



# Fulton County Taxpayers Foundation

Non-Profit Advocate Of Lower Property Taxes In Atlanta/Fulton County

501(c)3 Non-Profit Advocate of Lower Property Taxes in Atlanta/Fulton

May 2009

## Overcoming Atlanta's Deficit Through Managed Competition

*"It is better for the public to procure at the market whatever the market can supply, because there it is by competition kept up in its quality, and reduced to its minimum price."*

*Thomas Jefferson, 1808*

### Comparable Cities, Comparable Problems

In 2006, the City of San Diego was facing similar problems faced by the City of Atlanta today, i.e., budget shortfalls, deteriorating infrastructure, shortfall in pension funding, etc. The City of San Diego took two important steps to correct their problem:

1. In November 2006, 62% of the voters in San Diego approved Proposition C, allowing the city to utilize competition with the private sector to provide cheaper and better services to the community.
2. The City of San Diego commissioned the San Diego Institute for Policy Research and the Reason Foundation to do an in-depth research paper on case studies to support "Achieving Taxpayer Savings & Government Reforms Through Managed Competition."

### Managed Competition: A Promising Solution

The City of San Diego's financial crisis have led residents and elected officials to search for serious solutions. One promising solution is the introduction of managed competition to provide government services. Managed competition is different from "outsourcing" or "contracting out" in that it encourages public employees to submit bids and compete with the private bidders. Under managed competition, it does not matter whether public or private employees earn the contract; taxpayers win either way.

The San Diego Institute for Public Research and the Reason Foundation reviewed the San Diego budgets and identified eleven functions currently performed by city workers. The cost savings estimates, based on an extensive analysis of managed competition and privatization case studies, indicated a tax dollar savings range of 10%-25%. If all eleven services were contracted, the expected savings would be \$80 million to \$201 million annually. Even if the city achieves just a 15% savings rate (toward the low end of the savings range), the result in savings would be \$120 million. In addition to dollar savings, private contracting shifts the city-employee pension fund costs from the government to the contractor.

The 30-plus case studies laid out in the 83-page report include:

- Water/Wastewater Treatment
- Garbage Collection & Disposal
- Fleet Maintenance
- Street Pavement Maintenance
- Parks & Recreation
- Golf Courses
- Permits

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## Avoiding Potential Pitfalls & Maximizing Benefits of Managed Competition

The report cautions the City of San Diego that in order to avoid the potential pitfalls of contracting and to maximize the benefits, six steps are necessary:

1. **Trained Procurement Staff:** “The city-staff must be properly trained in contracting best practices and, in particular, how to build service level standards into agreements and monitor provider performance, in order to avoid possible ambiguities, misunderstandings, and disputes.”

2. **Centralized Managed Competition Unit:** “The city should maintain an expert team of procurement and competition officials to guide other departments in developing their managed competition initiatives. This central unit will help to break-down the ‘silos’ that departments sometimes operate within and identify city-wide or enterprise-wide competition opportunities that might otherwise be considered.”

3. **Establishing Performance Measures:** “It is crucial that the city identify good performance measures to fairly compare competing bids and accurately evaluate provider performance after the contract is awarded.”

4. **Reliable Cost Comparisons:** “The city must establish formal guidelines for cost comparisons to make sure that all costs are included in providing a service so that an ‘apples-to-apples’ comparison of competing bidders may be made. This is especially important when public employees are competing with private-sector bidders since the public and private sectors operate under different rules.”

5. **Implementing Performance-Based Contracts:** “Performance-based contracts should be used as much as possible to place the emphasis on obtaining results the city wants achieved, rather than focusing merely on inputs and trying to dictate precisely how the service should be performed. Performance standards should be included in contracts and tied to compensation through Financial incentives.

6. **Vigilant Monitoring & Evaluation:** “Regular monitoring and performance evaluations are essential to ensure accountability and transparency, and that the city management and the service provider are on the same page. This can help address any problems that might arise early, before they become major setbacks.”

## Few, If Any, Layoffs of Public Employees

According to this carefully-researched report, the authors state that comprehensive examinations of competition initiatives have found that competition has resulted in few, if any, layoffs of public employees, and that public employees can actually benefit in the long term from private-sector management. Yet, the authors caution, “It is important that management communicate early and often with the public employee unions and encourage them to bid for managed competition initiatives.”

