



CASE STUDY

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Government Privatization in Missouri: Successes, Risks, and Opportunities

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EXECUTIVE SUMMARY

This is a case study about privatization efforts in Missouri. The goal of this paper is to document the wide variety of ways in which counties, cities, and towns can engage the private sector to effectively provide many public services. Furthermore, the intention is to discuss the many public service areas where privatization is appropriate and potentially beneficial, along with the areas it is not. The aim was not to catalog every single privatization effort at the city, county, and state level in Missouri. The plan has been to document a number of examples throughout the state in a range of public and private responsibilities. It is our aspiration to provide city officials, administrators, and interested citizens with examples of where, how, and why privatization can be expanded in their communities.

INTRODUCTION

Government privatization refers to the practice of providing what are commonly considered public services via the private sector. In these cases, the public service is provided either directly by a private firm (or multiple private firms), or indirectly through private firm management of government-owned operations (*i.e.*, outsourcing). There are numerous ways private management of government operations can be arranged. For the purposes of this paper, we will generally consider just two options: private ownership or private contracting, including outsourcing. Privatization, when done properly, can increase efficiency and expertise, provide additional services to the public, and decrease costs for taxpayers.

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

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For the purposes of this study, we will operate under the commonly used understanding of public as involving the government and private as involving private firms.¹ The point of this paper is not to debate whether certain services should be considered public or private. In a market-based economy, every transaction provides a public benefit as both parties gain from the exchange of goods or services to satisfy their various wants or needs.

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Economists, politicians, taxpayers, and voters would readily agree that many services should be provided as public goods. These include public safety such as the police, fire, jails, and the military. They further include many areas of transportation, such as airports, highways, and mass transit. Certain types of leisure, such as parks and museums, are generally included. Education, in the form of schools and libraries, is widely considered a public responsibility. Many public health functions, such as infectious disease control, are a proper function of government.

There are also many items that the above list would generally agree should involve some level of government, if only through regulation. However, those same economists, politicians, etc., may have wide areas of disagreement on direct government provision. Utilities, trash hauling, and certain recreation facilities (*i.e.*, public swimming pools) are areas where many people would agree that government has a role, but that full ownership and operation of the service is often not necessary. Certain types of transportation entities also fit in this category. What serves the public better? A government-owned bus monopoly or private bus companies competing with each other and subject to some level of

government regulation? Within cities, the former model is dominant. Between cities, the latter model is dominant.

Finally, there are numerous public services provided that many people, including this author, would generally agree that the government does not need to provide. While some of these examples are large, like municipal-owned and operated utilities, many of these examples are small. The city of Hermann is in the business of taxing people to support a municipal band.² Newton County levies a property tax to support its county fair, which is supported without dedicated taxes elsewhere in Missouri. Many cities own and operate their own golf courses. Some wealthy suburbs charge taxpayers more to provide rear-yard trash pick-up, thus saving their residents the toil of having to take their trash all the way to the curb once a week. An aim of this study is to highlight these types of unnecessary public services in Missouri which, in most other places, the public sector provides or individuals handle themselves.

In some areas, Missouri is a leader in public-service privatization. Branson is home to America's only fully private commercial airport. Neighborhoods in the central corridor of Saint Louis have historically been among the country's leading examples of private management of public goods, with many fully private streets, security, and sewer systems.³ About 10 years ago, Saint Louis County launched an extraordinarily successful privatization of its health department pharmacy. Independence, Mo., recently privatized a large part of its municipal bus system. (These examples are discussed in detail in section VII.)

In many other areas, Missouri privatization efforts vary widely. Some cities operate their own golf course, others contract out the management, and others leave golf entirely to the private sector. Many cities and counties contract out trash operations

to private companies, but plenty of others still operate government trash services. The main goal of this paper is to give local officials throughout the state examples where other communities provide the same services in a different manner.

Finally, there are some sectors where Missouri is trailing in privatization. While that may be fine with some people, it has real costs to our state. The primary example of this is in highways and toll roads. Our state's constitutional rules against toll roads (which is discussed in the appendix) have limited investment in our transportation infrastructure. Other state and local governments have worked with the private sector to provide new highways or take over existing highways (like in Chicago) and to operate them as private toll roads under long-term leases. Combined with Missouri's reticence to raise the low state gas tax, the lack of tolling and private sector involvement has resulted in a comparatively low level of funding for our transportation system.⁴

METHODS OF PRIVATIZATION

There are many different methods, manners, and aims of privatization. It can be used to save money, improve services, reduce taxpayer risk, and other important goals.⁵ The various options for privatization include fully privatized services, long-term leases (such as the Chicago Skyway), public-private partnerships (or PPPs, where government and private partners have shared responsibility and risk on certain services or projects), outsourcing (a.k.a. contracting) the management of government services to private firms, and many more.⁶ Any individual service privatization can readily fit into multiple categories (*i.e.*, PPPs often involve long-term leases of public assets). As stated in the introduction, the many types of privatization will be aggregated into

just two for this study: outright private ownership and operation (generally regulated), and private contracting of government-owned services or facilities.

Privatization does not always involve for-profit companies. Not-for-profits can play a major role in many privatization efforts, especially in areas such as health care, animal control, and community centers. This study will attempt to distinguish between for-profit and not-for-profit privatization whenever necessary. (The line between for-profit and non-profit entities can easily be blurred in some of these service areas, e.g., hospitals.)

Successful privatization efforts, to the largest extent possible, involve both competition and financial risk for the private partner. For services where those factors either cannot, or should not, come into play, it is likely preferable for the government to provide that service. Generally speaking, core government functions such as police services are not set up to be managed with competition and risk as dominant factors.⁷

Whatever method of privatization is chosen, government should enter into it in a systematic and careful manner. Even in the most absurd cases of government involving itself in the private sector, such as New York City operating off-track betting parlors, which Mayor Rudolph Giuliani privatized, the divestiture and privatization needs to make certain the best interests of taxpayers are protected. When Saint Louis County privatized its pharmacy operations in 2003, it was done as part of a careful and deliberate process. That is one of the reasons that program has been so successful. (See pharmacy section on pages 14-15.)

REASONS FOR PRIVATIZATION

Privatization unlocks the productivity potential of the public sector by allowing it to focus on core government functions

About 10 years ago, Saint Louis County launched an extraordinarily successful privatization of its health department pharmacy.

Efficiency?

“Efficiency” has several meanings. In this essay, it will generally be used in the manner of its standard definition, which is producing an effect or performing a service in a cost-effective and non-wasteful way. The varying economic definitions of “efficiency,” including employing land or other inputs at their most productive use, will not be the intended meaning unless otherwise noted.

Not-for-profits can play a major role in many privatization efforts, especially in areas such as health care, animal control, and community centers.

instead of unnecessary programs. When government focuses on core functions, services improve and taxpayers save money. Those savings can benefit people and governments in many ways. They can be returned to taxpayers via lower tax rates. They can offset the need (real or perceived) for future tax increases. They can allow government to redirect the savings to more important functions of government. If you take the money saved from golf courses and spend it on police, the city is going to be better off.

Governments enter into privatization deals for many reasons. Changes in political ideology or leadership, budget emergencies, and pragmatic cost-cutting are all reasons privatization efforts have been initiated. Rent-seeking and political corruption are other methods that have undeniably been the cause of some efforts.

Not all of these reasons are, obviously, good ones. Rent seeking, *i.e.*, the use of political power to gain special benefits, harms our democratic system. Corruption is reprehensible. Budget emergencies can lead to desperate decisions, which often (but not always) will be poor ones. Political ideology in favor of privatization, when done for the sake of ideology alone, can focus on short-term political gains instead of positive change.

However, political ideology when combined with the hard work necessary for successful privatization can be very effective. British Prime Minister Margaret Thatcher, Michigan Gov. John Engler, and New York City Mayor Rudy Giuliani are three leaders at various levels of government who combined those two factors very successfully. However, each of them was presented with more obvious candidates for privatization than the average Missouri elected official is, such as the previously mentioned off-track betting parlors. Ideology is a fine reason to study the possibility of privatization, but pragmatic

solutions that work for taxpayers and citizens should be the reason it is enacted.

Ideological privatization is implemented more at higher levels of government. At the local level, pragmatism is the dominant reason. This is important, as the local government in Missouri is the main topic of this study. As Bel and Warner stated:

Local privatization is not ideological; it has been shown to be primarily pragmatic, as local governments must manage political interests in both the market and policy areas.⁸

Studies of local privatization have found no relation between political philosophy and use of privatization in areas of the United States. Canada's greater use of privatization, despite its "more communitarian ideology,"⁹ is further evidence of that finding.

A 2001 paper by Warner and Hebdon analyzed results from their survey of New York state local officials on privatization. Their study also concluded that pragmatic solutions, not partisan ideology, are the guiding force behind the strong majority of local privatization efforts.¹⁰

Like Bel and Warner, a RAND Corporation study of privatization in 1997 considered "ideology" as a reason for privatization changes and rejected that hypothesis.¹¹ That study found privatization more often resulted from a political trade-off in local governments, and was implemented when the political costs of paying for the service outweighed the political gains from providing the service in-house. While they did not use the term "pragmatism," their findings are clearly related to it.

The idea that privatization is practical, and not ideological, is likely also true in Missouri. One example here is municipal utilities. The very politically conservative, Republican city of Springfield has a huge,

combined municipal utility that the Springfield government runs: City Utilities (CU). CU operates all utilities — gas, water, electric, and transit — in Springfield. In both Saint Louis and Kansas City, which are more politically liberal, Democrat areas, the electric and gas utilities are privately provided. In Saint Louis County, the water company is also private. This result is not what you would expect from simplistic, political assumptions. (Utilities will be discussed in detail later in the study.)

A final reason that some governments may have certain services privatized, while other governments nearby may provide the same service in-house, is simply inertia. “We have always done it that way here” is a powerful force, especially in a government bureaucracy.

MISSOURI’S EXPERIENCE WITH PRIVATIZATION

Missouri’s history with privatization goes back to the Pony Express route that began in Saint Joseph. That famous mail delivery system was the result of a contract between a private company, Central Overland California and Pikes Peak Express Company, and the United States Post Office to deliver mail to the Western United States.

In recent years, Missouri state government has not initiated any of the more radical privatization initiatives that other states have, such as highway leases, prison sales, etc. The most substantial privatization proposal in recent years was Gov. Matt Blunt’s 2006 suggestion to privatize MOHELA, Missouri’s student loan financing and servicing agency.¹² While that was an excellent idea that would have generated an enormous amount of money for the state in an area the private sector is fully capable of providing, it failed to come to fruition.

In the 1990s, Lt. Gov. Roger Wilson led the state’s Council of Efficient Operations (CEO). That commission tried to identify

ways to improve government services, and privatization was one thing it considered. The council issued a report in 1996 that identified many excellent opportunities for efficiency improvements, including options for privatization.¹³ The report did initiate some small improvements. For example, 24 unnecessary policies in the Department of Revenue were revised or eliminated.¹⁴ However, on the whole, its many good suggestions languished and Gov. Bob Holden abolished the CEO in 2001.

In a 2002 report for the journal *Spectrum*, Keon Chi and co-authors surveyed privatization efforts in all 50 states between 1997 and 2002. Missouri was identified as one of just 12 states where the budget director claimed the state had privatized “more than six percent” of services (considered high in the article).¹⁵ The primary government responsibilities noted as privatized during that period were information technology and child welfare services.¹⁶

In 2004, Gov. Holden backtracked on privatization efforts in the state by instituting unnecessary and biased rules against contractors that might have performed work outside of the United States.¹⁷ In practice, Holden’s executive order was aimed at call-center operators that serviced Missouri public support agencies and would have typically operated the centers outside of the United States. This move had little practical effect, but it made for good politics.

Private Group Homes

Privatization moved forward in Missouri state government under the Blunt administration from 2005 to 2008. Aside from his major, yet unsuccessful, attempt to privatize MOHELA, his administration implemented some smaller changes. In particular, the practice of using private janitorial services to clean many state office buildings was expanded under Gov. Blunt.

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The state also increased its use of private group homes to serve mentally and physically challenged residents instead of caring for all of them in state-operated facilities. The latter action was controversial and generated strong opposition in some areas.¹⁸ A tragic fire at a group home in Joplin in 2006 killed 10 people and caused people to reconsider the privatization efforts.¹⁹ (The fire was at a group home that had been working under contract with the state before Gov. Blunt took office.²⁰)

Despite the tragedy at that private facility, the state of Missouri has continued to use many private facilities. The Department of Mental Health spent \$156 million on private group home providers in fiscal year 2013.²¹ The Department of Social Services spent \$56 million more on private group home placement for children from troubled backgrounds.²²

Although there has been opposition from public employee unions and some family organizations, the state continues to heavily depend on private group homes to serve disabled residents and needy children because the system generally treats patients well and saves the state significant money.²³ Missouri is still promoting privatization in this field, and in 2012 closed two more habilitation centers in favor of private group homes.²⁴ This trend in favor of smaller, private group homes is also being seen in many other states.²⁵

State Legislative Efforts

In 2003, the state legislature created a Subcommittee on Competition and Privatization that issued a final report in December of 2004. The subcommittee's work was promising, and its goals were inspiring. Unfortunately, like the CEO, the final results of the project were ultimately disappointing and few of its recommendations were implemented.

This author has what is probably the only known and currently used copy of the final report on the planet.²⁶ (Note: a copy of the final report and appendix has been placed on our website at <http://showmesunshine.org/blog/2014/02/missouri-privatization-documents.html>.) The most valuable outcome of the subcommittee was documenting the various uses of privatization in Missouri at the time. According to the report, privatized state government functions (as of 2004) included:

- Right of Way fee appraisals for the Department of Transportation
- Case management of HIV clients in the Department of Health and Senior Services
- Inmate medical care at the Department of Corrections
- State printing jobs at the Office of Administration
- Licensing exam testing at the Department of Insurance

This is just a small sample of the many services documented in the report. (Please consult the committee report's appendix for a complete listing.²⁷) The report details the consistent uses of private entities for many information technology (IT), data entry, and other service-related state government needs.

The well-known Xerox Corporation is one of the nation's leading IT government consultants that does a great deal of work with the state of Missouri. In fiscal year 2013, Missouri spent more than \$24 million on various contracts with Xerox.²⁸ Xerox provides significant health care management IT systems to the state, along with state court IT operations. Xerox also provides local government IT consulting, including managing the city of Saint Louis' parking ticket operations. While \$24 million is a large amount of money, it is difficult to imagine how

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Missouri would be better off doing this IT work in-house. There is simply no way a government can keep up with technological advances or have the highly trained IT workforce that a leading international technology company will.

