are seeking to improve the school's financial situation through a long-term concession lease in which the private entity would collect revenues in exchange for an upfront payment to the university, as well as maintain and upgrade the school's parking facilities. EMU's campus currently contains a little under 10,000 parking spaces, which generated \$4.7 million in revenue in FY 2017.⁴¹

Missouri: In February, Missouri State University (MSU) selected developer Bryan Properties to construct a new residence hall to provide on-campus housing for 400 students.⁴² Bryan currently manages off-campus housing adjacent to the Springfield campus, including a development that will total 750 students after an expansion is completed in August. The MSU Board of Governors agreed in a meeting earlier in the month to provide \$50,000 to work with a developer to help plan for a first phase of the project, selecting Bryant.⁴³

North Dakota: After issuing an RFQ for the project last June, in January, the North Dakota State University Foundation (NDSUF) broke ground on construction of a new student housing complex created through a public-private partnership.⁴⁴ NDSUF selected PROffutt Limited Partnership—the real estate division of the company R.D. Offutt—in December 2016 to develop the project, which will provide additional housing for

close to 350 students, as well as retail and parking space.⁴⁵ Terms of the deal were not available at press time.

Ohio: In April, The Ohio State University's (OSU's) Board of Trustees approved a 50-year lease with a private consortium comprising French firm ENGIE and the Montreal-based firm Axiom to manage and operate the school's power, heating and cooling systems, as well as manage the university's energy purchases from outside providers.⁴⁶ The agreement provides a \$1.015-billion upfront payment to the university that increases its endowment by 25%, plus provides another \$150 million in academic collaboration support.⁴⁷ In return, the university will pay the consortium annual fees, made up of three components:

- A fixed fee that starts at \$45 million per year, with 1.5% annual increases for inflation
- An operating fee of at least \$9.2 million, tied to the three-year annual average of OSU's operating and maintenance costs
- A variable fee, tied to any returns on capital investments made by the consortium⁴⁸

The fee structure was designed to resemble what the school pays currently for its power, heating and cooling, while also providing incentives for energy conservation.

In other Ohio news, as reported in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, Cleveland State University (CSU) last year released a request for qualifications, seeking a private partner to manage its on-campus parking. In June 2017, CSU trustees agreed to spend \$60,000 to hire a consultant from Jones Lang LaSalle to assess the school's ability to enter into such an agreement. If the trustees decide to move forward, an RFP is expected late in the year, while retaining the consultant in an advisory role.⁴⁹ CSU parking totals include 16 lots with over 4,100 spaces, generating \$5.6 million in revenue annually against \$5 million in expenditures.⁵⁰

Puerto Rico: In October, Puerto Rico's Public-Private Partnerships Authority (PPPA) released a draft RFQ, seeking private entities to design, build, finance, operate and maintain a series of campus facilities—including student housing, parking and offices—at the University of Puerto Rico-Mayagüez.⁵¹ After a November 17 deadline for responses, a final RFQ will be released in December, along with final RFQs for two other PPPA-led projects (see page 24 for details).⁵²

Rhode Island: The University of Rhode Island is currently considering PPP arrangements for up to three projects with a combined value of \$400M–\$500M, its VP of Administration and Finance told *Inframation News* in October: new construction and renovation at the school's Narragansett campus; new graduate student housing at the school's main campus; and a mixed-use development on the main campus that likely will include a hotel, housing, and retail.⁵³ The University expects to release an RFQ for the projects later in 2017.

Tennessee: In May, the state entered into a five-year contract with Jones Lang LaSalle that allows the state's colleges and universities to outsource services to the private sector, while not mandating any outsourcing.⁵⁴

In March, Gov. Bill Haslam announced the selection of Jones Lang LaSalle as the preferred bidder for his property management privatization plan.⁵⁵ As of press time, specifics of finance and participating schools were not available.

Texas: In February, the University of Texas at Dallas (“UT-Dallas”) announced it had reached financial close with a private consortium to implement Phase 2 of the school’s mixed-used project.⁵⁶ Dallas developer Wynne/Jackson will join lead equity partner Star America, Andres Construction, Architecture Demarest, and UT-Dallas for the \$ 67-million project, which will house over 900 students and provide additional retail space.⁵⁷

West Virginia: As part of a larger decision to close some of its oldest residence halls, West Virginia University (WVU) announced in January that it would work with the private company Paradigm Development Group, LLC to convert seven floors of University Place from private apartments to a new campus residence hall named “Seneca Hall,” housing 450 students.⁵⁸ WVU and Paradigm Development created University Place in a \$70-million PPP agreement solidified in 2012.⁵⁹ WVU policy requires all freshmen students to live in a campus residence hall.

3. State Liquor Privatization Update

Two Maryland counties and 17 states maintain some form of government-owned wholesale and/or retail monopoly in distilled spirits (see Table 1). Since the repeal of Prohibition in 1933, 33 states have chosen to allow and to regulate the private distribution and sale of distilled spirits through licensing and other requirements.

