PRIVATE SOLUTIONS TO PUBLIC PROBLEMS

Partnerships to Build a Better Government

Kentucky Chamber

Uniting Business. Advancing Kentucky.

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Private Solutions to Public Problems:
Partnerships to Build a Better Government

Meeting essential needs while saving tax dollars and improving efficiency is possible, but it will require a new approach by state government. This report examines how greater engagement of the private sector in state government through public-private partnerships can help achieve these important goals.

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SECTION 1. Introduction

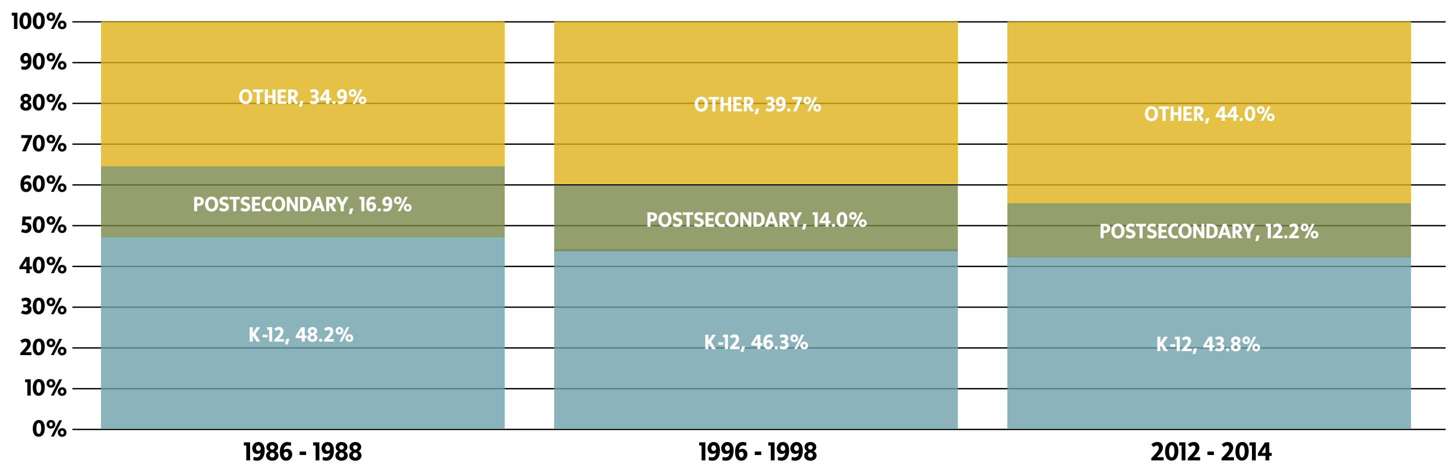
The constant demand for money to fund the programs of state government consistently exceeds available resources, not to mention the ability of policymakers and taxpayers to generate additional revenue. The process of writing Kentucky's state budget provides a clear example of this reality. As the 2012-14 Executive Budget was being drafted, state agencies requested $22.9 billion in General Fund and $3.2 billion in Road Fund appropriations over the biennium.[1] Ultimately, $19.3 billion in General Funds (about 16% less than the requested amount), and $3.1 billion in Road Funds (3% less than requested) were appropriated.[2] While it can be argued that state agencies routinely request more than they actually need, and some of those requests could be of debatable value, there is always the push for more funding than there are resources to go around.

The challenges presented by these continual requests for more state funding are compounded by an economy that is still recovering from the recession, as well as the unsustainable spending in several areas of Kentucky state government. As the Kentucky Chamber of Commerce pointed out in its 2009 and 2011 "Leaky Bucket" reports on state budget trends, state spending on corrections, Medicaid and public employee benefits has been growing faster than the overall state budget and the state economy.[3] A consequence of this growth has been to squeeze out spending for education at all levels.

To illustrate how Kentucky's spending priorities have changed over the years, the chart below shows how funding for K-12 education and postsecondary education has changed as a percent of the total state General Fund budget over the past 28 years. In the 1986-88 budget, K-12 education received $3.15 billion or 48.2% of all General Funds appropriated and postsecondary education received $1.1 billion, or 16.9%. By the 1996-98 budget, K-12 funding was down to 46.3% of General Fund appropriations and postsecondary had slipped to 14%. In the most recent $19.3 billion General Fund budget (2012-14), K-12 had dropped to 43.8% ($8.45 billion) and postsecondary was down to 12.2% ($2.35 billion).

While important progress has been made to rein in the unsustainable spending identified by the Chamber (with recent major reforms in the penal code, the public employee retirement system and the move to statewide Medicaid managed care), the erosion of education funding continues to threaten the future of the state and its citizens. Kentucky trails the nation in personal income, education attainment and health status, and it will be very difficult to overcome these problems if funding for education is continually eroding.

Education's Declining Share of Kentucky's General Fund Budget



"Other" category includes areas such as Medicaid, human services and the criminal justice system.

Source: Enacted Budgets; Budget in Brief, Governor's Office of Policy and Management

The 'New Normal': Slow Economic Growth

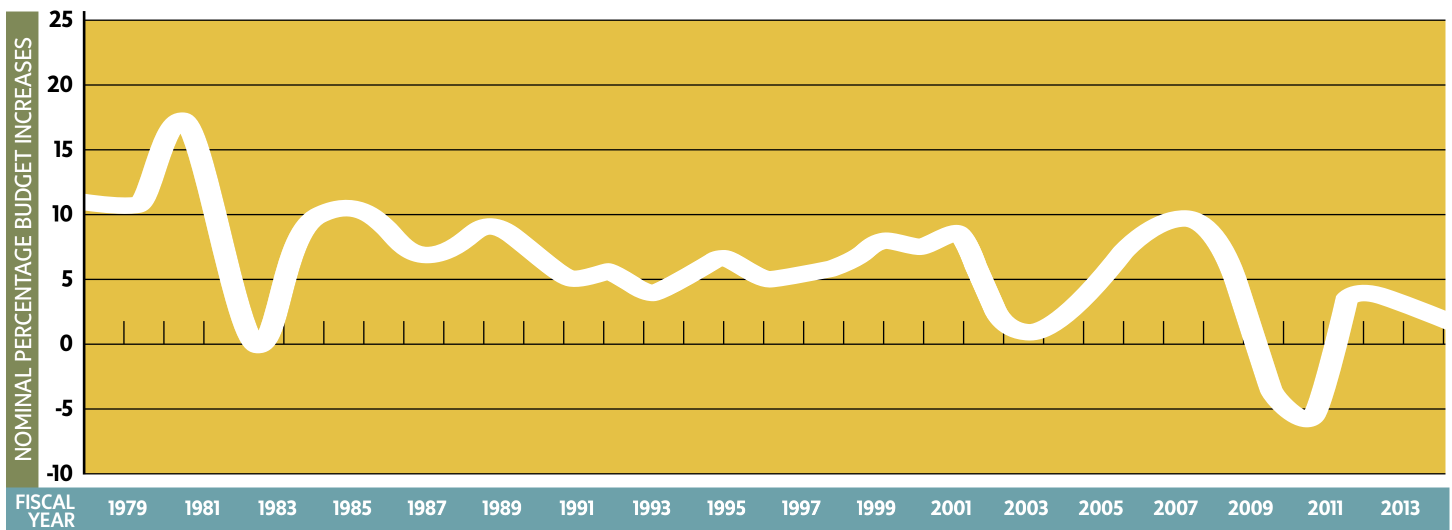
Kentucky is not alone in dealing with a fluctuating economy and the resulting limits on available state revenue. The Fall 2012 Fiscal Survey of the States, compiled by the National Association of State Budget Officers (NASBO), found that while state finances were "mostly recovering in step with the slowly improving national economy," progress is "uneven across the states" and that "even with revenue growth, state budgets are still facing pressure, with 24 states enacting lower spending levels in fiscal 2013 than in fiscal 2008."[4] Kentucky's spending in 2008 was $9.335 billion, with $9.4 billion appropriated for 2013—roughly the same amount.[5]

The chart below indicates how annual budget increases for all states have dropped dramatically from 2007 levels.

