

Privatization Initiatives

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The Challenge

As the mid-1990s approached, management of New York City's public services was widely perceived to be in need of improvement. Inefficiencies abounded, effectiveness was spotty, taxes were wasted and the combination of archaic work rules handcuffed managers and led to the tacit recognition that City agencies were not really manageable. The conventional public administration solutions, such as enhanced training and professional development, zero-based budgeting, automation, reorganization, organizational development, incentive systems, management by objectives, productivity programs, joint labor-management committees, and total quality management, were not enough; a more strategic approach was needed.

Other cities, in the United States and abroad, had already started taking advantage of a relatively new tool for strategic management: privatization. Privatization can be defined as relying more on the private sector to satisfy public needs. It comes in several forms: contracting for services with for-profit and nonprofit organizations; leasing or selling City-owned property and enterprises; issuing franchises or awarding concessions for services; deregulating and allowing market forces and entrepreneurs to provide needed services; encouraging voluntarism; creating public-private partnerships to develop infrastructure, and using vouchers to expand citizen choice of service providers.

Privatization is not new: In 1492 Queen Isabella of Spain hired a private contractor to explore the western Atlantic Ocean. During the Revolutionary War, the Continental Congress, in effect, issued franchises to private ships (privateers) to attack British shipping. The Federal government started selling public lands in 1785 and continues to this day.

Nor was privatization unknown in New York City. The City had been contracting out streetlight maintenance for years, for example, and had franchised private bus lines and municipal golf courses. Many of the most important social services administered by the City have always been provided under contract. What was new, however, was Mayor Giuliani's deliberate program to use privatization to improve the performance of City agencies. The Mayor made this an important element of his campaign in 1993, and delivered on his promise.

The Solution

The Giuliani Administration implemented more than 60 different privatization actions, and others are still underway. These actions ranged from contracting out fleet management in the Parks & Recreation Department, to allowing dollar vans to expand services in underserved areas of the City, to franchising private ferries, to divesting the WNYC radio and television stations. The accompanying table summarizes these privatizations, although the list is not necessarily complete.

Outcomes

The City's privatization initiatives in the aggregate resulted in cost savings, cost avoidance, more revenue, better service quality, greater responsiveness to the public, and direct savings to the public. For example, tax-levy spending for Public Assistance has been reduced by over \$550 million a year by shifting the emphasis to preparing for work. Readily identifiable savings from contracts amount to more than \$42 million annually. Competitive contracting in the Parks Department reduced the cost of fleet maintenance by 30 percent while reducing the proportion of out-of-service vehicles from 18 percent to five percent. Vouchers for informal day care save money compared to contracts for day-care centers.

Selling City-owned apartment buildings resulted in cost avoidance of \$43 million, because the City no longer has to manage the properties and incur operating expenses. The sale of tax liens on delinquent properties has brought in more than a billion dollars. Other divestments during the period 1994-2000 brought in \$657 million. Sale of the Off-Track Betting Corporation will yield up to \$389 million and remove the City from business incongruent with its core functions. The revenue from ambulance calls increased \$10 million per year by using a contractor for billing and collection.

The Central Park Conservancy, the nonprofit organization contracted to manage Central Park, raises \$17 million a year for the Park. New outlets made available by the City for paying bills and fines respond to public needs and offer greater convenience. Traffic safety is increased by the automatic cameras that reduce dangerous red-light running. The promotion of voluntarism, through the Department of Transportation's Adopt-a-Highway and the public library systems' Adopt-a-Branch program, results in cleaner highways and better libraries. Expanded private ferry services save time for commuters and offer greater convenience to the riding public.

Further Challenges

These accomplishments are noteworthy in a City known for its unmanageability. Nevertheless, numerous opportunities remain for taking further advantage of competition and public-private initiatives. The public school system is long overdue for tuition vouchers, which would introduce competition to failing schools and allow parents a choice for their children's education. Continued opposition from the established school bureaucracy can be expected, and in the meantime pupils and parents will continue to be the losers. The physical condition of public schools would be improved by more contracting with responsible firms to handle custodial work; the experience in City schools to date justifies many more such contracts and a determined effort to overcome

vested in-house opposition.

Competitive contracting would also bring large improvements in efficiency in the public works functions; these services are the most commonly contracted municipal services throughout the United States and Europe. Convincing studies in other cities show that municipal collections of residential solid waste costs about one-third more for services of the same level and quality. Particularly appealing candidates for privatization are the City's water and wastewater treatment plants; such facilities privatized elsewhere by competitive contracting are yielding savings of the order of 40 percent, with better water quality to boot. Street paving is another candidate for contracting. Renewed efforts should be made to sell the municipal hospitals while maintaining the City's traditional role of providing health care to the needy, and to hire private prison firms to manage City prisons under proper safeguards.

