



Annual Privatization Report 2014

Local Government Privatization

By Leonard Gilroy

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A. Municipal Fiscal Review and Outlook

Despite some economic recovery in the states in the wake of the Great Recession (see discussion in the State Government Privatization section of Reason Foundation’s *Annual Privatization Report 2014*), the fiscal situation at the local government level remains tenuous, as demonstrated by three different reports in 2013.

First, in October 2013, the National League of Cities issued its latest report on city fiscal conditions, which found that after six straight years of declining general fund revenues, U.S. cities are projecting a slight increase in general fund revenues in 2013.¹ While property tax revenues are expected to continue their multi-year slide this year, sales and local income taxes are up. Still, there are significant fiscal headwinds; the report cites a number of factors putting pressure on city budgets, including employee-related costs for health care, pensions and wages; infrastructure costs; public safety costs, and cuts in state and federal aid. Among its many findings, the report suggests that, “[p]ension and health care costs will persist as a challenge to city budgets for years to come.”²

Second, the Pew Charitable Trusts released a report in November 2013 examining how the 30 largest U.S. cities have fared since the onset of the Great Recession, finding that they have faced major fiscal challenges, have been slow to recover, and felt the downturn’s effects later than the federal and state governments.³ The Pew report finds that:

- Most of these cities experienced their lowest revenue levels in 2010 or 2011, well after the downturn ended and state government revenues hit their low in 2009.
- A total of 21 cities had not recovered to their previous revenue peaks by 2011, and in the nine cities that did, rebounding revenues were driven more by intergovernmental aid (e.g., state and federal transfers) and increased taxes and fees, as opposed to local economic growth, indicating that their “recoveries [may be] tenuous.”
- Of the 21 cities that had not rebounded to their previous revenue peaks by 2011, eight of them (Boston, Houston, Miami, Minneapolis, Orlando, Phoenix, Sacramento and Tampa) were still seeing declining revenues.
- Nearly half of the cities (14) saw fluctuations in intergovernmental aid (federal and state) between 2007 and 2011 as a leading driver of revenue changes, in both the positive and negative direction. In nine cities, reductions in federal and state revenue transfers were the primary driver of revenue declines.
- Declines in smaller revenue sources—such as fee revenues, business taxes and investment income—were a major factor in overall revenue declines in 13 cities.
- Property tax collections remained solid until 2010 and 2011, when they began to fall; 18 cities were experiencing property tax revenue losses by

2011 compared to nine cities in 2009. A continued drop in property tax collections could present future budget pressures in some cities in the coming years.

- To address their budget challenges, cities used a variety of strategies. Nearly all of the cities (29 of 30) tapped their reserve (“rainy day”) funds, and average reserve fund levels declined from 18 percent of general fund revenue in 2007 to 14 percent in 2011. Further, nearly all cities cut spending levels, with 24 reducing operational spending between 2010 and 2011. Public safety spending generally took less of a hit than housing/economic development, parks/recreation, public works and transportation. All 30 cities cut their workforce, with nearly 40,000 city staff positions eliminated between 2008 and 2011.

Moving forward, the Pew report finds that cities can expect ongoing fiscal pressures in the form of reduced intergovernmental aid from federal and state governments, continued sluggishness in property tax revenue receipts, and massive, unfunded government employee pension and retiree health care obligations.

To the latter point, the report cited an aggregate \$225 billion in funded liabilities—\$121 billion in pensions and \$104 billion in retiree health care and other nonpension benefits—across all 30 cities. The report concludes that, “in 2010, nearly half of the cities examined were not paying their full, recommended annual contributions to the funds meant to pay for these benefits [...] Deferring these obligations also means that future dollars available for the day-to-day operating functions and services on which citizens rely will be squeezed, as cities are forced to make up the difference for pensions and other post-retirement benefits.”⁴

Last, the Government Accountability Office (GAO) offered a dire long-term outlook in an April 2013 report that found that both state and local governments will continue to face near-term and long-term fiscal challenges—with a growing gap between revenue and spending—*through the year 2060*, absent significant policy changes.⁵ GAO attributes the long-term fiscal challenges to “the rising health-related costs of state and local expenditures on Medicaid and the cost of health care compensation for state and local government employees and retirees.”⁶ GAO estimates that taking steps to close the looming fiscal gap today would require reducing overall state and local government expenditures by 14.2 percent and then holding spending essentially flat (as a percentage of GDP) for decades to come.

Overall, despite some slight economic improvement over the past year, local governments continue to struggle with ongoing fiscal challenges and continued budget pressures in the near and long term that are likely to drive policymakers toward greater fiscal restraint and the pursuit of new ways to control costs and increase government efficiency.

B. ANALYSIS: Detroit Bankruptcy Plan of Adjustment Offers Mixed Bag on Outsourcing, Asset Privatization

In early 2014, Detroit's ongoing bankruptcy saga took another turn with the long-awaited release of Emergency Receiver Kevyn Orr's plan of adjustment. While considerable attention has understandably been paid to the treatment of creditors and pensioners in the overall plan—as well as pensions and benefits for employees and retirees moving forward—it is also important to review how the plan addresses future city government operations, specifically with regard to the privatization of services and assets. In short, the more services and assets privatized, the more manageable the emergence from bankruptcy and the smoother the path to long-term fiscal and financial sustainability—which translate into improved quality of life for Detroit's citizens and businesses.

However, on both fronts—outsourcing and asset privatization—the proposed plan of adjustment is a mixed bag.

1. Outsourcing of City Services

Detroit has long been a relatively hostile environment for the outsourcing of city services, though things are starting to change with the bankruptcy. For starters, the city council recently gave final approval to the outsourcing of residential solid waste and recycling collection to two private haulers (see discussion in Section E of this report). This move is expected to lower costs by \$6 million annually. And in 2012, the city outsourced its payroll administration to national provider ADP.

Further, the plan of adjustment cites some additional current or proposed outsourcing initiatives:

- *Transit operations:* The plan states that the city is “investigating certain other restructuring alternatives, including transitioning [the Detroit Department of Transportation (DDOT)] to the new Regional Transit

Authority [...] and/or outsourcing certain aspects—or all—of DDOT's operations.” This follows on the heels of the city’s outsourcing of transit management to a private transportation management firm last year in a one-year contract that ends in September 2014.

- *Airport*: The plan notes that officials are considering reducing the costs of operating the Coleman A. Young International Airport by outsourcing certain functions.
- *Streetlights*: The plan notes that the operations of city-owned streetlights will be outsourced until the city spins them off to the new public lighting authority in a few years.

Beyond these proposals, the plan is very thin on outsourcing. All it says is:

Where cost savings or service improvements can be achieved, the City will explore potential outsourcing of functions. The City will provide unions with advance notice of competitive bids and allow the unions to bid on the work. The City will work with labor representatives to minimize the effects of any headcount reductions resulting from outsourcing initiatives and enter into effects bargaining agreements when appropriate.

Presumably, this same statement could have been made at the very beginning of the bankruptcy process, so it’s surprising to see this sort of placeholder language at this late stage in the bankruptcy when one would expect concrete cost saving proposals. In effect, this statement can be interpreted as saying, “maybe we’ll outsource other things, maybe we won’t,” which does not inspire confidence that significant additional proposals will be forthcoming. Worse, in the section of the plan of adjustment dealing with the 10-year revenue and expenditure projection for the city’s General Services Department, it specifically includes the statement that it “[a]ssumes no additional outsourcing being evaluated for all divisions.”

While it’s encouraging to see the solid waste and payroll outsourcings and the plan’s proposals for sensible privatization initiatives in transit, streetlight and potentially airport operations, they present an underwhelming package in the aggregate. There remains a plethora of cost-savings opportunities through privatization that could yet be mined, particularly in areas like public works, fleet operations and various administrative support functions. Bankruptcy is the time to explore these options.

2. Asset Privatization

One might think that given the severity of its fiscal distress, Detroit would be looking at every opportunity to sell and lease assets and enterprise operations to generate capital that can be applied toward its bankruptcy resolution. A common theme in the contentious discussion of how to handle the city's art collection—a theme that also applies more broadly across all of the city's assets—is that if officials don't make a serious effort to put everything on the table in bankruptcy, they could undermine the city's bond rating, set a bad precedent in the financial markets, and ultimately drive up the costs of future city borrowing. This in turn could make it more difficult to recover economically, attract economic growth, restore city services and improve the quality of life for its residents.

Just like the outsourcing issue discussed in the previous section, the city's asset privatization and divestiture proposals leave something to be desired. On the positive side:

- The city is exploring a potential monetization of its parking assets and has retained a consultant to conduct due diligence and produce a report on the long-term value of the parking system. This report, according to the plan, “is expected to serve as a basis for the solicitation of potentially interested bidders for the parking assets, and the City anticipates that the transaction may close during Fiscal Year 2015.” This is a sensible move, as it presents a potential opportunity to generate upfront cash, modernize the system, shed the operating costs, and increase parking revenues to the city over time. Indianapolis presents the best example here. That city entered a lease of its downtown parking system in 2010, receiving \$20 million upfront and an estimated \$300 million in shared revenues over the 50-year lease. It also shed its operations and maintenance costs and got a complete technological makeover as part of the deal, on the private sector's dime. While these are very different cities economically—and Detroit may or may not be able match the terms of that deal—at the very least it's worth testing the market on parking.
- In addition to outsourcing the operations of the Coleman Young airport, officials are also looking at other alternatives, “including possible sale or lease transactions [and] modernization initiatives designed to attract core users of the airport.” It's unclear how attractive the airport would be to private investors today, as it currently lacks the revenue streams from passenger fees and service-related revenues that would entice significant upfront capital from a private investor-operator. However, it's certainly

worth testing the market and looking at alternative private-sector-driven proposals.

Things drop off quickly after that:

- The plan only proposes to sell one significant asset—the Veterans' Memorial Building, which houses the UAW-Ford National Programs Center operated by UAW-Ford, a 501(c)(4) organization. And the city is not putting it on the market to the highest bidder, but rather is negotiating a sale of the building to UAW-Ford directly, a move likely to leave money on the table.
- None of the tens of thousands of other lots and buildings owned by the city appear to be on the chopping block. While many have limited value—including thousands of vacant lots and buildings—and others have title and other legal complications, surely there are at least some other city-owned buildings and property assets that could be sold outright.
- The city's original plans to lease the water and wastewater system to a regional public authority remain in doubt, given the resistance of surrounding suburban governments to making \$47 million in annual lease payments to the city over a 40-year period, totaling over \$1.8 billion. This prompted Orr's office to issue a request for information seeking potential private partners that might be willing to bid on some type of public-private partnership, which could range from an operations and maintenance contract up to a long-term lease or outright sale of the system. That said, the system's massive debt load and capital investment needs make it a difficult sell with regard to a long-term lease to the private sector, though outsourcing operations and maintenance could be an option to improve its balance sheet.
- Though beyond the scope of this article to explore in detail, the well-publicized plan to prevent the sale of the city's art collection by pledging philanthropic and state bailout funds to pensioners, as well as the recent turnover of Belle Isle park's operation to the state rather than selling it, are problematic. They take assets with significant potential economic value and leverage them for significantly less than they're worth, largely on emotional grounds. This tradeoff might seem logical as a short-term political calculation but ultimately may not be conducive to the long-term fiscal health of the city.