According to the NASBO survey, many states reduced spending in fiscal 2013 to deal with financial pressures:[6]

- **21 STATES** (including Kentucky) enacted targeted budget cuts
- **13 STATES** enacted across-the-board percent cuts in the state budget
- **10 STATES** reorganized state agencies to reduce expenditures
- **9 STATES** cut state employee benefits
- **8 STATES** reduced aid to local government

Annual Percentage Budget Increases for All States, Fiscal 1979 to Fiscal 2013



Source: The Fiscal Survey of States: An Update of State Fiscal Conditions, Fall 2012, National Governors Association and National Association of State Budget Officers

States are also dealing with other budget issues in addition to those created by the economic downturn. The State Budget Crisis Task Force, created by former New York Lieutenant Governor Richard Ravitch and former Federal Reserve Board Chairman Paul Volcker, issued a report in July 2012 that identified six major fiscal threats that "threaten the states' investment in education and infrastructure and affect the ways in which the states are likely to issue debt":[7]

- **Medicaid is "crowding out other needs."** Medicaid spending is growing faster than the economy and state tax revenues and in many states has surpassed K-12 education as the largest expenditure in the state budget. (This trend is likely to continue with the expansion of Medicaid under the federal Affordable Care Act to include more than 300,000 additional Kentuckians.)
- **Federal deficit reduction threatens state economies and budgets.** Since up to 50% of total revenue available to some states comes from the federal government, reductions in federal spending could have a significant impact on state budgets.
- **Underfunded retirement promises create risks for future budgets.** Public pension systems are underfunded by as much as $1 trillion, which will require significant increases in retirement contributions by state government to honor promises made to employees.
- **Narrow, eroding tax bases and volatile tax revenues threaten to undermine state finances.** Tax revenues are more dependent on personal income, sales and corporate taxes than in the past and have "become more volatile in large part because income taxes have become increasingly dependent on financial markets and on the states' highest earners."
- **Local government fiscal stress poses challenges for states.** Local governments are experiencing fiscal stress as a result of the recession that could create problems for state governments.
- **State budget laws and practices hinder fiscal stability and mask imbalances.** The dependence on non-recurring revenues and cash-based budgeting (which recognizes revenues as soon as they are received and expenditures only when cash is disbursed) enables "gimmicks" and can mask structural budget imbalances.

In citing this task force report, the 2013 Annual Privatization Report from the Reason Foundation referred to current state fiscal conditions as the "new normal," noting: "Overall, states are slowly recovering from the impact of the 2008 recession, but with the 'new normal' of slow economic growth and a variety of looming fiscal threats, the states' fiscal situation might best be described as precarious in the near term."[8]

The impact of economic distress on state budgets was aptly described by the fiscal affairs director of the National Conference of State Legislatures: "The demand for cost-savings and budget-balancing measures, for new and effective ways of delivering state services, tends to peak, grow and mushroom during times of fiscal stress on the state budgets. It comes down to the basic element of trying to do the same or even more with less. ..."[9]

A Way Forward

Given the continuing pressures on Kentucky's budget, this report suggests a new way forward. It is time for Kentucky to accelerate its efforts to stretch limited resources by turning to the private sector to deliver services and build facilities and infrastructure that have been traditionally provided by government agencies.

THIS REPORT WILL:

- Provide an overview and examples of public-private partnerships in Kentucky and other states
- Outline the process used in creating public-private partnerships and considerations to keep in mind
- Suggest possible areas of government for expansion of public-private partnerships
- Propose a formal process to facilitate such partnerships

SECTION 2: What is a Public-Private Partnership?

A public-private partnership (P3) generally describes a contractual agreement between a public agency and a private-sector entity to deliver a service or provide a facility for use by the general public.[10] The classic public-private partnership usually involves a private entity working with a government agency to provide financing, construction and operation of an infrastructure project, such as a highway, bridge or building.

For purposes of this report, the P3 concept will also include the general trend of privatization in which states contract with the private sector to provide a wide range of government services to the public. This process shifts "some or all functions and responsibilities from government to private-sector providers" (such as printing, road design and building maintenance) to lower the cost of government and shifts risk to the private sector to protect taxpayers.[11]

In a 2011 issue brief, the National Conference of State Legislatures (NCSL) highlighted three basic forms of privatizing government services:

- **Contracting Out:** The government hires a nonprofit organization or private company to perform all or a portion of a governmental service. The government, however, maintains management and policy control over the type and quality of services provided.
- **Public-Private Partnership:** The government agency and a private sector company sign a contract agreeing on terms requiring the private company to develop, finance or operate a public facility or provide certain services. A public-private partnership sometimes is referred to as a joint venture.
- **Service Shedding:** When the government reduces the level of service provided or stops providing a service altogether, a nonprofit organization or a private sector company may step in to offer the service if market demand exists.[12]

Arguments in favor of privatizing government services:

- The private sector can provide public services cheaper than government.
- The private sector can provide higher quality services than government.
- It is more cost effective for state agencies to hire private consultants when specialized expertise is needed than to hire full-time staff.
- Privatization introduces competition into government, which forces state agencies to provide services more efficiently and effectively.

Source: Privatization: An Option for State Government Agencies, National Conference of State Legislatures, August-September 2011

In a 2010 report, Gilroy and Moore maintain that governments can meet a number of important goals by selecting a private entity to provide a service:[13]

- **Cost Savings:** A Reason Foundation review of more than 100 privatization studies found savings ranging from 20% to 50%.
- **Access to Expertise:** Contracting gives governments access to expertise they do not have in-house on an as-needed basis. It is cheaper to retain architects, engineers and lawyers on an as-needed basis than to hire them as full-time employees.
- **Better Quality:** Competition brings out the best in competitors, whether it is in sports or the business of providing public services. Bidders have incentives to offer the best possible combination of price and service quality to beat their rivals.
- **Improved Risk Management:** Contractors, rather than the government, are responsible for cost overruns, strikes, delays and other risks.
- **Innovation:** Competition to win and retain contracts spurs the discovery of new, cutting-edge solutions. Without competition, even top-notch employees may stop looking for ways to improve how they meet customers' needs.

- **Meeting Peak Demand:** The cost of providing a public service can be raised considerably by the capital and manpower needed to satisfy demand at peak periods, even though those peaks may last only for a few hours a day, a few days a week or a few months a year. Contracting allows governments to obtain additional help when it is needed so that services are uninterrupted for residents.
- **Timeliness:** "Time is money" if you are a contractor footing the bill, or if your contract with the city or state includes penalties for delays. Contractors can recruit additional workers or provide performance bonuses to meet or beat deadlines, options that often are unavailable to in-house staff.

Types of Public-Private Partnerships

As noted earlier, a public-private partnership is one method of privatizing a government service and typically is used for transportation infrastructure. The U.S. Department of Transportation uses a widely adopted definition of P3s:

> A public-private partnership is a contractual agreement formed between public- and private-sector partners, which allows more private-sector participation than is traditional. The agreements usually involve a government agency contracting with a private company to renovate, construct, operate, maintain, and/or manage a facility or system. While the public sector usually retains ownership in the facility or system, the private party will be given additional decision rights in determining how the project or task will be completed.[14]

In practice, there are many different models for public-private partnerships, but the NCSL notes all share three key characteristics: mission, method and money.

1. **The mission**, which includes "public-sector goals and objectives" and is focused on the "intended results and public benefit" of a project, which can include transportation projects, schools, government buildings, prisons, energy and utility projects, and police and fire stations.[15]
2. **The method** used for project delivery, which "can be thought of as being on a continuum of public-private mixes" ranging from a "traditional public project delivery, where the public sector finances, owns and retains control over the project," to one in which a private entity designs, builds, operates, maintains and finances a project.[16]
3. **The money** for financing a public-private partnership means "which elements of the project are financed by the public or private partners, and how." This can include assets generated by the government such as taxes, bond funds or user fees, or private resources that may come from user fees, private equity or funds borrowed from private capital markets.[17]

A 2008 congressional report on public-private partnerships categorized public-private partnerships into six basic types (with No. 1 involving the least amount of private responsibility to No. 6 involving the most):[18]