Another challenge is to introduce performance contracting in more social services. HRA has led the way in paying contractors only for actual job placements and job retention. In the past, contractors were reimbursed for their costs and received a fixed fee. Now, contractors assess, train, and prepare hard-to-place, Public Assistance recipients for jobs, but the contractors are not paid until the individual is placed in a job, and even then the fee is only a partial one. They receive another portion of the fee if the individual is still employed after three months and/or six months, depending on the contract. Moreover, the contractor receives a bonus if the individual is receiving relatively high wages. HRA follows their contractors' performance through computer-based systems, JobStat and VendorStat, that are modeled on the Police Department's CompStat system. This approach should be expanded to cover more social services that are provided by contractors. Wherever possible, for-profits firms, religious institutions, and other nonprofit organizations should be allowed to compete on a level playing field for social service contracts.

TABLE 1. SUMMARY OF PRIVATIZATION ACTIVITY IN THE GIULIANI ADMINISTRATION*

Department or Administration	Program	Method of Privatization	Status	Comments
Buildings	Examination service	Contract	Ongoing	Develop and administer exams for private elevator agency directors and inspectors
	Lock-box service	Contract	Drafting contract	Collect fees and data for elevator and boiler inspections
	Elevator inspections	Contract	Ongoing	
Business Services	Business Improvement Districts (12 new BIDs added to existing 29)	Voluntarism	Ongoing	Voluntary formation of BIDs and self-imposed taxes (\$5.35M/yr) result in better services and quality of life in their areas.
Children's Services	Day care	Voucher	Ongoing	Number of children cared for through vouchers increased by 310%. Voucher cost is 42% less per child than contract cost.
Citywide Admin Svcs	Delivery of office supplies	Contract	Ongoing	Two-day delivery
	Fleet services	Contract	Ongoing	Saving \$4.7 per year and reducing down time from 10% to 3%
Consumer Affairs	Deregulation of nine occupational licenses	Deregulation		Direct savings to the public by dropping obsolete licensing requirements
Corrections and HHC	Health care for prison inmates	Contract		Expect 10% savings and better health care for inmates of 12 of the 16 city jails
Cultural Affairs	Challenge Program for matching grants	Voluntarism	Ongoing	Cultural institutions raise private money to match City grants
Economic Development Corporation	UN Plaza Hotel	Divestment	Completed	Obtained \$85M and annual property taxes
	WNYC AM and FM Radio	Divestment	Completed	Obtained \$20M
	WNYC-TV	Divestment	Completed	Obtained \$207M
	OTB	Divestment	Planned	Expect at least \$250M; requires State approval
	Coliseum	Divestment	Completed	Joint sale by NYC EDC and MTA for \$345M
	Airports	Contract	Planned	Currently operated by Port Authority under lease to 2015
	Board of Education	Divestment	In process	Buildings for sale are 110 Livingston St. and 2 other nearby buildings
	Community Gardens	Divestment	Completed	Vacant lots purchased by a benefactor and kept as Community Gardens.
Education, Board of	Custodial services	Contract	Ongoing	Better, faster service; schools cleaner and open more hours for community activities
	Summer School	Contract	Ongoing	Contracts in 20 districts for professional development and direct student services
	Construction of new school buildings	Public-private partnership	In process	Private foundation will finance and build schools and lease them to BOE
Environmental Protection	Water-meter reading	Contract	Ongoing	Net annual savings should be \$2.15M per year when expanded throughout entire city
Finance	Sale of tax liens on delinquent properties	Divestment	Ongoing	City obtained \$1.45B in revenue; tax delinquency reduced by 20%.