3. Conclusion

Detroit's plan of adjustment offers a good start with regard to service and asset privatization, but at this stage of the bankruptcy proceedings, a "good start" is too little too late. The current plan leaves a lot of opportunity on the table in terms of potential revenue generation and cost savings, which does not bode well for the city's future fiscal and financial recovery moving forward out of bankruptcy. It leaves too many pre-bankruptcy government structures in place.

One of the silver linings of bankruptcy is that it presents a major opportunity for reinvention and restructuring, but the current plan does not seem to fully leverage the transformation moment. Rather, it seems to seek to avoid pain for the city as much as possible, while inflicting more of it on pensioners and creditors to varying degrees. Ironically, internalizing more of that pain now through more aggressive restructuring of city services and assets would best protect the city from having to revisit that pain later in another bankruptcy.

[An earlier version of this article was published on Reason.org in February 2014.]

C. Pontiac, Michigan Emerges From Emergency Manager Control as Contract City

In August 2013, Gov. Rick Snyder removed Pontiac from four years of emergency manager control after it had reached financial stability, in no small part due to the extensive use of privatization, intergovernmental contracting and asset divestiture to balance the budget and shed expenses and debt.

In 2009, Pontiac joined the list of fiscally distressed Michigan cities that have seen the appointment of emergency managers in recent years, given its high debt load and chronic budget deficits. Michigan law allows the state to appoint emergency financial managers for local governments in fiscal distress, granting them broad control over city operations and budget decisions, as well as contracts, asset divestiture, labor agreements and the like.

During Pontiac's time under emergency manager control between 2009 and 2013, it saw a massive reduction in the city workforce from over 500 non-court employees down to just 20 (a 96 percent reduction), the reduction of city debt from \$115 million to \$28 million, and the lowering of general fund expenditures to \$30 million, which is half what the city was spending six years ago.

Many of the contracting and asset divestiture initiatives occurred under the tenure of former Emergency Manager Louis Schimmel from 2011 to 2013, including:

- Contracting out approximately 20 city functions, including trash collection, building services, and road and streetlight maintenance, as well as administrative support functions like IT, auditing and budget administration, and legal services.
- Entering into intergovernmental agreements with Oakland County and other public entities to take over police and fire services, 911 dispatch, water and wastewater operations, and animal control services.
- The sale of several city assets, including a golf course, city land and buildings and excess water/wastewater capacity.
- The consolidation of over 80 retiree health care plans to just one.

In many ways, Schimmel was a natural choice to serve as the third emergency manager in his hometown of Pontiac upon his appointment in 2011, having previously served as a court-appointed receiver in Ecorse in the late 1980s and as the emergency financial manager in Hamtramck in the early 2000s. In both jurisdictions, Schimmel similarly embraced privatization and intergovernmental contracting.

Despite such a dramatic downsizing of Pontiac's workforce through contracting, there were minimal layoffs of public employees. In a 2014 Reason Foundation interview, Schimmel notes:

So I used attrition and buyouts heavily in the privatization of services of all three municipalities I've been in. And as a result of doing that, the layoff of employees have been almost zero.... [O]verall, including police, fire, public service and administration, very few jobs were lost because of contracting. Also, several employees were hired by the contracting companies. So yes, you have to do some negotiating and work with attrition and buyouts, but becoming a contract city isn't what people think, in terms of wholesale layoffs and that sort of thing.⁷

Despite being removed from emergency managed control and regaining more local fiscal autonomy, Pontiac will remain under the oversight of a four-member Transition Advisory Board—which includes Schimmel—that is now overseeing the city's finances and progress at restoring its fiscal health.

According to Schimmel, the transition from traditional city to contract is unlikely to be temporary: “[I] see the contract city model staying in place in Pontiac indefinitely. And in my opinion, the citizens have accepted that and are very happy with the services provided today.”

[Editor’s note: Read more on Pontiac’s transition from a traditional city to a contract city in Reason Foundation’s March 2014 Innovators in Action interview with Louis Schimmel, available at <http://reason.org/news/show/pontiac-contract-city-schimmel>]

D. Parking Asset Public-Private Partnerships Update

Reason Foundation has covered public-private partnerships for parking assets extensively in previous editions of Reason Foundation’s *Annual Privatization Report*. The following section outlines the major developments from 2013–14 in those jurisdictions that have either implemented or advanced major proposals to enter into public-private partnerships to operate and maintain government-owned parking meter systems, garages and surface lots.

Indianapolis, Indiana: In March 2014, Indianapolis Mayor Greg Ballard’s administration released revenue figures showing that its 2011 privatization of city parking meters has significantly increased net revenues to the city after the third full year of implementation. As opposed to Chicago’s lump-sum upfront payment, Indianapolis’s 50-year concession (lease) of nearly 3,700 city parking meters saw the concessionaire—ParkIndy, a consortium composed of Xerox and local partners Denison Global Parking and Evens Time—pay the city \$20 million up front and an estimated \$300–600 million share of ongoing revenues over the 50-year lease term. Further, the deal involves a two-tiered revenue share where the city receives a 30 percent share of revenues up to a certain dollar threshold, and then a 60 percent share of revenues beyond that. In other words, the more revenue the system generates, the greater the share that the city receives.

As shown in Table 1 below, in 2010—the last year of direct city operation of the meters—the city saw net parking meter revenues of just over \$339,000, representing just under 16 percent of the total meter revenue of \$2.15 million. In 2013, after the third full year under concession management, the city received just shy of \$3.1 million in net revenues, almost half of the total meter revenue of \$6.1 million. This represents an over 804 percent increase in net revenues to the

city since privatization began in 2011. The full benefits are even greater, since the city shed responsibility for making capital investments into the parking meter system over the 50-year life of the deal; the concessionaire is required to update the meter technology every decade at its own expense.

Table 1: Indianapolis Parking Meter Revenues, 2010–2013

Year	2010 (before privatization)	2011	2012	2013
Total Meter Revenue	\$2,149,949	\$2,882,847	\$5,325,041	\$6,079,420
Net Revenue to City	\$339,165	\$1,519,295	\$2,530,391	\$3,066,546
Meter Enforcement	\$1,276,213	\$1,684,189	\$2,130,663	\$2,019,409
Revenues per Metered Space	\$519	n/a	n/a	\$2,817

Sources: City of Indianapolis, ParkIndy

According to ParkIndy representatives, changes to rates and modified hours of operation have been relatively minor factors in the overall parking meter revenue increase, relative to major operational efficiencies and management innovations. As shown above, the annual revenues per metered space have increased from \$519 in 2010 (before privatization) to \$2,817 in 2013. Breaking down the difference (\$2,298):

- Rate increases and changes to the hours of operation only account for approximately 20 percent of the increased revenues.
- The bulk of the increase in revenues—43 percent—is attributable to improved meter operability and time limit optimization. Under city operation, a significant number of meters were broken, and it took days, or even weeks, to fix them. Under private operation, 99.8 percent of the meters are operable at any given time, and those meters that do break are repaired within hours. Further, the city adopted recommendations by ParkIndy to expand the amount of meter time a customer could purchase. Customers can now purchase larger blocks of time at night and on Saturdays downtown (and anytime in underutilized areas outside of downtown), making the system more convenient for users.
- Another 23 percent of the increase is due to more customers parking legally because of the new meter technology and the concessionaire’s use of data analytics and predictive enforcement (essentially, using historical data trends to drive enforcement activities, as opposed to “gotcha” enforcement).

- The remaining 14 percent of the increased per-meter revenue can be attributed to implementation of pay-by-phone apps, as well as improved permitting and meter bagging (and removal) procedures.

In announcing the third-year revenue numbers, Mayor Ballard noted that “[f]or the third consecutive year, Indy residents are seeing the benefits of ParkIndy.... In addition to providing drivers more and easier ways to pay and park, ParkIndy provides revenue for the City to fund needed construction and development projects.”

Ohio State University: The transition to privatized parking on the Ohio State University campus proceeded mostly smoothly in its first year, according to officials, after a concessionaire took over operation of the university’s garages, surface lots and permit program in September 2012. Earlier that year, the university entered into a long-term concession with CampusParc—a joint venture of the Australian firm QIC Global Infrastructure and LAZ Parking—to operate its parking enterprise in a 50-year lease agreement in exchange for an upfront payment of \$483 million, which the university placed in its endowment fund to generate long-term revenues for student scholarships, faculty positions and other activities to support its academic mission.

“There are always going to be kinks, but overall in terms of satisfaction levels—and we’ve been doing some surveys on that—and in terms of [CampusParc’s] effectiveness and efficiency, they seem to be doing very, very well,” former President E. Gordon Gee told *The Lantern* in March 2013.⁸

Critics of the deal have blamed CampusParc for some issues affecting university parking recently—for example, newly discovered deterioration in one garage and construction-related shutdowns of some parking facilities. However, the university has claimed responsibility for inconveniences. “We’ve heard people complaining that it’s more difficult to get parking. And of course they blame the new vendor, but the vendor had nothing to do with it,” interim University President Joseph Alutto told *The Lantern* in September 2013. “These were decisions we (the university) made.”⁹

Financially, the lease appears to be working quite well for the university. Ohio State officials estimate that the \$483 million upfront payment will ultimately generate \$3.1 billion in investment earnings over the 50-year life of the lease, and they estimate that the university earned \$50 million in investment earnings in the first year alone.¹⁰

Further, CampusParc has already spent approximately \$11 million on technology and infrastructure upgrades—including the deployment of wayfinding and pay-by-phone mobile applications—and plans to spend another \$14 million on further upgrades over the next several years.¹¹ “There were some rough spots initially, but I think CampusParc is providing as good, if not even better, service than the university did,” the university’s senior vice president for administration and planning, Jay Kasey, told *The Columbus Dispatch* in September 2013.¹²

Chicago, Illinois: In June 2013, the Chicago City Council approved an agreement negotiated between Mayor Rahm Emanuel’s administration and Chicago Parking Meters, LLC (CPM)—the private operator of the city’s downtown parking meter system under a still-controversial 75-year lease signed in 2008—that amended the terms of the lease to reduce the amount of “true up” payments the city is required to make to CPM as a result of taking parking meters out of service.

