

**TABLE 1**  
**Potential Advantages of Privatization<sup>1</sup>**

<b>Proponents of Privatization Often Cite the Following as Reasons to Privatize:</b>
<p><b>Cost Saving Measure</b></p> <ul style="list-style-type: none"> <li>• Private enterprises are more efficient than government.</li> <li>• Competition among private enterprises provides an incentive to offer the best services at the lowest price.</li> <li>• Taxpayers will save money because the private sector may not require as many employees to provide a service and will pay less in employee benefits.</li> </ul>
<p><b>Greater Flexibility</b></p> <ul style="list-style-type: none"> <li>• Privatization offers options unavailable to government for financing expensive construction projects.</li> <li>• Privatization can help meet demands that exceed existing government capacity.</li> <li>• Private enterprises can respond to market conditions more quickly than government.</li> </ul>
<p><b>Increase Choice Among Providers</b></p> <ul style="list-style-type: none"> <li>• Clients usually have fewer options for services when the services are provided only by the government.</li> <li>• Alternative approaches for service delivery such as vouchers and non-exclusive franchises give clients more service delivery options (provider, level of service, location).</li> </ul>
<p><b>Greater Efficiency</b></p> <ul style="list-style-type: none"> <li>• Outsourcing can provide a quicker response to changing demand for labor and services.</li> <li>• Private enterprises can implement cost cutting measures that may not be available to the government.</li> <li>• Greater efficiency often leads to faster completion times.</li> </ul>
<p><b>Greater Productivity</b></p> <ul style="list-style-type: none"> <li>• Private enterprises have a profit incentive to increase productivity.</li> <li>• Privatization allows public administrators to focus on planning instead of managing day-to-day operations.</li> <li>• Private enterprises often have more leeway than government managers to increase productivity.</li> </ul>
<p><b>Lower Startup Cost</b></p> <ul style="list-style-type: none"> <li>• Private enterprises having capital investments in equipment, facilities, and/or training can often implement new programs quickly and without significant capital outlays.</li> </ul>
<p><b>Lower Unit Cost</b></p> <ul style="list-style-type: none"> <li>• Large private firms can take advantage of greater economies of scale and centralize the purchase of supplies and equipment.</li> <li>• Private firms can procure and employ new state of the art equipment and management information systems better than public agencies.</li> </ul>

**TABLE 1 (continued)  
Potential Advantages of Privatization<sup>1</sup>**

<b>Proponents of Privatization Often Cite the Following as Reasons to Privatize:</b>
<p><b>Greater Risk Sharing</b></p> <ul style="list-style-type: none"> <li>• Risks to the taxpayer (e.g., cost overruns) can be shared with the contractor.</li> </ul>
<p><b>Increased Services</b></p> <ul style="list-style-type: none"> <li>• Private enterprises may offer services that are not provided by the government.</li> </ul>
<p><b>Specialized Skills</b></p> <ul style="list-style-type: none"> <li>• Private contractors may provide specialized skills that are not normally required by the government.</li> <li>• The expense of recruiting, hiring and retaining government personnel with specialized skills may be too costly compared to outsourcing.</li> </ul>
<p><b>More Jobs</b></p> <ul style="list-style-type: none"> <li>• Privatization can create jobs in the private sector.</li> </ul>
<p><b>Less Government Bureaucracy</b></p> <ul style="list-style-type: none"> <li>• Private enterprises are not required to adhere to as many restrictive procedures and policies.</li> <li>• Private enterprises can respond more quickly to the market because the private sector is less restrained than the government.</li> </ul>
<p><b>Increased Tax Revenues</b></p> <ul style="list-style-type: none"> <li>• Private businesses are taxed and generate revenue for municipal, state, and the federal governments.</li> </ul>
<p><b>Competitive Pressure</b></p> <ul style="list-style-type: none"> <li>• Outsourcing provides a competitive pressure on public employees that remain following privatization.</li> <li>• Competitive pressures tend to motivate competitors to lower their prices and improve service quality.</li> </ul>
<p><b>Ideology</b></p> <ul style="list-style-type: none"> <li>• Privatization reduces the size of “big government”.</li> </ul>

<sup>1</sup> Mark J. Rosen, Researcher, "Privatization in Hawaii," p27-30 (Honolulu: Legislative Reference Bureau, December 2007).