Probably the most well-known privatized services in Missouri state government are the operations of the various Department of Motor Vehicle (DMV) fee offices around the state. This long-standing, bipartisan practice has been controversial. Both parties have continued the practice of awarding supporters and contributors the political reward of operating a fee office with its ready stream of customers and revenues. While the service may be privatized, the tradition's main problem is one of patronage, not privatization. Recent Missouri governors have increased the practice of awarding the offices to charitable groups who return the DMV profits to their cause. That is a model which hopefully will be expanded further in Missouri.

Gov. Jay Nixon, who has been in office since 2009, has largely ignored privatization efforts during his time. He has, to his credit, been more focused on efficiency in government. The Nixon administration has eliminated several unnecessary boards and commissions and improved efficiency in many other ways. However, privatization has not been a major topic in Jefferson City during recent years (though, as stated previously, the expansion of private group home use has continued).

The state legislature has had a special committee on Downsizing State Government in recent years, but that focus has also been less on privatization and more on budget cuts and the repeal of obsolete laws.²⁹ All of these things — efficiency, budget cuts, and repeal of outdated laws — are good for state taxpayers but they do not get into the realm of privatizing public services. With earlier reports showing that

government privatization is more often pragmatic than ideological, perhaps that should not come as a surprise.

MAJOR PRIVATIZATION EFFORTS IN THE UNITED STATES

Missouri state and local officials can learn a great deal from privatization efforts in other states. In 2005, Chicago leased out its local highway, the “Skyway,” to a private consortium for \$1.8 billion for a 99-year lease. The next year, Indiana leased out its “Indiana Tollroad” to another consortium for \$3.8 billion for a 75-year period. These two leases to private operators for a pair of connected tollways was the biggest privatization news in America in decades.³⁰

Critics pounced, but there were no real arguments against the leases. Both toll roads have competing alternate routes that can also serve drivers. Both predated the Interstate Highway System and were never built or maintained with gas taxes, so Chicago and Indiana were free to do as they pleased. Most importantly, both governments received enormous amounts of money and negotiated strong agreements to guarantee continued, effective operation of the roads. The tolls may have increased, but they will not increase beyond what drivers can bear because drivers, as mentioned, have serviceable alternate route options for most of the drive. The end result of each deal was that Chicago and Indiana each received an enormous amount of money to invest in transportation needs, while each road has become a better transportation asset under private management. Each of these leases serves as a great example for the potential of privatization.

Chicago Mayor Richard M. Daley was one of the leading voices for privatization in local government. Along with the

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Skyway, his administration also came very close to privatizing the city's second airport, Midway, in 2009, and the city was continuing in those efforts until 2013, when it decided to cease the privatization efforts. (There will be more on this topic in the later section on airports.)

While the Skyway privatization has worked out well, Chicago's privatization of its parking meter system has not. The parking system deal, which turned over management of the city's parking meters to a private company in a long-term lease, was done with too-little public input without necessary public education on the issue. Also, people just hate it when the parking rates rise.

New York City Mayor Rudi Giuliani was another enthusiastic privatizer. According to E.S. Savas, by 2001, the Giuliani administration had implemented more than 60 privatization actions in New York City. The total savings to the city from the various methods of divesting, contracting, deregulating, and leasing was in the billions of dollars during Giuliani's term. To give a few examples, under Giuliani, New York City sold its television station for \$207 million and its city radio station for \$20 million. It contracted with a private utility for boiler maintenance in public housing and saved \$2.45 million per year. It sold numerous city parking facilities for \$16.86 million.³¹ In short, the city stopped doing many things the private sector is capable of doing. Even in a city with a current budget of \$60 billion, the taxpayer savings were significant. While privatization was only part of the reason, the total tax burden for New York City residents under Giuliani fell from 8.7 percent of income prior to his term to 8 percent of income by the end of his time in office. That 7/10s of a percent worked out to \$2 billion a year in savings for taxpayers.³²

Steven Goldsmith, former mayor of Indianapolis and until very recently deputy

mayor of New York City, has long been one of America's leading privatization advocates. Mayor Goldsmith coined the "Yellow Pages" test.³³ His thinking, back in the time when people still used the Yellow Pages, was that if private firms are providing any type of service within a community, the government should not compete against those companies. Goldsmith outsourced or privatized more than 60 Indianapolis city functions, large and small, in his first term in office.³⁴ He was also focused on instituting competition in service areas. City employees actually won the competition for city fleet management services, and they dramatically improved their own services in response to the potential for privatization.³⁵ He was particularly focused on outsourcing technology services to ensure government has access to the most up-to-date technology as possible.

Mayor Daley's successor in Chicago, Rahm Emmanuel, has used the managed competition model to change recycling services in Chicago. Private firms and city employees now compete with bids to serve different districts.³⁶

Sandy Springs

Sandy Springs, Ga., represents one of America's more radical privatization attempts. Sandy Springs was incorporated in 2005 within Fulton County (outside Atlanta). From the beginning, Sandy Springs contracted with the nationwide engineering company CH2M-Hill to manage all municipal operations except for public safety (police, fire, courts). CH2M-Hill oversaw planning, code enforcement, infrastructure, tax collection, and basically everything else.³⁷ (In 2011, other contractors outbid CH2M-Hill for most city business.)

By most measures, the privatization model has been a success in Sandy Springs. Its population has continued to grow. It has

no long-term debt.³⁸ Its mayor (and, to some extent, founder) has been easily re-elected. Most notably, five other cities in Georgia and Louisiana have since adopted its system to varying degrees. Is this a model that can work in Missouri? It would be interesting to see a community try it.

Economic Literature on Privatization

There have been numerous economic studies on the question of privatization. The purpose of this study is to provide concrete examples of privatization use in Missouri. A detailed literature review would be a separate project. Nonetheless, those interested in the economic literature on the issue of privatization can study the works of E.S. Savas, John Hilke, Mildred Warner, and many others. Savas' description of privatization success in New York City is a fine summary of why it can work well in Missouri:

Privatization, properly applied, leads to a better division of responsibilities between the public and private sectors, takes advantage of the strengths of each sector, and avoids their weaknesses. The result is better and less costly services to the public, lower taxes and better government.³⁹

PRIVATIZATION EXAMPLES IN MISSOURI

As stated in the introduction, the central purpose of this paper is to present examples where Missouri cities, counties, or other governments provide similar services in different manners. This section of the study highlights numerous areas where one community provides a service in a typical government-owned-and-operated fashion, while in another community, the private sector provides that service. Sometimes in the private example, the service will be provided with government involvement (*i.e.*, regulation, contract, or partnership) and sometimes it will be provided without any government participation.

Missouri has 114 counties, 952 cities, 312 townships, and 2,371 special districts.⁴⁰ I believe it is safe to say that the majority of the cities and counties in the state provide at least some services that could be better done via the private sector. Providing those governments with concrete examples of alternative methods of service delivery is this paper's goal.

Almost every privatization example cited in this paper is a case study all by itself. We have chosen to provide as many public service examples as possible. When financial data to go along with the example was available, we have included it.⁴¹ When financial data was not available, we have still included the example. The purpose here is to survey the breadth of privatization in Missouri, not the depth of any one particular example. Every city that considers privatizing a service or asset should carefully consider all the effects of that decision, not just the immediate fiscal impact. If they do that well, I am confident privatization will be the preferred option in many instances.

PUBLIC SAFETY

Emergency Services

Ambulances

Emergency services are provided in a wide number of manners in Missouri. While emergency services can include several things, this section is primarily focused on ambulance services. In the Saint Louis area alone, there are five different models of providing ambulance services. Those five models (the first four are government-operated, the last one is private) are:

- Municipal fire departments providing emergency ambulance services. This system is used in the City of Saint Louis and many Saint Louis County suburbs.
- Independent fire districts that also provide ambulance services. This is the

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Christian Hospital in North Saint Louis County operates one of the largest emergency service departments in the state.

primary system in West and South Saint Louis County.

- A countywide, independent ambulance district separate from the fire districts. This model is used in Saint Charles County.
- Several small, independent ambulance districts separate from the fire districts. This is how Jefferson County is arranged.
- A private company providing emergency ambulance services. This is the system in North Saint Louis County and serves as an important back-up plan in the City of Saint Louis.

Historically, ambulances were provided via the private sector by the only people who owned them: undertakers. The days of funeral homes providing ambulances died out long ago in urban areas, but that remained common in rural areas until the 1970s. (There are still some rural parts of America where that is the practice, but it is no longer typical.)

This paper intended to use data from the 45 different ambulance agencies that serve greater Saint Louis to study the comparison of various types of private and public provision in a quantitative manner. Unfortunately, empirical review of the data was impossible, due to a lack of data sent to the Missouri Ambulance Reporting System (MARS) by most of the districts.⁴² (State rules do not require submission of the data and only 18 out of 45 districts submitted reports.) Hopefully, stronger rules on ambulance reporting will be implemented so future researchers can measure performance.

Privately provided ambulance services play an important role in Missouri emergency services. Christian Hospital in North Saint Louis County operates one of the largest emergency service departments in the state. Christian Hospital's fleet serves as the primary

EMS operator for six fire districts and two cities. It now operates 20 vehicles with a staff of 125 personnel responding to 46,000 calls per year.⁴³

Other parts of Missouri also have private ambulance services. Rural/Metro Corporation is a private emergency services company that provides ambulance services in Poplar Bluff and other communities within Butler County.⁴⁴ In Cape Girardeau County, Cape County Private Ambulance Service (CCPA) has been the primary emergency service transporter since 1968. There have been attempts to institute government-operated ambulance services in recent years, but those attempts have failed.⁴⁵ CCPA receives a subsidy from county government each year. In fiscal year 2013, that subsidy is \$165,000, though in recent years it has been higher, at \$225,000.⁴⁶ Notwithstanding that subsidy, it operates as a fully private ambulance service throughout the entire county.

CoxHealth, a major health care company in Southwest Missouri, has provided private ambulance services in Christian County and several other southwest Missouri counties since the 1980s.⁴⁷ It performs the service under contract with various county governments and taxing districts. As this study goes to publication, that contract is up for renewal in Christian County and is being put out for bid again.⁴⁸

Private ambulance companies are also an important back-up plan for public ambulance agencies. Christian Hospital's system is the back-up for two other districts aside from its primary areas, and private companies reinforce the City of Saint Louis' ambulance service almost daily.⁴⁹

9-1-1 Call Centers

Missouri's 9-1-1 call centers are entirely publicly provided, often with support from a direct tax. While they do not

offer any examples of privatization, they do offer excellent examples of another positive trend in local government: municipal cooperation. In Saint Louis County, many small police and fire departments have long shared 9-1-1 services and the gains that come with economies of scale. For example, the East Central Dispatch Center serves the suburbs of Clayton, Maplewood, Olivette, Richmond Heights, Shrewsbury, and Webster Groves.⁵⁰ For many years, the small North Saint Louis County municipalities of Pine Lawn, Wellston, Pagedale, Kinloch, and Beverly Hills shared a 9-1-1 agency.⁵¹ (Recent technological upgrades to the system have resulted in Saint Louis County taking over more 9-1-1 calls from smaller cities, which is also beneficial.)

Elsewhere in Missouri, the Springfield/Greene County 911 Emergency Communications Unit serves about a dozen police and fire agencies within Greene County.⁵² Throughout the state, 9-1-1 systems provide an excellent example of an opportunity to save tax dollars via shared services and economies of scale.

Fire Departments

Fire services in Missouri are entirely provided for public agencies. While there are, like ambulance services, a variety of public methods, they are all government-operated. That is also the dominant model across the country. However, there are parts of the nation where private companies provide fire protection.

Rural/Metro, which was discussed in the section on ambulances, serves as the fire department for the unincorporated part of Knox County, Tenn., and several of the smaller cities within the county, including Farragut.⁵³ (Knox County is a large county, although a municipal fire department serves the city of Knoxville, its largest city.) It also provides

ambulance services throughout the South, including in Poplar Bluff, Mo. While I do not expect anything like private fire companies to come to Missouri, it is nevertheless an interesting example of how the private sector is capable of fully providing many public services when residents of a community desire that.

Animal Control

Kansas City

One of the best examples of the role for non-profit organizations in government privatization efforts is in the area of animal control. Cities, large and small, throughout the state have worked with non-profit animal charities to address stray animals and other pet control issues.

Kansas City's animal shelter has changed management three times in the past four years. In 2009, the city contracted with Veterinary Management Corp. to privatize the shelter, but in 2011, the city reverted back to public management. Then in 2012, Kansas City signed a new contract with Kansas City Pet Project, a private, non-profit organization that currently manages shelter operations. Financial decisions and a search for a quality operator motivated each change in management.

When Kansas City initially privatized the animal shelter in 2009, it saved \$175,000 and reduced the number of animals euthanized per year to 43 percent, down from 59 percent of the total number of animals taken into the shelter.⁵⁴ The city's five-year contract with Veterinary Management Corp. included a clause stating that the city could terminate the contract with only 30 days' notice.⁵⁵ In 2011, Kansas City acted on that clause and cut ties with the private veterinary organization on account of alleged animal abuse.⁵⁶

Returning the shelter to public management may have been a political necessity once the charges against the

In Cape Girardeau County, Cape County Private Ambulance Service (CCPA) has been the primary emergency service transporter since 1968.

The Humane Society manages the Forest O. Triplett Memorial Animal Shelter in Chillicothe.

private veterinarian (substantiated or not) became public. It was accompanied by almost a \$1 million increase in the city's animal control budget. In 2010-11, Kansas City spent \$2,301,817 on animal control, but in 2011-12, expenditures jumped up to \$3,149,643 while the city looked for a new vendor.⁵⁷

A year later, Kansas City contracted with Kansas City Pet Project (KCPP). The private, non-profit organization is responsible for paying utilities, stocking supplies and materials for animal care, purchasing animal control equipment, and providing vaccinations and veterinary care.⁵⁸ KCPP has increased the number of animals the shelter takes in per year by 12 percent while reducing the number of animals euthanized in a year by 51 percent.⁵⁹ Switching back to private management also saved Kansas City about \$40,000, reducing the animal control budget to \$3,100,529.⁶⁰

Chillicothe

While Kansas City prefers to switch management as needed, the city of Chillicothe has renewed its annual contract with the Livingston County Humane Society (LCHS) for two decades.⁶¹ The basic terms of the contract have not changed from 1993 to 2013, indicating this municipality's contract with a non-profit provider has been satisfactory. (Our research indicates that the city council has regularly reconsidered and renewed the contract, and this is not simple complacency.)