**Summary of Potential Cost Savings From Managed Competition** (source: “Streamlining San Diego: Achieving Taxpayer Savings and Government Reforms Through Managed Competition”, San Diego Institute for Policy Research and Reason Foundation June 2007)

**Table 10**  
**Summary of Potential Cost Savings from Managed Competition**

Service	FY 2007 Expenditures	Proposed FY 2008 Spending	Low Savings Estimate (07)	High Savings Estimate (07)
Water/Wastewater <sup>1</sup>	\$350,165,778	\$478,084,727	\$35,016,327	\$87,540,818
<b>Environmental Services:</b>				
Trash Collection	\$30,323,442	\$38,514,160	\$3,932,344	\$8,830,861
Landfill	\$25,805,497	\$26,296,990	\$2,580,550	\$6,451,374
Recycling	\$19,600,811	\$19,928,390	\$1,960,081	\$4,900,203
Fleet Maintenance <sup>2</sup>	\$51,018,594	\$49,635,693	\$5,101,859	\$12,754,649
Street Maintenance	\$50,681,086	\$68,951,347	\$5,068,109	\$12,670,272
Parks and Recreation	\$95,495,273	\$98,532,648	\$9,549,527	\$23,873,818
Golf Courses	\$11,690,024	\$12,913,763	\$1,169,002	\$2,922,506
Libraries	\$39,424,734	\$38,345,950	\$3,942,734	\$9,856,184
Permits	\$35,086,525	\$31,480,113	\$3,508,653	\$8,771,631
Facilities	\$15,143,790	\$14,886,850	\$1,514,379	\$3,785,948
IT/Data Processing <sup>3</sup>	\$64,282,700	\$86,085,614	\$6,428,270	\$16,070,675
Printing/Copying	\$4,355,101	\$4,196,455	\$435,510	\$1,088,775
<b>TOTALS</b>	<b>\$802,077,855</b>	<b>\$968,752,700</b>	<b>\$80,207,345</b>	<b>\$200,517,714</b>

Source: Expenditures data are from City of San Diego, FY 2007 and FY 2008 (Proposed) budgets.

1. The cost savings projections for water and wastewater do not factor in expenditures for water purchases, bond payments, and the bond assurance fund. Note also that expenditures for “municipal wastewater—non activity account” which is a budget line item in the FY08 budget but not included in FY 07, are excluded for the table. The savings projections also focus only on the municipal budget of the wastewater department, thus excluding metro expenditures (see pages 501-507 and 535-537 of the City of San Diego’s FY 2008 Proposed Budget). Though we have taken a conservative approach in excluding these items for the purpose of determining potential cost savings estimates, it could be argued that because of improved incentives and competition, operators under managed competition would do more to attempt to reduce water losses, including conducting regular audits and taking a more proactive approach, which could result in additional savings. For information on the \$2.8 million the City of San Diego spent in FY07 on water purchased which was lost before it could be delivered to customers see Rob Davis, “The Case of San Diego’s Vanishing Water,” Voice of San Diego, July 26, 2007, <http://voiceofsandiego.com/articles/2007/08/07/environment/932waterloss072607.txt>.

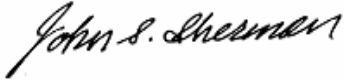
2. These expenditure figures do not include approximately \$1.3 million for FY 2007 and \$31.6 million for FY 2008 (Proposed) for the General Services Department’s Equipment Replacement Fund. The city may wish to consider a leasing arrangement under a contract with a private provider instead of owning vehicles. This could result in additional savings from capital costs.

3. Expenditure data for information technology/data processing only includes expenditures from the Office of the CIO (the city’s central IT office) and the San Diego Data Processing Center. It does not include separate information technology divisions established within several city departments. As such, expenditures and cost savings estimates are unencumbered.

## Conclusion

San Diego's Mayor and City Council unanimously approved of the recommendations of the report by the San Diego Institute for Policy Research and the Reason Foundation. It is in the best interests of the Atlanta taxpayers were Mayor Franklin and the Atlanta City Council to adopt – without delay – Managed Competition for all of its services except Public Safety.

John S. Sherman



President

## City Council Public Hearings Schedule

Thursday May 14th 6:00pm

Thursday May 21st 6:00pm

Thursday June 4th 6:00pm

Thursday June 11th 6:00pm

**The FCTF is planning Speak-Out meetings in every district over the next 6 weeks! Stay tuned to our website and emails for more details!!**

*Unite the Fight To Bring Better Government  
to Atlanta and Fulton County!*

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