Department	Program	Method of Privatization	Status	Comments
	Sale of City-owned parking facilities	Divestment	Sold 5 of 13 facilities	Obtained \$16.86M
	Neighborhood Payment Centers for public to pay taxes, water bills, fines	Deregulation and market operation	Ongoing	Public can pay at 402 locations in metropolitan area at private cash-checking stores; customer pays for the service.
	Bail processing	Contract	Ongoing	Bank contracted by City handles transactions; less City staff needed
	Data entry	Contract	Ongoing	Eliminated microfilming. Exploring privatization of remaining data entry work
Fire	Reproduction and mail management	Contract	Ongoing	Saved \$1M
	Billing for ambulance calls	Contract	In process	500,000 transports per year; \$10M more revenue expected to be collected annually
Health & Hospitals Corp	Laundry service	Contract	Ongoing	Half the work is contracted, saving \$3M per year
Homeless Services	Homeless shelters	Contract	Ongoing	Also provides individually specialized—more direct and personal—services and dissemination of best practices
Housing Authority	Boiler plant privatization	Contract	Ongoing	Contractor is Brooklyn Union Gas. Annual savings are \$2.45M per year
	Private management of scattered housing sites	Contract	Ongoing	
	Verification of applicants' eligibility	Contract	Ongoing	Screens out ineligible applicants for public housing
Housing Preservation and Development	Disposed of City-owned, tenant-occupied, <i>in-rem</i> buildings	Public-Private Partnerships	Ongoing	Sold 2,000 buildings; cost avoidance and savings of \$95M per year
	Disposed of City-owned, vacant, <i>in-rem</i> buildings	Divestment	Ongoing	Over 1,200 buildings restored to market; will be paying taxes.
	Anti-abandonment	Public-Private Partnerships	Ongoing	Troubled buildings are identified; efforts made to keep them in owners' hands to avoid City takeover for tax arrears.
	Third-Party Transfer Program	Ownership transfer	Ongoing	Buildings in arrears are diverted to other private owners to avoid City ownership, management, and operation.
Human Resources Administration	Welfare Reform (Work Experience Program, WEP)	Withdrawal	Ongoing	30,000 former welfare recipients are working for their stipends in City agencies. Greater self-reliance and less dependency.
	Employment preparation and employment services	Contract	Ongoing	89,071 Public Assistance recipients were placed in jobs by end of FY2000
	Legal aid services for welfare recipients	Contract	Ongoing	Competitive solicitation was conducted, instead of award to same contractor
Information Technology & Telecommunications	Kiosks for interactive "e-government"	Contract pending	Proposals received, 2001	More convenient access for citizens and businesses to obtain information, file applications, make payments
	Leases for fiber optic cables in unused water lines	Lease	RFP issued 2001	
DOITT (cont.)	Webphone service at public telephones	Franchise	Planned	Allow public to access Internet
Juvenile Justice	Non-secure detention girls' intake facility	Contract	Planned	

Department or Administration	Program	Method of Privatization	Status	Comments
Parks & Recreation	Central Park Conservancy	Contract and voluntarism	Ongoing	Central Park Conservancy provides 85% of the Park's operating budget of \$20M per yr
	Bronx and Brooklyn garages	Contract	Ongoing	Reduced cost by 32% and reduced fraction of vehicles out of service for repairs
	City Parks Foundation	Voluntarism	Ongoing	Businesses and benefactors donate to parks, mostly for rehabilitation
Public Library, Brooklyn	Voluntary contributions	Voluntarism	Ongoing	Amount given has doubled during Giuliani administration
Public Library, New York	Adopt-a-Branch	Voluntarism	Ongoing	\$0.5M for each of 15 branches in Bronx and Manhattan, plus \$5M for Bronx branch
	Security Guards	Contract	Ongoing	Lower cost
Sanitation	Fresh Kills compost operations	Contract	Ongoing	Contractor sells compost product but operation is not self-sustaining; City pays contractor.
	Fresh Kills landfill gas emission control	Franchise	Ongoing	Franchisee paid initial fee of \$875K; pays \$3.5M/yr. City saves \$2M - \$3M/yr in cost of compliance monitoring
	Solid-waste transfer and disposa	Contract	Ongoing	Ran out of space for disposing of solid waste within City limits. Now being sent out of state by contractor.
	Waste-paper recycling	Contract (with risk sharing)	Ongoing	City will reduce costs by up to \$120M and gain revenue of at least \$26M in 20 years
Taxi & Limousine Commission	Commuter vans	Deregulation	Ongoing	More vans licensed; provide convenient, low-cost service in under-served areas
	Issue more taxi medallions	Franchise	Ongoing	City received approximately \$78M from selling 400 additional medallions
Transportation	Adopt-a-Highway	Voluntarism	Ongoing	Donors pay to clean 336 miles of highway at about \$8,000 per mile per year
	Private ferries	Franchise	Ongoing	Half the routes were initiated during the Giuliani Administration
	Installation of street signs	Managed competition	Ongoing	Union agreed to greater productivity in order to avoid outsourcing by the City.
	Parking garages	Lease	Ongoing	Since 1995 City has had a revenue sharing agreement. Brought in \$6.1M in FY2000
	Managed competition for street resurfacing	Contract	Planned but never started	Bids were received but no awards were made
	Red-light camera	Contract	Ongoing	Cameras and sensing equipment located at selected intersections are triggered by cars driving through red lights. Violators are identified and are issued tickets by mail.

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