



FULTON COUNTY TAXPAYERS FOUNDATION

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Converting a \$70 million dollar deficit into a \$120 million dollar surplus

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The chickens have finally come home to roost in Atlanta. The city's recently announced \$70 million budget deficit—one of the largest among U.S. cities, representing a staggering 11 percent of the general fund—is the most recent symptom of an unchecked growth spurt in city government. Under Mayor Franklin's watch, the city budget has expanded by 50 percent, and the number of city workers has risen by roughly 30 percent to nearly 9,700. Even the city's own Chief Financial Officer Janice Davis has recently complained about out-of-control agency spending and poor accounting practices.

The Mayor has proposed a hiring freeze and an audit of the Finance Department's accounting, reporting and budgeting processes as first steps towards closing the budget gap. While these are worthy ideas, they are not going to break an addiction to spending. And the size of the budget gap will require officials to do more than simply eliminate unfilled positions or make modest reductions in the growth of government.

Instead, it's time to fundamentally rethink the way the city does business. Atlanta needs to follow the example of other local governments that have generated cost savings and improved the quality of services by embracing competitive service delivery and privatization.

Like most cities, Atlanta's government has expanded into a range of activities—from vehicle fleet maintenance to IT to payroll services—that are

commercial in nature. Many of these are support functions that service the bureaucracy. However, most of these functions are not inherent or unique to government; they can be found in the Yellow Pages in towns all over America.

Governmental vs. Commercial

As a first step towards right-sizing government, Mayor Franklin should request a city-wide inventory of government activities to determine whether each is "inherently governmental" (i.e., is it a job only government can do?) or "commercial" (i.e., is it a service or good that can normally be obtained from private enterprise?). This would clarify how much government activity is devoted to performing non-core, commercial functions and equip agencies with the necessary information to allow them to concentrate on their core functions, while exploring new opportunities to seek more efficient and effective means of service delivery by partnering with the private sector for commercial services.

Using similar thinking, Congress passed the Federal Activities Inventory Reform (FAIR) Act in 1998 which requires federal agencies to perform inventories annually and identify both commercial and inherently governmental positions. As a result of the FAIR Act, agencies have identified more than 800,000 federal employees engaged in activities—such as data collection, administrative

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support, and payroll services—that could be provided by the private sector.

Managed Competition Works

Armed with the results of an activity inventory, the City would then be in a position to undertake a comprehensive review of city service delivery and apply managed competition to lower costs and improve service quality. Managed competition is different from simply outsourcing, or contracting out services. It encourages public employees to submit bids and compete with private bidders to provide services, bringing private-sector competitive pressures and incentives to the public sector. At the end of the day, it doesn't really matter whether public employees or private providers earn the contract; the simple introduction of competition means that taxpayers win either way.

Managed competition has been used extensively as a management tool in Florida, Virginia, and Indiana, as well as in cities such as Phoenix, Philadelphia, Indianapolis, Long Beach (CA), and countless other municipalities around the country. The City of Charlotte, for example, has extensively used competition since the mid-1990s, undertaking over 60 competition initiatives. City employees have won all but ten of those, but each time the city has significantly cut costs, totaling millions of dollars over the years.

While there are undoubtedly numerous opportunities to apply competition in Atlanta, it's worth looking at a few key examples of where the city could start:

- **Solid Waste Collection:** In the late 1970s, a looming fiscal crisis prompted the city of Phoenix to become the first city to implement managed competition across a broad range of government services, including the collection of residential solid waste and recyclable materials. The city's Public Works Department bids alongside private firms for the right to serve each of six geographic sectors, with collection services in each sector being put out to bid on a rotating schedule (every seven years). Competition clearly prompted the city to review its service delivery methods and streamline. Since 1979, the city has won five of the 11 contracts and now serves many of the city's service zones. Over the first 15 years of competition, the inflation adjusted costs of solid waste collection declined by 38 percent citywide. When combined with the cost savings from competitions for landfill operation and solid waste transfer hauling, Phoenix has saved nearly \$39 million due to managed competition for waste-related services.

