ALTERNATIVE SERVICE DELIVERY

A Civic Federation Issue Brief

Prepared By
The Civic Federation
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TABLE OF CONTENTS

OVERVIEW

Alternative service delivery (ASD) refers to any process that shifts some or all of the functions or responsibilities of delivering a service from the public sector to the private sector. It is commonly referred to as **privatization**. Privatization can take many different forms:

- **ASSET SALE OR TRANSFER,** whereby a government divests itself **completely** of an asset, turning over ownership to a private firm, a nonprofit organization or another government.
- **CONTRACTING OUT MANAGEMENT** of an asset, service or function to a private or nonprofit entity. The government retains ownership of any asset involved. However, the managing entity assumes responsibility for personnel. If a government transfers responsibility for management of service provision or a function to a **private** entity, it is referred to as **Commercialization**. An example of a commercialization effort is long-term lease arrangement that the City of Chicago has negotiated with the Cintra-Macquarie Consortium for operation of the Skyway. An example of a nonprofit entity managing an asset is the Lincoln Park Zoological Society operating the Lincoln Park Zoo in Chicago.
- **CORPORATIZATION**, in which a government function is spun off to a government corporation that functions much like a private corporation but with a public mission. Examples of this are the United States Postal Service or the Pension Benefit Guarantee Corporation.
- **ESTABLISHING INTERNAL MARKETS**, whereby departments purchase or contract for goods or services from other departments.
- Selling a **Franchise** to a private firm, such as a utility company. This gives the firm exclusive rights to provide a service;
- **INTERGOVERNMENTAL CONTRACTS OR COOPERATION**, which is a variation of contracting out, involves governments cooperating to jointly purchase or deliver goods or services. This option is quite common among local governments.
- **MANAGEMENT CONTRACTS**, which transfer management of a public program or service to a private firm, but still employ government workers.
- **MANAGED COMPETITION**, in which government employees can competitively bid against private contractors to provide certain services.
- **VOUCHERS**, where the government pays for a good or service, but provides citizens with choices as to their preferred way of obtaining the good or service.

Reasons for Privatization

Governments implement privatization strategies for a number of reasons:

- Saving money by reducing overhead and labor costs;
- Enhancing revenue;
- Shifting risk from the government to the provider;
- Improving service quality;
- Managing peak workloads more efficiently and cost effectively;

- Shedding non-core functions and activities to focus efforts on government's core services and programs;
- Obtaining and utilizing skills, competencies and services that would be too expensive to acquire otherwise; and
- Avoiding upfront large scale capital investments.

Reasons to Terminate Privatization

Governments sometimes re-evaluate their decision to privatize a service or function and opt to re-instate full public control. The primary reasons governments terminate a privatization agreement are:

- The vendor or manager has not fulfilled the terms of a contract;
- Changes in the labor market have made it more attractive to hire in-house staff;
- There is a need to manage and supervise sensitive matters; or
- A lack of competition has resulted in an unqualified pool of contractors, uncooperative contractors or exorbitant prices.

THE PROS AND CONS OF PRIVATIZATION

Privatization is not a panacea for government service delivery or asset management problems and can be controversial. It should always be carefully considered. The following provides a brief summary of the reasons often presented as arguments for and against privatization.

Arguments in Favor of Privatization

- **Efficiency.** The private sector tends to operate more efficiently than the public sector. The public sector is constrained by layers of authority, mandatory civil service regulation, collective bargaining contracts and formal bid procedures. In contrast, private organizations have strong incentives to perform as they must make a profit, satisfy shareholder demands and/or avoid bankruptcy.
- **Cost Savings.** Privatization can save money through the elimination of work rule constraints or because of the advantages afforded by economies of scale.
- **Better Quality of Service.** The private sector can more quickly take advantage of technological improvements than the public sector. In addition, the private sector focuses its efforts on performance as it must meet profit goals. The public sector, in contrast, is constrained by limited funds for technology and usually lacks a focus on performance in service delivery or in personnel.