The Humane Society manages the Forest O. Triplett Memorial Animal Shelter in Chillicothe, appoints an animal control officer, provides janitorial and minor maintenance services, and pays for animal care and control. It is responsible for adhering to, enforcing, and investigating violations of Chillicothe's animal control ordinances.⁶² Forest O. Triplett is not a no-kill shelter. In 2012, 20 percent of

dogs and 45 percent of cats that came into the shelter were euthanized. The rest were rescued, adopted, or returned to their owners.⁶³ The LCHS and the shelter also participate in a puppy training program with local jail inmates.

LCHS revenues in 2013 came from two main sources: a basic service fee from the city of \$5,633.33, and revenue collected for specific services. The animal shelter collects three types of service fees: animal license fees, animal control fines, and adoption service fees. Animal license fees and animal control fines belong to the city. At the end of the fiscal year, Chillicothe gives the LCHS one-twelfth of this revenue, which in 2012-13 amounted to \$416.66. The Humane Society collects adoption service fees and gives the revenue to the city of Chillicothe. On a monthly basis, the city then returns that adoption service revenue to the Humane Society.⁶⁴ In 2012 and again in 2013, the shelter received \$67,000 total funding from the city.⁶⁵

Independence

Independence is another city that makes use of the non-profit model for animal control. In April 2013, Independence signed a contract with the Great Plains Society for Prevention of Cruelty to Animals (SPCA). In fact, this is a three-way, collaborative five-year contract among the city of Independence, Jackson County, and Great Plains SPCA to operate the new Regional Jackson County Animal Shelter.⁶⁶ Independence entered into an intergovernmental agreement with Jackson County in 2009. The county agreed to build a new \$5.3 million "no-kill" animal shelter, and in exchange, the city would operate the shelter and serve the unincorporated county. After contentious negotiations, the proposal bogged down. Eventually, the city's health department and the non-profit organization Heartland SPCA (today, Great Plains SPCA) submitted proposals to run the new

Regional Jackson County Animal Shelter.⁶⁷ Great Plains SPCA was awarded a five-year contract beginning in 2013.⁶⁸

Under the contract, Great Plains SPCA provides animal control field services to the city of Independence and the unincorporated county. The non-profit organization is also responsible for daily maintenance and janitorial services. Jackson County agrees to reimburse Great Plains SPCA for monthly utility bills and to undertake any major repairs to the facility.⁶⁹

The new shelter is almost four times as large and has twice the capacity for animals as the existing shelter.⁷⁰ The city's original budget for 2012-13 proposed to run the shelter with city staff and spend \$1,399,715 on animal services, approximately a \$600,000 increase from the previous fiscal year (due to the increase in size and capacity).⁷¹ Great Plains SPCA projected operational costs are slightly lower, at \$1.3 million annually to run the shelter, but, importantly, taxpayers will pay less than half of that.

The City of Independence will contribute \$435,000 per year in 2013 and 2014, and \$515,000 per year in 2015-17, to the shelter's operations. Jackson County has agreed to pay up to \$130,000 per year in utilities for the duration of the contract. Great Plains SPCA will make up the remaining \$750,000 difference with adoption fees, program fees, and private donations.⁷² While it was a difficult route to get to the current arrangement, the final result should be very positive for eastern Jackson County.

Jails/Prisons

There is widespread agreement that jails and police services are one government function that should never, under any circumstances, be privatized. Even so, there are certainly support services within the field where privatization is appropriate. For instance, a very small town police department is better

off using a local mechanic to fix its cars than having its own department to maintain two or three vehicles.

When it comes to prisons or jails, public policy is best served when the government owns and operates the prisons. Prison privatization is deeply troubling. However, the private prison industry is growing. The incentives that serve as the basis for cost savings and service improvements for many sectors are out of line in prisons. Private prisons benefit from having more inmates, and inevitably engage in rent-seeking and lobbying in perverse fashion for tougher sentencing, which will benefit their bottom lines.⁷³ A disturbing 2011 report by the Justice Policy Institute detailed how private prison companies have influenced political decisions on sentencing rules.⁷⁴

Missouri does not use private prisons or jails. According to the most recent data available, as of 2006, Missouri was one of only 18 states with zero prisoners in private prisons.⁷⁵ Five other states reported less than 50 inmates in private prisons. In those five states, private prisons are most likely used for special circumstances and not general policy. State and local law enforcement agencies in Missouri should continue this policy against private prisons.

Within public jails, however, supporting roles such as pharmacies, medicine, uniforms, and food provision are suitable services for the private sector to provide. The private provision of these items is, in fact, common.

In the fall of 2013, the state of Ohio is privatizing its prison food service to Aramark Corporation. Ohio expects to save \$28 million over two years with the deal, in which Aramark outbid Ohio public sector union employees for the contract.⁷⁶ While Missouri does not use Aramark for prison food, it does use Aramark for other services, mostly

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uniforms. Missouri spent almost \$275,000 with Aramark in 2013.⁷⁷

Health and pharmaceutical services are another example of where the private sector can provide inmate services more effectively than the government. The Saint Louis County jail privatized pharmacy services for inmates at the same time it privatized its general pharmacy in 2003 (discussed in the following section). The county renewed the contract in 2012 with Diamond Drug, Inc. — the nation’s largest jail pharmacy company — for four years at \$1.5 million per year.⁷⁸

Exact cost savings for this program are difficult to determine as programs and services have been expanded since the privatization occurred. One example is in 2007, the Lakeside juvenile facility was added to the county’s correction medicine program. Many of these new programs are done in-house and not served by the private contractor, and the budgeted amount for “drugs” includes both the private contractor and public health operations.

The total corrections medicine budget has grown in recent years, but the contract with the private corrections pharmacy provider for the county jail has only increased from \$1,081,000 in 2003 to \$1,500,000 by 2016 (final year of the current contract). That will be just a 39 percent increase in cost over 14 years. That is only \$126,000 over normal inflation rates as of 2013, and by 2016, the annual cost will likely be right at inflation.⁷⁹ But the normal inflation rate is far below the health care inflation rate. According to Express Scripts, the average cost of brand name prescription drugs went up 88 percent between 2008 and 2013.⁸⁰ (Inmates cannot be switched to generic medicines as readily as the general population, so brand prescription price is the appropriate comparison.) Clearly, the contracts with the private

pharmacy providers for Saint Louis County have helped the county hold the line on spending at the jail.

Until recently, one of the nation’s largest private prison health care providers was based in Saint Louis. Correctional Medical Services had been based here, but it merged with a competitor in 2011 and became Corizon, Inc. The new company is based in Tennessee, but maintains its operational headquarters in Creve Coeur, Mo. The Missouri Department of Corrections spent \$120 million for Corizon’s health care services in fiscal year 2013.⁸¹

According to the Missouri Subcommittee on Competition and Privatization, the Department of Corrections privatized prison healthcare services in 1992 and since then it “has seen a significant improvement in inmate healthcare.”⁸²

Public Health

Pharmacies

Saint Louis County, Missouri’s largest county, is the only county that operates a full-service pharmacy for its lower-income residents. Until 2003, the county operated the pharmacy itself, with its own pharmacists, store location, and prescription-filling system. That pharmacy, however, was proving untenable by 2002. Like many other areas of health care, costs were increasing rapidly for the county pharmacy. Between 1997 and 2002, the budget for the pharmacy increased 180 percent. A portion of this was due to the opening of the new county jail and serving new inmates, but much of it was not. For example, total outpatient prescriptions increased from 178,250 in 1997 to 214,000 by just 1999 — a 20 percent increase in just two years. In response to these cost increases, the county looked into privatizing the system.

In 2003, Saint Louis County took bids from private pharmacies to operate the system. The first winning bidder was

Walgreens, the nationwide pharmacy chain. The contract with Walgreens dramatically expanded the system and reduced costs. Saint Louis County residents now had access to hundreds of Walgreens stores open for 24 hours and using modern technology to take and fill orders instead of the old county pharmacy with just one location open for standard government hours. Alongside those service improvements, the cost of the pharmacy service fell by 7.5 percent in the first year, and it has continued to decline.⁸³

In 2006, LDI, a pharmacy benefits management firm based in Saint Louis County, won the bid to operate the system. LDI has continued to manage the Saint Louis County pharmacy system until now. (Their contract was renewed in August 2013 for three more years after an open bidding process.⁸⁴) In 2002, the year before privatization, Saint Louis County spent \$6,498,722 on the pharmacy. In 2012, the pharmacy expenditures were only \$4,328,528.⁸⁵ That is a decrease of 33 percent over a decade.

This is not some sort of miracle worked by privatization. Generic drug prices have generally fallen in recent years, and LDI has made heavy use of switching patients to generic drugs.⁸⁶ Also, the switch to the county jail pharmacy relieved a large role of the prior county-operated pharmacy. But even if you add the \$1,500,000 jail pharmacy contract back to the current pharmacy budget, the county is still spending more than a half-million dollars less in 2012 than it did in 2002. And while the drop in generic drug costs might account for that, not *every* county patient can be switched to generics, and the private contractors do have costs other than the drugs, including employees, rent, and taxes (some of which go back to Saint Louis County).

Whether the costs savings are amazing or simply impressive, they are not the

only beneficial aspect of the pharmacy privatization. Services to customers have also expanded dramatically, as described above. This example of privatization can only be viewed as one of the more successful efforts in the country. Any other government in Missouri that is considering providing pharmacy services as part of its public health mission needs to carefully study the privatization model that Saint Louis County implemented with such success.

Trash Collection

Trash collection has been one of the most studied areas of privatization. Two of the well-known studies that focused on Missouri trash collection in the 1960s and '70s found that public provision of the service was generally more efficient than private provision.⁸⁷ Those studies used data from a time when the public model would have had monopoly power and the private model likely did not. Hence, private providers of residential services did not benefit from the density effects of serving every home on the block.

For trash services, the model of privatization is very important. Municipal monopolies have a great advantage by requiring every customer in an area to use their service. Competitive, private trash services that do not have that monopoly power are at a disadvantage. It should surprise no one that a system where multiple trash haulers serve the same area may be less efficient than a mandated monopoly, no matter how popular the private services may be.⁸⁸ However, a model where cities put the trash service out to competitive bidding by private companies who then have a monopoly for the period of the contract is an excellent model for trash privatization. Bel and Warner recognized this when they wrote:

In most countries, there is a strong association between private production

Saint Louis County residents now had access to hundreds of Walgreens stores open for 24 hours and using modern technology to take and fill orders instead of the old county pharmacy with just one location open for standard government hours.

Leaving trash collection entirely up to residents is still the system in Missouri's fifth-largest city, Independence.

and competition for the market through competitive tendering, and public production without competition for the market. Typically, public production is outside a competitive framework. The benefits of competitive contracting (increased efficiency) would come primarily with competition for the market as monopoly production would continue to be necessary due to economies of scale.⁸⁹

Bel and Warner further noted that often the benefits from competition erode over time. The solution to that is to make certain the trash contract is opened for bidding with some degree of frequency

In recent years, trash collection has become one of the most commonly privatized services. According to the International City-County Management Association, in the United States, private companies provided residential trash collection via outsourcing in 57 percent of suburbs, 39 percent of small towns, and 29 percent of large cities. On July 29, 2013, even Detroit finally put out bids to provide trash services for the city.⁹⁰ It has taken municipal bankruptcy to get Detroit to consider doing what the *Detroit Free-Press* called, “the low-hanging fruit of improving city services.”⁹¹

There are three main models of residential trash collection:

1. A local government trash collection department that owns and operates its own trash collection system.
2. Local governments contracting with private trash haulers to serve a community and granting them monopoly power within the community. In some places, the city manages the relationship with the public, *i.e.*, collecting trash bills, but in others, that role is left to the private contractor.
 - a. A subcategory of this model is one where a larger city or county

breaks the community up into various trash districts and puts each district out for bid to private trash companies.

3. Government staying out of the trash business and leaving it up to residents to contract with private trash companies. This is the model that risks losing density and network effects, but it also potentially gains the most to customers from competition.
 - a. This system is common in commercial business trash pick-up, for larger multi-unit residential properties, and for residential pick-up in less populated areas. It is rare in Missouri within urban or suburban residential areas (except for multi-unit buildings).

Interestingly, until 2011, Saint Louis County used the final model for residential trash pick-up within the county's large (more than 300,000 people) unincorporated areas. Every resident or subdivision board contracted with their own trash hauler. However, in 2008, Saint Louis County proposed enacting the trash district and bid system for the unincorporated parts of the county. After significant controversy and several lawsuits, the district collection system began in 2011.⁹² At this point, it is too early to know if the overall system will be better or worse for the average resident of the unincorporated parts of the county. Will the reduction in total trash truck miles and increased recycling options improve trash service, or will the loss of daily competition increase prices and reduce service quality? This should make for an interesting case study in the future.

While the government's role in the prior system was non-existent beyond an ordinance requiring trash pick-up, the county's role in the new district and bid system is still, appropriately, limited

in comparison to cities that operate their own trash hauling division. The private sector still collects trash in the unincorporated parts of the county.

Leaving trash collection entirely up to residents is still the system in Missouri's fifth-largest city, Independence. Saint Louis operates its refuse division entirely with government employees. It would probably take a Detroit-like bankruptcy to change that; an unlikely, but not impossible, scenario.

The experience of Ballwin, a suburb of Saint Louis, illuminated the fact that simply using the private sector is not enough. Good government requires a regular and open bidding system on such contracts. In 2012, Ballwin renewed the contract with its private trash hauler for 10 years without putting the contract out for bid.⁹³ In fact, Ballwin had not put the contract out for bid since 1995. Despite strong criticism from some members of the city's Board of Aldermen, the contract was renewed and no public bid was required. Government should not fail in its role as a watchman when it privatizes services, and the bid process is an essential part of that.

Kansas City Trash Collection

Kansas City offers an excellent comparison of public and private trash collection. Kansas City uses both government collectors and private contractors. Kansas City's government trash haulers currently serve approximately 47,000 residential units in central Kansas City. Private haulers under contract with the city served the remaining 94,500 units in northern and southern Kansas City. According to fiscal year 2010-11 data, the private

contractors operate with significantly more efficiency. Whether measured as cost per dwelling, or cost per square mile, the private contractor is significantly more cost effective (Table 1).

Because they were assigned different areas, each group benefitted from having a monopoly within their areas and thus, there should have been no major difference in density or network effects. If anything, the greater density of the city area should favor the city hauler over the private haulers. Our review of Kansas City's data shows the private operators were less costly and more efficient than the public option, resulting in savings of \$27.14 annually per household and \$60,931 per square mile served. These numbers are significant. Kansas City deserves credit for including the private sector as a major part of its solid waste plan with notable savings for taxpayers. This data from Kansas City can serve as an example for other cities in Missouri.