The contract amendments include extending the hours of operation of meters in various parts of the city in exchange for allowing free parking on Sundays in neighborhoods outside of the central business district, as well as allowing the concessionaire to offer a mobile application that allows users to pay for meter time via cell phone. The agreement also settled a lingering dispute between the city and CPM over \$50 million in penalties the private operator claimed it was owed due to meters the city took out of service in excess of the amount allowed for in the contract, as well as unpaid parking fees by drivers using disabled placards. The two parties agreed to reduce the payment owed to CPM down to \$8.9 million and revise the way out-of-service meters are calculated for the remainder of the contract term, which city officials estimate will lower penalties by \$1 billion over the next seven decades.¹³

Proponents of the contract amendment suggested that the deal would largely be a wash from a revenue standpoint, though a May 2013 analysis by the *Chicago Tribune* found that CPM could potentially see an additional \$517 million in non-meter-fee revenue over the remaining 71 years of the lease, including \$4.5 million per year from future out-of-service penalties, \$76 million in convenience fees from the new pay-by-cell technology, and \$216 million in penalties for excessive disabled parking use (though a city-backed state law enacted in 2013 aims to minimize abuse of disabled placards).¹⁴

In other news, in September 2013 a Cook County judge upheld an arbitrator panel's ruling from earlier in the year that Chicago owed \$59 million to Chicago Loop Parking, the Morgan Stanley-led concessionaire operating four city-owned parking garages since 2006 under a 99-year lease. The panel found that the administration of former Mayor Richard Daley had violated the terms of the concession when it allowed the construction of a competing city-owned parking garage near one of the four garages operated under the lease agreement.¹⁵ Despite the legal victory, the concessionaire is reportedly in talks to turn over control of the lease to lender Societe Generale as a result of financial difficulties.¹⁶

Detroit, Michigan: Detroit Emergency Manager Kevyn Orr is exploring a potential monetization of the city's parking assets as part of a plan of adjustment to exit bankruptcy, and the city has retained a consultant to conduct due diligence and produce a report on the long-term value of the parking system. This report, according to the plan of adjustment, "is expected to serve as a basis for the solicitation of potentially interested bidders for the parking assets, and the City anticipates that the transaction may close during Fiscal Year 2015." The operations of the parking system have deteriorated to the point that it costs the city \$32 to process a \$30 parking violation, and roughly half of Detroit's over 3,400 parking meters are inoperable at any given time, Orr spokesman Bill Nowling told *The Detroit News* in March 2014.¹⁷

Harrisburg, Pennsylvania: In late December 2013, the state-appointed receiver for the financially distressed city of Harrisburg, Pennsylvania announced the approval of a long-term lease of the city's parking assets as part of the receiver's plan to restructure \$600 million in city debt. Though mistakenly referred to by some media observers as a public-private partnership, the transaction is more accurately described as a "public-public partnership," as the Harrisburg Parking Authority has entered into a 40-year lease of the city's parking meters, garages and surface lots with the Pennsylvania Economic Development Financing Authority (PEDFA)—a state entity—in return for approximately \$267 million raised as tax-exempt debt by PEDFA. In turn, PEDFA subcontracted out the operations of the parking assets to a team that includes Standard Parking and PK Harris Advisors, who will each be paid a flat management fee for operations and maintenance of the system; by contrast, in public-private partnerships underway in Chicago, Indianapolis, and Ohio State University, the private operator also has, to varying degrees, a significant revenue stake in the operations. A key lynchpin of the deal was an agreement by the Commonwealth of Pennsylvania to lease approximately 4,300 of the city spaces—nearly half—for use by state workers over a 30-year period.¹⁸

Under the deal, the city will continue to earn some parking revenue through an annual lease payment from PEDFA. The proceeds of the transaction were used to defease existing parking system debt and pay off city creditors as part of the debt restructuring agreement.

Cincinnati, Ohio: A “public-public partnership” involving a planned lease of Cincinnati’s parking meters and garages to the Port of Greater Cincinnati Development Authority was abruptly scuttled in November 2013 after the election that month of a new mayor and several city councilors opposed to the deal, which would have transferred \$85 million to the city upfront and a stream of parking revenues over the next 30–50 years. Like Harrisburg (see above), the deal would have seen the lease of city parking assets to another public entity, which in turn would have subcontracted the day-to-day operation of the parking system to a private company—Xerox, in Cincinnati’s case—in return for a set annual management fee. The city had planned to use the upfront proceeds from the transaction for some short-term budget relief and for several infrastructure and redevelopment projects. Having cleared the city council earlier in the year, the Port Authority was in the process of readying the bond sale related to the lease when it was told to cease in November by the incoming mayor.¹⁹

In other news related to the privatization of municipal parking assets:

- *Colorado State University:* *The Coloradoan* reported in October 2013 that officials at Colorado State University (CSU) in Fort Collins are evaluating the potential lease of its parking assets to a private investor/operator as one way to help address growing parking demand.²⁰ According to CSU officials, any revenues from a parking asset lease would be used to fund new parking facilities and transit operations.
- *Columbia, South Carolina:* In April 2014, *The State* reported that Columbia city officials are planning to seek private proposals to take over operations of 10 city-owned parking garages and develop two new ones in the Bull Street neighborhood.²¹ Officials are considering a range of options—from operations-only contracts to long-term leases using private financing—according to the report, and the city has hired a consultant to evaluate the current operations of its city-owned system of garages.²²
- *Indiana:* In October 2013, the Indiana Finance Authority issued a request for information seeking firms interested in taking over management and operation of two state-owned parking garages and one surface parking lot in Indianapolis, as well as potentially redeveloping the parking

garages to expand the number of parking spaces and incorporate mixed retail and commercial uses. Responses were due in November 2013, and at press time the Finance Authority had not released the responses nor made any decisions regarding whether or not it planned to proceed.

- *Indiana University*: In October 2013, Indiana University announced that it had decided not to pursue a long-term lease of its parking assets on its Bloomington and Indianapolis campuses. A financial analysis by Goldman Sachs and Walker Parking Consultants found that a long-term concession of its parking assets would yield \$275 million in gross proceeds—which would be reduced to \$210 million after paying off debt—to invest in a university endowment. University officials opted to instead develop a strategic business plan to optimize its parking assets in-house in order to generate similar revenue. Officials had previously stated that they were originally exploring a lease arrangement that would allow the university to defease the parking debt while generating a net upfront payment of over \$250 million.
- *Omaha, Nebraska*: In September 2013, the city of Omaha entered into a five-year contract with Republic Parking to take over management of seven city-owned parking garages and five surface lots. The city will continue to collect the revenue from the parking operations and is paying Republic a \$3,500 per month management fee to operate the parking assets, which total approximately 4,500 spaces.²³ In March 2014, Omaha City Council approved an ordinance to allow the contract to be expanded to include management and operation of the city’s 5,000 on-street metered parking spaces, taking over the parking enforcement program, and assuming responsibility for parking meter collections and the city’s on-street meter hooding program for construction and special events. The contract amendment would increase the management fee paid to Republic by \$3,000 per month.
- *University of Michigan*: After a nine-month analysis by financial consultant Greenhill, the University of Michigan announced in January 2014 that it would not be pursuing a proposed long-term lease of its parking assets. The university hired Greenhill to explore a potential parking asset lease as a means of lowering costs, and the firm concluded that a long-term concession could potentially generate between \$260 million to \$300 million up front.²⁴ However, the university opted to retain operation of its system after discovering through the analysis that it was already running the parking system fairly efficiently and could

make some operational and technology improvements to increase efficiency moving forward.

E. Solid Waste Public-Private Partnerships Update

Solid waste management is one of the most extensively privatized municipal functions in the United States. Below are some highlights from efforts over the past year to privatize solid waste service delivery.

Detroit, Michigan: In February 2014, Detroit’s city council gave final approval to two contracts with private waste haulers for residential trash and recycling pickup services that are expected to save taxpayers \$6 million annually, according to the *Detroit News*.²⁵ The firms—Advanced Disposal Services and Rizzo Environmental Services—will offer positions to current city solid waste workers at a higher pay rate, and the city will avoid an estimated \$35 million in costs for new vehicles to replace its aging fleet. “We let the facts drive our decision and ... concluded that the residents of Detroit are better served by turning over trash collection to private contractors better equipped to provide improved and expanded service,” according to the city’s chief operating officer, Gary Brown.²⁶

The city had issued a request for proposals the previous July seeking potential bidders for a five-year contract for the collection and disposal of residential trash, recycling, bulk waste and yard waste. The RFP divided the city into four collection zones, and bidders were allowed to submit proposals on one or more zones. The city ultimately received proposals from 10 different bidders, a blend of national and local solid waste firms that included Waste Management Inc., Republic Services, Midwestern Sanitation, Emterra Group, Kurtz Brothers, Resource Recovery Systems, Advanced Disposal Services, Unity Midwest Waste & Recycling, and J Fons and Rizzo Environmental Services.²⁷

The contractors will take over responsibility for customer service (e.g., tracking and addressing complaints), but the city will retain responsibility for handling customer billing. Contracts will include penalties for failing to meet specified performance standards, such as a minimum of \$1,000 in financial penalties per incident if the vendor fails to collect a household’s waste, for instance.

Flint, Michigan: In February 2013, Flint’s emergency manager announced a five-year contract for solid waste and recycling collection with Republic Service

that is expected to save the city \$1 million annually and introduce a new curbside recycling program for residents. Under the deal, Republic will purchase Flint's collection trucks for \$1.5 million and have offered priority hiring for the city's sanitation workers. "I'm confident that our decision to contract with Republic Services for Flint's waste collection needs is the right one for our residents," said Ed Kurtz, Flint's emergency financial manager. "Not only will it save the city money, it will also provide residents with the additional benefit of recycling service, which they currently do not have."

Fresno, California: A union-led campaign against trash privatization in Fresno, California successfully defeated a pro-privatization ballot measure in early June by approximately 800 votes. Government employee unions drove the privatization decision to the ballot after the city council voted to approve a contract in December 2012 with Mid Valley Disposal that would have brought Fresno a \$1.5 million upfront payment and a \$2.5 million payment from the company each year over the life of the contract.²⁸ The contract would have also lowered residents' trash bills by 15 percent, and the company would have hired on nearly all of the city's current solid waste workers. Nonetheless, unions were able to sow doubt in enough voters' minds to squelch the deal, despite the cost savings for the city and residents.

Central Falls, Rhode Island: In one of his administration's first moves after emerging from bankruptcy and state receivership in April 2013, new Central Falls Mayor James Diossa announced plans to contract out solid waste and recycling collection to MTG Disposal, which is estimated to save the city \$400,000 over the four-year contract term, according to the *Providence Journal*.²⁹

Lawrence, Indiana: A new contract with Republic Services for residential trash and recycling collection will save Lawrence, Indiana an estimated \$5 million over the 10-year contract, helping the city eliminate its budget deficit, according to the *Indianapolis Star*.³⁰ The company offered positions to all nine city sanitation employees and paid the city \$300,000 for its trucks and waste containers, according to the paper.