During that time, all changes over alcohol control, wholesale, and distribution have exclusively gone in the direction of privatization, not government control, as no state has ever shifted from a private regime to a state-run liquor monopoly. Additionally, some privatization already exists within “control” states. For example,

- Washington State fully privatized the state-run wholesale and retail spirits monopolies via a ballot measure in 2011.
- Iowa and West Virginia fully privatized their spirits retail monopoly in recent decades, retaining their in-house wholesale operation.
- Maine has outsourced liquor wholesale operations since 2004.
- Five states—Maine, Montana, Ohio, Oregon and Vermont—use an “agency/contract store” model in which contracted private entities operate state-owned retail liquor stores, while three others—Idaho, New Hampshire and Utah—use a blend of state-owned and operated retail outlets and agency/contract stores.
- Alabama maintains state control of distribution and operates government-run stores, but also allows privately run retail stores.

Table 1: Alcohol “Control” State Retail and Wholesale System Designs

State	Retail			Wholesale	
	Government Operated	Agency/Contract	Fully Privatized	Government Operated	Contract
Alabama	X		X	X	
Idaho	X	X		X	
Iowa			X	X	
Maine		X			X (2004)
Maryland - Montgomery Co.	X			X	
Maryland - Worcester Co.	X			X	
Michigan			X	X	
Mississippi			X	X	
Montana		X		X	
New Hampshire	X	X		X	
North Carolina	X			X	
Ohio		X		X	
Oregon		X		X	
Pennsylvania	X			X	
Utah	X	X		X	
Vermont		X		X	
Virginia	X			X	
West Virginia			X	X	
Wyoming			X	X	

Noteworthy developments in the privatization of state alcohol monopolies over the past year include:

Maryland (Montgomery County): In May Gov. Larry Hogan signed HB 315, which allows the county’s Department of Liquor Control (DLC) to contract out the sale of liquor to private stores that sell beer and wine, opening liquor sales outside of government-run stores.⁶⁰ The Distilled Spirits Council pointed out to county officials that Montgomery County contains a very low concentration of liquor stores, 26 in a county of around one million, or 0.34 per 10,000 citizens, compared to 3.02 in the rest of the state, and 3.34 in the U.S., prompting the legislative change, though a measure allowing retailers to open a second store location within Montgomery County failed.⁶¹

While the DLC retail monopoly may be lifted by HB 315, its distribution monopoly remains firmly in place. In February, Montgomery County Executive Ike Leggett killed his own proposal to transfer DLC operation to an independent, nongovernmental authority. By making a formal request to his county’s state delegation in the Maryland Legislature to withdraw the bill that would have enacted the change, he is saying that the reform is no longer necessary due to a reform plan already being implemented by the board.⁶²

Montgomery County maintains an alcohol control program unlike other U.S. localities, controlling the distribution of virtually every alcoholic beverage sold in the county, consistently generating around \$30 million in budget surplus compared to its costs.⁶³ Attempts to reform the board by placing it under private

control or removing the monopoly board entirely in favor of private distribution models that exist elsewhere in the country have failed for years.

While the bill would have removed government control of the board, the newly independent board would have maintained its monopoly control, making the benefits of the bill somewhat questionable. Even still, retailers who sell and/or serve alcohol largely agree that the current system produces unusually high amounts of inaccurate deliveries and broken product, with the latter problem often resulting in moldy packaging. When recently confronted with such issues by a concerned local business owner, Fariba Kassiri, the DLC's interim director, asserted that the establishment in question received accurate deliveries 85% of the time. Leaders of the MCGEO (the union that represents 350 DLC workers) dismissed the breakage and mold issues as the result of non-unionized, late-night shift workers.⁶⁴

The county also prohibits the sale of beer and wine in grocery stores, allowing exception for five “grandfathered” grocery chains, each authorized to sell at one location within the county.⁶⁵

Pennsylvania: As of press time, several liquor privatization bills had passed the Pennsylvania House of Representatives and have been referred to the Senate's Law and Justice Committee, building off of last year's Act 39 reforms:

- HB 438 allows hotels and restaurants that possess liquor licenses the ability to apply for “spirit expanded” licenses, which would allow for liquor sales for off-premises consumption.⁶⁶
- HB 975 removes the Pennsylvania Liquor Control Board (PLCB) from acting as a wine wholesaler, while creating new licenses for retail and wholesale wine purchases.⁶⁷
- HB 991 creates a retail license for selling wine and liquor.⁶⁸
- HB 1033 allows beer distributors and wholesalers to sell wine and liquor through the acquisition of a permit.⁶⁹
- HB 1075 allows beverage distributors to serve as wholesalers, while prohibiting the PLCB from participating in distribution and purchases.⁷⁰

As mentioned in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, Gov. Tom Wolf signed HB 1690 in June 2016, authorizing grocery stores, hotels and restaurants to sell wine and direct wine shipments to homes, while expanding the hours of state-owned liquor store operation and the pricing flexibility of the Pennsylvania Liquor Control Board.

