

PRIVATIZATION AND PUBLIC-PRIVATE PARTNERSHIPS IN PHOENIX* **by E. S. Savas, Baruch College (City University of New York)**

Phoenix is one of the best-known cities in the United States for using a formal competitive process to compare city agencies' costs for particular services with the costs of private contractors and awarding contracts to the least-cost providers. Following the recommendation of Savas in 1977,¹ the city of Phoenix between 1979 and 1994 awarded 56 contracts in 13 municipal services by this process, with 34 contracts going to private contractors and 22 remaining with the city agencies, saving \$30 million.² (See Table 1 and Table 2.)

Refuse Collection. Public Works Director Ron Jensen initiated competition for residential solid waste collection in 1979. He divided the city into three sectors and put each sector out to bid on a rotating schedule. Private firms bid against the in-house unit; the total number of bidders ranged from three to six in the six competitions that have been held. Private firms can serve no more than one of the three sectors; this statutory provision has the effect of institutionalizing and perpetuating public vs. private competition and preventing complacency and collusion by either sector. As a result, over the next 15 years the real, inflation-adjusted cost of service declined by 38 percent for all garbage collected in the city by the contractor and the city agency.³

The contract specifies a fixed rate per house per month and penalties for missed collections, spillage, deviation from established routes, and other failures. But the contract terms and the bid process have counterproductive features that limit the amount of competition, increase the cost for private bidders, and favor the in-house bidder, thereby leading to higher costs for Phoenix taxpayers.⁴

Bus Contracting. Phoenix also contracts with a national bus company to operate about 4,700 route miles of daily service on ten routes. This is a fixed-price contract; Phoenix pays a fixed price per mile of service. Contract specifications cover cleaning and maintaining the buses, driver and mechanic training, minimum employee benefits, and all relevant mandates for federally subsidized transit. The contract is not performance based, however, as it does not explicitly refer to performance measurements, and it lacks both incentives for good performance and penalties for failure to satisfy performance specifications.⁵

Phoenix was an early adopter of the idea of using competitive contracting between the public and private sectors to improve the delivery of municipal services. Its approach has been successful and therefore widely followed.

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Table 1. Public-Private Competition in the City of Phoenix

Service	Contracts Won by Private Firms	Contracts Won by City Agencies
Ambulance service	0	1
Billing services	2	0
Data entry	0	1
Fuel distribution	0	1
Instrument maintenance	0	1
Landfill operation	1	0
Landscape maintenance	23	7
Public defender	1	0
Refuse collection	7	5
Senior-housing management	0	1
Street repair	0	2
Street sweeping	0	2
Water meter repair	0	1
TOTAL	34	22

Source: Robert Franciosi, *Garbage In, Garbage Out: An Examination of Private/Public Competition by the City of Phoenix* (Phoenix, AZ: Goldwater Institute, 1998): 5.

Table 2. Savings from Public/Private Competition in Phoenix		
Department	Service	Savings
Aviation	Airport landscaping	\$1,000
	Nursery/plant maintenance	14,400
Fire	Emergency transportation	2,898,000
	Billing and collection services	560,000
Housing	Low-income housing maintenance	23,000
	Senior-housing management	123,000
Neighborhood Services	Lot maintenance	13,600
Parks, Recreation, and Library	Median maintenance	470,000
Public Works	Refuse collection	18,010,800
	Landfill operation	7,711,000
Street Transportation	Street sweeping	36,000
	Street repair	109,000
	Landscape maintenance	549,000
Water Services	Water meter repair	176,000
	Wastewater instrument calibration	133,200
TOTAL		\$30,828,000.00

Source: Robert Franciosi, *Garbage In, Garbage Out: An Examination of Private/Public Competition by the City of Phoenix* (Phoenix, AZ: Goldwater Institute, 1998): 6.

¹ E. S. Savas, "An Empirical Study of Competition in Municipal Service Delivery," *Public Administration Review* 37, no. 6 (November/December 1977): 717-24.

² Robert J. Franciosi, *Carrots and Measuring Sticks: A Survey of State of the Art Contracting in Arizona* (Phoenix, AZ: Goldwater Institute, 2000).

³ Robert Franciosi, *Garbage In, Garbage Out: An Examination of Private/Public Competition by the City of Phoenix* (Phoenix, AZ: Goldwater Institute, 1998): 6.

⁴ Ibid.

⁵ Franciosi, *Carrots and Measuring Sticks*.