Harrisburg, Pennsylvania: As Harrisburg was winding its way toward the completion of its major debt restructuring at the end of 2013, the outgoing administration of Mayor Linda Thompson advanced a proposed solid waste outsourcing contract with Republic Services that her administration claimed would generate \$1 million in annual revenue for the city.³¹ However, the city council balked at the contract, and it was not completed before Thompson's

term expired in January 2014. It is unclear whether the new administration of Mayor Eric Papenfuss will re-open the process and solicit a new round of bids for solid waste services.

Pima County, Arizona: In May 2014, the Pima County Board of Supervisors approved privatizing the operation of four county-owned landfills, two transfer stations, four rural collection sites and the county's waste-tire program in a \$10 million, 10-year contract with Tucson Recycling and Waste Services expected to save the county \$250,000 annually.³²

In other solid waste privatization news:

- ***Boynton Beach, Florida:*** In July 2013, a city finance advisory committee issued a set of recommendations that included solid waste collection, which was estimated to generate \$2 million in annual savings for Boynton Beach, as well as more in vehicle replacement costs avoided.³³
- ***Petal, Mississippi:*** In September 2014, the Petal Board of Aldermen approved a contract with Waste Pro for solid waste collection that will lower residents' trash bills from \$17.00 to \$15.25 per month and allow the city to transfer over \$400,000 to its general fund.³⁴
- ***Pitkin County, Colorado:*** The *Aspen Daily News* reported in December 2013 that county commissioners in Pitkin County, Colorado approved the partial privatization of its recycling program through a contract with Waste Management to operate four recycling centers expected to save the county at least \$178,000 annually.³⁵ The county had lost \$350,000 operating these facilities in 2012, and the move is expected to increase waste diversion since the company will institute "single stream" recycling, allowing customers to throw all types of recyclable products away in one bin instead of sorting them into different bins.³⁶
- ***Scranton, Pennsylvania:*** City officials in Scranton approved a new labor contract with Department of Public Works employees in July 2013 that retained decades-old language precluding the privatization of solid waste services.³⁷ The contract also increased worker pay and city contributions to worker pensions.

F. Water and Wastewater Public-Private Partnerships Update

According to various estimates, local governments in the U.S. are facing somewhere between \$600 billion to \$1 trillion in needed water and wastewater system investment in the coming decades to address chronic deferred maintenance and replace aging infrastructure. Public-private partnerships are increasingly being viewed as a viable way to address at least some of those pressing needs, given ongoing fiscal pressures at all levels of government.

1. Public Works Financing Releases 18th Annual Water Partnerships Survey

In March 2014, *Public Works Financing* issued its 18th annual water partnerships report, which offers a snapshot of the current state of the U.S. water/wastewater public-private partnership market.³⁸ Overall, the estimated total water/wastewater outsourcing market was \$1.9 billion in 2013, up slightly over \$1.8 billion in 2012.

The four major firms responding to the survey—CH2M HILL, Veolia Water North America, United Water and Severn Trent Services—report a total of 946 partnerships with 760 government clients to operate, maintain or manage facilities. The actual number is much higher though, as the survey does not include facility and client totals from major provider American Water, as well as numerous smaller water companies. The four firms reported new business in 2013 totaling \$31 million in first-year revenues and \$151 million over the life of the contracts. Additionally, 86 contracts came up for renewal in 2013, of which four reverted back to municipal control and two were lost for other reasons.

Table 2 below details the trend in contract renewals over the last decade. Despite a dip in the industry contract renewal rate in the years 2010 and 2011 that reversed in 2012, overall it has been remarkably steady for the last decade, with renewal rates in most years exceeding 85 percent.

Overall, nearly 92 percent of the 3,620 contested contracts reported since 2004 were renewed with the incumbent provider or a competing firm. By contrast, only three percent reverted back to municipal operation, indicating that government clients are overwhelmingly satisfied with their current public-private partnerships.

Table 2: Contract Renewals and Lost Government Contracts, 2004–2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	TOTAL (2004–13)
Number of Contested Contracts	510	758	833	788	117	127	151	147	103	86	3,620
Contracts Renewed	96.5%	93.0%	91.6%	96.8%	94.9%	85.0%	76.8%	64.6%	89.3%	86.0%	91.7%
Back to City Operations	1.8%	1.8%	1.8%	1.9%	5.1%	7.9%	7.9%	18.4%	5.8%	4.7%	3.3%
Other	1.8%	5.1%	6.6%	0.3%	0.0%	7.1%	15.2%	17.0%	4.9%	2.3%	4.7%

Source: Author calculations using data published in *Public Works Financing*, March 2014 edition

2. Federal Action on Water and Wastewater Public-Private Partnerships

Recent action in Congress may catalyze more private investment in water and wastewater infrastructure in the U.S. In May 2014, the House and Senate passed the bipartisan Water Resources Reform and Development Act (WRRDA) of 2014 (H.R. 3080) by overwhelming margins. If signed into law by President Obama, the legislation will create a new five-year pilot program—the Water Infrastructure Finance and Innovation Act (WIFIA)—offering low-interest federal loans and loan guarantees to help finance significant water projects through public-private partnerships (PPPs), lowering the cost of capital for such projects.

Specifically, under WIFIA, the Army Corps of Engineers and the Environmental Protection Agency would be authorized to provide up to \$175 million in direct loans and loan guarantees for the construction of critical water infrastructure projects—such as drinking water systems, wastewater treatment plants, desalination plants, new water supply facilities, levee and flood control projects—including those delivered through PPPs. The program is largely modeled after the Transportation Infrastructure Finance and Innovation Act (TIFIA) administered by the Federal Highway Administration, which has been used to help finance many transportation PPP projects nationwide.

WRRDA also creates a separate 15-project pilot program to evaluate the use of PPPs to accelerate the planning and construction of projects for coastal harbor improvement, channel improvement, inland navigation, flood damage reduction, aquatic ecosystem restoration and hurricane/storm damage reduction to help the Corps address a \$60 billion project backlog.

WRRDA passed by overwhelming margins in each chamber: 412-4 in the House and 91-7 in the Senate. WRRDA is the product of a House-Senate conference committee formed to forge consensus on a single water infrastructure bill after each chamber passed different versions of a water bill in 2013.

3. Water and Wastewater Public-Private Partnership Update

In other developments in 2013 and early 2014 on water/wastewater public-private partnerships:

Detroit, Michigan: In March 2014, Detroit Emergency Manager Kevyn Orr issued a request for information on a potential public-private partnership for the operation and maintenance of the city’s water and wastewater system. The request comes as the city’s original plans to lease the water and wastewater system to a regional public authority stalled amid resistance from surrounding suburban governments, who have balked at the structure of the plan, which would require them making \$47 million in annual lease payments to the city over a 40-year period, totaling over \$1.8 billion.

While the request for information envisions an operations and maintenance (O&M) contract—with a cap on any rate increases of four percent annually for the first 10 years of a contract—it also notes that Orr will consider “alternative transaction structures, such as a long-term lease and concession agreement or sale.” Qualifications and non-binding expressions of interest are due in early April, and for those bidders deemed qualified, final and binding proposals would be due in June 2014.

The system’s massive debt load—it has nearly \$6 billion in revenue bond debt—and capital investment needs could potentially make it a difficult sell for private investors, at least in terms of prospects for a long-term lease or sale. While some jurisdictions have entered into long-term leases of water and wastewater systems to private operators—Bayonne, New Jersey being among the latest—this could be a major challenge in Detroit’s situation, as the nearly \$6 billion in debt would likely have to be paid off immediately. In addition, there are hundreds of millions in capital investment needs that a private operator would need to take on, as well as approximately \$675 million in retiree pension obligations.

The timing may present another challenge. Orr has put the initiative on an aggressive timeframe, trying to wrap up any potential contract or lease by the end of the summer in 2014. While that may appeal to some investors and operators who would seek certainty that a process initiated by Orr would not

continue past his tenure as emergency manager (in order to minimize political risk), similar transactions can often take anywhere from six months to well over a year to complete.

Los Angeles, California: In March 2014, the Los Angeles Department of Water and Power launched a contract with Veolia Environnement to perform an efficiency review and assist in the implementation of industry best practices for the city's large water meter and fire service line programs, as well as its chemical procurement activities.

Miami-Dade County, Florida: In July 2013, the Miami-Dade County Board of Commissioners passed a resolution establishing a public-private partnership program seeking to establish a policy framework for privately financed public infrastructure projects.³⁹ The resolution directed the Miami mayor's office to develop a comprehensive plan for public-private partnerships, including best practices and proposed new ordinances or amendments necessary to facilitate partnerships. The move came on the heels of the passage of new state legislation (House Bill 85) in June that authorizes municipalities, counties, school boards and other political subdivisions of the state to use public-private partnerships to develop a wide range of facilities, including schools, public buildings, ferries, mass transit facilities, parking facilities, port facilities, power generation facilities, oil or gas pipelines, medical or nursing care facilities, water/wastewater facilities, recreation facilities and more.

One early adopter may be the Miami-Dade County Water and Sewer Department, which issued a request for expressions of interest seeking information from interested private parties regarding the feasibility of using public-private partnerships to deliver any of the major projects in the department's capital improvement plan. The request lists a number of potential projects totaling hundreds of millions of dollars in capital investment, including two new water treatment plants, a new West District wastewater treatment plant, expansion of the South District wastewater treatment plant, four new wastewater pump stations and upgrades, and more. The agency will consider a wide variety of potential project delivery options, ranging from design-build-maintain contracts to long-term concessions. "The expression of interest is really designed to gauge what kinds and which of the projects private sector firms seem most enthusiastic about," agency Deputy Director Doug Yoder told *Global Water Intelligence* in November.⁴⁰

San Diego, California: In August 2014, the city of San Diego entered into a contract with CH2M HILL to provide optimization consulting services to

streamline its water and wastewater operations and increase operational efficiencies, reduce costs and generate additional revenue. CH2M HILL will analyze the city's water and wastewater facilities and operations to identify potential improvements in energy use, water production and distribution, chemical usage, data utilization, wastewater sludge processing and disposal, operator staffing, and warehouse practices and procedures.

St. Louis, Missouri: In October 2013, Veolia withdrew from a \$250,000 contract with the city of St. Louis it won last year to conduct an efficiency review on the city's water utility in the wake of a major protest effort by anti-privatization activists and a decision by the city council to eliminate funding for the first phase of the contract.⁴¹ Instead, the Metropolitan St. Louis Sewer District will conduct an efficiency analysis to assess the conditions of the city's aging infrastructure and seek ways to reduce costs.