Transportation

Airports

Commercial service airports in the United States are almost entirely publicly owned and operated. However, the last decade

Our review of Kansas City's data shows the private operators were less costly and more efficient than the public option, resulting in savings of \$27.14 annually per household and \$60,931 per square mile served.

TABLE 1: 2010-2011 Kansas City Trash Collection Cost by Type of Service

Kansas City Trash Service	City Hauler	Private Hauler
Dwellings served	46,938	94,526
Total expense	\$4,220,794	\$5,934,012
Total Square Miles	51.95	266.12
Dwellings per square mile	903.5	355.2
Annual expense per dwelling	\$89.92	\$62.78
Annual expense per sq. mile	\$81,200	\$20,269

Sources: Kansas City Municipal Budgets, Long-Term Solid Waste Management Plan, Kansas City Municipal contracts, and e-mails from the Solid Waste Department.

Branson Airport, the only privately built and operated commercial service airport in the United States, opened in 2009.

has seen experimentation with different models of airport privatization. One such model is the “green-field,” or built-on green grass, private airport, such as the Branson Airport. Another model is privatization through the FAA’s Airport Privatization Pilot Program (APPP). Kansas City International Airport has been considered as a candidate for that program. These attempts have had limited success, as FAA regulations and aviation industry volatility creates a hostile environment for private airport development or lease.

Branson Airport, the only privately built and operated commercial service airport in the United States, opened in 2009. By 2011, it enplaned 102,000 passengers per year on AirTran Airways, Frontier Airlines, and Branson AirExpress.⁹⁴ Because Branson Airport was privately constructed, it is not subject to FAA regulations regarding federal government grants that control the management of airport fees and revenue.⁹⁵ Most airports in the United States are publicly owned and have received federal government aid and property in return for numerous regulations on airline competition, aeronautical revenue usage, and operation.⁹⁶ Conversely, Branson’s status allows it to offer airlines exclusive rights to a certain route, such as Denver to Branson, in return for reasonable fares and a modified fee structure. In addition, Branson Airport LLC can use the profits from the airports to pay investors, instead of having to invest profits back into the airport.⁹⁷

Branson Airport is not entirely the product of private investors: local government aided it in financing, reducing tax liability, and providing operations subsidies. First, in order to finance the \$155 million operation, Branson Airport LLC required the support of Branson Regional Airport Transportation Development District to issue tax-exempt bonds.⁹⁸ The inability of Branson Airport LLC to obtain full

financing in the private equity market pointed to the risk for the project. In addition, Branson City agreed to pay the airport \$8.24 per visiting passenger, up to \$20 million per year.⁹⁹ As for tax liability, Branson Airport LLC gifted the land to Taney County in exchange for a lease that would reduce its property taxes.¹⁰⁰

Despite its innovative business model and aid from the local government, Branson Airport has had difficulty making a profit. The company projected at least 160,000 visitors by 2011, and these estimates have not materialized.¹⁰¹ In 2011, the airport counted 67,657 visitors. (Total enplanements was higher but “visitors” does not count local residents using the airport.) The company entered into debt repayment negotiations in 2012. Branson City has also indicated that it is uncomfortable with the current per-visitor subsidy and might choose to end the program.¹⁰² In 2013, following federal government budget cuts, Branson Airport lost its aircraft control tower.¹⁰³ The main bright spot had been the addition of Southwest Airlines to the airport.¹⁰⁴ However, in December 2013, Southwest announced it was pulling out of Branson.¹⁰⁵

While the Branson Airport may be experiencing financial difficulties, it identifies the possibilities and hurdles for private airport development. The experience of Branson Airport shows that some public assistance is required for private airport development in the current regulatory environment. However, privately owned and operated airports can experiment with different business operations where public airports cannot. The success of Branson Airport may be uncertain, but one of the features of private enterprise is that individuals and companies risk their own capital, not of that of their fellow citizens, in hopes of a larger return. The example of Branson

cannot be responsibly extrapolated to any case of “green-field” private airports. While the city of Branson has wide appeal, it is not a fully national attraction. Also, opening the airport in the midst of the largest post-war recession perhaps scuttled its chances from the start.

Kansas City International Airport (MCI) is a publically owned and operated airport in Kansas City, Mo. For the last decade, some local officials have called for full or partial privatization of the airport so that it can run more cost effectively and the city can gain proceeds from the sale.¹⁰⁶ However, due to grant assurance provisions from the FAA and other regulations, the only way for Kansas City to gain capital from the sale of MCI would be to participate in the APPP.¹⁰⁷ This program allows the lease of publicly owned airports with the following exemptions:

- A) The public owner can use airport sale/lease proceeds for non-aviation purposes.
- B) The private entity can make a return on investment and a reasonable fee for managing the airport while enjoying the same regulatory privileges as the public sponsor.¹⁰⁸

However, the APPP greatly reduces the freedom of action for the private lessee. The lessee is required to maintain whatever collective bargaining agreement existed with labor beforehand. It must also maintain comparable operations. The APPP gives the airlines effective veto power over the raising of fees and the issuance of FAA grant assurance waivers.¹⁰⁹ This means that the airlines have to be effectively placated, generally through landing and apron fee deals, despite the APPP exemptions.

These provisions significantly reduce the ability of any private entity to run the airport in a more efficient manner, as

creating a profitable airport entails either raising fees (generally on airlines) or reducing costs (one of the largest tends to be employee compensation). The program began in 1997 with five slots and expanded to 10 in 2012. The program has met with little success due to its convoluted rules that undermine profit potential and the ability to eliminate waste.¹¹⁰

Since 1997, the program has gone into effect at only three airports.¹¹¹ The state of New York leased Stewart International Airport, a non-hub primary commercial service airport, to National Express Group for \$35 million in 2000. The inability to make a profit after 2001 and a desire by National Express Group to exit the airport management industry led to the airport’s reversion to public control in 2007.¹¹² Lu s Mu oz Mar n International Airport, a medium hub commercial service airport in Puerto Rico, was privatized in 2013. The Port Authority of San Juan sold the airport to aid in debt servicing, and the long-term viability of the program is unknown.¹¹³ Hendry County Airglades, a small general aviation airport in Florida, was privatized under the APPP program in 2010 and remains privately operated.¹¹⁴

Should Kansas City pursue the APPP route of privatization, the city could expect significant proceeds from the sale. However, it would require complex and lengthy negotiations with the potential buyers, airlines, and the FAA in order to participate in a program with no record of long-term success.

Airport Security

Privatizing the security screening systems has been considered at both the Kansas City and Springfield airports. The Transportation Security Administration (TSA) approved Kansas City’s proposal, and Kansas City is now one of 16 airports in the nation that uses private security

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There is only one currently tolled facility in Missouri: the Lake Ozark Community Bridge (LOCB).

screeners.¹¹⁵ (Most of the 16 airports are small; only Kansas City, San Francisco, and Rochester would be considered major airports.) TSA denied Springfield's attempt to use private screening contractors, and the TSA does not appear willing to expand the use of private screening contractors any further.¹¹⁶

Branson is, as we have discussed, America's only private commercial airport. Nevertheless, Branson uses TSA screeners like most other airports.

Roads and Toll Roads

Private toll roads are one area of privatization that has been covered extensively in the academic literature and media. Unfortunately, very little of that work relates to Missouri, as this state has never made much use of tolling. The state created a turnpike authority to build and operate toll roads in the late 1960s, but the Missouri Supreme Court ruled that effort unconstitutional. (See Appendix 1 for more on that ruling.)

Historically, there were toll bridges across the state's rivers. Many of the old toll bridges dropped tolls or closed a long time ago, though a few kept tolls until the past decade, e.g., the McKinley Bridge in Saint Louis (which was technically only an Illinois toll) and the Saint Francisville Bridge connecting Missouri and Iowa. There is only one currently tolled facility in Missouri: the Lake Ozark Community Bridge (LOCB). The LOCB formerly operated as a Missouri Transportation Corporation (MTC), which is authorized by state statute. It now operates under the more common form of a Transportation Development District (TDD). It is a publicly operated facility with authority to issue bonds, charge tolls, etc. It was created for the express purpose of constructing one specific bridge across the Lake of the Ozarks, which opened in 1998. The bridge is in compliance with state law because it is

not a part of the state road fund. After the bonds that the tolls support are paid off, the plan is for the tolls to be removed and the bridge to be incorporated into the state highway system.

Saint Louis was the dominant national example for the private place model where neighborhoods provided their own roads, security, trash, and sewers.¹¹⁷ Particularly in the central corridor of Saint Louis, there are many neighborhoods where the local roads continue to be privately financed and maintained. In those neighborhoods, the property owners are assessed each year for road maintenance, and approximately every 10 to 15 years, a major road renovation is undertaken. The private neighborhood model is becoming less attractive, though. Most private streets were built long ago, when relying on the government to provide a local road was more difficult. Slowly but surely, many private roads are being converted to government operation and ownership.¹¹⁸ In recent decades, few developments in Saint Louis have been built along the private street model.

Unfortunately, the private place and private street model is becoming less popular. In all honesty, though, it was never a model that served the needs of most people.

Mass Transit

While many cities provide some form of public transportation, almost all mass transit systems across the United States operate at a deficit. Even without profitability, however, transit is a prime area for privatization. Private contracting has been shown to improve efficiency or cut costs for transit systems.¹¹⁹ One major Missouri city that has taken steps to privatize part of its transit system is Independence.

In July of 2012, Independence began contracting with First Transit to operate

its local bus system, the Indebus. This is a large step for Independence, which had contracted with the Kansas City Area Transportation Authority (ATA) for bus service since 1972. However, tightening budget constraints forced the city leadership to reevaluate its expenditures. They found that by contracting with a private company, they could increase the total service area by 40 percent and hours of operation by 30 percent without increasing expenditures.

Independence is prepared to run the system at a loss as long as it can meet the transit needs of its citizens. Independence's bus system only handles about 2,400 passengers per month and operates at a significant loss. The cost per passenger is above \$7 while the ticket price is only \$1.50.¹²⁰ From a budget of \$2.5 million, passenger tickets only account for \$1 million. However, the city government believed that changing to a private company could achieve greater efficiency. Much of the losses come from "dead head" time, in which the buses are not carrying passengers. An example is the switch from "pulsing" routes with the ATA to "looping" routes with the Indebus. With pulsing routes, the bus drives on a route to a destination before coming straight back to the transit hub. "Looping" routes mean the bus drives on a large circular route without having to return to the center to pick up more passengers, greatly reducing "dead head" time. The city hopes that through a revised routing system that includes more looping and expanded service, they can increase ridership and revenue per passenger mile.

The public transit budget of Independence for 2011 contained \$2.2 million for the ATA. From 2012 onward, Independence will pay ATA just \$629,000 for continued inter-city service and \$1.6 million to First Transit for Indebus operations. While the long-term viability of the project is unknown, the transition between services was relatively smooth. In July 2013, the

City and Indebus decided to end one route due to low ridership. This action, while disappointing from a desire to increase passengers, points to the greater flexibility of the Indebus system. As Independence runs its own bus system, it can expand or reduce lines on its own accord without further negotiations with the ATA.

Independence's experience may serve as a model for other localities. Instead of relying on a large, publicly (and politically) managed transportation authority, they can instead choose to hire local contractors to provide locally demanded service. This results not only in cost savings, but also in more local control of routes and scheduling.

Private companies such as Greyhound have long provided bus service over long distances and between major cities. Over the past decade, newer competitors such as MegaBus have sprung up. Like in most areas of the economy, the new competition has greatly improved service for customers, as Greyhound had become synonymous with cheap, low-value transportation. For example, Megabus made major use of technology for its reservation system and had cutting-edge wireless Internet access on its busses from the beginning. Greyhound has responded to the challenge recently by expanding its operations and improving its bus fleet.¹²¹

Too often, bus (and taxi cab) services within cities are limited to the municipal bus system (or licensed taxis) through restrictive, anti-competitive rules. Individual counties and cities should reduce the rules against competition so that the newer, private taxi companies like Uber can operate in Missouri and private bus operators like First Transit can serve more places and people.

Fleet Management

Fleet management privatization is one of the largest areas of opportunity for

Saint Louis was the dominant national example for the private place model where neighborhoods provided their own roads, security, trash, and sewers.

In July of 2012, Independence began contracting with First Transit to operate its local bus system, the Indebus.

the private sector to serve many more Missouri governments in a way that benefits everyone. All the factors are in place in Missouri for many more governments to adopt this change.

Governments often maintain large fleets of vehicles, such as police cars, fire trucks, highway department vehicles, and park ranger jeeps. For government employees who drive a great deal for their jobs, the choice between providing them a government car or reimbursing them for mileage at the IRS rate can be an expensive one.¹²² Furthermore, political complications can arise from providing government-owned cars to government employees, even if the costs are justified.¹²³

Governments around the nation have addressed these issues by turning to the private sector to manage their government vehicle fleet. Enterprise, the Saint Louis-based car rental company, has a division focused entirely on this role. In some circumstances, privatization is not an option because there are no private providers within an area for governments to utilize in the first place. For fleet management in Missouri, that is obviously not a roadblock.

In 2006, Enterprise began contracting with the state of Virginia to provide short-term rentals for state employees on state business.¹²⁴ Cities that have successfully used the private sector or competitive contracting to operate vehicle fleets include Indianapolis, San Diego, and Dallas.¹²⁵

In Missouri, the Benton County Health Department contracted with Enterprise for fleet management of 15 vehicles in 2009. The county was spending a substantial amount on mileage reimbursement for its employees as they traveled around the county — located near the Lake of the Ozarks — using their personal cars and trucks.

According to the Benton County Health Department, after contracting with Enterprise, they saved \$38,655 in the first year of private fleet management operations.¹²⁶ For a small department like this, those savings are substantial.

In many instances, it is neither necessary nor efficient for a government to own and service its own cars and trucks. Government procurement rules and political realities make updating fleets a cumbersome process even when it is justified. Leasing deals with fleet management companies, as in other areas of government services like information technology, allows government much more flexibility to maintain a modern fleet at lower costs.

Contracting with the private sector for vehicle fleet management is a relatively simple way to save taxpayer money and provide employees higher-quality vehicles. This is especially true for small- and mid-sized government entities.