1. **Private Contract Fee Services.** These types of P3s turn over to the private sector some of the responsibility for providing services while the government retains overall control. This may include contracting for operations and maintenance (O&M) services and program and financial management services. An example of this type of P3 is the partial outsourcing of street maintenance in the District of Columbia, including snow and ice removal.
2. **Design-Build (DB).** This type of partnership arrangement combines two services that are traditionally separate, design and construction, into one fixed-fee contract. The public sector, nevertheless, retains ownership of the facility as well as responsibility for planning, preliminary engineering, financing and O&M. An example of this type of P3 is the 12-mile light rail system in Minneapolis, opened in 2004, that was constructed for the most part using two design-build contracts, one to build the rail track and signal equipment and one for the trains.
3. **Design-Build-Operate-Maintain (DBOM).** These partnerships go even further than design-build P3s by adding private sector responsibility for O&M once a facility goes into service. The public sector is still responsible for financing and retains the risks and rewards associated with the operating costs and revenues. The 21-mile Hudson-Bergen light rail system in New Jersey is a good example of DBOM. The original fixed-price contract awarded to the 21st Century Rail Corporation in 1996 was for design and construction of the initial 10 miles

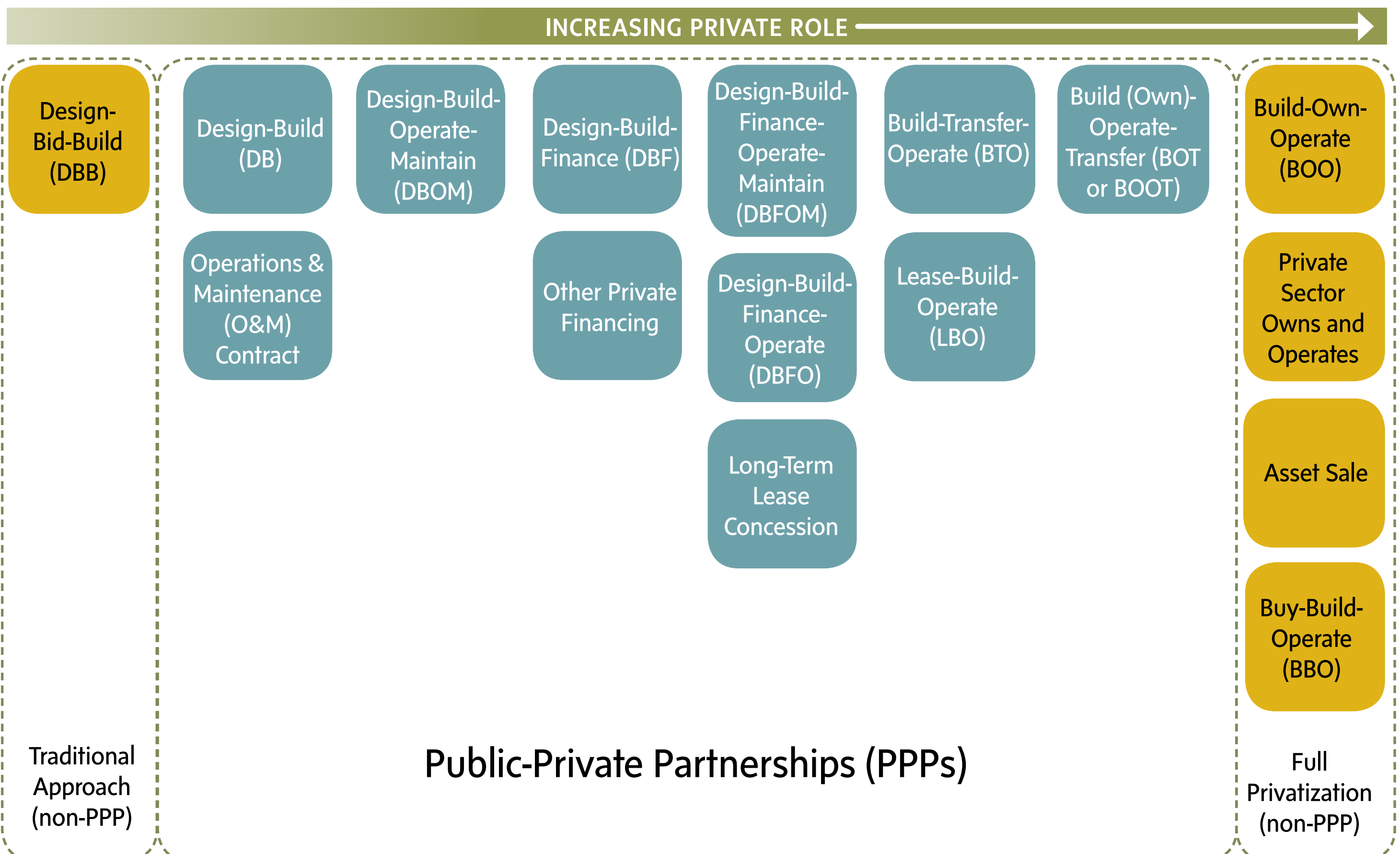
by a guaranteed date and then 15 years of operation and maintenance. The contract was subsequently renegotiated for extensions to the system and to lengthen the O&M contract.

4. **Long Term Lease Agreement.** This type of partnership typically involves the leasing of an existing facility to a private company for a specified amount of time. The private company usually pays an initial concession fee and must operate and maintain the facility to prescribed standards. The private company typically collects tolls on users and keeps the revenue to pay bond holders and to generate a return on its investment. Prominent examples of this type of P3 are the Chicago Skyway and the Indiana Toll Road.

5. **Design-Build-Finance-Operate (DBFO).** In addition to the design, construction and operation of an infrastructure project, these types of P3s also transfer to the private sector most of the financing responsibility. Debt financing leveraged with a revenue stream, such as tolls, is the most common mechanism in this type of P3. However, financing may be supplemented with public-sector grants and/or in-kind contributions such as right-of-way. The 14-mile Dulles Greenway toll road in northern Virginia is an example of this type of P3.

6. **Build-Own-Operate (BOO).** In this type of P3, the public sector grants to the private sector the right to design, build, operate, maintain and own a facility in perpetuity. Consequently, conception of the project and subsequent planning is more likely to be the responsibility of the private sector. An example of this type of P3 is the 6-mile Foley Beach Express near Gulf Shores, Ala., that incorporates a toll bridge over the Intracoastal Waterway.

Project Delivery Models Along a Continuum of Private Sector Involvement

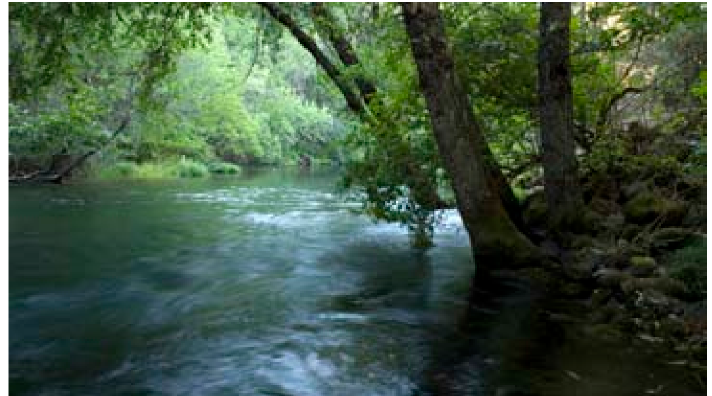


Source: Public-Private Partnerships for Transportation: A Toolkit for Legislatures, National Conference of State Legislatures, October 2010

SECTION 3: Examples of State Privatization and Public-Private Partnerships

For the past 26 years, the Reason Foundation has published the comprehensive *Annual Privatization Report* that monitors trends and developments across the country in government privatization and public-private partnerships. The examples that follow are primarily taken from these annual reports. This is not intended to be an exhaustive list but is instead representative of the innovative actions state governments are taking to stretch their limited budgets by engaging the private sector. The examples are presented by type of service and note selected recent actions in individual states.