**TABLE 2**  
**Potential Disadvantages of Privatization<sup>1</sup>**

<p><b>Opponents of Privatization Often Cite the Following as Reasons to Oppose Privatization:</b></p>
<p><b>Reduced Service Quality</b></p> <ul style="list-style-type: none"> <li>• A decrease in service quality may occur because government loses control over service delivery.</li> <li>• For profit businesses will be tempted to cut corners (e.g., hire inexperienced staff, ignore contract requirements, use cheap equipment and materials) to increase profitability.</li> </ul>
<p><b>Higher Cost and Illusory Cost Savings</b></p> <ul style="list-style-type: none"> <li>• Reasons why private enterprises can be more costly than government include: <ul style="list-style-type: none"> <li>○ Corruption;</li> <li>○ Lack of competition in the private sector;</li> <li>○ Certain types of contracts (e.g., cost plus fixed fee) provide no incentive for savings; and</li> <li>○ Unemployment benefits are a cost to the taxpayer when employees are laid off.</li> </ul> </li> <li>• Financial benefits of privatization are often exaggerated due to hidden costs associated with contract preparation, contract administration, privatization transition cost, and increased oversight cost.</li> </ul>
<p><b>Increased Service Interruptions</b></p> <ul style="list-style-type: none"> <li>• Unlike government, private vendors are subjected to influences (e.g., low profitability, bankruptcy, labor strikes) that can lead to service interruptions.</li> </ul>
<p><b>Loss of Flexibility</b></p> <ul style="list-style-type: none"> <li>• Government contracts for services must be written in very specific terms. This could result in less flexibility for public officials who are restricted by contract requirements when responding to unforeseen circumstances.</li> </ul>
<p><b>Loss of Capital</b></p> <ul style="list-style-type: none"> <li>• Capital investments in equipment and training are often lost when they are subject to privatization.</li> </ul>
<p><b>Less Control and Accountability</b></p> <ul style="list-style-type: none"> <li>• Government officials are able to respond to citizens when government is in total control of a service.</li> <li>• In contrast, the response by government officials is subject to contractual limitations when a service is outsourced to a private contractor.</li> </ul>
<p><b>Dual System</b></p> <ul style="list-style-type: none"> <li>• Privatization creates government inefficiency by creating a dual system government; one in which public workers are subject to strict procedural regulations, pay and benefit schedules and another system where outsourced labor is working on behalf of the government but are subject primarily to rules established by their private employers.</li> </ul>

**TABLE 2 (continued)**  
**Potential Disadvantages of Privatization<sup>1</sup>**

<b>Opponents of Privatization Often Cite the Following as Reasons to Oppose Privatization:</b>
<b>Increased Potential for Corruption</b> <ul style="list-style-type: none"><li>• When large sums of money are involved, there is a temptation for government workers to accept or demand offers of kickbacks for awarding a contract to a private business.</li><li>• When large sums of money are involved, there is a temptation for private entities to offer patronage if awarded a government contract.</li></ul>
<b>Increased Potential for Discrimination</b> <ul style="list-style-type: none"><li>• Private enterprises often do not have a policy for hiring minority and disadvantaged populations.</li><li>• Private businesses may avoid serving clients who are minority or disadvantaged or perceived to be less profitable clients.</li></ul>
<b>Displaces Public Employees</b> <ul style="list-style-type: none"><li>• If displaced, government employees may lose their jobs and/or benefits and/or collective bargaining rights.</li><li>• There may be a decline in morale among the remaining government employees.</li><li>• Civil service policies and merit principles are weakened.</li></ul>
<b>Lack of Competition in the Private Sector</b> <ul style="list-style-type: none"><li>• The advantages of privatization will be lost if there is little or no competition in the private sector for outsourced services.</li></ul>
<b>Weakened Policies and Values</b> <ul style="list-style-type: none"><li>• Important values such as worker safety, quality, and integrity will be diminished or lost when government services are entrusted to corporations that are obligated to maximize profitability for stock holders or private owners of the company.</li></ul>

<sup>1</sup> Mark J. Rosen, Researcher, "Privatization in Hawaii," p27-30 (Honolulu: Legislative Reference Bureau, December 2007).