Ferries

Historically, there was a major role for ferries in a state with as many rivers as Missouri. Many of the old ferries were small, private operations. Engineering and transportation improvements have made ferries into something of a relic, albeit one that can still perform an important role in certain locations. The question is: is that role a necessity or a convenience? If it is still a necessity, then government involvement may be justified. If it is a convenience, or simply a quaint attraction, the ferry should be privately provided.

There are currently seven ferries in operation in Missouri, mostly providing service across the Mississippi River. These ferries augment the work of 24 automobile and train bridges in Missouri that cross the Mississippi.¹²⁷ Most of these ferries do not make a profit from operations. The Missouri Department

of Transportation (MoDOT), local governments, and even the federal government grant yearly subsidies that cover significant operating deficits.

The seven ferries operating in Missouri include the Ste. Genevieve Modoc Ferry, the Canton Ferry, the Dorena-Hickman Ferry, the Akers Ferry, the Grafton Ferry, the Golden Eagle Ferry, and the Winfield Ferry.¹²⁸ The Illinois-based Calhoun Ferry Company owns the Golden Eagle and Winfield ferries.¹²⁹ The City of Grafton, Ill., owns and operates the Grafton Ferry. The other four ferry operations are Missouri-based. The National Park Service owns the Akers Ferry, which crosses the Current River in southern Missouri.¹³⁰ It is privately operated on concession by the Akers Ferry Canoe Rental company. Port authorities own the former three ferries, but they are privately operated. These three will be the focus of analysis for the remainder of the paper.

The Canton, Dorena-Hickman, and Modoc ferries have much in common. Even though local port authorities own them and they receive varying levels of subsidies, they are classified as privately operated.¹³¹ The Modoc ferry, which crosses the Mississippi River between Missouri and Illinois, charges \$12 one-way and \$20 round-trip for a passenger with a car. The New Bourbon County Port Authority owns the ferry and contracts with the Ste. Genevieve - Modoc Ferry Company for operations. It served an estimated 12,000 one-way trips for total revenue of \$150,000 in 2011.¹³² This ferry loses \$86,700 per year, which MoDOT covers with a yearly \$88,000 grant.¹³³ In addition, the federal Department of Transportation granted the ferry \$148,000 for terminal repairs.¹³⁴ The closest crossing aside from the ferry is a 20-minute drive south to the Illinois town of Chester. The ferry takes an average of

15 minutes to cross the river.¹³⁵ Assuming an average wait time of 15 minutes, the average user can expect the total crossing to take 30 minutes. Given that there are bridges over the Mississippi River in the vicinity of Ste. Genevieve, the time necessary to cross the river via the ferry, and the nearest population centers in Illinois, it is unlikely that the ferry's main purpose is convenience.

The Dorena-Hickman Ferry transports passengers over the Mississippi River between Missouri and Kentucky. The Mississippi County Port Authority owns and operates this ferry. The ferry charges \$14 for a passenger and a car one-way.¹³⁶ In 2009, the ferry had gross revenue of \$160,000 from 18,000 passengers. However, the ferry operates at a significant loss, approximately \$160,000 each year, requiring \$88,000 from both MoDOT and Kentucky's Department of Transportation. MoDOT claims the ferry generates significant economic value in wages and tourism.¹³⁷ The Dorena-Hickman Ferry does, however, have significant time and travel distance savings for any traveler moving from the Hickman, Ky., area to Mississippi County,¹³⁸ because the closest crossings to the ferry are more than 30 miles away. The downside is that the areas around the ferry crossing are very sparsely populated and most traffic diverts to the north or south.

The Canton Ferry, the oldest ferry in operation across the Mississippi, operates in between northern Missouri and Illinois. The Lewis County/Canton Port Authority owns the privately operated ferry and the charge for a passenger with a car is \$8 one-way and \$15 round-trip.¹³⁹ However, unlike the previous two examples, the state of Missouri has not subsidized the ferry in the past 20 years. The Ursa Farmers Cooperative, based in Illinois, uses the ferry for grain transport and

According to the Benton County Health Department, after contracting with Enterprise, they saved \$38,655 in the first year of private fleet management operations.

The City of Saint Louis contracts with Lasak LLC to operate the historic ice rink in Forest Park.

makes up for any gaps in the operating budget. This unique situation shows that private entities — including non-profits like a cooperative — can operate a public good with limited government involvement. A caveat to this is that the ferry has received capital improvement grants from the federal government.¹⁴⁰ The Department of Transportation awarded the ferry \$80,000 to repair its docks.¹⁴¹ In addition, as the Ursa Farmers Cooperative has built a new grain facility on the Missouri side of the Mississippi River, it has less need for the ferry.¹⁴² This could mean the costs of the ferry may require a future subsidy from the Lewis County/Canton Port Authority. Whether or not this would mean subsidies from MoDOT is unclear.

The state of Missouri and the federal government subsidize ferries in Missouri under the argument that they support economic growth and reduce transit time. However, they carry very few passengers and, for the most part, appeal to tourists. If the state withdraws subsidies, it might not mean the collapse of Missouri ferries. The private operation of the Canton Ferry shows that private entities which benefit from the ferry can afford to provide effective passenger ferry service without subsidies.

Parking Meters

Chicago's negative experience with privatizing parking meters has received a lot of attention, but there are successful examples in this area of privatization. The City of Saint Louis currently contracts out with ACS State & Local Solutions, Inc., for the management and enforcement of parking meters. ACS took over management in 2003. A 2006 story detailed how between 2003 and 2005, parking collection totals in the city increased almost 50 percent. After ACS took over, the city's average monthly parking ticket collections

increased from about \$300,000 in 2003 to \$441,000 by 2005.¹⁴³

ACS processes parking violations in a number of major American cities, including Los Angeles; Philadelphia; Dallas; Detroit; San Francisco; Columbus, Ohio; Boston; Washington, D.C.; and Denver.

In Saint Louis, ACS is responsible for ticket data entry, ticket and notice processing, payment processing, customer service, scheduling hearings, and supporting parking violation enforcement. The city's 30 parking enforcement officers remain employed by the city treasurer's parking division. Saint Louis police officers also write tickets. ACS is the facilitator, not the enforcer, of the city's parking meter rules. The enforcement still lies, appropriately, with city government.

ACS is paid a fee for each ticket processed. The rate is based on a complex scale that decreases at various threshold levels as ticket volume increases. ACS has established a walk-in center downtown to pay tickets as well as the option of paying online. According to the *Saint Louis Business Journal*, the company was expected to make about \$13.2 million, or an average of \$2.2 million a year, over the life of its prior contract, from October 2003 through June 2009.¹⁴⁴ The contract was continued beyond 2009, but recent changes in the city treasurer's office may lead to changes in the manner which the city outsources parking enforcement.

Parking enforcement is also an opportunity for regional cooperation. Along roads that straddle municipal boundaries, it can make sense for one city to collect and enforce parking meters and to share the proceeds with the other city. The cities of Clayton and Richmond Heights had a program like this from 2001 until approximately 2010, when

it was halted due to an overall decline in parking activity in the shared area.¹⁴⁵ There are numerous other locations in Missouri appropriate for shared parking enforcement services and savings.

Parks and Recreation

Ice Rinks

The Shaw Park Ice Rink is located in Clayton, a suburb of Saint Louis. Steinberg Skating Rink is within the city of Saint Louis in Forest Park. Both are staples of their communities. The major difference between the two is how they are funded. Clayton taxpayers subsidize Shaw Park's rink. Each year, Shaw Ice Rink receives government funding through the Clayton Parks and Recreation Department. Steinberg is a privately operated ice rink that pays money back to the city of Saint Louis.

Since 2010, the Shaw Park Ice Rink has received taxpayer subsidies each year to help pay for daily operations and large-scale projects.¹⁴⁶ With a season lasting approximately three months,¹⁴⁷ the rink utilizes its subsidized budget over a short period of time. While Shaw Ice Rink expects to turn a profit in 2013, the prior years tell a different story. In 2010, there was a \$14,800 subsidy for the ice rink. In 2011, it was more than \$18,000. In 2012, it was \$70,500. (Note: There was a significant facility investment in 2012 that accounts for the bulk of the increased subsidy.)¹⁴⁸

Clayton's Athletic and Facilities supervisor estimates that Shaw Park Ice Rink serves 2,750 people for public sessions each month. To serve the visitors, the rink employs 15 employees.¹⁴⁹ In addition to the rink's dedicated employees, there are other city employees who help at the rink when needed.

Although Clayton taxpayers receive a discount on admissions fees, they are still

required to pay for facilities that they already partially fund. Clayton residents pay \$3-\$5 to skate during public session (non-residents pay slightly more).¹⁵⁰ While this is not necessarily a high admission fee, residents are still charged twice to contribute to Shaw Park Ice Rink funding.

Clayton is not alone in subsidizing its ice rink. The Mackinac Center in Michigan documented how the public ice rink in Lansing lost \$85,000 in 1998 and required subsidies from general taxes.¹⁵¹ Private ice rinks in the area had been more successful, even though they had to compete with the tax-exempt public facility.

Steinberg Skating Rink is a privately operated facility within a public park. The City of Saint Louis contracts with Lasak LLC to operate the historic ice rink in Forest Park. Lasak began a new three-year contract in 2012, with optional extensions that can take the contract up to 2017. Under the current deal, Lasak is responsible for the entire operations of the ice rink. They pay the city \$25,000 per year in rent, plus 3 percent of gross profits. In the most recent fiscal year, that 3 percent agreement came to \$10,500. The company has also agreed to invest \$20,000 in capital improvements during this period.¹⁵²

Both facilities offer wonderful skating opportunities and many other amenities, including warming huts, party rooms, food sales, and more. From a municipal perspective, it would be difficult to dispute that Steinberg's operating plan is superior. The City of Saint Louis has very limited responsibility for the ice rink, and it collects regular rent and a profit percentage. Clayton has to take on the expense and risk of operating an ice rink, which in recent years has not covered its expenses (though it expects to in the future). In the City of Saint Louis, the private operator takes that risk, not taxpayers.

As a result of the change to a private operator, the city expects that the tennis center will have additional staffing, higher-quality tennis professionals, and more programs.

Between 1987 and 1995, the number of cities contracting for golf course management increased by 67 percent.

Tennis Centers

Clayton does see the value in contracting out other city operations. In 2013, Clayton contracted with a private group, Frontenac Tennis Club, to manage the city's tennis facility in the same park as the ice rink. While it is still early in the change, the Clayton Parks Department director reported in June 2013 that, "Frontenac Tennis Club is improving things from an operational standpoint; they are more visible, and running all programs/camps [...]." ¹⁵³ As a result of the change to a private operator, the city expects that the tennis center will have additional staffing, higher-quality tennis professionals, and more programs. ¹⁵⁴

While they still manage the ice rink and their city swimming pool in-house, Clayton deserves credit for doing a detailed, pragmatic analysis of their options for each service. Not every privatization possibility is going to be right for every city. For instance, in certain cities there may not be a private business or organization able to take over a service in the first place. However, when cities continually consider the option of privatization, and give it an unbiased and thorough analysis, it will often come out as the preferred route.

A private company, Apted-Hulling, Inc., has operated Dwight Davis Tennis Center in Forest Park since 2004. ¹⁵⁵ The tennis facility, named after the famous Saint Louis politician and tennis enthusiast, continues to serve as an excellent overall facility. It hosts the games of the Saint Louis Aces, a professional tennis team.

Golf Courses

Around the country, golf courses are one of the prime areas for privatization. That applies in Missouri as well. Private golf course management companies are likely to have more expertise in running a golf course than local government.

American Golf, a private company, took over management of the Forest Park public golf course in Saint Louis in 1987. This was part of a nationwide trend. Between 1987 and 1995, the number of cities contracting for golf course management increased by 67 percent. ¹⁵⁶

After assuming control of the Forest Park golf course, American Golf rebuilt the course with \$2 million of private money. Eagle Golf took over management of the course in 2002. They provide all maintenance for the course and pay rent based on their total revenue, usually about \$300,000-\$400,000 a year. Approximately 70,000 rounds of golf are played per year at the golf course. ¹⁵⁷ Another golf course in Forest Park, The Highlands (formerly known as Triple A), has long been active as a semi-private golf and tennis club within the park.

When a private company assumes management of a municipal course, cities win because they are guaranteed a certain amount of money every year regardless of the course's performance. The management company is able to increase revenue and decrease costs, which lead to better course performance. They are able to decrease costs mainly by cutting staff or depending more on the use of seasonal staff during the golf season. Golf management companies can also take advantage of the discounted supply rates they receive due to their large buying power. They are able to increase revenue primarily by increasing the speed of play and other incentives, which in turn increases the number of games that can be played in a given year. ¹⁵⁸

Chicago is another Midwestern success story in this area. According to the Reason Foundation:

In Chicago, privatized golf courses and driving ranges posted \$279,000 in net income in 1996. Kemper Sports

Management turned what was a \$530,000 operating deficit on its golf programs in 1992 into a \$550,000 profit in 1994. [...] Golf now brings in about \$400,000 a year in profits and generates another \$ 250,000 a year for capital improvements.¹⁵⁹

Detroit is another success story in golf course privatization. Detroit contracted out the management of its public courses in 1990 to American Golf. Its public courses quickly went from needing a significant city subsidy to returning more than \$250,000 a year to the city in profit.¹⁶⁰

Some communities have successfully sold golf courses. However, for a number of reasons, including the fact that selling a golf course located within a public park can be legally complicated, contracting out the management of the operation is much more common. The city of Saint Louis, for example, has severe restrictions on converting parkland into any other use. For the same reason, public swimming pools and tennis centers are outsourced much more than they are sold.

Frankly, there is no more obvious example of the benefits of privatization than outsourcing the management of public golf courses. Golf is not a public good. It is not a core function of government. Private companies that specialize in golf can offer better overall services than city governments that have more important things on which to focus. Communities throughout Missouri should follow the example of the City of Saint Louis and outsource golf course operations.

Swimming Pools

There is a long history of public swimming pools in America. According to lore, the first public swimming pool was opened in 1912 in Belmont, Mass. Private individuals constructed it.¹⁶¹ Chicago Mayor Richard M. Daley even

thought public swimming pools were a solution to the urban riots of the late 1960s. While public ownership of pools can be valuable to help ensure access to all on hot days, public operation is not necessary. Many Missouri cities have effectively contracted with private companies to operate public pools.