Arguments Against Privatization

- **Lack of Accountability/Corruption.** Unless adequate management oversight and evaluation procedures are implemented, there is the potential for corruption to emerge. This can take the form of rewarding contracts to unqualified vendors or paying for fraudulent billings.

- **Political Considerations.** Privatization contracts can be used to reward political allies or to skirt civil service rules or procurement procedures. Many have criticized privatization contracts as a new form of patronage.
- **Equity Concerns.** Many public services, such as public health or education, are provided as a social good regardless of ability to pay. Providing them through the private sector can raise concerns over equitable distribution and delivery of these goods or services.
- **Lack of Competition.** Privatizing a service for which there is not a pool of qualified vendors or managers is not as likely to yield cost savings or improved efficiency.
- **Lack of Control.** If a government cedes full control over service delivery standards and qualifications and/ or pricing, the result can be diminished benefits and higher prices.

WHAT MAKES A PRIVATIZATION EFFORT SUCCESSFUL?

The United States General Accountability Office (GAO) concluded in a 1997 study of state and local government privatization measures that the following criteria were essential ingredients for a successful effort:[1]

- **A Political Champion**. Privatization efforts are often very controversial and contentious with many opposing interests. Success requires a strong political champion willing to promote and defend a proposal.
- **An Implementation Structure.** A successful effort requires a well planned organizational and implementation structure. It should include the adoption of formal policies to provide guidance.
- **Legislation and Resource Changes.** Implementing privatization usually requires legislative changes regarding authorization, work rules or funding.
- **Reliable Cost Data.** A well implemented privatization effort requires reliable cost data in order to support the initial decision and to assess overall performance. Both the direct and indirect costs of providing a good or service must be considered.
- **Strategies for Workforce Transition.** Employees affected by a privatization decision should be involved in the process and provided training to help them prepare for the transition. Many of the governments studied by the GAO turned to managed competition models, in which employees can bid against private vendors to deliver a service.
- **Monitoring and Oversight.** It is imperative that there be a sustained system in place to evaluate the effects and impact of a privatization effort. This should include regular reporting of results to an oversight body and performance and financial audits.

BEST PRACTICES IN ALTERNATIVE SERVICE DELIVERY

The Government Finance Officers Association (GFOA) has developed two best practice recommendations in alternative service delivery, though none specifically on the issue of commercialization (e.g., asset leases). The best practice recommendations proceed from an assumption that there is a pool of qualified vendors or managers available and that there are transparent and objective bidding and evaluation processes in place.

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[1] General Accountability Office. "Privatization: Lessons Learned by State and Local Governments," Report to the Chairman, House Republican Task Force on Privatization, March 1997.

Measuring the Cost of Government Services (2002)[2] recommends that governments considering privatization or other forms of external competition:

- Initially calculate the full cost of delivering a service. Cost considerations should encompass both direct costs (salaries, wages, benefits, materials and supplies) and indirect costs (administrative expenses).
- Distinguish avoidable from unavoidable costs because only avoidable costs are ultimately relevant to a privatization decision;
- Always consider the cost of transitioning to an alternative service delivery mechanism as well as the monitoring or oversight costs that are expected to result from a change in service provider; and
- Take care to ensure that cost comparisons conducted to weigh the efficacy of a privatization option be valid. For example, the use of historical cost depreciation can make activities using older assets appear more efficient than activities using newer assets, something which is not necessarily true.

Recommended Practice 6.1.: Develop Programs and Evaluate Delivery Mechanism (1997). This recommended practice of the National Advisory Council on State and Local Budgeting. advocates that all governments evaluate delivery alternatives for different services and programs to determine the best approach, whether in-house or outsourced. [3] Considerations in evaluating service delivery alternatives include:

- **Cost of service**, including short- and long-term direct costs, costs to administer and oversee the service, impact on rates and charges, and impact on costs of other government services.
- **Service quality and control**, including safety and reliability, ability to control service levels and who receives the service, ability of the government to make internal changes to improve its own performance, the ability to change the delivery mechanism in the future, and the risk of contractual nonperformance and default.
- **Management issues**, including the quality of monitoring, reporting, and performance evaluation systems, public access to information, and the ability to generate or sustain competition in service delivery.
- **Financial issues**, including the impact on outstanding debt and grant eligibility.
- **Impact on stakeholders**, including government employees, customers, and taxpayers.
- **Statutory and regulatory issues,** including the impact on federal and state legal and regulatory requirements. Issues of liability must also be considered.