## Strategies for Best Practice

### APPENDIX 1

#### Strategies And Considerations For Best Practice Pre-Privatization Checklist (*Making The Decision To Privatize*)

- A. Why is there a need for alternative service delivery? What is the problem to be solved? What goals are to be achieved? Have all efficiencies been achieved with the existing service model?
- B. Is the service one that fundamentally can be provided on a for-profit basis?
- C. Is this a one-time project or an ongoing operation?
- D. Is privatization the best alternative model or are there other options to consider such as contracting with another public agency?
- E. Is there a history of the private sector providing the service: is it successful? Does the private sector have the core competencies to provide the service successfully?
- F. Are there examples of “successes” and failures of privatization of this service? Why did a particular initiative to privatize this service succeed or fail? Have stakeholders where this service has been privatized been contacted for input?
- G. Are there multiple private providers in the market place; or would this be a sole source situation with no competition.
- H. If the service is privatized, how will the government agency monitor quality, cost and contractor performance?
- I. How will clients of the service be affected? (Political and social costs)
- J. If the service is privatized, what will happen to government employees and assets?
- K. How much will it cost to privatize the service?
- L. Who are the stakeholders in the service and how will they participate in the decision to outsource?
- M. What happens if privatization fails (contractor walks or other scenario); how will service be continued or reestablished?
- N. What are the existing requirements and practices for public records, notice, participation and transparency for this service?
- O. What is the size and complexity of this proposal? Possible measures include the number of parties involved, the dollar amount of the contract, the number of public and private staff involved, any equipment covered by the prospective contract, the geographical area in question, the time frame, the number of recipients or beneficiaries of the service, and the amount of fossil fuel used for project purposes.
- P. Does the governmental agency have prior experience with privatization?

APPENDIX 2

Strategies And Considerations For Best Practice  
Contractor Selection Checklist

*(After The Decision To Privatize: Managing The Contractor Selection Process)*

- A. Has the consultant selection process been thought through?
- B. How will prospective bidders present their qualifications; have the most important experience, technical and other qualifications been articulated?
- C. Does the Request for Proposal (RFP) clearly define:
  - 1. Expected service levels and performance criteria?
  - 2. Allowable contract costs and how profit will be defined?
  - 3. Contractor performance and evaluation criteria?
  - 4. How rate increases will be approved? What information must be provided by the contractor in rate increase applications?
  - 5. Annual financial and performance review audits.
  - 6. What will happen for non-performance?
  - 7. Whether or not the contractor will be required to pay prevailing wage and comply with other employment criteria?
  - 8. Required insurance, performance bond, and/or hold harmless provisions and how the government agency expects to be protected from liability arising from the contractor's actions or negligence?
- D. Have the criteria by which the contractor will be selected been well articulated and included in the RFP? Will the decision be based solely on cost or by quality?
- E. Who will review the proposals, rank the proposals, and interview the bidders? Will the process include neutral third party, peer reviewers in the process?
- F. How will stakeholders be involved in the selection process?
- G. Who will make the final selection and how will they be held accountable for the decision?

## Strategies for Best Practice

### APPENDIX 3

#### Strategies And Considerations For Best Practice

#### Contract Negotiation Checklist

#### ***(After The Decision To Privatize: Negotiating The Contract)***

- A. Who will be negotiating the contract and do they have the requisite experience? Are specialized negotiators needed?
- B. Who will be drafting the contract and do they have the requisite experience? Is specialized legal expertise needed?
- C. Does the contract incorporate the performance and other criteria set forth in the selection process?
- D. How will the contract and its provisions be reviewed by stakeholders before final approval?
- E. What will be the contract term? Does it provide for automatic renewals or are there specific criteria that must be met for an extension?
- F. Who will approve the final contract?
- G. Does the contract clearly specify a process to resolve contractual disputes that may arise during its term? What recourse, penalties, or other leverage does the contract specify in case of noncompliance?

APPENDIX 4

**Strategies And Considerations For Best Practice  
Contract Management and Oversight Checklist**

*(After The Decision To Privatize: Managing The Contract And Overseeing Performance)*

- A. What will be the frequency of performance reviews?
- B. Who will be responsible for monitoring the contract and contractor performance? Do they have direct technical experience with the service provided? Does the team include finance and legal audit experience? Will neutral third party or peer reviewers participate in the process? Will clients/customers and staff be included in the annual performance review?
- C. Who will assure the performance deficiencies will be corrected by the contractor within appropriate timeframes?
- D. Are there checks and balances in place to assure that personnel overseeing the contractor do not become too close or "chummy"? Are there written protections for whistleblowers?
- E. Will program/contractor audits be open for public review?