

# PUBLIC-PRIVATE PARTNERSHIPS: WHY NOW IS THE TIME FOR CONSIDERATION



OUR ECONOMY IS IN A PERIOD OF CONTRACTION, and local governments throughout Colorado are looking at decreased revenues for the next several years. To balance the budget, governments must look at every program — its value and its delivery.

While some governments are making across-the-board cuts in the hopes of riding out this storm, many economists and managers do not believe this strategy will be enough.

Rising fixed costs and a prolonged economic slump are forcing local administrators and elected officials to make important policy decisions as they prioritize funding. Public-private partnerships are an increasingly attractive and a viable alternative to maintain service levels while cutting fixed costs.

## The financial realities

The budget crunch has hit nearly every city and town in the state, said Sam Mamet, executive director of the Colorado Municipal League, in a recent KUSA-TV story. “A lot of cities are looking seriously at furloughs, they’re looking at cutbacks in services and seeing if they can perhaps contract their services out to another local government or perhaps privatizing.”

CML’s February 2009 *State of Our Cities & Towns* survey found that 46 percent of Colorado’s cities indicated 2008 revenues were “worse” or “much worse” than the previous year, while a third said revenues were flat.

- The City of Denver recently announced it must cut \$120 million over the next 18 months to balance its budget. Year-to-date sales tax revenue was down 12.7 percent, requiring a 12 percent cut of the total general fund budget.
- The second largest city along the front range, Aurora, has to cut as much as \$7 million in 2010.
- In Fort Collins, retail sales were down 6.2 percent in May year-over-year. Year to date, the City is behind \$938,000 in sales and use tax based on a revised budget, which had already been reduced 2 percent.
- In Loveland, the City is projected to be \$5.2 million short in 2010 — that’s 7.6 percent of the City budget.
- The City of Steamboat Springs has planned for an expected 2009 sales tax collection of 18-19 percent less than 2008.

State-level numbers also paint a bleak picture for Colorado. State sales tax receipts for May were off by 17.9 percent from last year. Individual income taxes fell by 19.7 percent, and corporate income taxes dropped by 13.2 percent.

“The buzz word is ‘flat is the new normal,’” Mamet said. “Any city that tells me that their revenue picture is flat is happy about that situation. There is no such thing as a free lunch. City and town leaders are going to have to sort out what that’s going to be, will police and fire, as an example, be sacred and untouchable as it’s always been because public safety is a core function of government, or will we have to look harder at that?”

## Cutting services or making them more cost effective?

Across the state, most of Colorado's 271 incorporated municipalities are cutting services to deal with this harsh economic climate.

Denver is deferring equipment replacement, holding open vacant positions and furloughing employees, and Colorado Springs skipped its Fourth of July fireworks display. Durango has placed plans for a conference center and parking garage on hold. In Grand Junction, city leaders are considering shortening business hours in some offices and eliminating its popular Spring Clean-Up event.

Public-private partnerships offer an alternative to selective or across-the-board service cuts and raised fees. Time and again, they have been shown to be a fiscally prudent choice for delivery of a myriad of public services. The current economic climate has only made the consideration more urgent.

Public-private partnerships offer a way to avoid excessive fixed expenses. By freeing funds otherwise spent on fixed expenses, the organization can become more resilient and has the flexibility to adapt to existing conditions. This further allows for more innovations and focus on continuous improvement in other areas of the organization.

According to the National Council for Public-Private Partnerships (NCP),

government revenues during slow periods of growth are frequently not sufficient to meet spending demands, necessitating painful spending cuts or tax increases. "Partnerships can provide a continued or improved level of service, at reduced costs," said a statement by the NCPP. "By developing partnerships with private-sector entities, governments can maintain quality services despite budget limitations."

## Privatizing works for any

The City of Colorado Springs' 2009 Strategic Plan specifically mentions public-private partnerships as a means to sustainable fiscal policy. "Through the City's annual budget process, the City will address budgetary constraints by reevaluating the level and mix of services, and proposing strategic solutions that may include revenue enhancements, privatization of services and asset shedding," says the plan.

And in Aurora, public-private partnerships are used for everything from graffiti removal and water meter installation to electrical engineering and IT support. This year, the City is looking at privatizing other services, including occupational health, concrete repair, and more, in an attempt to retain these functions yet provide them as cost-effectively as possible.

In Colorado, a conservative estimate indicates that 35 percent of the state's

municipalities engage, in varying degrees, in a public-private partnership for building department services. SAFEbuilt, the largest contract provider in Colorado, assumes the fixed costs, including salaries, vehicles, benefits, and insurance, of running a building department for a share of the revenues. With a network of building officials, plan examiners, and inspectors, communities can take advantage of a broader range of expertise than they might have with a permanent staff.

Cost of delivery is also a consideration. In the City of Centennial and several other municipalities, for example, a private company called Community Preservation Specialists provides comprehensive code enforcement services. Owner Susie Ellis said that typically, municipalities need one code enforcement officer for every 13,000 residents. Using this rule of thumb, Centennial would need seven or eight code enforcement employees to handle the community's workload. Instead, these municipalities outsource the work to Ellis' company.

"Nationwide, the average cost per capita for code enforcement is about \$8," said Ellis. "We provide the same services in Centennial for less than \$4 per capita."

Revenue-driven contracts, which pay for services based on a percentage of fees collected, are an especially attractive option in this economy. With this method, costs are controlled and services maintained — and there is no risk of spending more money than the service fees generate.

*For more information about outsourced building department services, visit [www.safebuilt.com](http://www.safebuilt.com) or call Scott Martin at 866-977-4111, ext. 206, or email him at [Scott.Martin@SAFEbuilt.com](mailto:Scott.Martin@SAFEbuilt.com). SAFEbuilt is a leader in the building and safety services industry and has public-private partnerships with nearly 100 public agencies nationally.*

## PRIVATIZATION CONSIDERATIONS

Public agencies considering privatizing a public service should consider the following:

1. What is the public agencies' responsibility for providing services?
2. Can the public agency reduce its present costs (fixed and variable) through privatization?
3. Can a private contractor offer additional expertise?
4. If a service is privatized, will the public agency lose control of its operation?
5. Can the private provider guarantee performance and/or compliance?
6. What if the public agency becomes unhappy with the agreement?