[2] See www.gfoa.org.
[3] See www.gfoa.org. The National Advisory Council on State and Local Budgeting was convened by the GFOA.

TRENDS IN LOCAL GOVERNMENT PRIVATIZATION

A 2002 survey by the International City County Management Association (ICMA) of 1,283 local government respondents found that 58% had studied the feasibility of alternative service delivery in 2002. This was up from 31% in 1992.[4] The three primary reasons cited in the ICMA survey that governments used to consider shifting toward alternative service delivery were: 1) the need to cut costs (88%); 2) external fiscal pressures (50%); and 3) and proposals from service providers (21%).

The ICMA survey notes that service provision by local governments is changing. Between 1992 and 2002, governmental responsibility for the provision of local government services dropped from an average of 69% to 57% as governments shifted to some form of alternative service delivery. More specifically, local government responsibility for service provision dropped for 64 of the 67 services reviewed. So, privatization is an increasingly popular option for local governments.[5]

The survey found that the most significant increases in non-public service provision by respondents were in the following areas:

- Health and human services
- Support functions such as tax assessment and collection and title records
- Auxiliary public safety functions such as vehicle towing or ambulance service
- Public works – solid waste and sludge removal

At the same time governments were providing fewer services overall, they were concurrently providing a rising level of the remaining services wholly provided by the public sector. The exclusive use of public employees to deliver those services rose from 48% on average in 1992 to 52% ten years later. The highest levels of direct public service provision (i.e. more than 80%) were in support services such as payroll and secretarial areas, public works, public safety and traffic control. The lowest uses of public employees (below 35%) were in selected health and human services, waste collection and disposal, transit, hazardous materials disposal, gas utilities, vehicle towing, museums and legal services.[6] Hence, these were the areas in which privatization strategies were most commonly employed.

The table below shows the percentage of selected services delivered by different alternative service delivery methods (other governments, private for profit entities or nonprofit organizations) for the responding governments in the ICMA survey. Virtually every respondent reported that hospitals were managed by another entity. Other services provided in a majority of cases through ASD methods were vehicle towing, day care, hazardous material disposal, gas utility operation, legal services, solid waste disposal and museum operations.

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[4] International City County Management Association. The Municipal Year Book 2004, "Local Government Provision and Delivery of Services," (Washington, D.C.: ICMA, 2004), pp. 12-16.
[5] International City County Management Association. The Municipal Year Book 2004, "Local Government Provision and Delivery of Services," (Washington, D.C.: ICMA, 2004), p. 9.
[6] Ibid, p. 9.

Use of Privatization for Selected Services				
Service/Function	Other Government	Private For Profit	Private Nonprofit	Total ASD
Hospital management	43.3%	25.4%	28.4%	97.1%
Vehicle towing/storage	3.8%	79.5%	1.5%	84.8%
Day care facilities	10.5%	37.9%	34.7%	83.1%
Hazardous materials disposal	28.1%	38.3%	4.3%	70.7%
Gas utility operation	14.2%	42.5%	3.5%	60.2%
Legal services	2.6%	55.7%	1.7%	60.0%
Solid waste disposal	18.1%	38.1%	1.4%	57.6%
Museum operations	12.4%	4.5%	35.2%	52.1%
Commercial solid waste collection	3.9%	43.1%	0.2%	47.2%
Tree trimming	5.5%	38.3%	2.7%	46.5%
Ambulance service	14.8%	20.5%	8.3%	43.6%
Residential solid waste collection	3.5%	39.4%	0.6%	43.5%
Street Repair	6.8%	35.3%	0.6%	42.7%
Fleet maintenance	1.3%	36.0%	0.6%	37.9%
Average	**16.5%**	**18.0%**	**8.0%**	**42.5%**

Source: ICMA. The Municipal Year Book 2004, p. 11.