Utah: In March, the Beehive State ended its 2017 legislative session with several alcohol related-measures, including one that allows establishments that serve mixed alcoholic beverages to avoid one of the country's most unusual liquor laws. In late March Gov. Gary Herbert signed HB 442, which allows for exceptions to a Utah rule that requires all bartenders in retail establishments to perform all drink preparation behind what is commonly called a “Zion curtain,” a barrier—typically an opaque glass wall—constructed to keep all beverage mixing out of sight of consumers.⁷¹ As an alternative, establishments can choose to create a buffer

zone around bars, not visible outside of the bar area, where only patrons over 21 would be allowed to enter. As a set of reforms in 2009 only applied the “Zion curtain” rule to new establishments, most of the state’s restaurants were exempt from the rule.⁷²

Virginia: In February, Gov. Terry McAuliffe signed HB 1842, allowing for the retail sale of liquors with alcohol-by-volume (ABV) levels up to 75.5% (151 proof) for consumption, after vetoing a similar measure last year. Prior to the legislation’s enactment, only liquors up to 50.5% ABV (101 proof) were legal for consumption purchase.⁷³ At that time, a permitting structure existed that allowed for the purchase of higher ABV liquors from the Commonwealth of Virginia—which acts as monopoly wholesaler and retailer of spirits—but purchase required a permit demonstrating the liquor would be used only for industrial, commercial, culinary or medical purposes.⁷⁴

4. State Privatization News and Notes

Alabama

The state received approval in late March from the federal Centers for Medicare and Medicaid Services (CMS) to delay starting its Medicaid privatization demonstration program until October.⁷⁵ Alabama plans to eventually change its Medicaid program to a regionally divided managed care model, ultimately affecting around two-thirds of the state's one million Medicaid recipients. Several of the state's largest hospitals suspended plans to participate, citing loopholes that allow out-of-state companies to compete in delivering care. In 2016, CMS approved the state's proposal to move Medicaid delivery away from its traditional fee-for-service model, granting the state up to \$748 million over five years.⁷⁶ CMS noted in its delay approval that further extensions beyond October would result in the loss of its waiver for the extension and the funding.

Additionally, Alabama's Department of Transportation (ALDOT) issued an RFQ in September, seeking private partners to design build, finance, operate, and maintain a new Interstate 10 bridge that crosses Mobile Bay, while adding lane capacity to the existing bridge and causeway, a 50-year, demand-risk toll concession PPP estimated at roughly \$2 billion.⁷⁷ After receiving initial interest from four consortia, ALDOT extended its deadline for RFQ responses from early to mid-November.⁷⁸ The state hopes to shortlist bidders by December, release an RFP in early 2018, and reach financial close with the winning firm by the end of 2018.⁷⁹

Arizona

In May, Gov. Doug Ducey signed House Bill 2043, legislation that allows private entities to lease parts of the state's 93-acre mental hospital grounds, allowing use of unoccupied facilities as well as new construction.⁸⁰ As reported in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, the state's Department of Health Services issued an RFI to gauge interest on such a proposal, for which it ultimately received feedback from a dozen interested parties.⁸¹ The state only uses a small portion of the large campus, which is required by law to only serve the state's mentally ill patients, and hopes to attract private investment to greater utilize the unused space, which includes many unoccupied and partially occupied buildings.⁸²

Additionally, Arizona's Department of Transportation issued an RFQ in September, seeking private firms to replace existing lighting around the freeways in the Phoenix area with roughly 19,000 LED lights. The RFQ

is looking to enter a 15-year DBFOM availability-payment lease PPP, a project estimated at around \$200 million.⁸³ After notifying shortlisted firms in late November, officials expect to release a final RFP next March, and hope to reach financial close with the winning bidder in late fall of 2018.⁸⁴

California

A union-backed bill in California's General Assembly would stringently restrict county governments seeking to contract out to private organizations. AB 1250 would require county officials to demonstrate savings from outsourcing, while also prohibiting outsourced firms from reducing employment.⁸⁵ The bill passed 45–30 General Assembly in June, and was referred to the Senate Committee on Rules with a recommendation to pass in mid-July.

As the author of this report noted in a co-authored June op-ed, the required cost comparisons to which counties and municipalities would be subject in the bill's original text would be severely flawed by not allowing the consideration of overhead and other "all-in" costs in in-house estimates. The bill's other provisions similarly seek to severely stack the deck against private firms looking to provide public services, while also hurting state and local governments' abilities to meet rising pension contribution demands in the wake of CalPERS' decision to lower its assumed rate of return. Some of the bill's more onerous provisions—such as required county audits for any contracts exceeding \$100,000—were removed after a September revision, but the bill still unfairly penalizes private entities looking to provide services to California residents. As of press time, a Senate vote had not been scheduled.

Colorado

In March, the Colorado Department of Transportation's High Performance Transportation Enterprise released its final request for proposals to design, build, and maintain a project that calls for reconstructing a 10-mile stretch of I-70. The reconstruction includes adding managed express lanes in each direction and lowering a portion of the Interstate, in part so that a four-acre park can be built on top of the road.⁸⁶ The move follows approval in January from the Federal Highway Administration. Technical proposals were due on June 1, and final proposals on August 1; construction is expected to start in early 2018.⁸⁷

Connecticut

Gov. Dannel Malloy's FY2018–2019 budget proposal, released in February, includes privatizing much of the state's mental health care service delivery. The transition away from state-run mental health services to private nonprofits projects \$2.5 million in savings for FY2018 and \$5 million in 2019.⁸⁸ A group of nonprofit providers in the state released a plan in January calling for private nonprofits to manage many of Connecticut's state-run health programs, predicting \$1.3 billion in savings over five years. The plan's

residential services for persons with developmental disabilities, substance abuse and mental health care are among the areas where the biggest savings could be utilized.⁸⁹

Gov. Malloy also sought to outsource the management and operations of the state's 40 group homes, removing control from the state's Department of Developmental Services and transferring it to a private entity. In April, he announced that the plan would be placed on hold for an unspecified amount of time, with no additional updates available at press time.⁹⁰

Delaware

The state's port authority—the Diamond State Port Corporation (DSPC)—released an RFQ in March seeking a private partner to looking to build, operate, or finance port infrastructure through the use of long-term concession agreements.⁹¹ The decision stems largely from recommendations provided in a Strategic Master Plan released last summer.⁹² DSPC expects the state to benefit from a PPP arrangement through greater economic development, reduced taxpayer risk, and improved service for new and future port customers and stakeholders. Proposals were due at the end of May, and a final decision is expected at the end of September.