Fort Worth, Texas: In October 2013, a task force evaluating the potential privatization of Fort Worth's city water operation issued a report recommending against privatization, noting that the city's operation was already run fairly efficiently. The task force solicited information from a dozen private water companies to evaluate the feasibility and potential trade-offs involved with a range of privatization approaches, but it ultimately concluded that there was little opportunity to drive significant cost savings through privatization.⁴² The review was part of a larger initiative designed to scour city operations for cost savings opportunities.

Allentown, Pennsylvania: The nonprofit, quasi-public Lehigh County Authority prevailed over two private sector bidders for a 50-year lease of Allentown, Pennsylvania's water and wastewater systems in 2013, a move designed to generate upfront revenue the city could use to pay down underfunded pension obligations and avoid rapidly spiraling annual pension payments. In exchange for a \$211 million upfront payment and an annual \$500,000 royalty fee, the Authority took over operations of the utilities in August. The city plans to direct \$160 million of the proceeds into its pension fund, pay down \$29.3 million in water/wastewater debt, and put \$15 million into its rainy day fund.⁴³ Facing pension costs that would have consumed upwards of 30 percent of general fund spending in the near term if left unaddressed, the city was able to dramatically lower its annual pension contributions in the coming years and stave off a financial crisis. According to Mayor Ed Pawlowski, "[w]e solved a critical fiscal problem that was going to bankrupt us if we didn't address it in the very near term."⁴⁴

Scranton, Pennsylvania: In December 2013, the Scranton Sewer Authority issued a request for qualifications from potential financial consultants to advise the Authority on a potential sale or lease of its sewer system. The solicitation was in response to a federal consent decree mandating approximately \$140 million in system upgrades in the coming decades to mitigate pollution directly impacting the Chesapeake Bay.⁴⁵ “We want to get someone in here to look at the financial condition of the authority and look at our obligations and what we’re up against in the next 20–30 years in terms of the consent decree, and how we can finance that going forward,” Executive Director Gene Barrett told the *Scranton Times-Tribune*.⁴⁶ “We just want to see what our options would be and how we address this and protect the ratepayers.”

Bridgeport, Connecticut: In March 2014, the city of Bridgeport entered into a 10-year contract with Severn Trent Services to provide operation, maintenance, management and customer services for the Bridgeport Water Pollution Control Authority’s wastewater collection and treatment systems. As part of the agreement, Severn Trent will work with the Authority to achieve compliance with three current consent orders with the Connecticut Department of Energy and Environmental Protection.

Woodland and Davis, California: In December 2013, the Woodland-Davis Clean Water Agency—a joint powers authority representing the cities of Woodland and Davis—awarded a \$141 million contract to CH2M HILL to design, construct and operate a new surface water treatment system designed to replace groundwater with treated surface water from the Sacramento River. The partnership aims to improve water supply reliability and water quality and help the two cities comply with increasingly strict state and federal water quality and wastewater discharge regulations. The project will deliver a new water collection pipeline from the Sacramento River, a new water treatment plant and treated water pump stations, and distribution pipelines to each city.

Allendale, New Jersey: On August 1, 2014, United Water took over operations of the water system in the borough of Allendale, New Jersey in a five-year contract expected to save the borough \$193,000 annually. Under the contract, United Water will provide distribution and maintenance services for the water system, water supply, customer service, billing and meter reading. The borough will continue to own the water assets and retains control of rate setting. “It is a win-win solution for our residents and the Borough. Allendale gains the expertise and resources of United Water and at the same time we save a considerable amount in our water budget,” Allendale Mayor Vince Barra said in

a press release. “We will be able to utilize those savings for rate stabilization and additional capital for our water infrastructure.”

Johnstown, Pennsylvania: In March 2014, the city of Johnstown’s redevelopment authority entered into a five-year contract with Severn Trent Services to provide wastewater operations and maintenance services at the Dornick Point Wastewater Treatment Plant, a move expected to save the city nearly \$500,000 per year in operating costs for the plant.

G. Golf Course Privatization Update

Municipal golf courses are not immune from the financial pressures that have impacted the golf industry at large, which is just starting to recover financially from a deep hit during and after the Great Recession. With golf being a non-essential government service, many governments are turning to the private sector to operate and manage their courses, which can improve operations and customer service, upgrade facilities, enhance maintenance, and turn around underperforming or money-losing courses. Hundreds of municipal golf courses nationally are currently under private management agreements or leases.

Developments in golf privatization since 2013 include:

Phoenix, Arizona: In May 2013, the Phoenix City Council voted to contract out the maintenance and concessions at five of its money-losing public golf courses as part of a plan to eliminate its \$2.4 million annual golf-operating deficit. In February 2014, the city ultimately selected Scottsdale-based OB Sports Golf Management to provide maintenance services at the five courses, and under the deal, the company will provide all labor, supplies and equipment required to maintain the courses in exchange for a fixed fee. “We were impressed with the local knowledge and experience of the OB Sports team as well as their commitment to golf course maintenance as a company,” Phoenix Vice Mayor Bill Gates said in a press release. “We are confident this will be a great partnership.”

Tucson, Arizona: In January 2014, Tucson officials signed a five-year contract with Scottsdale-based OB Sports to take over operation of the city’s five golf courses, the culmination of a strategy designed to address an \$8 million deficit in the city’s golf operations.⁴⁷ Under the deal, OB Sports will be paid an annual \$240,000 management fee (plus an incentive payment of five percent of any

increase in golf revenues relative to current levels), and the city will retain ownership of the courses and will continue to set greens fees.⁴⁸ City officials received bids from 15 different firms in response to its request for proposals in early 2013, of which seven firms were ultimately shortlisted.

St. Paul, Minnesota: In January 2014, St. Paul's city council approved the privatization of operations at two money-losing, city-owned golf courses to avoid closure. The city has entered a five-year agreement with Prom Catering to operate the two courses in return for a four percent share of gross revenues, which officials expect will net the city approximately \$400,000 annually.⁴⁹ According to city officials, golf course expenditures in recent years have exceeded revenues by \$7 million, prompting the decision to privatize operations at two of the courses.⁵⁰

Lincoln, Nebraska: Despite a recommendation from the National Golf Federation that privatizing the operations and maintenance of city-owned golf courses could potentially stem revenue losses that have the courses operating in the red, the city's Parks and Recreation Department rejected the idea of selling off one course and contracting out the maintenance of others in 2013 as it developed a plan to address the courses' decline.⁵¹

Wichita, Kansas: In June 2013, the Wichita City Council unanimously rejected a private bid to operate the city's five golf courses. The city's golf advisory board had solicited bids to assess the benefits and drawbacks of privatization, but ultimately recommended against contracting out after finding that the private bid did not significantly differ from what was offered already by city workers.⁵²

Monroe County, New York: In January 2014, Monroe County officials announced that they would be ending a contract with the private operator of its three county-owned golf courses three years early in the wake of financial challenges faced by the operator and a state audit of the contract prompted by concerns over whether the company was meeting its contracted performance standards.⁵³ The county will take over maintenance functions at the courses and will seek another private operator to take over course management responsibilities.

Morris County, New Jersey: In October 2013, the Morris County Park Commission announced plans to privatize the management of three county-owned golf courses to address a \$2 million deficit in its golf operation, having already contracted out the operation of its other golf course in 2012.⁵⁴

Utah: The Utah House of Representatives tabled legislation (House Bill 145) introduced by Rep. Kay Christofferson that would have required the state to hire a golf course consultant to determine whether to privatize the operations of four state-owned golf courses operated by Utah State Parks and issue a request for proposals seeking potential private partners to operate, maintain and manage the courses. The state has lost money operating the courses in recent years, a situation that prompted the bill's introduction. A 2012 report prepared for the state by the National Golf Foundation recommended some operational changes in the short term and some form of privatization by the end of fiscal year 2015 if the courses' financial outlook had not improved by that time.⁵⁵

H. Zoo and Animal Shelter Public-Private Partnerships Update

Public-private partnerships between governments and nonprofit entities to operate and manage zoos and animal shelters are prevalent in this day and age. The municipal provision of these amenities is not a core public sector competency, and in difficult fiscal climates, amenities like parks, zoos and animal shelters typically lose out to higher priorities like public safety and public works in the competition for limited budget funding.

According to some estimates, over 70 percent of the accredited municipal zoos and aquariums in the United States are operated through public-private partnerships—including those in major cities like San Diego, New York City, Philadelphia, Chicago, Houston, Phoenix and Dallas. Similarly, a number of municipalities have turned over operations of animal shelters to nonprofit entities in recent decades as a way to reduce costs, increase adoptions and reduce euthanasia rates.

Below are some highlights from efforts over the past year to privatize zoos and animal shelters:

Los Angeles, California: In March 2014, a long-negotiated agreement to turn over the marketing functions of the city-operated Los Angeles Zoo to the nonprofit Greater Los Angeles Zoo Association (GLAZA) was delayed by a city council committee until the fall of 2014 to give the city and GLAZA more time to work out details of a memorandum of understanding to cement the arrangement.⁵⁶ GLAZA has committed to spending \$2 million per year out of its privately raised funds toward a three-year marketing effort, allowing the city to

zero out zoo marketing from its budget. New zoo revenues that result from the effort would be put back into additional marketing.

Though the idea of turning over marketing functions to GLAZA dates back to 2012—after a larger plan to turn over the entire zoo operation to GLAZA reached an impasse in negotiations with city officials—a final agreement has been elusive, met with a series of delays. Opposition by the Service Employees International Union—the union covering city zoo workers—has been a major source of the delays, raising fears of worker job losses in the event of privatization. The latest delay was the result of a city legislative analyst’s report that recommended the draft agreement be modified to place more stringent restrictions on GLAZA, including strict performance mandates on new revenues generated, zoo attendance and GLAZA membership.⁵⁷ The two sides now have until September 30, 2014 to come to terms on a final agreement.

South Bend, Indiana: In December 2013, the South Bend Board of Park Commissioners gave final approval to a public-private partnership with the Potawatomi Zoological Society to take over operations and management of the Potawatomi Zoo.⁵⁸ The Society took over zoo operations in January 2014, and according to the agreement, the city will continue to provide an annual operating and capital investment—but one that is capped and decreases over time as the Society increasingly assumes financial responsibilities—while keeping the asset in public ownership. All existing zoo employees kept their current salaries and job positions. Continued accreditation was one of the drivers of the partnership, as zoo officials feared that the quality of the asset and its animal care could suffer if future city fiscal challenges threatened the funding stream for the parks department, which formerly operated the zoo.⁵⁹ Partnership proponents noted that one of the key benefits in other jurisdictions has been the increased ability of nonprofit operators to increase support from private donors, philanthropic interests and businesses.