MAJOR COMMERCIALIZATION PROPOSALS

Commercialization proposals, by which a government completely transfers responsibility for service provision or a function to a private or non-profit entity but retains ownership, are increasingly common. Several high profile proposals recently have been implemented or are in the discussion stages. All of these involve some form of long-term lease arrangements. This section presents an overview of recent toll road commercialization projects in the U.S. and Canada as well as information about three specific proposals: the Chicago Skyway, the Indiana Toll Road and Midway Airport and other Chicago assets.

Recent Toll Road Commercialization Projects

Toll road commercialization is increasingly being considered or implemented in Europe, Japan, Taiwan, Canada and the United States. A brief summary of recent and ongoing toll road privatization projects follows. [7]

- **Dulles Greenway**: A 14 mile toll road in Loudon County, Virginia.
- **The 91 Express Lanes**: A 10 mile long toll road in Riverside, California. The toll road is the median of State Route 91. Average tolls are $3.00 and the road carries 30,000 motorists daily.
- **Camino-Columbia Toll Road**: A 22 mile long toll road near Laredo, Texas. The bridge was built for $90 million and opened in October 2000. The road was a failure, the lenders foreclosed and the road reverted to the Texas Department of Transportation for the sum of $20 million.

[7] All of the examples except the 407 Electronic Toll Road are from Peter Samuel. *Should States Sell their Toll Roads*? (Reason Foundation, 2006). See www.reason.org.

- **407 Electronic Toll Road**: A 108 kilometer east-west all-electronic toll road north of Toronto. It was acquired by 407 ETR (the concessionaire) under a 99-year lease agreement in 1999 for $3.1 billion.[8]
- **SR 125-South:** A 9.3 mile north-south toll road under construction in the San Diego metropolitan area. It will provide an alternative for international traffic to Mexico. Owned by Contra Macquarie, the road will cost approximately $650 million.
- **Trans Texas Corridor-35**: A Cintra led consortium will construct a new 316 mile toll road. Cintra will spend $6 billion on the project as well as a $1.2 billion concession fee in return for a 50-year toll concession.

Indiana Toll Highway

- The Indiana Toll Road is an interstate highway that extends 157 miles across northern Indiana. It serves as Interstate 90 throughout Indiana and as Interstate 80 through most of Indiana. It was completed and opened to traffic in 1956.
- On January 23, 2006, Governor Mitch Daniels announced that the Cintra-Macquarie consortium and the State of Indiana had agreed to a 75-year lease to operate and maintain the toll road. The consortium's winning bid was $3.85 billion for the concession. The lease agreement was signed on April 13, 2006.
- Part of the agreement to privatize operations of the Road is to implement over $770 million in planned upgrades to the expressway. Included is adding a lane in each direction from the Illinois State Line to the I-80/I-94 interchange (MP 21), the reconstruction of existing pavement and bridge structures, and implementation of electronic toll collection system (i.e., EZ Pass) at all mainline and interchange toll plazas.
- The agreement provides for limited toll rate increases through 2010. [9]

Chicago Skyway

The Chicago Skyway is a 7.8 mile, 6-lane toll bridge linking I-90 into a junction with I-94. The City of Chicago entered into a 99 year agreement in 2004 with the Cintra-Macquarie consortium to lease the bridge for $1.83 billion.

What was the Bidding Process for the Skyway?

- The City issued a Request for Qualifications for firms to bid on operating the Skyway.
- Five teams were deemed qualified to enter into the competitive bidding process
- The City evaluated each team's technical and financial qualifications. The process is expected to conclude by the end of the year.
- The technical capabilities assessed included expertise in toll road operation and maintenance, customer service and public safety
- The teams also had to demonstrate that they had the capacity to purchase and maintain the Skyway.