Since 1987, citizens of Wentzville have spent their summer days at the municipally managed Progress Park Pool. The pool stretches 50 meters long with two diving boards over a diving well, an open flume slide, and lap lanes open every day from noon to 7 p.m. from Memorial Day to Labor Day.¹⁶²

In 2010, Wentzville citizens voted to expand the parks department. The city raised a half-cent sales tax to build three new parks, including the new Splash Station.¹⁶³ This deluxe aquatic center will feature a lazy river, a beach entry pool, more lap lanes, another diving well, and another flume slide.¹⁶⁴

During the same time period, Progress Park Pool has been operating at a loss. The combination of property taxes and pool admission provides insufficient revenue to fund pool operations. The city has been using the city's general funds and the revenue from the half-cent sales tax to make up the difference.¹⁶⁵

Because Wentzville's Board of Aldermen needed to cut costs, they decided to outsource pool management to a private company. Wentzville sent out a request for proposals in March of 2013 and received five bids. A month later, the Board of Aldermen approved Midwest Pool Management's \$1.1 million bid for the four-year contract.

According to the contract, for the next four years (2013-2016), Midwest Pool Management will open Progress Park Pool at the beginning of the summer; maintain the facility, hire and manage staff, and

Privatizing Progress Park's management is projected to save the city of Wentzville approximately \$3,000 in the first year.

*Since 2005,
the Cameron
Aquatic Facility
has contracted
with the YMCA.*

handle daily operations throughout the season; and then close and winterize the pool come Labor Day. Midwest Pool Management will do the same for Splash Station once it opens in 2014.

In the first year, the city estimates that municipal management would cost about \$151,000.¹⁶⁶ Midwest Pool Management's bid was \$147,839 for 2013.¹⁶⁷ Privatizing Progress Park's management is projected to save the city of Wentzville approximately \$3,000 in the first year.

Maryland Heights has a contract with Midwest Pool Management that is very similar to Wentzville's. The Aquaport in Maryland Heights has six slides, two pools and a lazy river, a concession stand, and locker rooms.¹⁶⁸ Midwest Pool Management is responsible for everything except concessions.¹⁶⁹ Comparably, Cape Girardeau has a family aquatic center, Cape Slash, featuring four slides, three pools and a lazy river, a concession stand and pavilion, and a bathhouse with lockers, all managed and maintained by the city.¹⁷⁰

Although its management is privatized, Maryland Heights spends more on the Aquaport than Cape Girardeau spends on its publicly managed Cape Splash. In 2012, Cape Girardeau budgeted \$438,489 for pool expenses,¹⁷¹ and Maryland Heights planned to spend \$493,570.¹⁷² Maryland Heights is apparently very satisfied with its private management, though, as Midwest Pool Management has managed its Aquaport since it was built in 1998. The Cape Girardeau municipal management may well be operating very cost-effectively. The budget comparison seems to indicate that, although we do not know enough about either pool to say that definitively. But, if Cape Girardeau has not done so already, there is no reason not to get

a bid from a local pool management company to see if it can save the taxpayers money.

Unlike Wentzville and Maryland Heights, the city of Cameron privatizes only part of its pool management and runs part of it publicly. Since 2005, the Cameron Aquatic Facility has contracted with the YMCA. The city of Cameron's outdoor pool is open from 11 a.m. to 7 p.m. daily during the summer.¹⁷³ There is a lagoon pool with a slide, and the pool provides kickboards and a pace clock for swimmers who use the lap lanes in the morning.¹⁷⁴

Cameron YMCA manages personnel and staff, and the city of Cameron is responsible for the facilities, utilities, and upkeep. This includes water, electricity, pool chemicals, and equipment that the YMCA's employees use to maintain the pool, deck, bathhouse, and office.¹⁷⁵

Whereas Wentzville's and Maryland Heights' contracts with Midwest Pool Management are written in fixed terms, the Cameron YMCA and the Park Board split profits in proportion of expenses paid out.¹⁷⁶ This incentivizes both parties to minimize direct and indirect expenses. Before contracting with the YMCA, the city of Cameron spent \$83,024.97 on pool expenses (2003-2004). After signing with the YMCA, the city's estimated pool expenses dropped to \$40,800 for the upcoming year (2005-2006).¹⁷⁷ In the 2010-2011 fiscal year, total pool expenses for the city of Cameron were only \$24,860.26.¹⁷⁸

Trails

The Katy Trail traces across 237 miles of scenic Missouri. Patrons of the trail can bike, hike, or horseback ride through stretches of the trail, and enjoy the amenities of the approximately 50 communities along the Katy Trail. Each community offers a variety of services,

from simple options such as water fountains to luxurious winery tours. All of the many amenities along the trail — other than the restrooms and the bike trail itself — are provided through the private business sector.

These towns are success stories for why the government does not need to provide all of the amenities within a parks system. Business owners and entrepreneurs identified a great opportunity to provide visitors with diverse services. Those services include bed and breakfasts, bike sale and repair shops, restaurants, and much more. By allowing for private ownership of amenities, taxpayers do not carry the burden of providing non-essential services. We all recognize that wonderful things that can come from a great park system. But like several amenities in Forest Park in Saint Louis, the Katy Trail is a great example of how the private sector can provide many services within a park system.

Parks

Private parks are rare in Missouri. They do exist, however. Since 1941, a non-profit organization, the James Foundation, has owned and operated Maramec Spring Park in Saint James.¹⁷⁹ The beautiful natural spring and surrounding park area is open to the public for camping, fishing, and more. The James Foundation charges fees for use of the park's facilities in order to maintain it.¹⁸⁰

National Forests

Across the country, the services and concessions provided within the National Forests are being placed in the hands of private business owners. Each individual Forestry Service chooses the business plan that best suits their needs, but nevertheless, the attractions and services are becoming less supported through tax dollars and more through user fees and private business activity.

The Mark Twain National Forest, located mostly in southeastern Missouri, issued a prospectus in 2011. The Forestry Service was in search of private businesses and individuals to provide the day-to-day functions of nine campgrounds, including their respective recreation areas and one rental cabin.¹⁸¹ The applicants were considered under specific requirements, and those selected are under a contract as 'concessionaires.' Even Mark Twain National Forest Supervisor David Whittekiend advocates the benefits that arise from private management of government-owned land:

“Concessionaire campground managers that have the responsibility for one or two campgrounds are able to spend more time in the campgrounds and are more available to campers than Forest Service employees... This is an opportunity to team up with private individuals or companies to provide quality recreation settings.”¹⁸²

Under the concessionaire contract, the National Forest Service ensures the protection and preservation of the land and wildlife through clauses and regulation.¹⁸³ Along with specifics on how to protect the National Forest site, the National Forest Service outlines appropriate options that the concessionaires can choose to allow for a potential profit. This can be done through patron fees such as parking or camping charges. The contract lasts for five years with the option to extend for another five years if all parties agree.

Obviously, the Mark Twain National Forest is a federal, not state, entity. Nonetheless, the concessionaire contracts within the forest are an excellent example of the many ways, at all levels of government, that taxpayers and customers can benefit from privatization.

All of the many amenities along the trail — other than the restrooms and the bike trail itself — are provided through the private business sector.

Since 1941, a non-profit organization, the James Foundation, has owned and operated Maramec Spring Park in Saint James.

Municipal Bands

In Missouri, some localities have taken different approaches to encourage musical ventures. One method has been to fund a band through a direct property tax, like in Hermann, Cameron, and El Dorado Springs. Another approach has been to find funding through private, nonprofit operations and direct grants for the arts.

A property tax of \$0.01 per \$100 of assessed valuation is applied to residents of Hermann to support the Municipal Band of the City of Hermann. The collected revenue from the Municipal Band Tax is transferred directly to the Band Fund, which must only be used to “administer [their] own financial and business affairs.” Hermann’s ordinances also outline what the fund cannot be used for, such as “voluntary contribution, donation, or diversion into another fund.”¹⁸⁴

Hermann has a contract with the Hermann Municipal Band to play three concerts each year to celebrate “occasions of public importance:” Memorial Day, the Fourth of July, and the first Sunday in August. Once the city and the band accepted the contract of concert dates, the band fund began to receive appropriations, and will continue to until the band no longer upholds the contracted three concerts. Through this season, each of the approximately 40 members is paid \$1.50 per practice and \$5 per concert.¹⁸⁵

In 2012, through tax collection, the Hermann Municipal Band was allotted \$3,890 from the city for their budget. After providing for their band members’ salaries and other necessary operation expenses, the band spent \$3,830.68. That equates to approximately \$1,275 for each concert.¹⁸⁶ If the expenses were allotted equally between each concert given by the Herman Municipal Band, each performance would have cost the taxpayers of Hermann a total dollar

amount of \$1,276.89 even if none of the residents attended the event.

Cameron’s local band tax is much higher than Hermann’s. The Cameron rate, as of 2011, was \$0.083 per \$100 of assessed valuation. That rate will cost you \$16 per year on a \$100,000 home.

Most cities have not chosen to use the taxing power for local bands. The Compton Heights Concert Band provides the City of Saint Louis with quality concert band music. The band is a privately funded, nonprofit organization whose base is in the South Saint Louis neighborhood of Compton Heights. Unlike Hermann’s municipal band and other taxpayer-funded bands in Missouri, Compton Heights Band fundraises with twice-weekly bingos at a hall that they own and sublet as another form of income. While Compton Heights Band does receive some government-funded grants, the grants are from grant funds specifically apportioned for the arts. In 2012, Compton Heights received \$11,221 in grants from the Regional Arts Commission¹⁸⁷ and \$7,043 from the Missouri Arts Council.¹⁸⁸ Importantly, the Compton Heights Band could (and formerly did) exist without tax dollars or grants.

Compton Heights Band is an expanding organization with three different concert series (hour-long concerts per series), a bingo hall, and a church and rectory, which they hope to renovate into a concert hall.¹⁸⁹ Through private donations, fundraising, and art-specific grants, Compton Heights Band has been able to not only succeed as a local mainstay, but has been able to grow into a thriving organization.¹⁹⁰

Though the Hermann Municipal Band provides the community of Hermann a valuable service, there is no reason that the community band could not be funded

through the private sector or art-specific grants. As described, the Compton Heights Band provides a greater variety of services to its community and the surrounding areas and is not a tax burden on area residents. (Admittedly, the \$0.01 property tax in Hermann is very low and not really a “burden.”)

Grants focused on the arts in general are a better way to fund local band performances than dedicated taxes. Yet, the better way is to focus entirely on private donations and admission fees. By using the latter model, community bands would still perform, but taxpayers who do not utilize the service are not forced to pay for it. There are hundreds of music halls and concert venues in Missouri. There is no reason for local governments and taxpayers to fund community bands when private organizations have been providing wide varieties of music around the state for years.

Utilities

Utility provision varies greatly in Missouri. Springfield, Columbia, Kirkwood, and Independence have primarily public (government) utilities. Private utilities primarily serve the City of Saint Louis, Kansas City, Joplin, and Jefferson City.

Springfield and Saint Louis County represent the extremes. In Springfield, all three major utility services (gas, electric, water) are combined under one government organization: City Utilities. In Saint Louis County, almost every utility for both the unincorporated and incorporated parts of the county is privately provided.¹⁹¹

While most of Saint Louis County has always had private water, some of the municipalities located along rivers had operated public systems. In 2002, two of those cities privatized their water systems. Florissant, the largest city in the county, and Webster Groves, one of the

larger cities in the county, both divested their water systems in separate sales to Missouri-American Water Company. Florissant received \$14.5 million for its system. Webster Groves received \$9.5 million. Other cities or counties that have privatized either all or parts of their water divisions over the past two decades in Missouri include Jefferson City (2008), Valley Park (2001), and Buchanan County (1992).¹⁹²

Florissant took its \$14.5 million and immediately budgeted \$2,758,000 for street repairs, police projects, and public works projects. It deposited \$10 million into a newly created special reserve fund, which served the city for several years after the sale of the water division. The remainder was placed into the city’s existing reserve fund. According to a 2007 city memorandum, “The timing of the sale of the water distribution system was extremely fortuitous and gave the city the cushion necessary to work through the dramatic drop in revenue without correspondingly dramatic service cuts.”¹⁹³

While prices, on average, are lower for public utilities, that is largely due to advantages in taxation, capital, and regulation that governments have granted public utilities.¹⁹⁴ Another reason for lower average rates are the political gains politicians have for keeping rates low,¹⁹⁵ even if that impedes necessary investments in the system. Furthermore, it is no guarantee that prices for private firms are higher. For instance, the electric company that serves Saint Louis, AmerenUE, charges lower rates than City Utilities in Springfield.¹⁹⁶ (To be fair, both are very low compared to other cities.) Private utilities face higher costs in taxes and regulations, but make up much of those costs through increased business efficiency.¹⁹⁷

Wallace and Junk wrote a 1970 paper on the economics of municipal electrical

“Concessionaire campground managers that have the responsibility for one or two campgrounds are able to spend more time in the campgrounds and are more available to campers than Forest Service employees...”

Through private donations, fundraising, and art-specific grants, Compton Heights Band has been able to not only succeed as a local mainstay, but has been able to grow into a thriving organization.

utilities. While the paper focused on municipal electricity nationwide, it paid special attention to the then, and now, city-owned Columbia electrical utility. Wallace and Junk concluded that the tax benefits given to government-owned utilities caused too many small, municipal utilities to produce their own power instead of buying it from larger electrical providers (either public or private).¹⁹⁸ Wallace and Junk's paper remains relevant. Hannibal stopped producing its own power in 1973 (around the time of the Wallace and Junk study) and began purchasing power from private power companies to redistribute itself within the city limits.¹⁹⁹

To return to Florissant, by 2010 (eight years after the water division sale) the average home water bill there had only increased 29 percent, or just 4 percent per year, after adjusting for inflation.²⁰⁰ (Without adjusting for inflation, the increase over eight years was 57 percent, or 7 percent per year.) Considering, again, the taxes that Missouri-American Water pays and the more strict regulatory rules it complies with, the average annual \$65 increase is not unreasonable.

Another benefit to both cities was that the assets of the water division after the sale went onto the tax rolls. Private utilities are generally among the largest property taxpayers within any community. Residents may pay more with private utilities, but they have lower general property taxes as a result.²⁰¹ Just as important, cities with public utilities can auction them off at high prices to benefit their residents.

The Public Service Commission and the Department of Natural Resources, along with the applicable federal agencies, regulate private utilities in Missouri. Private utilities are actually more heavily regulated than public utilities, even though both are monopolies.

Until technological improvements or other changes can bring more competition into these utilities, there is certainly a role for government as a regulator. But beyond that, private utilities are fully capable of providing the gas, electricity, and water that Missourians need. Kansas City and Saint Louis need to carefully consider auctioning off their water divisions, and Springfield should contemplate breaking up and auctioning off City Utilities.