Evansville, Indiana: City officials in Evansville are considering a potential public-private partnership for the operation of the Mesker Park Zoo and Botanic Garden as a means to address a \$3 million annual operating deficit, declining attendance and a long list of unfunded expansion projects.⁶⁰ While the zoo is preparing to launch a new capital campaign to raise outside funds for new exhibits, in the long term, Zoo Director Amos Morris is urging a change in governance. “[A public-private partnership is] a better management system for a zoo, where the city puts in its contribution as a partner, and contracts with a nonprofit to run and operate it,” Morris told the *Evansville Courier & Press* in April 2014.⁶¹ “What it does for the city operation is, it fixes costs, reduces

exposure ... the city doesn't really have to get involved in the administrative parts of operating the zoo.”

Chico, California: In July 2013, Chico City Manager Brian Nakamura announced that the city was going to begin exploring the potential privatization of animal shelter operations as part of a larger strategy to help close looming city budget deficits.⁶²

San Joaquin County, California: Officials in San Joaquin County are considering a potential public-private partnership with the Micke Grove Zoological Society to take over operations of the county-run Micke Grove Zoo. The nonprofit society is interested in expanding the zoo and is seeking privatization as a way to avoid the inevitable competition for limited county funding that comes with being a government-operated zoo. According to county officials, key obstacles to privatization that would need to be overcome include unionized employees and demonstrating an ability to privately raise millions of dollars to support operations and new exhibits.⁶³

Yolo County, California: Officials in Yolo County are considering a proposal by the county’s Local Agency Formation Commission to privatize the operations of the Yolo County Animal Shelter, which is currently operated by the county sheriff’s department. “It has the potential to provide better animal services in the county,” the Commission’s Christine Crawford told CBS Sacramento in December 2013.⁶⁴ “The sheriff’s primary focus is law enforcement, and so we want their office to focus on that.” Any privatization would require agreement between the county and the communities of Davis, Woodland, Winters and West Sacramento to proceed. The privatization proposal is based on a recommendation in a report prepared for the Commission on how to most effectively and efficiently operate the county’s animal services and reduce the euthanasia rate, as reported in Reason Foundation’s *Annual Privatization Report 2013*.

Brevard County, Florida: In December 2013, county commissioners in Brevard County directed staff to prepare a request for proposals for the potential privatization of two county-operated animal shelters in Melbourne and Titusville in hopes of increasing adoptions and lowering the euthanasia rate.⁶⁵

Genesee County, Michigan: In December 2013, the Genesee County Board of Commissioners deadlocked in a vote on whether or not to solicit outside bids from private parties to operate the county animal shelter. The previous August, the board requested that staff develop a request for proposals, but when it was

time to authorize its release, the board split 4–4, with one commissioner absent.⁶⁶ The proposal was met with resistance by the AFSCME union, which represents the four county employees that currently work at the shelter. Commissioners originally sought privatization as a way to reduce the euthanasia rate and improve adoption services.⁶⁷

Nye County, Nevada: In September 2013, the Nye County Board of Commissioners approved a solicitation to seek a private operator for the county animal shelter as a way to eliminate nearly \$147,000 in annual costs.⁶⁸ According to the bid specifications, the county is seeking a one-year contract with three one-year renewal options, and the provider would need to comply with all service and operational standards of the American Humane Association.

Conroe & Montgomery County, Texas: At the recommendation of the Conroe Police Department, the Conroe City Council formally approved a public-private partnership with Care Corporation in early 2014 to take over operations of the city’s animal shelter. Care Corporation had already been operating the shelter under an interim agreement with the city based on a similar partnership the nonprofit has in place with Montgomery County.⁶⁹

In February 2013, the *Houston Chronicle* reported that volunteers at the privatized Montgomery County Animal Shelter were citing noticeable improvements as a result of its transition to privatization in 2012, including increased adoptions, better operations, more autonomy for directors and better care for animals.⁷⁰

I. Local Government Privatization News and Notes

National

In April 2013, the U.S. Conference of Mayors and the Clinton Global Initiative announced the formation of a new Infrastructure Financing for Cities Task Force (IFC Task Force), chaired by Chicago Mayor Rahm Emanuel, that will raise awareness of the need for urban infrastructure investment and promote solutions that include leveraging private capital to finance projects and the use of innovative investment models such as urban infrastructure banks. “The Infrastructure Financing for Cities Task Force is committed to creating jobs by ensuring that communities coast-to-coast have the necessary infrastructure to

compete in the global economy,” said former President Bill Clinton in announcing the task force.

Arizona

Tucson: In February 2014, the Arizona-based Goldwater Institute filed a lawsuit challenging a 2012 City of Tucson ordinance that enacted a discriminatory preference for local and state vendors in city contracts for goods and services. Filed on behalf of two Tucson taxpayers and a local business owner, Goldwater is seeking a court order to invalidate the bid preference ordinance as being illegal under state statute and unconstitutional under both the federal and state constitutions.

Statewide: In September 2013, the Arizona Department of Health Services launched an investigation into emergency response times provided by EMS and fire services contractor Rural/Metro (and its Southwest Ambulance and PMT Ambulance subsidiaries) under its contracts with several Arizona cities in the wake of the company’s bankruptcy proceedings. The Department raised concerns that the company’s financial health may have hindered the company from fulfilling its obligations as a state-certified ambulance service provider.⁷¹ Data subsequently reported by the agency found that the bankruptcy proceedings had not impacted the company’s ambulance response times, and Rural/Metro emerged from bankruptcy in late December 2013 without significant disruptions to its Arizona contracts.

California

Carlsbad: In February 2014, Carlsbad’s city council voted to reject bids from six private landscaping companies for providing parks maintenance services. The council originally solicited bids after a 2012 consultant report recommended that privatizing parks maintenance could generate up to \$4.7 million in savings, but the state subsequently passed a law (Senate Bill 7) that would withhold state funds from cities that do not pay prevailing wages to contractors, affecting the pricing of the parks maintenance bids and reducing potential savings to just \$365,000 per year, which the council deemed insufficient to justify contracting out the service.⁷²

Chico: In July 2013, Chico’s city manager, Brian Nakamura, announced that the city was going to begin exploring a range of potential opportunities to contract out city services and functions—including animal shelter operations, legal

services, information technology, street sweeping and wastewater treatment—in order to help close looming city budget deficits.⁷³

Hermosa Beach: In March 2013, officials in Hermosa Beach approved an eight-year contract with Athens Services to provide residential solid waste collection and street sweeping services that began in July of that year. The firm had already been providing street sweeping services to the city, and officials were able to renegotiate that contract to get a five percent reduction in pricing given the expanded scope of services provided.⁷⁴

Long Beach: Long Beach officials are nearing a decision on privatizing street sweeping services, having given city staff the opportunity to submit a counterproposal to a bid submitted by Athens Services to take over the service and save an estimated \$865,000 annually, according to a city consultant report. If the private contract proceeds, the 19 city employees providing that function would be offered positions with the contractor at current levels of pay or would be transferred to other city positions.⁷⁵ Further, the company has offered to purchase the street sweeping equipment from the city, and the city could release approximately \$1 million in funds set aside for purchasing new equipment, yielding over \$1.7 million in additional one-time benefits.⁷⁶

Mendocino County: In May 2013, the Mendocino County Board of Supervisors unanimously approved the privatization of county mental health services through two contracts with private providers worth approximately \$15 million. The contracts with Ortnier Management Group and Redwood Management Company will increase access to services and reduce response times.⁷⁷

Moreno Valley: In June 2013, the Moreno Valley City Council unanimously approved a five-year contract with Library Systems & Services LLC to take over operations of its library in a move expected to save at least \$1 million over the life of the contract. The contract will require the firm to increase library programs and hours and purchase more library materials, and existing city employees will be interviewed for positions.⁷⁸

Palo Alto: In December 2013, the Palo Alto City Council's Finance Committee unanimously approved a plan to outsource street sweeping services, a move city staff estimates would save \$413,000 annually.⁷⁹ At press time, the full city council had not decided whether to proceed with a formal request for proposals.

San Diego: San Diego's beleaguered managed competition program—approved by voters in 2006 to put city services through public-private competition—may

receive a boost under the new administration of Mayor Kevin Faulconer, who endorsed the concept in his mayoral campaign. Long delayed in implementation, the city finally began using managed competition in 2010, and it has since undertaken competitions for print services, fleet maintenance and repairs, street sweeping, street and sidewalk maintenance, and landfill operations. City employees won out over private bidders in each instance; aggregate savings overall are estimated to exceed \$12 million. However, the procurements thus far have been criticized by city staff, unions and private service providers for being overly complex, lacking in relevant information needed to prepare solid bids, and poorly specified in terms of performance standards and required services to be provided.⁸⁰ In December 2013, the city hired former Indianapolis Mayor Stephen Goldsmith—one of the early pioneers of managed competition who used it dozens of times during his tenure—to evaluate San Diego’s program and offer recommendations to improve it.⁸¹

Santa Monica: In July 2013, the Santa Monica City Council approved a two-year, \$200,000 contract with NCO Financial System to provide collections services. The firm will target delinquent invoices across a wide range of city revenue sources, including taxes, permits, zoning violation fines and fire inspections, and the firm will retain a share of the delinquent revenue collected.⁸²

Colorado

Centennial: In January 2013, Centennial, Colorado began the second five-year period of its large-scale contract with national engineering firm CH2M HILL to provide all of the city's public works services. In 2008, Centennial launched the public works contract, which gained national attention for its sweeping scope and garnered the city a series of awards, including the 2010 National Council for Public-Private Partnerships Service Award, the 2010 American Public Works Association Innovative Customer Service Call Center Award, and the 2012 Institute of Transportation Engineers Transportation Achievement Award for Operations. The contract covers functions including traffic engineering and operations, permit processing, inspections, administrative services, and street and roadside maintenance, including snow removal. In December 2012, Centennial's city council opted to extend its public works partnership with CH2M HILL through 2018 in a five-year, \$51 million contract extension that lowered the costs of service delivery by nearly \$1 million and expanded the scope of services even further.

Colorado Springs: In November 2013, the city of Colorado Springs and the city-owned Colorado Springs Utilities signed a five-year, \$35 million contract with Serco to provide vehicle fleet management and maintenance services. The services include preventative maintenance and inspections, corrective repairs, accident repairs, inventory procurement and warehousing, and quality control services. The city estimates the partnership will save \$4 million over the contract term (in addition to pension savings), and all city fleet employees were offered positions with the contractor at equal or better pay.⁸³ The contract began on January 1, 2014.