[8] Fitch Ratings. *U.S. Toll Road Privatizations: Seeking the Right Balance*. March 22, 2006, p. 8.
[9] See Lesley Stedman Weidenbener, "House OKs Toll Road Bill : Republicans Carry through Lease Legislation," *The Courier-Journal*, February 2, 2006 and Fitch Ratings. "U.S. Toll Road Privatizations: Seeking the Right Balance," March 22, 2006, p. 4.

- The winner of the bid process was Cintra Macquarie, an international consortium.

How does the Skyway Concession Agreement Work?

- The City will mandate standards for operation and maintenance of the Skyway.
- The Chicago Police Department will patrol the bridge and assume full responsibility for public safety.
- The City Department of Transportation will enforce compliance with safety standards.
- The concessionaire is responsible for all operating and maintenance costs of the Skyway and has the right to all toll and concession revenue.
- The City and Cintra Macquarie included a specified toll rate schedule in the Concession Agreement. The operator has the right to raise tolls up the limits prescribed by the City in that agreement.[10]

What is the Structure of the Transaction?

- The City of Chicago leases the Skyway to the Cintra-Macquarie Consortium for 99 years but retains ownership of the asset. The Consortium in turn paid the City $1.83 billion in a one-time up front payment for the rights to operate the Skyway.
- This payment reflects the present value of anticipated cash flow from Skyway operations from toll and concession revenue net of operational and maintenance costs [11] which the City will forego:
- The agreement allows the company to capitalize on the tax benefits of asset depreciation, thereby increasing the value of the deal to the purchaser.
- The structure of the financing of this transaction is an evolution of lease-leaseback and sale lease back transactions. In this case, the City leases to Cintra-Macquarie Consortium rather than selling the assets and leasing them back.

Disposition of Skyway Proceeds

The table below shows the estimated distribution of the $1.83 billion in Skyway commercialization revenues.

- The first use of the proceeds of the Skyway transaction was to retire the approximately $438 million in outstanding Skyway bonds. The total amount reserved for this purpose was $463 million because there were additional costs involved including transaction costs and other costs associated with retiring debt in advance of its maturity and optional redemption dates.
- The City used $975 million in proceeds to establish three funds: A $500 million Skyway Investment Fund (a reserve fund projected to generate roughly $25 million in annual revenues); a $375 million Skyway Annuity Fund that will produce payments over the next five-years beginning with $50 million in FY2005; and a $100 million Skyway and Human Infrastructure Fund, which will fund a variety of new and existing programs over the next five years.

[10] Information provided by City of Chicago, October 2004.
[11] The Cintra Macquarie Consortium expects a 10% internal rate of return on their investment.

- In addition, some Skyway funds were used appropriately to reduce the City's short and long-term obligations. $134 million were obligated to pay down long-term debt. $258 million were earmarked used to eliminate the City's outstanding short-term debt obligation.

Use of Skyway Proceeds	Est. Amount
Establish Reserve Fund	$500,000,000
Retire Skyway Debt	$463,000,000
Establish 8-Year Annuity	$375,000,000
Eliminate Short-Term Debt Obligation	$258,000,000
Pay Down Long Term Debt	$134,000,000
Create Neighborhood/Human Investment Fund	$100,000,000
Total	**$1,830,000,000**

Source: Chicago Office of Budget and Management

Use of Skyway Funds for Recurring Operating Expenses

- At least $106 million in Skyway proceeds was earmarked toward new operating expenses in the FY2005 budget.
- The Civic Federation opposed this action because it was not a prudent use of financial resources. We were particularly opposed to using this money for programs such as the Condo Rebate program and new human infrastructure programs that would not otherwise be funded. As these are recurring programs, they should be funded from recurring revenues.
- While the Federation supported the City's decision to establish a $500 million reserve fund from Skyway proceeds, we were disappointed that the City has indicated it will apply the interest generated from that fund to pay operating costs.

Midway Airport & Other Chicago Assets (P.A. 094-0750)

Illinois Governor Blagojevich has signed Public Act 094-0750, the Local Government Facility Lease Act. The Act clears the way for the City of Chicago to begin exploring the possibility of entering into long-term lease agreements with private operators for Midway Airport; municipally owned parking garages at Midway Airport, Millennium Park, Monroe Street, Grant Park North and Grant Park South; and three transfer stations where recyclables are separated from ordinary garbage. It is likely that any privatization agreements will be similar in scope and content to the agreement negotiated for the lease of the Chicago Skyway. Highlights of the P.A. 094-0750 include:

Section 10. Compliance with Ordinances.