In other Delaware news, the state's Department of Transportation and the Delaware Transit Corporation jointly announced this January that they are in the process of finalizing a PPP arrangement to design, build, and maintain a new transit center in Wilmington.⁹³ Gov. Jack Markell said of the decision, “Public-private partnerships are so important to the economic vitality of this state. These types of partnerships foster innovative opportunities to deliver transportation projects that save the taxpayers time and money, by maximizing efficiencies and tapping the strengths of each partner.”⁹⁴

Florida

In May, the Florida Department of Transportation (FDOT) announced it will award an \$802-million PPP contract to a joint venture of Archer Western and de Moya to make improvements to stretches of three highways in the Miami area—Interstates 395 & 95, as well as State Road 836.⁹⁵ I-395 will be reconstructed, with added capacity and a new high-elevation “signature bridge” added to allow greater opportunity for future development under the interstate, in addition to changing Miami's skyline. State Road 836 also includes construction of a new elevated bridge that will allow customers to bypass downtown Miami. The I-95 improvements look to replace concrete, while adding northbound capacity. The parties expect to reach financial close later in the year.⁹⁶

Hawaii

In April, state lawmakers approved \$73 million in earmarked funds to transfer the operations of three state-run hospitals in Maui to Kaiser Permanente, 16 months after originally selecting Kaiser.⁹⁷ As reported in

Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, legal challenges from state judges and employee unions delayed the transfer through 2016, ultimately resulting in an August 2016 partial shutdown of Maui hospital facilities. Gov. David Ige predicts the agreement will save the state \$260 million in hospital subsidies over the next decade.⁹⁸

Illinois

In August, the Illinois Lottery awarded a 10-year, \$2.2-billion contract to the British firm Camelot to take over management and operations.⁹⁹ As reported in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, Gov. Rauner called for a new bidding process to replace the state's previous contract with Northstar Lottery Service. Investigations by the *Chicago Tribune* revealed poor management by Northstar and poor oversight by the state.¹⁰⁰ Camelot bid in the initial competition in 2010, a process that ultimately resulted in the first lottery operation and management PPP in the U.S., as noted in Reason Foundation's *Annual Privatization Report 2010: State Government Privatization*.

In March, the state issued an RFP for its "Smart State" initiative, looking to modernize street lighting in Illinois towns and cities by allowing private entities to bid on a statewide master contract, enabling smaller communities to reap benefits of improved lighting infrastructure at more generous terms than "going it alone."¹⁰¹ Gov. Bruce Rauner said of the plan, "With property taxes in Illinois the highest in the nation, any way for our local municipalities to achieve savings should be explored. LED streets [sic] lights have been shown to result in savings of up to 50 percent and offers [sic] ease of use and flexibility to municipalities."¹⁰²

Gov. Rauner's plan to develop managed lanes in a PPP through I-55 in Chicagoland area continues to meet resistance in the state legislature, failing to pass legislation to enable a PPP for the project in 2017.¹⁰³ In March, Gov. Rauner joined Illinois Department of Transportation Chairman Randy Blumberg, calling on state lawmakers to pass a joint resolution to start the estimated \$425-million plan, which failed in the legislature.¹⁰⁴

Indiana

In December 2016, the Ohio River Bridges East End Crossing Project won an Envision Platinum Award from the Institute for Sustainable Development. The \$763-million PPP—an agreement between the Indiana Department of Transportation, the Kentucky Transportation Cabinet, and a private consortium comprising Walsh Investors, VINCI Concessions and Bilfinger Project Investments International Holdings—includes a 2,300-foot bridge with pedestrian and bicycle paths connecting eastern downtown Louisville and southern Indiana, eight miles of reconstructed highway, and a 1,700-foot tunnel.

As reported in Reason Foundation's *Annual Privatization Report 2013: Surface Transportation*, the East End Crossing Project was Indiana's portion of the Indiana-Kentucky bridge project, a \$763-million availability-payment PPP concession by the Walsh/Vinci/Bilfinger consortium.