Florida

Fort Lauderdale: In March 2014, the city of Fort Lauderdale, Broward County and the Fort Lauderdale Downtown Development Authority announced the joint funding of a feasibility study regarding the use of a public-private partnership to deliver a new federal courthouse to replace the existing U.S. Federal Building and Courthouse, an aging facility with office space constraints, chronic water leaks and other major repair needs. A task force that included judges, city and county officials, and other legal professionals evaluating whether to upgrade the existing facility or to replace it issued a recommendation in the summer of 2013 to use a public private partnership to finance, design, build and operate a new courthouse using a long-term concession.

Jacksonville: In April 2013, Jacksonville Mayor Alvin Brown's administration issued a request for proposals seeking a private partner to develop a comprehensive inventory and valuation of all city-owned real property assets, along with recommendations regarding how to divest underutilized or unneeded assets to streamline the city's property portfolio. The city received two bids that came in higher than the \$150,000 budgeted for the project, and it ultimately decided to conduct the inventory in-house. According to WOKV.com, the resulting inventory found that 395 of the city's total 2,800 land parcels are "lazy," meaning underutilized and eligible for potential sale and redevelopment; these properties have an estimated current value of almost \$125 million.⁸⁴

Lake County: In June 2013, county commissioners in Lake County decided to drop the idea of privatizing the operation of its library system. Commissioners had begun to explore the idea as a way to reduce costs in response to a multi-million dollar budget deficit, but the fiscal pressures appeared to ease after new construction projects increased tax receipts.⁸⁵ County officials estimated that privatizing library operations could have generated between \$250,000 and \$350,000 in savings.⁸⁶

Georgia

Atlanta: Language that would have required MARTA, Atlanta’s metropolitan transit agency, to privatize hundreds of positions to reduce costs was stripped from legislation that passed on the last day of the legislative session in March 2014. When introduced in 2013, House Bill 264 included provisions making several changes to the agency’s governance and operations. It would have required the agency to privatize a range of functions, a response to a 2012 management audit by KPMG that recommended an aggressive outsourcing push to save between \$60 million and \$142 million over a five-year period. However, even without a legislative mandate, the agency is considering pursuing some privatization initiatives. MARTA General Manager Keith Parker told the *Atlanta Journal-Constitution* in March 2013 that some privatization would be necessary to control costs, even if the agency decides not to pursue outsourcing for all of the approximately 800 positions recommended in the KPMG report.⁸⁷

DeKalb County: Since the incorporation of Sandy Springs in 2005 as a contract city where most municipal services are provided through private sector or intergovernmental contracts, several other cities in metropolitan Atlanta—including Johns Creek, Milton, Dunwoody, Peachtree Corners and most recently in 2013, Brookhaven—have followed in its footsteps, incorporating under a contract city model. However, a move to create three more contract cities in DeKalb County stalled during the 2014 legislative session. Legislation to create the proposed new cities of Briarcliff and Tucker failed to advance out of committee, and another bill creating a new city of Lakeside passed the Senate but stalled in the House.⁸⁸ Like Sandy Springs, the supporters of the new incorporations cite a desire for improved public services and more local control of land use and zoning as motivating factors driving the push for cityhood. According to the *Atlanta Journal-Constitution*, if the proposed incorporations occur, then the total population in the new cities—including Dunwoody and Brookhaven—would account for approximately one-third of DeKalb County’s population.⁸⁹

Barrow County: In August 2013, the Barrow County Board of Commissioners approved a contract to hire a consultant to evaluate the possibility of privatizing a range of county services. The county ultimately hired Oliver Porter—one of the pioneers of the contract city Sandy Springs and consultant to several other newly incorporated Georgia contract cities that have emerged since Sandy Springs’ 2005 incorporation—who presented his findings to the board in January. Porter’s report suggested that a six-year contract for a range of government services—including public works, general administration,

transportation, community development, building maintenance, tax assessment, engineering, water and sewer—could save the county between \$3 million and \$4.2 million annually, though the relatively small value of a full services contract might dissuade some companies from bidding.⁹⁰ At press time, the board had not made a decision on whether to proceed with privatization, and it was also reviewing other options to lower costs, including consolidation and shared services with other area governments.

Decatur County: In March 2014, the Decatur County Board of Commissioners approved a procurement for the potential privatization of emergency medical services, directing staff to issue a request for proposals from potential bidders. A review team that will include an EMS worker, a county commissioner and a county administrator from both Decatur and Seminole Counties will review and select the best proposal.⁹¹ The move was prompted by recent reductions in shifts and pay for current county EMS employees, which prompted some employees to publicly endorse privatization.⁹²

Illinois

Chicago: In December 2013, the Chicago City Council approved an ordinance creating a new City Council Office of Financial Analysis that will serve as an independent budget office to provide several functions for aldermen, including budget and financial analysis, identifying cost savings and efficiencies, reviewing rating agency decisions, and evaluating proposed privatization and public-private partnership initiatives. The new office—modeled after the Congressional Budget Office and similar entities in New York and San Diego—was allocated \$500,000 in city funding, but at press time had not yet been formed.

Meanwhile, a proposed Privatization Transparency and Accountability Ordinance introduced in November 2012 appears to have languished, having been held in the council's Rules Committee for over a year. The proposed ordinance would require a city council hearing and cost-effectiveness study on privatization initiatives with a value over \$250,000, and it would require a minimum of 10 percent cost savings, a determination that privatization would be in the public interest, a mandate that half of affected jobs remain in the city boundaries, and several other restrictions.

In other Chicago news:

- The city's second pursuit of a long-term lease of Midway Airport ended in September 2013 when Mayor Rahm Emanuel cancelled the procurement in its final stages of negotiations after one of the two finalists dropped out of the bidding process. The cancelled Midway procurement is discussed further in the Air Transportation section of Reason Foundation's *Annual Privatization Report 2014*.
- The Chicago Infrastructure Trust—created in 2012 as a means for the city to tap private financing for a host of city infrastructure projects that otherwise would not receive public funding—launched its first project in late 2013 with a program called Retrofit One, which will see energy efficiency retrofits to approximately 62 buildings across the city, including libraries, police stations and community centers. The city estimates that the full project would reduce its energy bill at the facilities by 18 percent, or \$1.4 million annually, the majority of which will be used to pay back investors for the \$13 million estimated upfront investment in the project. If energy bills are not reduced, the city pays nothing to investors, transferring significant financial risks to the contractors hired to deliver the retrofits.
- At press time, the Trust was also in active procurement for its second project—the Pools Retrofit initiative—which will perform comprehensive energy efficiency upgrades for up to 66 aquatic centers managed by Chicago Public Schools and another 75 pools managed by the Chicago Park District. The project was prompted by an unsolicited proposal, which was then opened up to competition. Like Retrofit One, the city is seeking an energy savings agreement that would fully cover the private investment through the energy cost savings generated, with financial risks transferred to the private sector if expected energy efficiency improvements do not materialize. Proposals are due in May 2014.
- A private bidder that won a 62-year lease of the operations of the Port of Chicago earlier in the year announced in September 2013 that it was walking away from final negotiations with the city. Mayor Emanuel announced the lease with the Colorado-based Broe Group in July, and the firm had committed to investing \$500 million into modernizing the port facilities, which Emanuel estimated would create 1,000 permanent jobs and 3,000 construction jobs, as well as millions in annual fees paid to the Illinois International Port District.⁹³ But unspecified financial concerns prompted the firm to walk away from the deal, which was intended to put significant investment into the aging port facility to help

it better compete for cargo traffic. Despite the setback, city officials plan to seek alternate proposals from other bidders that responded to the city's solicitation.⁹⁴

Indiana

Indianapolis/Marion County: In March 2014, Indianapolis shortlisted three consortia for a potential public-private partnership to develop a new Marion County criminal justice complex that would consolidate criminal courts, county jail facilities and criminal justice offices into one facility with an estimated price tag of at least \$200 million. Five developer teams responded to the city's original request for qualifications, and the city expects to issue a request for proposals to the three qualified teams later in the spring of 2014. If ultimately completed, this would not be the first privately financed criminal justice facility in the U.S. The \$490 million Gov. George Deukmejian Courthouse in Long Beach, California—financed and developed under a 35-year public-private partnership—opened last fall.

Allen County: The Allen County Superior Court privatized food services at the Allen County Juvenile Justice Center in the fall of 2013 in a one-year contract expected to save approximately \$50,000, according to the *Fort Wayne News-Sentinel*.⁹⁵ “We have reviewed the matter very carefully and have, indeed, found that we can save money for our taxpayers while preserving quality meals for the juveniles detained here,” according to Superior Court Judge Dan Heath. “This does not include the fact that our county will no longer be on the hook for taxpayer-funded pensions. In addition, we asked [the contractor] A'viands to consider hiring our food service employees and they have done so in a majority of cases.”

Louisiana

St. George/Central/East Baton Rouge Parish: Community activists in East Baton Rouge Parish are attempting to incorporate a new city, St. George, with a population of over 100,000 that would adopt a contract city model similar to nearby Central—as well as Sandy Springs, Dunwoody and several other newly incorporated contract cities in Georgia—in which the bulk of municipal services is contracted out to either private sector service providers or other government agencies. Spawned by a desire to create an independent school district in the unincorporated southern part of the parish—a proposal that failed to gain legislative traction—incorporation advocates launched a petition drive in 2013

hoping to gather enough signatures to place the issue on the November 2014 ballot.⁹⁶ The fate of the incorporation push may yet depend on the state legislature though, as State Sen. Ben Nevers (D-Bogalusa) has introduced a bill in the 2014 legislative session that would put a moratorium on all municipal incorporations in Louisiana for two years.