Libraries

Library privatization is not realistic in most of Missouri, primarily because of the structure of libraries in Missouri. Like fire services, there are a number of ways to organize libraries here. The most common way to organize a library in Missouri is to create an independent government system with its own board and taxing authority. Those boards are unlikely to privatize their one and only purpose: operating the local library.²⁰²

Outside of Missouri, libraries are commonly a department within city or county government. When that city or county needs to cut the budget, the library faces reductions like any other department, and in some instances, the local government considers privatization. In Missouri, the Hancock Amendment gives the library district authority to raise taxes without a public vote in periods of declining assessments, which shields many districts from the most difficult fiscal choices.

The largest private library management in the United States is Library Systems & Service, LLC (LSSI). It is the fifth-largest library system in the country, behind only Los Angeles County, New York City, Chicago, and Los Angeles city. LSSI manages 14 library systems with 63 locations around the country.²⁰³ Cities primarily contract with LSSI to

take over management of local libraries in order to cut costs. LSSI accomplishes this by reducing staff, especially union employees, and switching from pensions to 401(k) benefit plans. When libraries are outsourced around the country, it usually generates a great deal of controversy.

While it is not the norm, there are some locations in Missouri that operate their local library as a dependent division within municipal government. For those cities or counties, privatization (via outsourcing) is an option. Farmington is one such example. In 2011, Farmington had a municipal library budget of \$289,200.²⁰⁴ If the city of Farmington were to have budget issues, outsourcing to LSSI (or another firm) could be a consideration to save money. Unlike independent library districts, the city council in Farmington would have to consider the budget of the library just like the budget of any other department. Instead of waiting for some budget problem forcing Farmington to make hard decisions, it would be even better if Farmington considered the LSSI option during positive budget times.

In 2007, the city of Moorpark, Calif., pulled its library out of the Ventura County system and instituted a municipal library. They outsourced the management of the new system to LSSI. The city renewed the five-year contract with LSSI in 2012 and currently pays the company \$452,490 per year to manage the library. This type of outsourcing is becoming more common around the country, but has yet to occur here in Missouri, for the previously stated reasons. (It is also now more difficult in California due to changes in the laws that were passed with the support of public employee unions.²⁰⁵)

Another example is Riverside County in California. It was the first local government in that state to contract with

LSSI, doing so in 1997. In 2010, the county released a report about the status of the partnership with LSSI. According to that report, in the first year, LSSI reduced operating costs by \$900,000 and expanded library hours by 36 percent. At the five-year mark, LSSI had more than doubled library hours, significantly expanded the computer system, and made many other improvements. Needless to say, the county report on the agreement with LSSI was overwhelmingly positive.²⁰⁶

LSSI accomplished these service improvements and cost savings by instituting new technology like radio frequency identification on the books to allow for faster checkout, by switching to a merit-based system of salary raises, and many similar changes. Interestingly, no county employees were laid off at the time of the library privatization.

While there is no organized system of private libraries, they do operate in Missouri. Private libraries have long served Taney County, home of the fast-growing Branson area. It is one of three counties in the state without a public library system.²⁰⁷ In April 2013, voters in Taney County rejected an attempt to institute a property tax to support a public library system in the county.²⁰⁸ With the rejection of the tax, Taney County residents will continue to have only private libraries. Judging by the vote, which was heavily against the tax (65 percent opposed), the private libraries are meeting the needs of the residents.

Generally speaking, many private libraries have a religious component to them, such as the well-known Christian Science Reading Rooms.

Public Works

Public works is one of the areas of local and state government that most commonly interacts with the private sector. Engineering, construction, and architectural firms all

Florissant received \$14.5 million for its system. Webster Groves received \$9.5 million.

routinely bid on government contracts for a wide variety of items. Likely every government in Missouri has used private firms for some type of public works or road project. For larger organizations, such as MoDOT, Kansas City, or Saint Louis, the amount of contracting for such projects is enormous. It is imperative to maintain proper oversight for any of these outsourced engineering projects. Rockwood School District in Saint Louis County developed a continuing business relationship with a contractor that violated good government principles by not ensuring public bids and other violations of public trust.²⁰⁹

PRIVATIZATION FAILURES IN MISSOURI

Not every privatization story is a success. It is important that government have the ability to end the deal if it is not working out (with proper notice, arbitration, or whatever is agreed to in advance). Kansas City ended the animal shelter privatization contract with a private veterinarian due to complaints about animal treatment, even though the accusations were not proven.

University City had outsourced the management of its municipal golf course, but took it back in-house after it instituted a profitable driving range at the location. Whether or not these two cities should have ended the privatization deals or not, what is important is that city hands are not improperly tied as they represent the interests of their citizens. Privatization deals, whether sales or outsourcing, should be done in a fully transparent manner, involve competitive bidding, be for a limited period of time, and subject to required re-bidding at certain junctures. While a sale may seem permanent, the contract should involve the rights of governments to take back the asset in certain situations, and eminent domain is always a possibility

in extreme situations. The standard outsourcing contract should be for about five years, though much longer terms may be justified for particularly large infrastructure privatization projects.

While Webster Groves and Florissant privatized their water systems, other cities in Missouri have chosen not to. Mexico, Auxvasse, Kirkwood, Knob Noster, and O'Fallon have all considered water or sewer utility sales but declined.²¹⁰ In the case of O'Fallon, the city actually brought the water utility back under city operation after years of outsourcing.²¹¹

In 2012 and early 2013, North Kansas City considered but chose not to investigate the sale of its municipal hospital to a for-profit company.²¹² The city is still considering the transfer of the hospital from government ownership to an independent, non-profit hospital. The state senator who led the efforts against the sale of the hospital has made it clear he is not opposed to the privatization of the hospital as a non-profit entity outside of city control. As this paper has previously said, there is a great deal of room for non-profit operation of public services that would be considered privatization.

In 2011, Maryville passed the necessary legislation and approved a contract with a private company to operate the city-owned trash transfer station. However, the private company was unable to meet its part of the contract and the city maintained control of the operation.

As of the time of publication, Kansas City is planning on returning operating control of the Kansas City Museum to the city and taking control away from the non-profit organization that had been independently operating it.²¹³ The relationship between the city and the non-profit has been contentious over the years. It appears that the city will re-take management in 2014. This may

Private utilities are actually more heavily regulated than public utilities, even though both are monopolies.

be as close to a privatization “failure” as Missouri has seen, but it will be difficult to conclusively state that until a long-sought audit of the museum is completed. In any event, it appears to be an example of a public entity re-taking authority from a private partner where the agreement is not working out in the best interest of the public.

Department of Motor Vehicles fee offices around the state were discussed earlier. For decades, that system has been fully private in Missouri. Private contractors have been given — sometimes through bidding but often not — the right to operate the facilities around the state where people obtain their driver’s license, renew their vehicle plates, and other famously frustrating annual tasks. The only real requirement that mattered to operate a fee office was to be a strong supporter of the current governor. The system has long been the target of criticism.²¹⁴ In recent years, governors of both parties have attempted to improve the system, but patronage still has an influence in it.²¹⁵

As stated previously, the problem with the system is not the private aspect. There are no objections to the recent choices to grant local non-profits the right to operate their local fee offices. There are few objections to operating rights granted by the more transparent bidding systems used recently. People justifiably objected to the rank patronage that the government of both parties used to rule the system for most of the 20th century. The fee office system in Missouri is getting better, but the reforms need to go further. Privately operated fee offices are fine; political influence over who gets the very profitable operations is the issue.

There have been examples of failed or poorly done privatization efforts elsewhere. Privatization opponents often cite Atlanta’s water division privatization and Chicago’s parking meter privatization

efforts, with good reason. Atlanta’s water privatization was poorly planned from the beginning and resulted in the city re-taking control of the system. Chicago’s parking meter plan may be improving slowly, but it has caused a great deal of anger and confusion in the city.

Many of Saint Louis’ historic private streets are moving to public control, but in most instances, private companies will still maintain them. Only the name on the contract will be different. That is a change of time and preferences, not a failure of privatization.

When done carefully and with proper public input and notice, privatization efforts usually succeed. Price increases after privatization do not mean it has failed. Sometimes those increases are necessary after the service had previously been underpriced or subsidized for political purposes.

The author is not aware of any large-scale privatization efforts in Missouri that have been enacted and failed.²¹⁶ The Branson airport may not succeed in the end, but that would be a failed business attempt, not a failure of privatization. The group home fire in Joplin was a terrible event, and the owner went to prison,²¹⁷ but that was a tragedy, not a policy failure. Governors of both parties have continued to expand the group home privatization program even after that awful event.

OPPORTUNITIES FOR EXPANSION OF PRIVATIZATION IN MISSOURI

There are many opportunities for privatization in Missouri government at all levels. The first question citizens and officials need to ask about any service is whether or not it is a core function of government. If it is not, then the government should devolve out of that service and leave it to the private sector

The largest private library management in the United States is Library Systems & Service, LLC

Private libraries have long served Taney County, home of the fast-growing Branson area.

or, at a minimum, contract with the private sector to operate the service.

Examples of services that governments in Missouri would almost certainly be better off privatizing include: fleet management, municipal bands, municipal television stations, homeless shelters, and specialized recreation management. More public officials need to remember the “Yellow Pages” test discussed earlier. If there are private businesses within a community able to support a service, it will generally be better for them to offer the service instead of the government. Within recreation management, facilities such as golf courses and swimming pools will often be located within public parks. That will make outsourcing the management of the facility a better option in most cases than full privatization. Most cities or counties will not, and should not, sell a city park. (Full privatization can be considered in cases where the golf course or other asset makes up the entirety of the location.)

If the service is not a core function of government but it is a very important function, then state or local officials need to consider how to best have the private sector provide the service with some level of regulation. Utilities are the most obvious example of this. Recently, the City of Saint Louis was debating whether to contract with the water utility Veolia to consult on the city’s water division. (Neither sale of the water division nor a full outsourcing of the water operations were under consideration.) Unfortunately, opponents to the deal succeeded in delaying the proposed contract to the point where Veolia pulled out of negotiations. The city will miss out on the expertise of the private sector and Veolia’s fresh ideas on how to better operate the city’s water division.

Bus transit, emergency services, public health pharmacies, and trash collection are other

areas where the private sector is well equipped to provide the service, but where government will generally have an oversight and regulatory role. (That “regulatory” role need not be complex. It can be as simple as putting the contract out for bid every few years and then enforcing the requirements of the contract.)

We have focused in this study on opportunities that are “front-office” type work that citizens can see and judge. There are also many opportunities to contract for all types of municipal administrative support services, such as risk management, information technology, printing, and human resource services. Many Missouri counties and cities likely already outsource some or all of these administrative duties. Like more visible privatization choices, the decision should be based primarily on cost savings and allowing government employees to focus on core governmental duties.

Not every privatization consideration is right in each circumstance. In some places, the local factors will change what is the right move for cities and counties. However, other than key public safety roles such as police, sheriff, jails, and fire protection, cities and counties in Missouri can outsource or fully privatize most functions of government. The question is not, “What can local governments privatize?” but “What can’t local governments privatize?”²¹⁸

FACTORS NECESSARY TO MAKE PRIVATIZATION SUCCESSFUL

Missouri cities and counties have experienced a number of very successful privatization efforts. It would be difficult to argue against the results of the Forest Park golf course outsourcing, the Saint Louis County pharmacy contract, the Florissant water division sale, the Kansas City private trash contract, the Benton County health department fleet management change, the Chillicothe animal control contract, and other

examples provided in this study. That is not to state that privatization is the right decision in every case, nor that every privatization attempt has been successful.

Successful privatization efforts have a number of factors in common.²¹⁹

Whatever the proposal being considered, it should be done in a comprehensive and careful fashion. Those positive privatization factors include:

- **Transparency** — The proposal should have full public input and be conducted via competitive bidding with reasonable contract lengths. If a privatization proposal is agreed upon, it should also require measureable data to be kept and publicized for taxpayers and citizens to judge it fairly.
- **Competition** — It is the use, or, at a minimum, the threat, of competition that improves performance. Private operators in a privatization proposal need to know they will be replaced if they do not perform up to expectations. That competition can come from other private sector companies or the public sector. Finally, the knowledge of future real oversight is important.
- **Risk** — If the private sector has no financial risk in the privatization program, it will not have the fear of loss that drives efficiency in the first place. Private operators need to know their money is at risk, not just taxpayer money.
- **Neutrality** — The proposal should be based on fair performance measures and reasonable guidelines that involve as many potential bidders as possible. This includes public sector employees who should be encouraged to also demonstrate their suggestions that may cut costs or improve services.
- **Expertise** — The governments involved in the privatization proposals need to either foster the in-house expertise or independently hire knowledgeable

parties to represent the taxpayers' interests in the negotiations over the proposal. Governments need to avoid the situation where one politician and one bureaucrat are negotiating with a corporate phalanx of lawyers, accountants, and financiers.

- **Monitoring** — Finally, the government must enforce the demands and regulations included in the contract along with a reasonable system for making adjustments to the contract if necessary. As part of the contracts, proper data recording should be required (e.g., ambulance reporting statistics).

CONCLUSION

Cities and counties throughout Missouri have successfully used privatization of government services to save money and improve services in their communities.

This case study has documented a few dozen examples of that; there are certainly more. The goal of this case study is not to privatize every fire department, library, and water division in Missouri. Its purpose is not to switch every municipal government in the state to the Sandy Springs, Ga., total privatization model (as much as the author may admire that model). This study is not about unrealistic aspirations.

The purpose of this study is to present to city managers, elected officials, and citizen activists around the state examples where certain governments see that services are provided in a manner that is different from the standard one. Privatization needs to be a larger consideration within Missouri state and local governments, whether it involves outsourcing to private management firms, contracting with non-profits, or outright sale of non-core government assets. This study seeks to inform policymakers and local citizens about privatization options. The aim here is to make more people aware of the very real possibilities that privatization brings to Missouri residents and taxpayers. The

The state senator who led the efforts against the sale of the hospital has made it clear he is not opposed to the privatization of the hospital as a non-profit entity outside of city control.

Successful privatization efforts have a number of factors in common.

Online Privatization Resources

The Show-Me Institute has created <http://showmesunshine.org/blog/2014/02/missouri-privatization-documents.html> to display online versions of several documents relating to privatization. The Final Report of the 2004 Missouri General Assembly Subcommittee on Competition and Privatization is posted there. We have also posted copies of contracts for several of the privatization efforts referenced in this study. We hope that those contracts can serve as samples to cities or counties initiating privatization proposals that may not have much experience in the area.

private sector can save money, it can expand services, and it can sometimes do both for certain public services.