State Lottery Management: Although federal law prohibits states from totally privatizing lottery operations, many state lotteries outsource functions such as terminals and ticket systems, and several have turned to private management to increase lottery sales and state revenues. **Illinois** was the first in 2011, followed by Indiana in 2012. **Pennsylvania** and **New Jersey** initiated the process of selecting a private lottery manager in 2012.[19] In **Illinois**, the private management agreement with Northstar Lottery Group (a partnership of GTECH, Scientific Games and Energy BBD) makes Northstar responsible for lottery operations, management and marketing, with the state exercising control over all significant business decisions. Northstar returned $757 million to the state in the first year—a significant increase over previous years but short of the expected revenue target. This resulted in a fine (which the company is contesting) under the agreement that is intended to protect taxpayers' interests.[20] In the fall of 2012, **Indiana** signed an agreement with GTECH for expanded lottery marketing, sales and other services, which is expected to generate approximately $500 million of additional state revenue over the first five years.[21]



State Park Operation: Private recreation management companies currently operate more than half of the United States Forest Services' recreation areas (such as campgrounds) through a P3 in which the service leases a recreation area to a private company under a performance-based contract.[22] As budget pressures threatened park closures, **California** became the first state to use a similar approach in 2012 by contracting with American Land & Leisure to operate three state parks. Under the five-year agreement, the contractor pays rent to the state, which is placed in a special fund, and the contractor is responsible for park operation and maintenance. With state approval, the contractor can access the fund for large maintenance projects. The contractor is required to pay a bond covering all of the anticipated rent payments, and state workers who chose not to stay with the contractor were transferred to other state parks.[23]

Social Impact Bonds: Social impact bonds are a form of P3 in which private nonprofit organizations finance and deliver social services on behalf of governments. Pioneered in 2010 in the United Kingdom, such arrangements use a "pay-for-success" model in which the nonprofit receives "success" payments if outcomes are improved and public funds are saved. No payments are provided unless the program delivers positive results.[24] **Massachusetts** was the first state to adopt this model, establishing partnerships in 2012 with several nonprofits to create two programs: one to provide housing for the chronically homeless and another to reduce recidivism among juvenile offenders by providing support services. The juvenile support program promises significant savings as it has only a 2% recidivism rate (compared to state recidivism rate of 40% for juvenile offenders) and costs $5,000/year compared to the $45,000 per year cost of incarceration.[25] **Minnesota**, **Connecticut** and **New Jersey** are also working on similar social impact bonding programs.[26]

Social Infrastructure: Several states are using or considering public-private partnerships similar to those for transportation infrastructure to create "social infrastructure" such as schools, government buildings and utility infrastructure. **Texas** enacted social infrastructure legislation in 2011 to permit the use of P3s for a broad range of public projects. Only one project has been approved for a mixed-use development at the Capitol complex in Austin, but it has not moved forward due to a moratorium on unsolicited P3 proposals recommended by a legislative commission.[27] **Connecticut** passed legislation in 2011 to allow up to five P3s to finance, construct, develop and operate state educational, health, child care or transportation facilities.[28] Several potential projects have been identified to date including renovation of the XL Center in Hartford, new dormitories in the State University System and renovation/operation of state-owned affordable housing.[29] The **Arizona** Department of Transportation began the process in 2012 to use a P3 to develop a new operations facility that would require no state capital investment.[30] Legislation to permit P3s for a wide range of capital projects was also considered but not passed in **Arizona**, **Florida** and **Maryland** in 2012.

Highway Rest Areas: Two states awarded contracts in 2011 to private companies to expand services at highway rest areas. Under a sponsorship agreement in **Virginia**, a private company will pay the state a guaranteed annual fee of $2 million (which is more than the state previously received from revenues generated by rest areas) plus revenue-sharing payments from vending machine operations. In exchange, the contractor will expand services offered at the rest areas (food, beverages, merchandise, ATMs, etc.).[31] A similar initiative is underway in **Georgia**, in which the state will sell or lease advertising space and sponsorships at state rest areas and welcome centers and use the proceeds to fully fund the cost of their operation.[32]

Economic Development Agencies: Arizona privatized the state Department of Commerce in 2010 and replaced it with the public-private Arizona Commerce Authority. The new structure is governed by a public-private board of directors and significantly reduced the staff and overhead used in the previous state agency model.[33] **Illinois** is also considering turning over some of the functions of the state Department of Commerce and Economic Opportunity to a nonprofit corporation, and governors in both **Ohio** and **Wisconsin** are advocating similar efforts as a way to reduce costs and improve performance.[34]

Water and Wastewater Projects: Local governments have long been engaged in private partnerships to provide drinking water and wastewater services as more than 2,000 facilities nationwide are operated under public-private contracts.[35] There is a high degree of satisfaction with these arrangements as evidenced by the rate at which municipal governments renew these private contracts. Over the last decade, renewal rates of these agreements have exceeded 85% in most years.[36]

In the past year, New York City signed a contract with Veolia Water to optimize public water/wastewater services that is estimated to save $100 to $200 million annually; the Rialto, Calif., City Council voted to privatize its municipal water system and entered into a $177 million, 30-year lease with American Water; and the city of Bayonne, N.J., signed a 40-year contract with United Water and a private equity firm that will lead to more than $100 million in improvements and retire $130 million in municipal debt.[37]

Other examples of the use of P3s to build new water-related infrastructure, include:

- **Tolt Water Treatment Plant:** One of the first major Design Build Operate (DBO) projects in the country was pioneered by American Water in Seattle in 1997. The Tolt Water Treatment Plant was constructed to meet growing need and to improve compliance with regulations. The plant provides 30% of Seattle's water supply and a smaller footprint than similar plants due to the use of innovative design features. The DBO approach helped save Seattle an estimated $70 million over traditional methods.[38]
- **New Orleans Wastewater Facilities:** Since 1992, the City of New Orleans has had an agreement with Veolia Water to manage the city's wastewater facilities and to ensure compliance with EPA regulations. Under the contract between Veolia and the New Orleans Sewage and Water Board, the company operates and maintains two water treatment plants for an annual fee. The partnership has saved approximately $26 million over two decades due primarily to capital improvements supervised by Veolia that are in compliance with EPA permit regulations and are more environmentally friendly than previous practices.[39]
- **Indianapolis Wastewater Treatment and Storm Water Management Services:** The City of Indianapolis partnered with United Water Indianapolis in 1994 for the operation, maintenance and long-term planning of the city's stormwater and wastewater systems. Under the most recent contract negotiated in 2007, the city pays United $28.3 million per year plus adjustment factors related to operation of the system. The partnership has resulted in a 100% compliance rating for all conventional pollutants, decreased accidents by 85% and saved the city approximately $189 million from 1994 to 2008.[40]
- **Filmore Wasterwater Treatment Plant:** American Water also used the DBO method to build a $42.5 million zero-discharge wastewater treatment plant in Filmore, Calif., to replace an outdated facility. The new facility recycles 100% of the water it treats, and the treated water is used for irrigation instead of being discharged into the Santa Clara River. The project saved the City of Filmore $10 million by working through a single contract with a guaranteed cost.[41]

Transportation Infrastructure: Public-private partnerships for transportation infrastructure are now a common method used by states to build roads and bridges they would otherwise be unable to undertake given budget constraints. From 1989 to 2011:

- Twenty-four states and the District of Columbia used a P3 process to finance and build at least 96 transportation projects worth a total of $54.3 billion.
- Sixty-five percent of these projects occurred in eight states—Texas (18), California (11), Florida (10), Colorado (9), Virginia (7), South Carolina (3) and Minnesota (2).
- Twenty-six states, including Kentucky, have not initiated a P3 transportation project.
- While Kentucky has no P3 enabling legislation, every state in the southeastern United States and all states surrounding the Commonwealth have a P3 law on the books.
- Seventy-nine of the P3 transportation projects, worth $31.5 billion, have been either Design-Build, Design-Build-Finance, or Design-Build-Operate-Maintain contracts.
- The P3 market share of total capital investment in highways by all levels of government since 2008 is approximately 2%.[42]

As the next section will detail, more than half the states have passed laws that permit the use of some form of P3s for transportation projects. A 2006 Deloitte Research report spelled out the benefits to governments of transportation infrastructure P3s, arguing that they:

- Allow the cost of investment to be spread over the lifetime of the asset, which can allow projects to move faster than the "pay-as-you-go" approach
- Have a track record of on-time, on-budget delivery
- Transfer some risk to the private sector and away from taxpayers
- Can lower construction and overall operational costs
- Encourage customer service orientation
- Enable the public sector to focus on outcome-based public value[43]

A 2008 study of transportation P3s conducted by the Congressional Research Service found "there is significant private funding available for investment in surface transportation infrastructure" that could provide as much as 10% of highway needs over the next 20 years.[44] The report also highlighted prominent examples of transportation public-private partnerships, several of which are summarized below.