Iowa

Iowa entered the first year of its Medicaid managed care program in April 2016, with managed care organizations (MCOs) meeting many of the state's performance benchmarks, while also confronting challenges. MCOs paid 94.7% of Iowa's claims within two weeks, and 99.5% within three weeks. The state touted \$118 million in savings in its first year, while handling a one-year increase of 40,000 enrollees.¹⁰⁵ Hospital admissions and 15–60-day readmissions dropped significantly, too—54% and (depending on hospital) 2%–23%, respectively, though Iowa hospitals challenge those numbers.¹⁰⁶ MCOs also resolved 100% of member grievances and appeals of grievances.¹⁰⁷

Significant challenges remain with the MCO model, however. In-home care providers reported consistent problems with receiving reimbursements, leading some providers to consider changing MCOs or eliminating certain services. Though one lawsuit challenging the MCO program was dismissed in January, another one filed in June by six Iowans with disabilities claims the new program unfairly denies the ability of disabled Iowans to receive in-home care (as opposed to living in group homes).¹⁰⁸ Though significant MCO losses were expected initially, the close to \$450 million in combined losses from the three MCOs—AmeriHealth, Amerigroup, and UnitedHealthcare—could require an additional \$10 million from the state and \$250 million from the federal government.¹⁰⁹

Kansas

In January, Kansas received word that federal officials denied extension of its privatized Medicaid program. The Centers for Medicare and Medicaid Services cited failure to adhere to a required public notification process and numerous patient and provider concerns revealed from an on-site review last October.¹¹⁰ Kansas announced last May that it will negotiate new contracts for KanCare, the entity that provides health insurance for low-income Medicaid recipients and disabled Kansans, which was privatized in 2013. The three private providers in KanCare—UnitedHealthcare, Sunflower State Health Plan, and Amerigroup—did report profits in 2016, after three years of large losses.¹¹¹

In related news, an audit of Kansas's privatized foster care system faulted the state's Department for Children and Families (DCF) for not ensuring private providers possess the resources to manage their caseloads and for poor oversight of contractor performance.¹¹² The audit was last in a series of three audits that were conducted after two foster children's deaths in 2014, with the first audit faulting DCF for not ensuring an adequate level of safety, and the second one finding that DCF often fails to meet many state and federal requirements for foster care management.

Kansas also continues to seek a solution to the aging Osawatimie State Hospital, a state-run psychiatric hospital. Kansas Department for Aging and Disability Services (KDADS) Secretary Tim Keck revealed in August that KDADS was considering a bid made by Correct Care Recovery Solutions to build and run a

replacement hospital—a 210-bed facility projected to cost between \$100 million and \$175 million.¹¹³ Osawatomie lost certification in 2015 after inspections revealed myriad patient-care, safety and staffing issues. Keck claims Correct Care could run the hospital for less than the \$616 per patient per day Kansas spends in its present arrangement.¹¹⁴

Kentucky

In March, the state and private firm C2 Strategic Communications launched “P3 Kentucky,” a communications portal designed to assist lawmakers and officials considering PPPs for a wide range of projects.¹¹⁵ The P3 Kentucky Roundtable—a group of experts and leaders from a range of professional and civic groups—pushed for changes in Kentucky’s PPP-governing laws and for P3 Kentucky’s creation, seeing a great need for PPPs in the coming years.¹¹⁶

In other Kentucky privatization news, in February State Rep. Ken Fleming introduced House Joint Resolution 35, which would authorize the state to conduct studies of alternate means of performing government services, including outsourcing and PPP arrangements, to achieve cost savings.¹¹⁷ As of press time, no vote had been scheduled on the resolution.

Louisiana

In January, the state of Louisiana issued a request for information seeking private partners to enter into a PPP to help finance and build interchange improvements along Interstate 10 in Baton Rouge, a project estimated at \$600 million–800 million.¹¹⁸ Drivers in the city endure heavy congestion along I-10, especially near the Mississippi River crossing. Gov. Jon Bel Edwards strongly supports the project, marking a contrast to previous Gov. David Vitter’s lukewarm response to an unsolicited proposal for an I-10 PPP submitted to the state in 2015, which also failed to gain traction in the state legislature. Responses to the RFI were due at the end of March, but no further updates were available as of press time.¹¹⁹

In other Louisiana news, a report by a private consulting firm released in late March concluded that efficiency gains from Louisiana’s transition to privately run charity hospitals in 2013 benefitted the state treasury by \$2.7 billion, while adding close to 3,000 new jobs per year.¹²⁰ The report also found improvements in delivery of care, including lower ER wait times and elimination of wait lists for prescription medications. The Alliance of Public Private Partnership Hospitals—which represents the nine operators that manage the charity hospitals—commissioned the study.¹²¹

Also related to the hospital privatization, Louisiana received word in July that it would only need to pay \$5.4 million to settle a dispute with the U.S. Centers for Medicare and Medicaid Services over the state’s privatization of its state-run charitable hospitals, instead of the \$190 million the federal agency originally sought.¹²²

Maine

Last September, Gov. Paul LePage and Maine’s Department of Health and Human Services (HHS) agreed to a four-year deal potentially worth \$62 million with New York-based nonprofit FedCap, to run the state’s welfare-to-work program (previously known as ASPIRE).¹²³ The contract is largely incentive-based, tying FedCap’s pay to the performance of the nonprofit in placing the state’s welfare recipients into jobs. As reported in Reason Foundation’s *Annual Privatization Report 2016: State Government Privatization*, Maine looked to privatize ASPIRE after in-house underperformance resulted in the accumulation of \$29 million in fines from the federal government.¹²⁴