More local officials need to know that contracting with private fleet management companies is a legitimate option for their city, town, or county. There are dozens of other areas just like fleet management that each local government in our state should investigate. When they choose to look at all the options, sometimes privatization will be the right one. Sometimes it will not, but perhaps considering a change will allow for the public sector to improve services without it. When more Missouri policymakers and officials look at the many possibilities privatization offers, all Missourians will come out ahead.

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APPENDIX ONE

MISSOURI STATE LAWS RELATING TO PRIVATIZATION

Missouri Constitution

Article 3, Section 38(a) Restricts granting of public money to private people or corporations. Obviously, lawyers, et al, have figured out a multitude of ways around this restriction, i.e. Tax Increment Financing.

Article 3, Section 39 Restricts granting of state money or credit for individual, municipal, or corporate claims or liabilities.

Article 4, Section 30(b) Authorizes the state road fund. Toll roads are not listed as one of the permissible activities of the fund, and as such toll roads along Missouri state highways are unconstitutional, according to the state Supreme Court. (Pohl v. State Highway Commission (Mo.), 431 S.W.2d 99.)

Revised Missouri Statutes

56.060 and 56.067 Prohibits private prosecuting attorneys and requires them to be full-time public employees in larger counties. (This statute applies to counties, not cities.)

56.445 Applies the rules against private practice of law for county prosecutors to the circuit attorneys within the City of Saint Louis.

226.003 Prohibits MoDOT from contracting with private companies to operate interstate public areas, such as gas stations, truck stops, and restaurants. (The statute prevents MoDOT from contracting with private companies. It does not prevent private companies from operating those types of services. Indeed, that is the only way those services are provided in Missouri.)

362.015 Prohibits private banks. (In other words, all banks must be incorporated and I cannot just establish my own bank tomorrow.)

The following statutes specifically authorize state departments to contract with private companies or individuals for various services: 8.325, 8.530, 21.475, 71.530, 71.540, 71.680, 140.850, 162.735, 166.205, 199.009, 210.481, 313.004, 313.322.

71.525 protects private utilities from being taken by eminent domain by governments seeking to compete with them.

This is a partial listing. The primary source is the Final Report by the Missouri General Assembly Subcommittee on Competition and Privatization, 2004, Appendix C, Online at <http://showmesunshine.org/blog/2014/02/missouri-privatization-documents.html>.

APPENDIX TWO

Summary Table of Local Government Privatization Results In Missouri Discussed in this Study

Government	Service	\$ Savings / Sale	Description	Page
Benton County	Fleet Management	\$38,655	Savings from outsourced health dept. fleet	22
Branson	Airport	Not applicable	Service has always been private	18
Cameron	Pool	\$58,000	Savings from contracting with local YMCA for pool management	28
Canton Port Authority (Lewis County)	Ferry	No state operating subsidy required	Ferry has received some federal grant money	23
Cape Girardeau County	Ambulance	Not applicable	Service has always been private	10
Chillicothe	Animal Control	Revenue sharing agreement with city	Contract with local humane society to operate shelter	12
Clayton	Tennis Center	Unknown: Started in 2013	Services have been expanded.	26
Florissant	Water Utility	\$14.5 million sale	Sale of water division in 2002	31
Independence	Bus Service	40% increase in service area	Increased service area and hours without increased costs	20
Independence	Trash	Not applicable	Service has always been private	17
Kansas City	Animal Control	\$40,000 in 2012	Savings after contracting with non-profit	11
Kansas City	Trash	\$27.14 per household annually	Annual savings compared to city haulers	17
Lake Ozark area	Toll Bridge	No tax dollars required	Toll authority is a public, not private entity	20
Poplar Bluff/ Butler County	Ambulance	Not applicable	Service has always been private	10
Saint James	Park	Not applicable	Private ownership of major area park	29
Saint Louis City	Band (Compton Heights)	Not applicable	Band does receive some taxpayer grant funds	30
Saint Louis City	Golf Course	\$300,000-\$400,000 annually in rent	That is the rent the private golf course operator pays the city, instead of the city paying to operate the golf course	26
Saint Louis City	Ice Rink	\$35,500 per year in rent payments	Ice rink requires no subsidy from the city	25
Saint Louis County	Pharmacy	33% cost reduction from 2002 to 2012	Savings after privatizing public pharmacy services	14
Saint Louis County	Utilities	Not applicable	All utility services in Missouri's largest county have long been privately provided, except for Kirkwood and Eureka	31
Taney County	Library	Not applicable	Service has always been private	33
Webster Groves	Water Utility	\$9.5 million sale	Sale of water division in 2002	31
Wentzville	Pool	\$3,000	Savings from outsourced pool management	27

NOTES

¹ This can be confusing, especially with utilities, because “private” operators are often “publicly” traded companies.

² Unless otherwise noted, all listed cities in this study are located in Missouri.

³ While many streets and supplemental security services are still private, the private sewers were incorporated into a government system several decades ago.

⁴ The Blue Ribbon Citizens Committee on Missouri’s Transportation Needs, Final Report, December 2012. View online here: http://www.house.mo.gov/billtracking/info/BRC_Report.pdf.

⁵ Gilroy, Len, and Adrian Moore. “Ten Principles of Privatization.” Reason Foundation. July 2010.

⁶ Segal, Geoffrey, and Adrian Moore. “Frequently Asked Questions About Water / Wastewater Privatization.” Reason Foundation. Policy Brief No. 26. September 2003.

⁷ We are referring to financial risk here. Obviously, police work entails substantial physical risk. As for competition, there can be some level of beneficial competition between agencies, but that is the exception, not the standard.

⁸ Bel, Germa, and Mildred Warner. “Challenging Issues In Local Privatization.” *Environment and Planning C: Government and Policy*, page 1. 2008.

⁹ Hebdon, R., and Jallette, P., as presented in Bel and Warner, p. 4.

¹⁰ Warner, Mildred, and Robert Hebdon. “Local Government Restructuring: Privatization and Its Alternatives.” *Journal of Policy Analysis and Management*. Vol. 20, Issue 2, Spring 2001, pp. 315-336.

¹¹ Lopez-de-Silanes, Flerencio, Andrei Shleifer, and Robert Vishny. “Privatization in the United States,” *The RAND Journal of Economics*. Vol. 28, No. 3 (Autumn 1997), pp. 447-441.

¹² Saint Louis NPR. View online here: <http://news.stlpublicradio.org/post/blunt-push-es-sale-mohela>.

¹³ Missouri Council on Efficient Operations. “Bearing Down on Efficient Public Service.” September 1996 report.

¹⁴ Ibid, p. 8.

¹⁵ Chi, Keon, Kelley Arnold, and Heather Perkins. “Privatization in State Government: Trends and Issues.” *Spectrum: The Journal of State Government*, Fall 2003, p. 13

¹⁶ Ibid, p. 16.

¹⁷ Missouri Executive Order 04-09.

¹⁸ AFSCME Council 72 newsletter, July 2005. View online here: <http://www.afscmecouncil72.org/newsletter0705.pdf>.

¹⁹ *Joplin Globe*, December 4, 2006. View online here: http://www.joplinglobe.com/guest_house_fire/x212035700/-img-src-http-www.joplinglobeonline-com-onlineextra-jpg-border-0-font-color-ff0000-VIDEO-MP3-AUDIO-font-Monday-Nov-27-4-37-p-m-Deadly-blaze-kills-10-injures-19/print.

²⁰ Ibid (this determination is made from the dates given for various state actions in the article).

²¹ E-mail to the Show-Me Institute on Aug. 7, 2013, from the Missouri Department of Mental Health.

²² E-mail to the Show-Me Institute on Sept. 11, 2013, from the Missouri Department of Social Services.

²³ Comments from Missouri Sen. Scott Rupp. View online here: http://www.stltoday.com/news/local/metro/bill-to-close-habilitation-centers-in-missouri-ignites-debate/article_48c4bab1-1d73-50fd-b2ea-461d7ee7c082.html.

²⁴ Kohler, Jeremy. “State shuts Northwest Hab Center as part of effort to move residents to group homes.” *St. Louis Post-Dispatch*. November 27, 2012. View online here: http://www.stltoday.com/news/local/govt-and-politics/state-shuts-northwest-hab-center-as-part-of-effort-to/article_f8a2b929-ff9e-57cf-acbecf938e00ce22.html.

²⁵ At least 10 states have closed all of their public care homes. View source online here: <http://stlouis.cbslocal.com/2012/11/27/northwest-habilitation-center-in-overland-closes/>.

²⁶ There are, no doubt, several more copies taking up space in filing cabinets or storage lockers somewhere in central Missouri.

²⁷ Missouri Subcommittee on Competition and Privatization, “Final Report.” Appendix M. December 2004. Available at <http://showmesunshine.org/blog/2014/02/missouri-privatization-documents.html>.

²⁸ Missouri Accountability Portal. View online here: <http://mapyourtaxes.mo.gov/MAP/Portal/Default.aspx>.

²⁹ Missouri Reps. Cole McNary and Paul Curtman have chaired that committee.

³⁰ The author has driven both highways before and after privatization on numerous occasions.

³¹ Savas, E.S. “Privatization Initiatives.” School of Public Affairs, Baruch College, City University of New York. 2001.

³² McMahon, E.G. Manhattan Institute for Policy Research, Civic Report No. 47. November 2005.

³³ Reason Foundation, et al. “Privatizing Yellow Pages Government.” View online here: http://reason.org/files/pennsylvania_yellow_pages_privatization.pdf.

³⁴ “Indianapolis Mayor Stephen Goldsmith.” *Government Technology: GT Issues*. June 30, 1995. View online here: <http://www.govtech.com/magazines/gt/Indianapolis-Mayor-Stephen-Goldsmith.html?page=2>.

³⁵ Hai-Chiao Chang, et al. “Managed Competition in Indianapolis: The Case of Indianapolis Fleet Service.” School of International and Public Affairs, Columbia University. December 2005.

³⁶ Mack, Kristen. “Emanuel’s ‘managed competition’ push goes into full swing on recycling pickups.” *Chicago Tribune*. Sept. 30, 2011.

³⁷ Gilroy, Len. “Local Government Privatization 101.” Reason Foundation. March 2010.

³⁸ Segal, David. “A Georgia Town Takes the People’s Business Private.” *The New York Times*. June 23, 2012.

³⁹ Ibid.

⁴⁰ 2012 United States Census of Governments. The author reduced the city number by three due to three municipal disincorporations in Missouri since the data was collected. The number of special districts has certainly increased by an unknown number since then with the growth of Community Improvement Districts and Transportation Development Districts in Missouri.

⁴¹ There are many examples given where the financial data was not possible to acquire. Reasons include: the data was not made available, the transaction was a long time ago, the government involved does a poor job of record keeping, and more.

⁴² E-mail to the author from MARS. May 30, 2013.

⁴³ Doyle, Jim. “Hospital-operated ambulance service has community’s back.” *St. Louis Post-Dispatch*. Aug. 3, 2013.

⁴⁴ Rural Metro entered into bankruptcy in August 2013. They are maintaining that the bankruptcy is strictly to get their debts restructured, and that no services will be impacted. View the source for their service areas in Missouri online here: <http://www.ruralmetro.com/locations.html#MO>.

⁴⁵ Moyers, Scott. “Minutes matter: Cape fire chief pushes to add ambulance service to department.” *Southeast Missourian*. Aug. 12,

2011. View online here: <http://www.semisourian.com/story/1752690.html>.
- ⁴⁶ Budget data sent in e-mail to author from Cape Girardeau County Auditor. Sept. 10, 2013.
- ⁴⁷ Cox Health Ambulance information page: <http://www.coxhealth.com/body.cfm?id=3939>.
- ⁴⁸ *Springfield News Leader*. View online here: <http://www.news-leader.com/article/20130919/NEWS01/309190044/Christian-County-Ambulance-District?sf17390813=1>.
- ⁴⁹ Zigman, Leisa. KSDK NewsChannel 5 investigative report. May 8, 2013.
- ⁵⁰ "East Central Dispatch Center (ECDC)." Olivette Missouri. Accessed Jan. 16, 2014. View online here: <http://www.olivettemo.com/pView.aspx?id=2131&catid=29>.
- ⁵¹ That service has been consolidated into Saint Louis County in recent years, according to an official of Pagedale in an Aug. 6, 2013, phone conversation with the author.
- ⁵² "911 Emergency Communications." Greene County. Accessed Jan. 16, 2014. View online here: <https://www.greenecountymo.org/e911/index.php>.
- ⁵³ "Community Fire Protection: A Tradition of Private Fire Protection." Rural/Metro. Accessed January 16, 2014. View online here: <http://www.ruralmetrosouth.com/fire-protection-services.html>. The author's in-laws used to live in Farragut.
- ⁵⁴ Toellner, B. *Blog: Toellner Tells It*. Accessed Jan. 16, 2014. View online here: <http://btoellner.typepad.com/.a/6a00d83451f90869e2017c35842c11970b-pi>.
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- ⁵⁶ Rugg, Peter. "Halfway Home Pet Adoptions loses animal-shelter contract with Kansas City amid claims of animal abuse." *The Pitch: Blogs*. View online here: <http://www.pitch.com/Fast-Pitch/archives/2011/03/09/halfway-home-pet-adoptions-loses-animal-shelter-contract-with-kansas-city-amid-claims-of-animal-abuse>.
- ⁵⁷ Kansas City animal control budget.
- ⁵⁸ KCPP contract.
- ⁵⁹ Toellner, B. *Blog: Toellner Tells It*. Accessed Jan. 16, 2014. View online here: <http://btoellner.typepad.com/.a/6a00d83451f90869e2017c35842c11970b-pi>.
- ⁶⁰ Kansas City animal control budget.
- ⁶¹ Chillicothe pdfs, Nov. 6, 1993, lease.
- ⁶² Chillicothe pdfs, 2013 contract.
- ⁶³ City Council Meeting, Feb. 27, 2013. View online here: http://www.chillicothe.org/press_council022513.html.
- ⁶⁴ Chillicothe pdfs, 2013 contract.
- ⁶⁵ City press page, 2012 budget approved. View online here: http://www.chillicothe.org/press_council032612.html.
- ⁶⁶ New \$5.3 million facility. Dec. 12, 2012. View online here: <http://www.examiner.com/article/great-plains-sPCA-to-manage-new-jackson-county-animal-shelter>.
- ⁶⁷ Pdf animal shelter contract summary report. May 21, 2012.
- ⁶⁸ Pdf 18044AGMT 2013 contract.
- ⁶⁹ Ibid.
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