The lessee must comply with all applicable municipal ordinances regarding contracting with minority or women-owned businesses, prohibiting discrimination and requiring affirmative action.

Section 15. No Expansion of Midway Runways.

The runways of Midway Airport may not be expanded beyond the territory bounded by 55^{th} Street on the north, Cicero Avenue on the east, 63^{rd} Street on the south and Central Avenue on the west

Section 20. Use of Lease Proceeds by Lessor.

- At least 90% of the proceeds of the lease agreement shall be expended or obligated for:

    a. Construction and maintenance of infrastructure within the municipality;
    b. Contributions to municipal pension funds; or
    c. Any combination of the preceding.

- The amount of net proceeds expended or obligated for pension contributions may not exceed the amount of net proceeds expended or obligated to pay for infrastructure costs and maintenance (Net proceeds = gross proceeds less debt service payments required to retire debt associated with the leased facility property)

Section 40. Required Offers of Employment.

Lessees must offer employment, under similar terms and conditions, to municipal employees who are employed at the time of the lease and the municipality must offer employment, under similar terms and conditions, to municipal employees who are employed at the time of the lease.

Section 50. Home Rule Pre-Emption.

The City of Chicago may not exercise its home rule powers and functions in a manner inconsistent with the provisions of this Act.

Section 900. Property Tax Exemption.

All property owned by the City of Chicago shall remain exempt from taxation. Any leasehold interest in that property is exempt from taxation of that property is used by the City for the purpose of an airport or parking or for local waste disposal or processing and is leased for continuous use for the same purpose to another entity whose property is not exempt.

Section 910. Prevailing Wage Act.

The Prevailing Wage Act is amended to extend to all projects at leased facility property used for airport purposes.

Long-Term Lease of Chicago Parking Garages

The City of Chicago and the Chicago Park District have moved forward on a deal with Morgan Stanley for a 99-year lease of their parking garages. This $563 million transaction will pay off outstanding parking garage bonded debt and provide funding for capital improvements, including $122 million for the Chicago Park District and $35 million to rebuild Daley Bicentennial Plaza.

The Chicago Park District's portion of the transaction involves leasing of three of its downtown Chicago parking garages (the Grant Park North, Grant Park South, and East Monroe Street garages). Proceeds from this transaction will total $347 million, and will be used in the following manner:

- $122 million will be used in neighborhood parks for capital purposes.
- $120 million will be used to establish a Long Term Income Reserve Fund. Net annual parking garage revenues of $5 million will be replaced with earnings from the fund.
- $35 million will be set aside as a reserve designated for park replacement for Daley Bicentennial Park. This reserve will be drawn upon when the East Monroe Street garage is reconstructed in five years by the private operator.
- $70 million will be used to pay off existing parking garage debt.[12]

OVERVIEW OF OTHER MAJOR LOCAL PRIVATIZATION EFFORTS

The two local government leaders in privatization efforts have been the City of Chicago and the Chicago Park District. The Forest Preserve District of Cook County also followed suit recently by privatizing the management of its golf courses.

City of Chicago

Since 1990, the City of Chicago has privatized 34 different services and programs and leased the Skyway. The 34 privatizations have yielded as much as $277.2 million in cumulative savings over the 15-year period between 1990 and 2005 according to calculations from the Chicago Office of Budget and Management.[13] Some of the services and functions privatized include:

- The parking ticket management system;
- Airport parking operations;
- Vehicle parts management;
- Custodial services;
- Curb and gutter replacement;
- Information technology technical support;
- Tree planting;
- Vehicle towing; and
- Water Main construction

Chicago Park District

The Chicago Park District implemented a wide variety of privatization strategies under the administration of General Superintendent Claypool in the 1990s. The shift toward alternative service delivery mechanisms was part of a broader strategy to cap property tax increases, reduce personnel and administrative costs and improve efficiency of operations. The services and functions privatized included:

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[12] Gary Washburn, *Chicago Tribune*, "City Sees Windfall in Parking Garages," October 14, 2006.
[13] City of Chicago Office of Budget and Management Report to the City Council Committee on Budget and Government Operations. *Privatization of City Services and Functions: 1995-2005* April 27, 2005, Tab 2. The report focuses on savings from projects enacted between 1995 and 2005, but also includes some information from projects implemented between 1990 and 1995.