Maryland

In June 2016, the Maryland Transit Authority, Maryland Department of Transportation, and Purple Line Transit Partners, LLC announced they had reached financial close on the \$5.6-billion, 16-mile Purple Line light rail project to connect Montgomery and Prince Georges Counties with the Washington Metro Area Transit Authority (WMATA) Metrorail stations on its Green, Orange, and Red lines.¹²⁵ In May 2017, the partnership halted most all activities on the project, instituting a hiring freeze, scaling back preconstruction work, and ceasing execution of new construction contracts, following a ruling in a lawsuit first filed in 2014.¹²⁶

While U.S. District Court Judge Richard Leon’s ruling rejected two of the lawsuit’s three claims, it did call for an additional environmental impact study to be conducted in light of WMATA’s recent falling ridership and safety issues, halting \$900 million in federal funding essential to the project’s completion.¹²⁷ A later appellate court ruling allowed for additional federal grants, however, and in August, the Trump administration announced that it would award the full \$900 million for the project, which will allow for construction to continue, though a final verdict on the lawsuit remains to be seen.¹²⁸

Massachusetts

In October 2016, the Massachusetts Bay Transit Authority (MBTA) unanimously approved a decision to outsource cash operations of MBTA’s “T” transit system, awarding a five-year, \$18.7-million contract to the Brink’s Corporation.¹²⁹ In December, MBTA released an RFP for the T’s customer service operations, recommending contracting out with GCS Services in May 2017, expecting to transition to FCS management by July.¹³⁰ While final figures were not publicly available at press time, MBTA expects \$8.5 million in savings over a five-year period, while also expanding weekday and weekend hours as well as holding GCS to performance-based metrics concerning average call answering speed, abandonment rates, and customer feedback.¹³¹

Lastly, in April, MBTA released its \$1.98-billion FY2018 budget, which includes the additional privatization of the operations of four of the T’s bus garages in addition to outsourcing most customer service functions.¹³²

In October, union officials claimed the garage privatization plan had been halted due to MBTA only receiving one bid for the work, but MBTA officials refuse to confirm or deny the unions' claims. As mentioned in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, with the suspension of the state's anti-privatization Pacheco Law, MBTA took steps toward privatizing much of its operations in 2016, with officials eyeing cash operations and bus maintenance for outsourcing.

Michigan

Two social impact bond programs have been introduced in the state over the last year under the new Michigan Partners for Success partnership approach. A pilot program seeking to reduce the state's infant mortality rate by rewarding nonprofits for delivering better care outcomes for at-risk mothers and their babies in Western Michigan started last August. Gov. Rick Snyder estimates the program will serve 1,700 families in Kent County, and could be expanded to other counties, if successful.¹³³

The state also partnered with the National Kidney Foundation to launch a social impact bond program dedicated to type-2 diabetes prevention. New-York-based Local Initiatives Support Corp. will provide technical assistance. The National Kidney Foundation has led a diabetes prevention program since 2012, through which over half of nearly 1,700 people lost at least 5% of their body weight, while increasing their rate of physical activity.¹³⁴ Charlene Cole, director of program operations, said of the project, "It will save health insurers money; the Kidney Foundation will be happy because it's serving more people, and investors will get some small return on their investment."¹³⁵

In other Michigan news, the Michigan Department of Transportation (MDOT) completed its participation in DTE Energy's Energy Efficient Business Program, installing 13,000 LED lights on many Detroit-area limited-access highways, resulting in 65% greater energy efficiency.¹³⁶ DTE provided \$1 million to help offset the cost of construction; the lighting upgrade is expected to save \$2 million in 2017.¹³⁷

Also in Michigan, Rep. Pam Faris introduced legislation in January—House bill 4018—that sought to prohibit privatization of government services unless (a) a pre-privatization cost-benefit analysis shows savings, and (b) current government employees would be allowed to bid on the services up for privatization.¹³⁸ After being referred to the state Committee of Appropriations, there have been no further updates.

Mississippi

In June, Mississippi awarded contracts to three private entities—Magnolia Health, Molina Healthcare, and UnitedHealthcare—to manage MississippiCAN, the state's managed Medicaid program.¹³⁹ Magnolia Health and UnitedHealthcare have been part of the program since 2011, when the state started transitioning patients to the managed care program, while California-based Molina will be a new participant.¹⁴⁰

Montana

State lawmakers introduced legislation to privatize the \$1.6-billion Montana State Fund, a quasi-public entity that serves as the state's largest workers compensation insurer.¹⁴¹ A Senate committee tabled the bill at the end of March, wanting more time to see how privatization would affect Montana businesses before proceeding to a vote.

Nebraska

At the end of March, state officials announced that they would continue using the nonprofit Nebraska Families Collaborative (NFC) to manage child welfare services in Nebraska, an agreement potentially worth \$71.5 million over five years.¹⁴² In May, Magellan Choices for Families, which lost to NFC in the bidding process by only one point, challenged the state's scoring calculations and NFC's adherence to meeting bid requirements, leading to the state's withdrawal of the agreement.¹⁴³ By the end of the month, the state and NFC finalized a two-year emergency extension of the old contract to replace the withdrawn five-year deal.¹⁴⁴

New York

New York Gov. Andrew Cuomo and state lawmakers agreed in April on a plan to return operations and management of the New York Racing Association (NYRA)—New York's state horseracing association—to the private sector.¹⁴⁵ Under the agreement, the proposed NYRA 17-member governing board will include NYRA Chief Executive Chris Kay, eight members picked by the current board's executive committee members, and two chosen each by Gov. Cuomo and legislative leaders. As mentioned in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, Gov. Cuomo refused to sign NYRA privatization legislation last year.