The move is drawing attention to the experience of Central, which incorporated as a contract city in 2005 and contracts out most city services to a nonprofit, the Institute for Building Technology and Safety. The city has a total of two traditional public employees, with the rest of services provided under contract. Thus far, Mayor Mac Watts is satisfied, telling a summit in Baton Rouge in November 2013 that, “I can’t say anything but good about what we’re doing,” according to *The Times-Picayune*.⁹⁷

Jefferson Parish: Politics has bogged down a privatization plan to lease two Jefferson Parish public hospitals to private healthcare companies, leading one of three shortlisted bidders to withdraw its lease offer in February 2014. Long-standing financial difficulties prompted parish officials to pursue the leases of the West Jefferson Medical Center and East Jefferson General Hospital, and after 17 firms indicated interest in the leases, the boards of the two hospitals ultimately selected three final bidders: Hospital Corporation of America, a Tennessee-based for-profit, and two Louisiana-based nonprofits, Ochsner Health System and the Louisiana Children’s Medical Center. However, lengthy delays, inconsistent recommendations from the two hospitals’ governing boards, and the development of political factions supporting different bidders on the parish council ultimately prompted Hospital Corporation of America to withdraw its bid in February.⁹⁸ Complicating matters even further, a consultant hired by the parish to assess the three bids reported in April 2014 that Hospital Corp.’s bid was financially superior to the other two remaining bids overall.⁹⁹

Maryland

Frederick County: The Frederick County Commission President Blaine Young sent county workers a letter in July 2013 notifying them that, after two years of privatization and streamlining that reduced the county workforce by approximately 25 percent, no more privatization initiatives were planned. Back in 2011, county officials commissioned a consultant report that recommended that the county could privatize a broad swath of its functions then provided by about 528 Frederick County employees to save between \$109 million and \$200 million over a five-year period. However, county commissioners later disavowed the consultant study after receiving strong and vocal criticism from

public employees. Still, the commission advanced a number of standalone privatization initiatives since 2011, including the sale of a county-owned rehabilitation center and nursing home, the management of the Head Start program, the information technology help desk, sewer inspection services, road maintenance and internal auditing, according to the *Frederick News-Post*.¹⁰⁰

Michigan

Jackson: Facing a \$2.3 million budget deficit, the Jackson School Board voted in June 2013 to pursue a contract with a private provider for transportation services—including school bus drivers and mechanics—in a move estimated to save approximately \$263,000.¹⁰¹ The Board asked school district officials to ensure that current employees would be hired by a private contractor, and it directed officials to retain ownership of the school bus fleet to mitigate financial risks in the event that a private contract is canceled or not renewed in the future. The school district ultimately entered into a three-year contract with Michigan Education Transportation Services that began on July 1, 2013.

Nebraska

Lancaster County: The state's Region V Systems government board approved the privatization of mental health services in Lancaster County in June 2013, a move expected to save the county at least \$300,000 per year.¹⁰² Under the plan, the county will contract with three outside firms to provide services at its Community Mental Health Center, which serves approximately 3,500 low-income, mentally ill patients. Lutheran Family Services will provide outpatient counseling, day treatment, medicine management and community support; CenterPointe will provide a 24-hour crisis line and day rehabilitation services, and Omni Behavioral Health will operate psychiatric residential rehabilitation programs.¹⁰³

New Jersey

Lawrence Township: In April 2013, Lawrence became the first municipality in New Jersey to privatize 911 dispatch services when it launched a two-year contract (with a three-year renewal option) with iXP Corp. that is expected to save the township at least \$1.1 million over five years. After several months under the contract, local Police Chief Dan Posluszny told *The Times* that privatization was “a really, really big advantage for the town,” given the company's achievement of high performance levels and that it allowed the

township to return some police officers to patrol duty, increased dispatcher staffing levels and had not generated complaints.¹⁰⁴ “Every fear brought up [before the privatization] by the communications officers losing their positions has been unfounded,” he told *The Times*.

New Mexico

Bernalillo County: The Bernalillo County sheriff’s office announced in November 2013 that it was dropping plans to privatize courthouse security to address a staffing shortage after being threatened with legal action by the American Federation of State, County and Municipal Employees, the nation’s largest government employee union. The union claimed that privatization would have violated both its collective bargaining agreement and state law, and the sheriff’s office later reached an agreement with the union that will see regular deputies paid overtime for courthouse security duty on an as needed basis.¹⁰⁵

New York State

New York City: Former Mayor Michael Bloomberg announced in March 2013 that the city had reached agreements to sell two city-owned buildings for almost \$250 million as a part of his administration’s government consolidation plan to reduce the city’s underused office space by 1.2 million square feet by 2014. Officials estimate the move will save the city approximately \$120 million in operating expenses over the next two decades. According to a press release, after the sale of the two buildings, the city will have eliminated over 1,000,000 square feet of office space since 2010, producing at least \$470 million in annual rent and operating savings over the next 20 years. According to the administration, the space consolidation was facilitated by an 18,000-employee reduction in the city’s workforce since the start of Bloomberg’s tenure.

Nassau County: In September 2013, Nassau County policymakers approved County Executive Edward Mangano’s plan to lease the Nassau Veterans Memorial Coliseum to New York developer Bruce Rattner in a 34-year agreement that will see Rattner make \$229 million in improvements to the facility and guarantee the county a rent payment of at least \$4.4 million annually. The agreement also requires the private operator to assume full responsibility for all operational costs, including utilities, insurance, maintenance and repairs, and management of all of the premises. The move was Mangano’s third major public-private partnership since taking office. In 2011, his administration contracted out medical, mental health and dental services for

the inmates at the Nassau County Correctional Center, a move saving an estimated \$7 million annually. And in 2012, the Mangano administration contracted out the operation of the Long Island Bus system, which officials estimate is saving the county \$33 million on an annual basis.

Oregon

Gladstone: Officials in Gladstone, Oregon dropped a proposal to privatize the management of its city library after the firm it sought a bid from—national library operator Library Systems and Services, Inc. (LSSI)—opted not to submit a bid. The city council decided to consider outsourcing after the defeat of a ballot measure that would have expanded the aging and undersized library. In a letter to the city council, LSSI explained that it believed that the city was already receiving a reasonable return on its investment in the library and that the potential savings through a public-private partnership would not be significant enough to pursue a contract.¹⁰⁶

Pennsylvania

Philadelphia: In March 2014, Philadelphia Mayor Michael Nutter announced that UIL Holdings Corp., a Connecticut-based energy company, has agreed to buy the city-owned Philadelphia Gas Works for \$1.86 billion. The Nutter administration sought the sale as a means to generate between \$424 million and \$631 million to shore up the city's pension fund, which is less than 50 percent funded, according to the *Philadelphia Business Journal*.¹⁰⁷ “The state of our pension fund and the crippling effect its obligations have on the city is a major concern of mine and City Council and it is one of the most pressing financial issues facing the City,” Mayor Nutter said in a statement. “This contribution will go a long way in our efforts to restore the health of the pension fund.” At press time, the deal was awaiting a vote in the city council—which was reviewing the proposal and considering alternatives to divestiture—and approval by the state's Public Utility Commission.

In other news, the Pennsylvania Convention Center Authority approved a contract with national convention center operator SMG in June 2013 to manage the Philadelphia facility in a move designed to improve services and lower operating costs. A 2012 consultant report found that the center's economic performance was lagging—particularly with regard to return customers—because of costly unionized labor and restrictive work rules that stymied repeat business, prompting growing complaints from the city's hospitality industry.¹⁰⁸

“The complexity of convention center operations, and the extreme competitiveness in the industry, is likely to cause more and more convention centers to draw upon the significant resources that a national management firm possesses,” Authority Board Chairman Greg Fox told the *Philadelphia Inquirer*. “I am confident that this is a major step in the right direction for the convention center.”¹⁰⁹

Tennessee

Nashville: In July 2013, Nashville’s consolidated city-county government dropped its pursuit of a private operator for the money-losing Nashville Farmers’ Market after it received no responses to a request for proposals issued in January seeking a private manager. The market has been running annual deficits in the hundreds of thousands of dollars, and a 2012 report by the city-county finance department criticized the market’s “management and financial deficiencies,” prompting the search for a private operator.¹¹⁰

Texas

Dallas: Dallas City Manager A.C. Gonzalez is reportedly exploring privatizing the city’s street maintenance, according to the *Dallas Morning News*.¹¹¹ Gonzalez informed the city council in February 2014 that city staff were in preliminary discussions with a private infrastructure firm on privatization concepts—including a fixed-cost contract covering all street maintenance services—to stem the city’s annually rising costs in maintenance expenditures. “If they could just keep it the same as what we’re spending, it’s a big win,” according to Gonzalez.

Also, in June 2013, the long-planned privatization of the money-losing Dallas Farmers Market was completed when DF Market Holdings, LLC purchased the market and its land from the city, which was unanimously approved by the city council earlier in the year.¹¹² The private manager plans to redevelop the property into a mixed-use residential and commercial building intended as a neighborhood revitalization project, and one that includes the farmers market as its centerpiece. “This is one of the best ideas this city has ever done,” Mayor Mike Rawlings proclaimed at a March 2014 groundbreaking for the \$65 million redevelopment project.¹¹³ The market will remain open during construction.

San Juan: In October 2013, the contract between the city of San Juan and Library Systems and Services, Inc. (LSSI) to operate the San Juan Memorial

Library came to a close, with both parties citing a number of successes. The contract began in 2007, when LSSI took over the city’s undersized modular building that was serving as temporary library space and which could only fit half of the city’s book collection. LSSI took over operations, helped the city design a new 16,500-square-foot library (which opened in 2011), and helped the city find trained leadership for its library staff. The partnership’s achievements include the expansion of library hours from 52 hours to 56 hours per week without a budget increase, access to the full library collection, implementation of new technology, a seamless transition to the new, state-of-the-art facility, and the offering of a wide range of new children’s programs. “[M]ost importantly, our community and especially the children reap the benefits of what this new library offers,” San Juan Mayor San Juanita Sanchez said in a press release. “I personally want to thank LSSI for the partnership in this journey to success.”

Travis County: In July 2013, the Travis County Commissioners Court rejected a commissioner-appointed panel’s call to build a new courthouse through a public-private partnership, opting to use a design-build procurement method instead. In 2012, the Civil and Family Courthouse Recommendation Committee recommended a public-private partnership to deliver an approximately \$300 million replacement for the aging Heman Marion Sweatt Courthouse in Austin, but commissioners opted to pursue a less complex—but potentially more financially risky—design-build option.¹¹⁴

Utah

Cottonwood Heights: In November 2013, Cottonwood Heights launched a 42-month contract with Terracare Associates to provide all of the city’s public works services, the first contract for fully privatized municipal public works in the state of Utah. The contract covers snow plowing, street and sign repairs, concrete replacement and storm drain maintenance. The partnership had its first major test the following month, when the contractor was criticized for poor execution on snow removal during the first major snow storm, which required the city to call in Salt Lake County to assist in snow plowing. As a result, Terracare instituted a number of changes, including purchasing additional plows, moving its staging yard to a more central location, revamping its plowing strategy, and adjusting driver schedules.¹¹⁵

Virginia

Norfolk: Norfolk is close to finalizing a public-private partnership with a private developer to build four new schools after a committee composed of city and school district staff selected a firm to begin negotiations with, according to *The Virginian-Pilot*.¹¹⁶ The developer, S.B. Ballard Construction Co., had submitted an unsolicited proposal to develop the school facilities in 2013 under the state's Public-Private Education Facilities and Infrastructure Act, using a streamlined project delivery model designed to lower costs relative to traditional procurement. The city opted to pursue the project, which triggered an open competition under the Act. The city received three proposals—including Ballard's—after launching a request for proposals in September 2013. *The Virginian-Pilot* reported in March 2014 that it had obtained emails indicating that the city had started contract negotiations with Ballard, which would have to be approved by the city council in order to proceed.¹¹⁷

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