- **Virginia I-495:** Virginia developed four new high-occupancy lanes (two in each direction) on a 14-mile section of the Capital Beltway (I-495) under an agreement with a private consortium (the Fluor Corporation and Transurban). The private firm is providing the majority of the financing for the $2 billion project, with the state maintaining ownership of the new lanes. Under the agreement, high-occupancy vehicles travel without charge and other vehicles pay a toll, the proceeds of which go to Fluor/Transurban and are shared with the state if they exceed an 8.1% return on investment. The lanes opened ahead of schedule in 2012 and are expected to double highway capacity on the Beltway.[45]
- **Indiana Toll Road:** The 157-mile Indiana Toll Road, built largely without federal funds and opened in 1956, links the Chicago Skyway with the Ohio Turnpike and was operated by the state of Indiana as a toll road from 1981 to 2006. In 2006, after a bidding process that included 10 proposals, Indiana awarded a 75-year lease to a private consortium that paid the state $3.8 billion. Counties through which the road passes are also receiving payments for local transportation projects. Tolls charged were initially limited to $8 for cars and will be increased annually by 2% or the Consumer Price Index, whichever is greater. Indiana is using the revenue from the lease to fund a program called Major Moves, which includes 200 highway construction projects.[46]
- **Chicago Skyway:** The Chicago Skyway, a 7.8-mile toll road built without federal funds, connects Chicago's Dan Ryan Expressway with the Indiana Toll Road. In 2005, the City of Chicago entered into a 99-year lease with a private consortium (Cintra of Spain and Macquarie Infrastructure Group of Australia) to operate the highway in exchange for a $1.83 billion lease payment. Tolls for cars were limited to $2.50 initially and will gradually rise to $5.00 in 2017. The city used the proceeds as follows: $463 million to pay off the outstanding debt on the road; $392 million toward the city's general obligation debt; and $875 billion to invest in long-term and medium-term reserve funds.[47]
- **Missouri DOT Safe and Sound Program:** Under this $685 million program, Missouri repaired 802 state bridges from 2008 to 2012. About 250 of the bridges were repaired under the state's regular contracting process, with the rest (all complete replacements) completed using a single design-build contract with a private partner (KTU Constructors). In exchange for financing the repair and maintenance of the bridges, KTU will receive regular payments from the state for 25 years. KTU used 22 Missouri contractors and more than 100 local subcontractors and suppliers for 491 of the 554 projects it completed. The program was originally expected to take six years to complete, but was finished in three-and-a-half years by using a strategy of closing roads while replacing bridges.[48]

SECTION 4. Privatization/P3 in Kentucky

Kentucky has substantial experience using private vendors to provide such services as billing and processing for Medicaid and operating psychiatric hospitals and private prisons as well as through contracts for professional services. In 1986, Kentucky was the first state in the nation to contract with a private company to operate a correctional facility—the Marion Adjustment Center. A state audit issued in 1994 found that private contracts for prisons and facilities for the mentally disabled achieved cost savings, expedited program implementation and administrative efficiency. [49]

A 2009 Legislative Research Commission report on prison costs found the average cost for inmates in contracted private prisons was lower than the cost in similar state prisons (see table below).[50] State law requires private correctional facilities to demonstrate a 10% cost savings over similar state facilities, and the report noted the difficulty of making the determination of whether two facilities were similar.[51] (In June 2013, Kentucky terminated its last private prison contract due to a reduction in the overall inmate population as a result of 2011 penal code reforms.)

Kentucky Privatization Law

In addition to legislation providing for the private prison contracts, a law enacted in 1998 was intended to provide accountability when the state contracted for private services in general. The law requires a detailed analysis of "privatization contracts" that includes the following components:

- The benefits of privatizing the service
- Any legal restraints to privatizing the service
- The availability of qualified and competitive private vendors
- A plan to assist state employees adversely affected
- A cost-benefit analysis comparing the cost of the current government operation and the private contractor, including:
  - Facility and equipment maintenance
  - Personnel costs
  - Inflation-adjusted costs
  - Transition costs (of shifting service delivery from government to a private vendor)
  - Costs of monitoring the contract
  - A plan for resuming government operation if the contract fails[52]

Although the privatization law's provisions would appear to require a comprehensive process when contracting for services, this has not been the case in actual practice. A 2006 performance audit of Kentucky's privatization efforts reviewed the more than $1 billion in contracts for services in place at the time and reached several key findings:

- The 1998 Privatization Law (KRS 45A.550 to 45A.554) was ineffective because the definition of "privatization contract" exempts almost all forms of contracts used by state agencies. As a result, only one contract had been implemented under the statutory process.
- There was minimal justification for contracts for private services and cost-benefit analyses were not routinely performed.
- While state law requires a 10% savings compared to similar state facilities when contracting with private prison companies, cost calculations were not consistently applied.[53]

The audit's bottom line: Kentucky lacks a strategic approach to contracting for services. "Overall," the audit noted, "the measures intended to provide oversight of privatization contracts in Kentucky are simply inadequate to guarantee to the public that the use of private contractors will ensure the best value." [54]

Average Cost Per Inmate and Per Diem Rate for State Prisons Compared to Similar Private Prisons, Fiscal Year 2009

State Prison	Average Cost Prison	Contracted Per Inmate	Average Cost to Contractor	Per Diem Paid to Contractor
Western Kentucky Correctional Complex	$56.75	Marion Adjustment Center	$40.02	$34.54 (minimum security) $43.62 (medium security)
Little Sandy Correctional Complex	$47.53	Lee Adjustment Center	$58.04	$43.62 (minimum security)
Kentucky Correctional Institution for Woman	$77.96	Otter Creek Correctional Center	$53.60	$51.17 (minimum and medium security)

Source: Cost of Incarcerating Adult Felons, Kentucky Legislative Research Commission, Research Report No. 373, 2009

The audit made a number of recommendations, which included strengthening the privatization law to make it applicable to more types of contracts. To date, there have been no changes to the law's exemptions.[55]

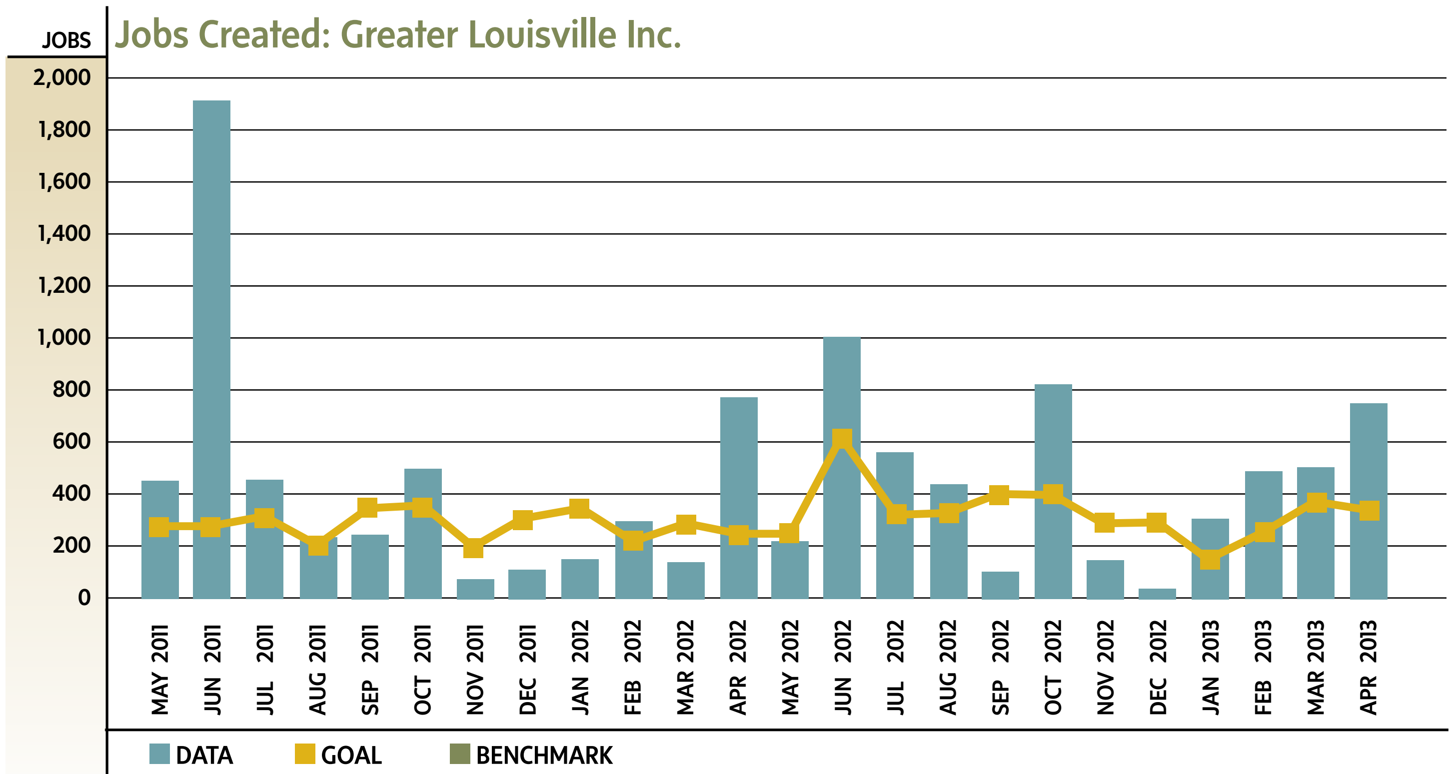
Recent Kentucky Efforts

Several recent examples of the use of P3s and private contractors in Kentucky highlight both the benefits and lessons learned from this approach.