Despite a body of research confirming that the competitive delivery of solid waste services typically generates cost savings on the order of 20 to 40 percent, the city of Atlanta has yet to pursue competition in this arena. With the city still using three men per garbage truck (compared to the typical one man in private sector operations), the potential to reduce costs through competition is tremendous.

- **Street Maintenance:** Cost savings from outsourcing road maintenance services typically range between 25 to 50 percent. As part of its comprehensive managed competition program in 1992 under the of Mayor Stephen Goldsmith's administration, Indianapolis opened up pothole filling, asphalt laying, crack sealing, beam repair and other street maintenance functions to competition. As a result of managed competition, cost savings for street maintenance in Indianapolis were estimated at approximately 30 percent between 1992 and 1996. During that same period, city employees reduced the projected cost of pouring a ton of asphalt by 25 percent, the pothole crew experienced a 68 percent increase in productivity, and the city experienced a 200 percent annual average increase in lane miles repaired.
- **Vehicle Fleet Maintenance:** Governments are increasingly turning to the private sector to maintain their vehicle fleets, and Indianapolis again offers an illustrative example for Atlanta to follow. In the spring of 1995, the city's Indianapolis Fleet Services (IFS) was selected in a competition with three of the largest private-sector vehicle maintenance providers for the fleet services contract. Competition prompted IFS to streamline and make other operational and structural changes. It cut middle management positions and enabled employees to create self-managed work teams, giving mechanics more control over their work and allowing IFS to simultaneously shrink its workforce

and improve quality. Indianapolis's managed competition for fleet maintenance generated an estimated cost savings of 21 percent over prior government provision and increased productivity-per-mechanic by roughly the same amount.

- **Facilities Maintenance:** Cost savings from competitively contracting building maintenance and janitorial services typically range from 30 to 40 percent. For example, Los Angeles County achieved savings of 51 percent from contracting with private providers for these services when compared to previous in-house operating costs.

While these are just a few examples of the possibilities offered by managed competition, what they demonstrate is that competition benefits taxpayers by providing quality services at a lower cost. Regardless of whether a public or private sector bidder ultimately prevails, the mere introduction of competitive forces drives significant cost savings—typically on the order of 10 to 25 percent.

Faced with a similar budget crisis, 60 percent of San Diego voters approved a ballot measure in 2006 allowing the city to utilize managed competition to provide cheaper and better services. San Diego Mayor Jerry Sanders is currently developing a managed competition program and is considering privatizing more than a dozen city services accounting for approximately \$120 million of their current budget—*this is almost twice the \$70 million dollar deficit of the city of Atlanta.*

Conclusion

If applied to a range of these and other city services and functions—such as information technology, street maintenance, and printing services—the cost savings for Atlanta would be significant. And if managed competition were applied in a comprehensive, enterprise-wide manner, Atlanta would likely be able to completely close its current budget gap.

If Mayor Franklin wants to demonstrate true leadership, she should follow Sanders' lead and develop a robust managed competition program as the centerpiece of her efforts to solve the city's budget shortfall. Applying competition to non-core government activities would be a major and overdue step towards "right-sizing" government and providing the greatest value to Atlanta taxpayers.

Mark Your Calendar!

Join us at GaTech this spring for our Coping with Climate Change Summit! Experts will be on hand to discuss the opportunities and challenges that Atlanta's will face in the wake of warmer (or colder) temperatures. Will taxpayers bear the burden for a city that may be unprepared?

Please join us May 6th at GaTech's Ferst Center for a day of discussion with featured speakers Dr. Judith Curry, Chair of the School of Earth and Atmospheric Sciences at GaTech, Dr. James Curran, Dean of Emory School of Public Health, Dr. Jeremy Hess, Center for Disease Control, Jeff Garwood, CEO of GE Water, Andrew Revkin, Senior Staff Writer for the New York Times and James Stokes, President of the Georgia Conservancy.

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