Real estate developer Dan Queri took over as the new director of New York's State Fairgrounds in May, the latest decision suggesting that private sector management and operation may soon be coming to the Fairgrounds.¹⁴⁶ As reported in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, Gov. Andrew Cuomo appointed a task force last year to explore privatization of the State Fairgrounds, feeling a move could attract strong private sector interest after the completion of \$50 million in scheduled improvements.

In other New York news, the state plans to work with Xerox to take over a project to upgrade its Medicaid rolls, which have stalled under the current contractor Conduent, Inc. Conduent, which spun off from Xerox in January, failed to secure the software needed for the upgrade and has sued outsourcing partner Cognizant Technology Solutions, claiming the India-based company breached its contract to develop software for the project.¹⁴⁷ As a result, Conduent notified its shareholders that it might not be able to finish the multi-year project. Adding insult to injury, the Trump administration's plan to convert Medicaid to a block grant

program would likely mean losing the \$495 million the state expected from the federal government for upgrading its computer system, according to New York Medicaid Director Jason Helgeson.¹⁴⁸

Oklahoma

In June, the Oklahoma Health Care Authority (OHCA) canceled its bidding process to take over management of care for the aged, blind, and disabled (ABD), after failing to receive the \$52 million it requested in funding to start the program.¹⁴⁹ As mentioned in Reason Foundation's *Annual Privatization Report 2016: State Government Privatization*, Gov. Mary Fallin signed House Bill 1566 in May 2015, which directs the OHCA to issue a request for proposals for a contractor to create and implement a care coordination model for ABD Medicaid recipients. After issuing a Request for Information and receiving responses from 22 entities, OHCA decided on a fully capitated (i.e. based solely on number of enrollees) fee-based managed care model over reimbursement. According to OHCA's 2014 annual report, ABD patients accounted for nearly half of all SoonerCare expenditures, despite representing only 16% of state Medicaid enrollment.¹⁵⁰

Oregon

Despite a bipartisan effort from the state's Democratic treasurer and Republican secretary of state early this year, the latest attempt to privatize Oregon's 82,500-acre Elliot State Forest was abandoned in May, following a unanimous "no" vote from the state land board, which consists of Gov. Kate Brown, State Treasurer Tobias Read, and Secretary of State Dennis Richardson.¹⁵¹ Read changed his decision on privatization in March, after voting in February to proceed with the sale of the forest. A 2014 attempt to sell the forest previously failed.¹⁵²

In related Oregon news, a task force appointed by Gov. Brown to lower the underfunded liabilities of the state's pension system (PERS) by \$5 billion released its final report in November, outlining an array of measures the state could consider in looking to place PERS on firmer footing.¹⁵³ While many possible fixes involve taxation and collections, several privatization measures were included, such as privatizing FAIR, the state-run workers compensation insurer, selling or leasing underutilized state-owned assets, and full privatization of state universities.¹⁵⁴

Pennsylvania

The Pennsylvania Department of Health Services awarded new three-year, \$12-billion contracts in January to six managed care organizations (MCOs) through the state's managed-care program, HealthChoices, first established in 1997.¹⁵⁵ Gateway Health, Geisenger Health Plan, Health Partners Plans, Pennsylvania Health and Wellness, UPMC for You, and Vista will serve as MCOs in five different regions of the state, with each region working with three to five providers.¹⁵⁶ In March, DHS announced a delay in final negotiations with

the MCOs after Aetna, UnitedHealthcare (who both were not selected to continue in HealthChoices after initially being selected in 2016—see below) and AmeriHealth (which operates in three regions with Vista) protested the January contracts, pushing a June 2017 start date back to at least January 2018.¹⁵⁷

As reported in Reason Foundation’s *Annual Privatization Report 2016: State Government Privatization*, the state originally opened bidding for taking over the state’s Medicaid operation in September 2015, ultimately resulting in the original selection of eight MCOs in April 2016 for three-year agreements.

Puerto Rico

In addition to the University of Puerto Rico-Mayagüez PPP mentioned earlier in Part 2: “Higher Education Public-Private Partnerships Update,” in October, Puerto Rico’s Public-Private Partnerships Authority (PPPA) issued two additional RFQs: one seeking private partners to provide maritime transportation services between the routes connecting five of its cities—San Juan, Catano, Fajardo, Vieques, and Culebra—the other calling for private entities to design, construct, finance, operate, and maintain government-owned parking facilities. Responses for the initial RFQs are due in November, while the PPPA expects a December release for its final RFQs for the projects. Making its way through debt restructuring and bankruptcy proceedings, the Commonwealth of Puerto Rico looks to utilizing the private sector to provide many of its services while upgrading transportation, energy, and social infrastructure through the use of PPP arrangements.¹⁵⁸

Rhode Island

The Rhode Island Department of Transportation (RIDOT) issued a Request for Qualifications in February, soliciting the private sector to design and rebuild the interchange of State Roads 6 and 10 in Providence.¹⁵⁹ In addition to improved traffic flow, the state wishes to include new bicycle and pedestrian paths and a rebuild of nine bridges involved in the interchange. RIDOT expects construction to begin in fall.