State University Housing: The University of Louisville contracted with Education Realty Trust (EdR Trust), a private company, to design, build and manage four new dormitories between 2000 and 2006. Construction was publicly financed with $56.3 million in tax-exempt bonds.[56] The University of Kentucky is also working with EdR Trust to build the New Central Hall, which began construction in 2012. The $28 million cost is being financed privately by EdR, which will own the building under a long-term lease and recoup its investment through the collection of student housing fees over the life of the agreement. There are no tax dollars being used on the project. UK will develop a total of five new residence halls with EdR Trust through 2014, which will finance construction and manage the new housing.[57]

Local Economic Development: Public-private partnerships are in place to promote economic development in Kentucky's two largest metropolitan areas. Both Greater Louisville Inc. (the Louisville Chamber of Commerce) and Commerce Lexington (the Lexington Chamber) receive funding from local government for economic development activities. Both programs have recorded impressive results:

- **Lexington:** In 2012, Commerce Lexington reported more than $200 million in new investment and 1,500 new jobs in the Bluegrass region, including 550 at an Amazon.com customer service facility and 250 at a new Bingham McCutchen Global Services Center.[58] In May 2013, a $4 million fundraising campaign was announced to finance Commerce Lexington's economic development efforts. More than $2.5 million, 65% of the goal, has been raised from private sources for this public-private partnership.[59]
- **Louisville:** From March 2012 to February 2013, 5,251 jobs were created (at an average salary of $42,931) through GLI's economic development efforts, including existing businesses that expanded or relocated in Louisville. This exceeded by more than 1,000 the established goal of creating 4,250 jobs during the period.[60]



Source: Jobs Created: Greater Louisville Inc., Louisville Metro Office of Performance Improvement, May 8, 2013

KFC YUM! Center Management: The KFC YUM! Center is a 22,500-seat multipurpose arena in Louisville that opened in 2010 and was originally managed by the Kentucky State Fair Board (a state agency). In May 2012, Moody's Investors Service downgraded its rating on the $339 million in bonds issued to finance the center because of lower than expected Tax Incentive Financing revenue from the project and high operating expenses.[61] Effective July 1, 2012, the Louisville Arena Authority, the center's governing board, replaced the State Fair Board as manager of the center and awarded a 10-year management contract to AEG Facilities of Los Angeles, a private company that books events at the center. An analysis of arena operations released by the Louisville Arena Authority in June 2013 found the financial environment has improved since the private operator took over and is on a more positive track. Event revenue was up for the last half of 2012, and overall net losses for 2012 were reduced by approximately 45% compared to the previous year.[62]

State Fuel Testing Lab: In April 2013, the Kentucky Department of Agriculture announced it was closing a state fuel testing laboratory and contracting with a private firm to do fuel testing. The lab was completed in 2008 at a cost of $3.1 million; an audit in 2012 found annual operating costs totaled $900,000. The department will hire Core Laboratories of Deer Park, Texas, to conduct the fuel tests for $330,000 per year—a savings to taxpayers of almost $600,000 annually. In announcing the move, Agriculture Commissioner James Comer said: "We were spending a lot of tax dollars for very, very little benefit. There never was a business plan that would make the lab viable."[63]

Medicaid Managed Care: A 2009 report that examined 24 studies of Medicaid around the country found that managed care programs can save anywhere from 1% to as much as 20% over the traditional fee-for-service Medicaid model.[64] In November of 2011, Kentucky started a statewide Medicaid managed care program contracting with three private organizations to provide Medicaid coverage to more than 560,000 Medicaid patients. (One of these private companies subsequently annouced it was pulling out of Kentucky in July 2013.) As Medicaid in Kentucky outside the Louisville area was primarily a fee-for-service model, the move to managed care is expected to save Kentucky an estimated $1.3 billion over a three-year period.[65] Nationally, 70% of all Medicaid patients are enrolled in managed care.[66]

A number of issues have arisen in the implementation of the program, as reported by the Urban Institute in a 2012 report. These include:

- Fluctuating provider networks
- Gaps in behavioral health services
- Delays in authorization of services and claims denials resulting in higher levels of appeals
- Patients having difficulty maintaining continuity of needed prescription medications for chronic conditions
- The state's oversight of Medicaid managed care is "still developing."[67]

The 2013 Kentucky General Assembly enacted legislation, which was vetoed by the governor, that would have required the Kentucky Department of Insurance to administer the process by which Medicaid patients could appeal adverse claims decisions.[68] In vetoing the legislation, Governor Steve Beshear announced a new strategy to improve the program:

- Claims disputes would be reviewed by the Department of Insurance.
- The managed care organizations would meet with every hospital in Kentucky to reconcile accounts receivable.
- Market conduct examinations would be conducted on the managed care organizations by the Department of Insurance.
- Education forums would be held to instruct medical providers on billing processes and emergency room management.[69]

SECTION 5: The Public-Private Partnership Process

The process by which state governments enter into an agreement with a private entity to provide a public service varies by state. Several states have used task forces or commissions to analyze state services and make recommendations for those that are candidates for private contracting. New Jersey, Louisiana, Arizona, Florida and Virginia provide recent examples of this approach.[70] Other states do not have a formal process of identifying candidates, and private contracting comes about largely as a result of specific legislation or executive action through the normal contracting process. As noted by the 2006 state audit, Kentucky falls into the latter category.

The Importance of Getting It Right

To ensure value and accountability in contracting with private entities, it is essential that proper safeguards be in place. As one report noted: "If badly executed, privatization like any other policy can fail. Taxpayers are no better off, and may be worse off, if a service is moved from a government agency to an incompetent or inefficient private business."[71] This echoes some of concerns expressed by critics of state privatization efforts:

- Privatization causes state governments to lose control over the quality of the services provided.
- Declines in profits or labor strikes are more likely to cause private businesses to interrupt services than public entities.
- The private sector is less accountable to the public.
- Privatization causes some state government workers to lose their jobs or disrupt their careers.[72]

In a comprehensive evaluation of state contracting with private entities to provide services, the U.S. Government Accountability Office (GAO) offered a list of six components for successful private contracting, based on lessons learned from state experience, that can help avoid potential problems:

1. A political commitment is needed to introduce and sustain privatization.
2. An organizational and implementation structure is needed to ensure effective implementation.
3. Legislative and resource changes may be needed to encourage greater use of privatization.
4. Reliable and complete cost data are needed to assess overall performance of privatization activities, to support informed privatization decisions, to make decisions easier to implement and to satisfy critics.
5. Governments need to develop strategies to transition workers to a private sector environment.
6. Performance of privatized activities should be monitored and compliance measured and monitored.[73]

A similar review of state private contracting experiences by the Council of State Governments provided a comprehensive checklist of questions—focused on best value—that states should answer when considering privatization contracting:

- Who should initiate a privatization project?
- How should services, functions or programs be identified as privatization candidates?
- Are there legal and political barriers to privatization?
- Are there measurable goals and criteria for contractors, including thresholds of savings that should be considered (e.g., a minimum of 5 or 10% in cost savings) to determine which contract should be privatized or kept in-house?
- Are cost savings realized with true decreases in cost to the state and without cost shifting to other agencies or recipients of services?