- Parking garage and lot management;
- Marina and harbor operations;
- Golf course management;
- The management of the Lincoln Park Zoo;
- Management of Soldier Field;
- Information systems;
- Medical and risk management services; and
- Janitorial services.

Forest Preserve District of Cook County

The Forest Preserve District of Cook County outsourced the management of its 10 golf courses and 4 driving ranges in 2003. The District's Recreation Department now has responsibility for monitoring the performance of Billy Casper Golf Management Inc., the firm selected to manage the golf courses and driving ranges.

CIVIC FEDERATION POSITION ON ALTERNATIVE SERVICE DELIVERY

The Civic Federation has traditionally supported alternative service delivery or privatization efforts that contain certain safeguards. If properly implemented and monitored, these efforts can be effective means of reducing costs and/or improving efficiency. In our view, competition from private, nonprofit and even other public entities helps reduce the cost and operational inefficiencies inherent in a system of monopoly service provision by a single government.

In evaluating alternative service delivery proposals advanced by state or local governments, the Civic Federation uses the following criteria.

General Guidelines for Alternative Service Delivery Efforts

- Alternative service delivery or privatization is not a panacea for a government's financial problems.
- Transferring responsibility for service delivery to a private firm or nonprofit organization can be beneficial only if there is a marketplace of competitive, qualified vendors or service providers and strong, sustained management oversight by the government.
- Governments must establish a mechanism to monitor and evaluate cost saving and efficiency benefits produced by any alternative service or privatization efforts. These efforts should include the public reporting of efficiencies and/or savings achieved.
- Privatization efforts, i.e., the transfer of service delivery responsibilities to the private sector, should be focused on non-essential services or programs.
- When transferring responsibility for service delivery by means of a long-term lease or sale, governments must carefully consider the policy implications of matters such as limitations on competition and eminent domain. For example, the long-term leasing of a toll road should not preclude a government's ability to plan for future transportation needs in the vicinity of that toll road, including the ability to plan, acquire land and construct new roads.

Appropriate Disposition of the Revenues from Asset Sales or Leases

- Revenues from **commercialization** efforts such as asset sales or leases should **not** be used for recurring expenditures.
- These revenues should be used to reduce existing obligations, such as long-term debt or unfunded pension obligations.

CIVIC FEDERATION COMMENTS ON SPECIFIC PRIVATIZATION PROPOSALS

The Civic Federation recently has taken a position on four specific privatization proposals: the State of Illinois's recommendation to sell its student loan portfolio and a proposal to sell the Illinois Toll Highway, the successful lease of the Chicago Skyway, and the joint purchasing of prescription drugs by local governments. The Federation also has commented on privatization efforts made or considered by governments in its analyses of the budgets of the State of Illinois, Cook County, City of Chicago, the Forest Preserve District of Cook County and the Chicago Park District. A brief summary of the Federation's comments follows.

State of Illinois Designated Account Purchase Program (2006)

- The FY2007 budget proposes the competitive sale of Illinois Designated Account Purchase Program (IDAPP) student loan assets and loan transactions.
- The State will remain the guarantor of student loans and financial aid outreach and training programs will remain intact.
- All current IDAPP employees will be transferred to other agencies and the State vows to maintain loan terms.
- Revenues from the sale, which could total hundreds of millions of dollars, were originally earmarked for a proposed $1,000 per student college tuition scholarship program. The Legislature decided, however, to direct the proceeds toward the State's need-based Monetary Award Program (MAP), a recurring expense.
- The Civic Federation supports the sale of the IDAPP portfolio but believes that the proceeds should go to reducing the unfunded liabilities of the State's five pension funds, not to fund recurring operating expenditures.