Tennessee

Plans to enter into a PPP agreement to rebuild and upgrade Tennessee’s most visited state park were put on hold after the state received no bids from an RFP issued last December.¹⁶⁰ The state’s Department of Environment and Conservation RFP seeks private partners to demolish, rebuild and ultimately manage an inn, restaurant and conference center at Fall Creek Falls, a project estimated to be worth \$22 million.¹⁶¹

Texas

In 2015, the state converted its nonemergency Medicaid transport service from a fee-based model to a broker-based capitation model, whereby regional brokers receive state funding based solely on the number of eligible clients in the region, directing those funds to public and private transportation providers. A staff

report issued in January by the Texas Legislative Budget Board found myriad problems with the state's transition to the broker model and its performance since implementation.¹⁶²

The report estimates that costs per trip have risen dramatically since implementation of the broker system—from \$22.31 to \$59.40—resulting in over \$120 million in added costs to the state compared to retaining the fee-for-service model instead.¹⁶³

Quality appears to have fallen under the broker model, too. Complaints in most all the Texas regions over tardiness and no-shows have increased dramatically, with some regions receiving double or even triple complaints compared to the fee-for-service model.

The competitive bidding process leading to the selection of brokers raised its own concerns. Texas did not require vendors to submit pricing information and failed to provide an explanation for doing so, severely inhibiting the ability of evaluators to determine “best value” for proposals, while also violating the rules of Texas's Health and Human Services Commission (HHSC), which requires an explanation if price information is not required.

Brokers had difficulty maintaining compliance, often at alarming levels, with substantial use of improper recordkeeping and unqualified personnel. In one region, a respondent to the 2013 “did not demonstrate even a basic understanding of nonemergency medical transportation services or program requirements,” but was awarded a contract.¹⁶⁴

In response to the findings, lawmakers added a rider to the 2018–19 General Appropriations Bill that implements two of the policy changes recommended by the report: ensuring brokers keep information about the rate of eligible clients with unmet transportation needs and requiring the HHSC to keep cost-per-trip data and report it to the state legislature.¹⁶⁵

Also in Texas, Gov. Greg Abbott signed a bill in May that would put more of the state's child welfare services under a managed care model, building on an earlier private program and expanding it to two new areas.¹⁶⁶ Senate Bill 11, which was passed along with several bills targeting reform in Texas's child welfare system, transfers foster care management from the state to either community-based private organizations or lower-level governments over a two-year period. The move follows a 2014 pilot program in the Fort Worth area, run by local nonprofit ACH Child and Family Services, touted by lawmakers as having allowed more children to stay in the community, while also lowering moves between homes, and expanding home availability in rural homes especially.¹⁶⁷

In related news, the state announced in September that it was relinquishing the control of child welfare services in Bexar county (which is the eighth most populous county in the United States and includes San Antonio), and in 30 counties in the Abilene area, looking to either local government or nonprofits to take over duties.¹⁶⁸ More details were not available at press time.

Utah

As reported in Reason Foundation’s *Annual Privatization Report 2016: State Government Privatization*, Utah’s Free Market Protection and Privatization Board (FMPPB) issued a review process template in 2015 for the state to follow when considering PPPs. It also issued the recommendation of looking into privatization of Utah’s student information system, Aspire. A legislative audit released in April urged caution in looking to privatize Aspire, noting higher costs and a failure of Aspire to meet the FMPPB standards of unfair competition.¹⁶⁹

Virginia

Virginia’s Information Technology Administration (VITA) and Northrup Grumman continue their contract disputes in a situation the *Richmond Times-Dispatch* described as “divorce court.”¹⁷⁰ In May, a couple of weeks after announcing that it would not participate in Virginia’s next round of bidding for state IT contracts, Northrup Grumman sued the Commonwealth of Virginia for \$10 million over breach of contract. The suit comes in response to Virginia’s decision to “disentangle” itself from the 13-year contract with Northrup, worth over \$2 billion.¹⁷¹

A spokesman for Gov. Terry McAuliffe minced no words in response:

*The governor is disappointed in Northrop Grumman’s performance on this contract and the company’s refusal to honor its contractual obligation to lead the transition to another vendor... This lawsuit is completely without merit.*¹⁷²

As noted in Reason Foundation’s *Annual Privatization Report 2016: State Government Privatization*, Virginia began to remove itself from the single-provider IT contract to a multi-provider model with state oversight at the advice of a consulting report provided by Integris Applied.

Washington

In January, officials from the Washington State Parks and Recreation Commission approved a 62-year lease agreement to a public-private partnership that enlists Seattle-based Daniels Real Estate to transform a state-owned seminary building and its surrounding 5.5-acre parcel of Saint Edward Park into a new hotel and conference center.¹⁷³ Instead of costing taxpayers an extra \$100,000 in heating and maintenance, the state expects to collect over \$400,000 in revenues from fees paid by overnight guests and visitors.¹⁷⁴

About the Author

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Prior to joining Reason, Austill worked with policy in a variety of settings—nonprofits, on Capitol Hill, and in fundraising—where areas of focus included small business regulation, privatization, health care, and labor. Before moving to the D.C. area in early 2009, he worked for five years in the financial services industry, mostly in wealth management.

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