- Does the privatization contract create a monopoly?
- Is risk of the private contractor failing considered, and does the private contractor or the state bear the risk of cost overruns?
- Will affected state employees be hired by the private contractor or transferred to other units?
- Is the pre-privatization analysis thorough and fair and are alternatives using existing state workforces and other agencies considered?
- Does the Request for Proposal (RFP) contain all necessary specifications?
- Will the contract be awarded through competitive sealed bidding or sole source purchase?
- When should a cost analysis be made – before or after obtaining bids – and what should it include?
- Who should monitor implementation of the privatization contract, and how will this be carried out?
- How should the privatization contract be evaluated, and which indicators should be considered?[74]

The 2006 Kentucky performance audit cited earlier highlighted as a best practice Virginia's system of identifying privatization candidates and achieving best value.[75] The Commonwealth Competition Council, created in 1995, identifies candidates for privatization and allows state agencies to compete along with private contractors to ensure best value. A standard cost comparison program, known as COMPETE, is used to prepare a cost-benefit analysis of privatization contracts, and the state conducts a biennial examination of commercial activities performed by state employees to assure cost efficiency and effectiveness.[76]

The Kentucky audit said Virginia's system is "built around a straightforward strategy for success" that Kentucky should consider. The strategy includes:

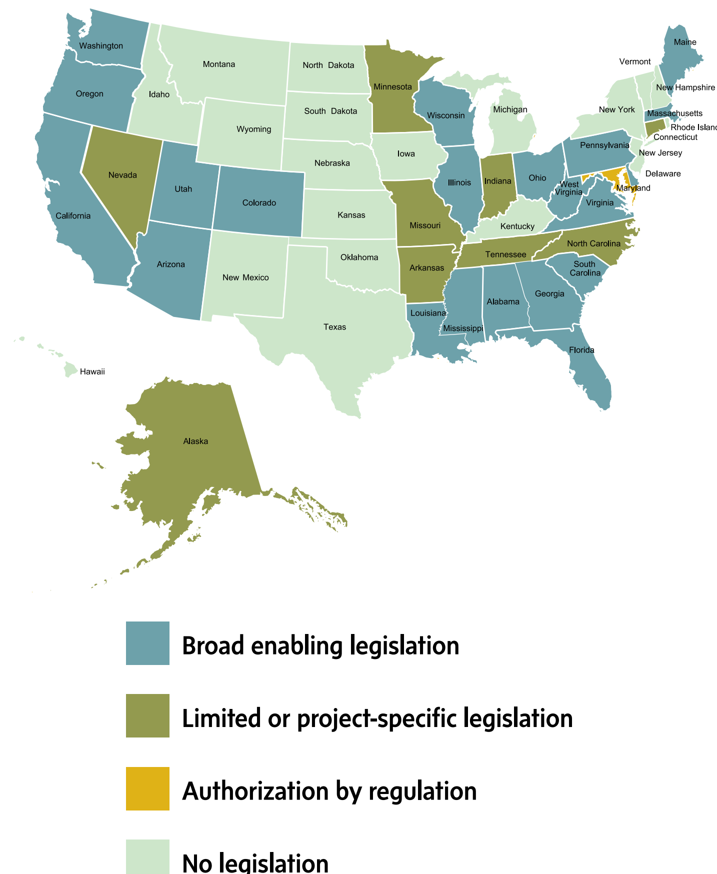
- A cogent support network consisting of the Governor and General Assembly
- An implementation structure formed by the Virginia Government Competition Act of 1995
- Monitoring and oversight with a cost allocation of associated costs in the analysis
- A reliable and standard cost comparison program (COMPETE) and public/private performance analysis that include:
  - Detailed justification for contracting
  - Analysis of service needs and agency ability to compete with private-sector vendors
  - A plan for cost identification and calculation
  - Consideration of public policy issues and safety and welfare
- Strategies for workforce transition with a competitive sourcing option for state workers

P3s for Transportation Projects

A majority of the states—33 states and Puerto Rico—had laws on the books as of January 2013 that authorize public-private partnerships for highway and bridge projects. As the map below indicates, Kentucky does not have any form of P3 enabling law, unlike all the surrounding states and every state in the Southeast. (Legislation permitting P3s for public transportation projects in Kentucky failed to pass in the 2013 regular legislative session.)[77]

These state enabling statutes generally address key elements of project selection and approval, such as the proposal review process, funding, procurement and project management.[78] The table at right, compiled by the National Conference of State Legislatures, provides examples of provisions in state public-private partnership enabling laws.

States with Transportation PPP Enabling Legislation as of January 24, 2013



Source: Public-Private Partnerships for Transportation: A Toolkit for Legislatures, National Conference of State Legislatures, January 2013 Updates and Corrections

Examples of Provisions in State PPP Legislation by Category

PROJECT SELECTION AND APPROVAL

- Allows for solicited and unsolicited proposals
- Limits number of projects
- Restricts geographic location
- Restricts mode of transportation
- Permits the conversion of existing or partially constructed roads to tollways
- Requires prior legislative approval
- Subjects approved PPPs to local veto
- Restricts PPP authority to state agencies
- Allows design-build
- Allows HOT lane projects

PROPOSAL REVIEW PROCESS

- Allows public agency to hire own technical and legal consultants
- Permits payments to unsuccessful bidders for work product in proposals
- Allows public entity to charge application fees to offset proposal review costs
- Allows adequate time for preparation, submission and evaluation of competitive proposals
- Requires time for public review
- Specifies evaluation criteria
- Specifies proposal review structure and participants
- Protect confidentiality of proposals and related negotiations

PROCUREMENT AND PROJECT MANAGEMENT

- Provides for multiple types of procurement, including design-build, competitive RFQ and RFPs, best bid rather than low bid, etc.
- Exempts PPPs from state procurement laws
- Allows outsourcing of operations and management
- Requires public entities to maintain comparable non-toll routes
- Addresses noncompete clauses
- Allows long-term leases or franchises

FUNDING REQUIREMENTS AND RESTRICTIONS

- Allows use of state and federal funds for PPP projects
- Allows combination of local/state/federal and private funds on a PPP project
- Allows use of TIFIA credit assistance for PPP projects
- Prevents transfer of PPP revenues to general fund or for other unrelated uses
- Allows public sector to issue toll revenue bonds or notes
- Allows public sector to form nonprofits and lets them issue debt on behalf of a public agency

TOLL MANAGEMENT

- Determines who has rate-setting authority
- Sets how and under which circumstances rates can be changed
- Requires removal of tolls after debt is repaid

Source: Public-Private Partnerships for Transportation: A Toolkit for Legislatures, National Conference of State Legislatures, October 2010

The NCSL reports some states also require the legislature to approve specific P3 projects, but notes such provisions are controversial. While legislative review can promote accountability by having elected officials review and approve specific projects, it also adds uncertainty to the process and can discourage private investment. Of the nine states that require legislative approval of P3 projects, the NCSL found only two states (Florida and Indiana) that had any projects approved by the legislature as of 2010.[79]

Questions to Consider for P3s

In the 2009 report *Driven by Dollars: What States Should Know When Considering Public-Private Partnerships to Fund Transportation*, the Pew Center on the States recommended that states have data-driven answers in four key categories when considering P3s:

- The decision-making process
- The deal-making process
- Financial analysis
- Oversight and service provision

Similarly, the National Conference of State Legislatures developed a set of nine principles (shown at right) to guide state legislators in making policy decisions about public-private partnerships.

Principles for State Legislators

PRINCIPLE 1: Be Informed.
State decision makers need access to fact-based information that supports sound decisions.

PRINCIPLE 2: Separate the debates.
Debates about the PPP approach should be distinct from issues such as tolling, taxes or specific deals.

PRINCIPLE 3: Consider the public interest for all stakeholders.
State legislators will want to consider how to protect the public interest throughout the PPP process.

PRINCIPLE 4: Involve and educate stakeholders.
Stakeholder involvement helps protect the public interest, gain support and mitigate political risk.

PRINCIPLE 5: Take a long-term perspective.
State legislators will want to approach PPP decisions with the long-term impacts in mind.

PRINCIPLE 6: Let the transportation program drive PPP projects--not the other way around.
PPPs should be pursued to support a state's transportation strategy, not just to raise revenue.

PRINCIPLE 7: Support comprehensive project analyses.
Before pursuing a PPP, it should be shown to be a better option than traditional project delivery.

PRINCIPLE 8: Be clear about the financial issues.
States will want to carefully assess financial goals, an asset's value and how to spend any proceeds.