Potential Privatization of Illinois Tollway (2006)

- State Senator Jeff Schoenberg (D-Evanston) has proposed that Illinois lease all or part of the 274-mile Illinois Tollway to private investors with revenues to be used to reduce pension liabilities and to leverage the $3 billion in federal transportation funds now awaiting a matching state contribution.
- Some very preliminary published estimates about the value of leasing the Tollway are that it could generate up to $15 billion in revenue for the State.
- The Civic Federation believes that revenues from a Tollway lease should go to reducing the unfunded liabilities of the State's five pension funds, not recurring programs.

City of Chicago Skyway Lease (2004)

- The Civic Federation **applauded** the City for privatizing the Skyway, a move we long supported. The transaction provided the City with a substantial windfall that offers a unique opportunity to enhance the City's long-term financial position. Chicago leased the Skyway to Cintra-Macuarie Consortium for 99 years; the Consortium paid Chicago $1,820,200,000 for the rights to operate the skyway. The agreement allows the company to capitalize on the tax benefits of asset depreciation, thereby increasing the value of the deal to the purchaser.

- However, we were **disappointed** that the City did not choose to use the $1.83 billion windfall from the Skyway to more significantly improve its long-term financial position. The City plans to use a significant portion of Skyway proceeds to establish income-generating funds that will pay for current operating expenses and new programs instead of paying down long-term debt or meeting pension obligations. Although such income-generating funds may improve the City's reserves, they will support increased expenditures rather than eliminate long-term obligations.

Long-Term Lease of Chicago Parking Garages (2006)

The Civic Federation commended Mayor Daley and his financial team on moving forward to privatize non-core assets such as Midway Airport, municipal parking garages, and recycling centers. The Federation was particularly pleased that the City plans to use any proceeds from the Midway Airport privatization effort to reduce the City's large outstanding pension liabilities and to pay for debt service for capital obligations. Similarly, proceeds from the parking garage transaction are being used for non-operating expenses. In our view, the City is following a fiscally responsible plan for using the proceeds of its asset transfers, and we urge other governments to follow this path. The FY2007 Chicago budget does not contain anticipated revenue from the long-term lease of Midway Airport or other assets. This is prudent, since these transactions are far from complete. The Civic Federation withholds a formal opinion on the City's effort to privatize Midway Airport and other assets until actual proposals are formalized.

The Civic Federation issued a separate statement commending the leadership of the Chicago Park District for its portion of the long-term parking garage lease transaction as a sound fiscal move. By transferring the management of the garages, the District is shedding a non-core asset. It is also using the transaction proceeds responsibly, both by creating a $120 million Long Term Income Reserve Fund that will earn interest over time, and by using $157 million for current and future capital investments.

Local Government Joint Purchasing of Prescription Drugs and Health Insurance

The Civic Federation convened a working group of 7 local governments that drafted an agreement to jointly purchase prescription drugs. The governments were the City of Chicago, Cook County, Chicago Park District, the Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority. This move is now saving these governments millions of dollars annually. The group is now considering an effort to jointly purchase health insurance. A 2001 Civic Federation study found that such a consortium could save up to $40.1 million per year.

Civic Federation Recommendations for Further Local Government Privatization

- **Cook County**: We have supported privatization of janitorial services for over a decade and also support consideration of privatizing pharmacy function, print shops, dietary and food service functions in the Bureau of Health Services and the service of process function for civil lawsuits. We also have called on the County to consider outsourcing the management of the County Highway System and Animal Control functions to local municipalities.

- **City of Chicago**: Additional potential candidates for privatization efforts include solid waste disposal and collection, customer service centers in departments other than the Water Department, fleet management, 311 calls (non-emergency services), building management, payroll processing and accounting.

- **Cook County Forest Preserve District**: The Federation recommends transfer of ownership of the District's two swimming pools to other park districts or municipalities as the operation of pools is not a core function of the District.