PRINCIPLE 9: Set good ground rules for bidding and negotiations.
Legislation should promote fairness, clarity and transparency in the procurement process.

Source: Public-Private Partnerships for Transportation: A Toolkit for Legislatures, National Conference of State Legislatures, October 2010

SECTION 6. Recommendations for Promoting Public-Private Partnerships in Kentucky and Possible Areas for Expansion

As this report has noted, the practice of state governments using private partners to provide services and infrastructure is widespread and growing and holds great promise to save scarce public resources. To deliver real value to taxpayers, states must adopt a data-driven approach to using private partners that:

- Identifies state services that are appropriate candidates to generate savings
- Evaluates the true cost of proposals using objective data
- Is transparent to the public to ensure accountability
- Aggressively monitors projects and programs to ensure goals are being met

The notion of creating a more strategic process to using private contractors is not new in Kentucky. In 1993, the Governor's Commission on Quality and Efficiency issued its report, *Wake-Up Call for Kentucky*, identifying potential cost savings and quality initiatives in state government. Several Kentucky corporations (including Bell South, Toyota, UPS, General Electric and Liberty National Bank) loaned employees to serve as analysts for the commission, which was chaired by Jim Gray of Gray Construction.

Among the report's recommendations was a call for the creation of a Privatization Commission to "interject competition into government" and to be responsible for reviewing and recommending services that could be more efficiently delivered in partnership with the private sector.[80] Then-Governor Brereton Jones subsequently created a commission that identified dozens of candidates for privatization, but this practice was not continued by later administrations.[81] Some 20 years later, Kentucky is left without a systematic approach to private contracting, making it vulnerable to missing millions of dollars in savings for taxpayers.

Such a comprehensive approach should not be limited to state contracting for services. In their 2011 report, *Moving Forward on Public Private Partnerships*, The Brookings Institution and Rockefeller Foundation noted that seven states have a dedicated unit to help develop and expedite P3s (see table below).[82] The report recommended that states establish dedicated P3 units to "tackle bottlenecks" in the P3 process.

Recommendations

To ensure the best value for taxpayers by taking advantage of the opportunities presented by working with private partners, Kentucky should:

- Enact legislation to enable the creation of Public-Private Partnerships for a wide range of infrastructure projects at all levels of government
- Consider the creation of a state P3 office or unit to foster the development of public-private partnerships

State Public-Private Partnership Offices

STATE	Name of the PPP office State Government	Location in the	Dedicated PPP unit	Type	Year Created
VIRGINIA	Office of Transportation Public-Private Partnerships (OTP3)	Department of Transportation	Yes	Public agency	2010
CALIFORNIA	Public Infrastructure Advisory Commission	Business, Transportation and Housing	Yes	Commission/ Advisory Board	2010
MICHIGAN	Office For Public-Private Partnerships	Treasury Department	Yes	Public agency	2008
OREGON	Office of Innovative Partnerships and Alternative Funding	Department of Transportation	No	Public agency	2003
COLORADO	Colorado High-Performance Transportation Enterprise	Department of Transportation	No	Government-owned business	2009
GEORGIA	P3 Program	Department of Transportation	No	Public Agency	2009
WASHINGTON	Transportation Partnerships Office	Department of Transportation	No	Public agency	2005

Source: Moving Forward on Public-Private Partnerships, The Brookings Institution and Rockefeller Foundation, December 2011

- Enact legislation to create the Kentucky Competitive Government Council (similar to the Virginia model), to perform the following duties:
  - Conduct an ongoing analysis of state government activities to identify opportunities in state government for private partners
  - Prepare an independent cost-benefit analysis of proposals submitted to ensure services will be delivered at a lower cost
  - Monitor the implementation of larger contracts/ partnerships to ensure goals are being met
  - Promote transparency by developing a website that enables the public to access key data about the process
  - Prepare an annual report that documents results in active public-private partnership projects in Kentucky and recommends changes in state law/policies to facilitate public private partnerships

The council would be composed of private sector representatives with expertise in management and would include members representing state government (such as the Secretary of Finance and State Auditor). The council would be served by a dedicated staff and could use management consultants and/or tap the expertise of the private sector and state government to identify state functions that could be provided more efficiently and at less cost in partnership with the private sector.

Potential Candidates for P3

Based on the examples of public-private partnerships in other states, there are a number of potential candidates in Kentucky, such as:

- **Operation of state parks:** A 2008 state audit of Kentucky state parks found they were continuing to lose money despite more than $315 million in investment since 1995 to improve facilities. Dining rooms lost $1.9 million in 2007, golf courses lost $700,000 for the year and gift shop revenues decreased 24% over an eight-year period. Resort room revenues increased 9.5% while expenditures increased 17.1% from FY 2000 to FY 2007.[83] Based on these findings, state resort parks would appear to be an excellent candidate for a private operator with the expertise and financial resources to apply to the park system. The Parklands project in Louisville provides an excellent example of a successful P3 in this area, generating $120 million in public and private funding to create the largest connected park system in the country, including 100 miles of new trails (for hiking, biking and horseback riding), 19 miles of canoe trails, playgrounds, picnic areas and many other facilities.[84]
- **Tourism activities:** Some states are taking action to create public-private partnerships for tourism promotion. In Pennsylvania, the governor's proposed budget for 2013-14 would create a Pennsylvania Tourism Partnership to develop a plan to transition the promotion of tourism to a private-sector organization with partial public funding. The proposal is supported by the Pennsylvania Association of Travel and Tourism, an umbrella group that believes greater involvement of the private sector will take politics out of the equation and improve tourism efforts.[85] With the tourism and travel industry contributing more than 174,000 jobs and an estimated $12.2 billion to Kentucky's economy in 2012, the creation of a public-private partnership to promote tourism deserves consideration.[86]
- **Private financing of road construction:** In the most recent Annual Report on the Performance of State Highway Systems, Kentucky ranked 43rd in urban interstate congestion, 39th in narrow rural lanes and 37th in deficient or functionally obsolete bridges.[87] P3 legislation could give Kentucky access to private capital to make improvements in these areas.
- **Construction, maintenance and management of state buildings:** As noted earlier in the report, the University of Kentucky is working with private partners to construct and manage new housing for students (at no cost to taxpayers), and states like Arizona are starting to do the same with other state buildings. The Commonwealth of Kentucky currently owns more than 600 buildings, which should be reviewed as potential candidates for private operation and maintenance.[88]
- **Creation of a destination resort in Kentucky:** Destination resorts are commercial developments that contain a wide range of attractions for guests that make the hotel itself

a destination (such as The Greenbrier in West Virginia or Walt Disney World in Florida). The southeastern region of the Commonwealth faces a number of economic challenges, with more than 40 counties with poverty rates of 20% or higher.[89] However, with a diverse blend of mountains, heritage and outdoor activities, tourism plays a strong role in the economy of southern and eastern Kentucky, contributing an estimated $1.5 billion in 2010.[90] The creation of a destination resort, with the necessary capital provided by a private partner, could provide a much-needed economic boost to this region of Kentucky. As an example, a 1998 economic impact study of The Greenbrier (with casino gaming) noted its creation of more than 3,000 jobs and total economic output of $225.4 million per year.[91]

- **Water Projects:** The Environmental Protection Agency estimates that America's drinking water systems will need to spend more than $600 billion from 2000 to 2019 to provide reliable service in the face of aging infrastructure and growing demand.[92] Since many communities rely on government grants for system upgrades, public funds for new facilities are not going to be as plentiful in the future due to limited public resources. The public-private partnership model offers an excellent solution to this problem. With many communities facing orders from the EPA to upgrade aging water systems, private water systems can bring unique expertise and the capital necessary to achieve regulatory compliance and allow governments to focus their resources on other critical issues.

CONCLUSION

As Kentucky taxpayers and their government face the challenges represented by the "new normal" of limited revenues and growing demands for services, it is critical the state embrace non-traditional means to find solutions. This report offers strong evidence of the value that public-private partnerships offer in helping state government meet important needs, reduce costs and improve efficiency while boosting the economy through the creation of private-sector jobs.

Kentucky can take an important step by enacting these recommendations to establish a system for partnerships that will make the best use of tax dollars to deliver the services Kentuckians need and deserve.

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PRIVATE SOLUTIONS TO PUBLIC PROBLEMS

Partnerships to Build a Better Government

Kentucky Chamber

Uniting Business. Advancing Kentucky.

kychamber.com